Views and Experiences of SIBs

Findings from surveys with commissioners, service providers and investors from 2014 and 2017

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Executive summary

This report is written as part of the evaluation of the Commissioning Better Outcomes (CBO) Fund, conducted by Ecorys UK in partnership with ATQ Consultants Ltd.

The CBO Fund, run by the Big Lottery Fund, has a mission to support the development of social impact bonds (SIBs) and other outcomes based contracts in England over 10 years, with the following objectives:

- Improve skills and confidence of commissioners with regards to the development of SIBs
- Increase the number of organisations, including VCSEs (voluntary, community or social enterprise), delivering early intervention and prevention services to address deep rooted social issues and help those most in need
- Support delivery organisations, including VCSEs, to access new forms of finance to reach more people
- Increase the learning and collective understanding of how to develop and deliver successful SIBs.

The aim of the current research was to explore the views of commissioners, service providers and investors on their understanding of SIBs, motivations, experiences and willingness to be involved in SIBs. In total the views from 91 commissioners, 77 service providers and 18 social investors are included in this report.

The report presents findings from two waves of stakeholder research, conducted in 2014 (waves 1) and 2017 (wave 2). It incorporates the perspective of stakeholders both interested and working in the whole SIB landscape. This includes those funded by the Commissioning Better Outcomes (CBO) programme, as well as those funded by other SIB stimulus programmes.

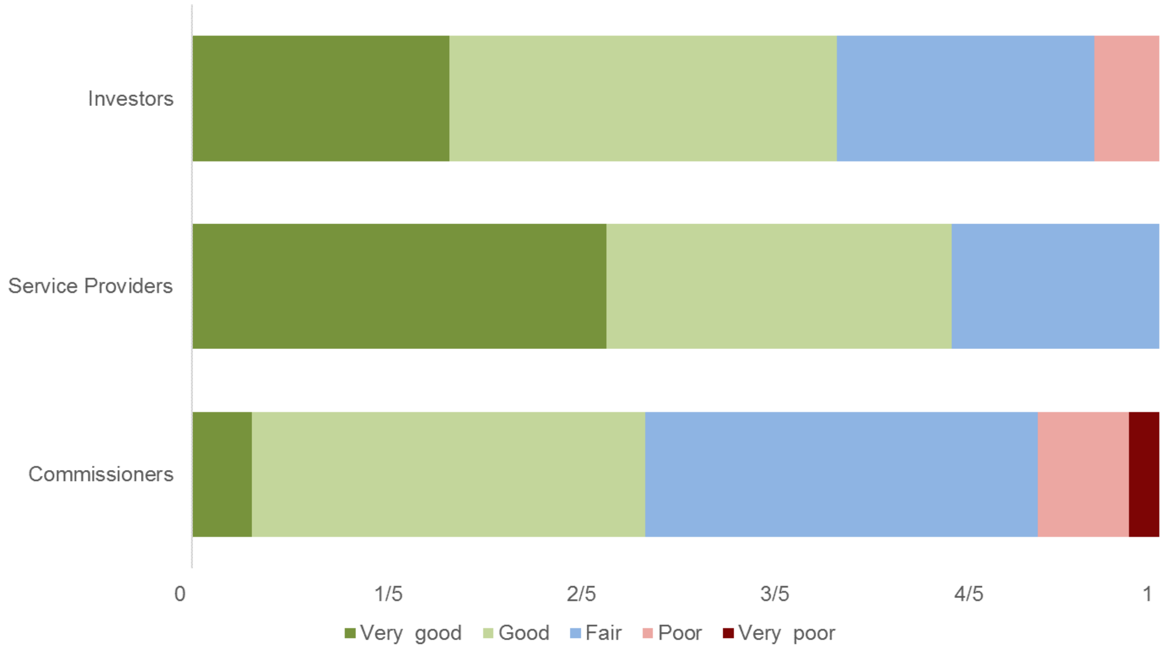
Commissioners and service providers completed an online survey and investors participated in either a telephone or a face to face interview. In addition, we held an 'investor breakfast' with selected social investors, using a workshop format, to explore SIB-related issues in more detail. Although different approaches were taken with the stakeholder groups, the research aims were common across the piece and only a few additional areas were explored with investors in their interviews.

In our second Update Report, available here. we bring together the findings from the survey with the wider evidence from the whole evaluation to consider the overall progress, benefits, challenges and disadvantages of SIBs.

Summary of findings

Overall investors, commissioners and service providers report a broadly positive view about their involvement in SIBs to date. In the 2017 research, service providers reported the best experience compared to the other two groups: specifically four fifths of service providers, over three fifths of investors, and two fifths of commissioners, report a good or very good experience working in a SIB (Figure 0.1).

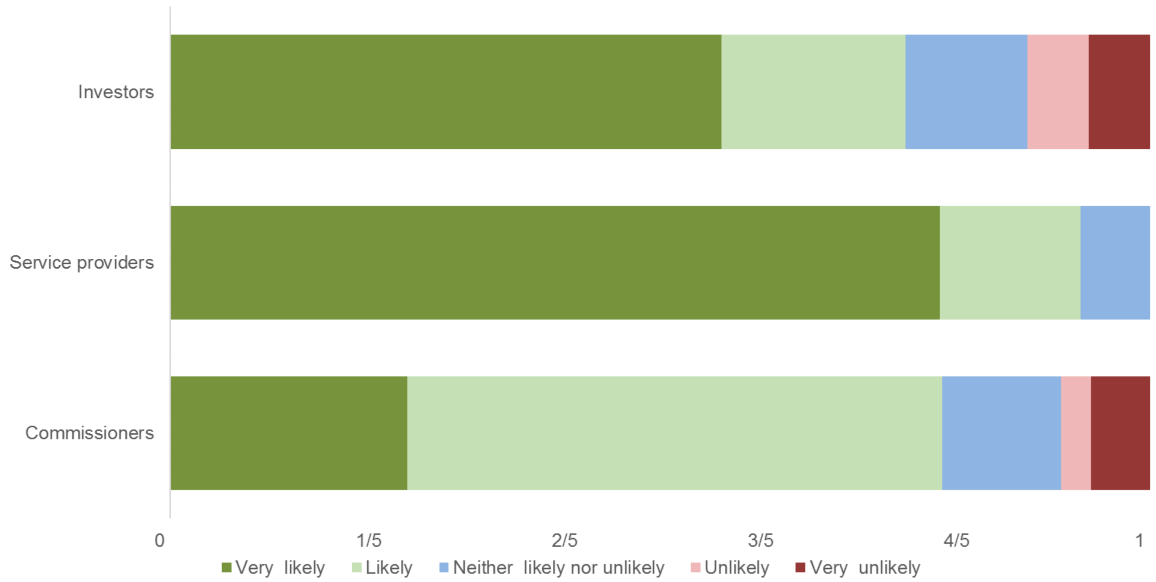
Figure 0.1 Overall experience of working in SIBs



Source: Wave 2 Commissioner, service provider and investor surveys. Base: Stakeholders involved in SIBs (commissioner n = 41; service provider n = 21, investor =15). Not shown in chart: Four commissioners answered 'do not know'. 12 respondents did not answer the question (Five commissioners and seven service providers).

The majority of stakeholders in all groups also cite that they would be likely (or very likely) to be involved in a SIB again, as was reported in wave 1. With around four fifths of commissioners and investors reporting that they would be at least likely to be involved again, and almost all service providers reporting that they would (four fifths reported that they would be *very* likely to be involved again) (see Figure 0.2).

Figure 0.2 Likelihood of being involved in a SIB again based on current experience



Source: investor, service provider and commissioner survey. Base = respondents involved in SIBs (commissioner = 41, service providers = 21, investors 18). 5 point Likert scale (1, 'Very unlikely'; 5, 'Very likely'). Not shown in chart: Four respondents answered 'don't know (three commissioners and one investor). 12 respondents did not answer the question (five commissioners and seven service providers.)

Comparisons to the previous survey

In the main, the findings from the survey in 2017 largely confirm and build on the evidence from 2014, with a similar proportion of stakeholders having a good experience of SIBs compared to those who did not, remaining across the three groups.

- The offer of the external investment from the investor was consistently perceived as a main motivation to be involved in SIBs, and by both service providers and commissioners. This was less because previous funding streams were no longer available (in particular, commissioners were less likely to be motivated by change in previously available funding), but because the SIB created opportunities to trial different types of services and potentially improve overall provision.
- Embedding the outcomes-focused culture was also benefit reported in both the 2014 and 2017 waves by both commissioners and service providers. There is evidence, however, that this benefit is having an impact on staff morale, as a result of the increased focus on outcomes in the service, leading to higher levels of turnover. The service provider survey found that this area was rated highest out of the other areas of perceived negative impact (3.2 out of 5).
- Balancing the needs of the different stakeholder groups in agreeing the contract was a commonly perceived challenge of a SIB at both wave 1 and wave 2.
- Service providers rated external advisors as the most helpful resource; whereas commissioners reported that the most helpful resource was the SIB contract template developed by DCMS (although there was less awareness compared to other similarly helpful resources).
- Commissioners and service providers also reported that advice from social investors was a resource that was highly rated as helpful now; however, we cannot compare this to the previous wave, as this area of SIB support was not included as part of the previous survey.
- Specific tools to help with developing a SIB (such as the Unit Cost Database) were again reported by service providers and commissioners to be used less, and regarded as less helpful, compared to other tools and resources, with the exception of the DCMS template contract.

The main areas of difference from the previous wave relates to the extent to which stakeholders report that they understand SIBs. The level of understanding appears to have decreased on average for both commissioners and services providers. This decline reflects greater variability in reports amongst commissioners and service providers, rather than a consistent trend that stakeholders are reporting a poorer level of understanding in general. This is likely to be a result of an expanding SIB market and new stakeholders exploring SIBs as a service contract option, without the same level of existing knowledge in the area as the stakeholders surveyed in 2014.

Consistent positive experiences of SIBs for service providers

- Service providers reported a higher level of understanding, a better experience and were more likely to pursue a future SIB opportunity compared to the SIB experience reported by commissioners and investors
- Key benefits of SIBs from the service provider perspective related to embedding an outcomes-focused culture and improving the organisation's ability to evidence their practice
- The most common challenge of SIBs for service providers related to the data reporting requirements involved in delivering a SIB
- The most commonly reported motivation for a SIB from the service providers' perspective related to the opportunity to deliver a more innovative intervention.

Commissioners' experiences are more varied, but generally still positive

- Commissioners reported a lower level of understanding and worse experiences of SIBs on average, compared to investors and service providers
- However, a good proportion of commissioners still reported a fair level of understanding and experience, and overall would be interested in another SIB project
- The most commonly reported benefit of a SIB to a commissioner related to the access to funding for a service that would have not otherwise been available
- Motivations to be involved in a SIB for a commissioner related to the opportunity for financial investment and the potential to save money
- The findings from the survey also suggested that the financial investment is used to explore new services and improve service efficiency and effectiveness, rather than to fund existing services
- The most common challenge of a SIB reported by commissioners related to developing and maintaining organisational understanding of SIBs, which is interesting given the finding that commissioner understanding was the poorest compared to investors and service providers.

Investors continue to be engaged and interested in SIBs

- Investors had a good experience of SIBS. Two-thirds of those who had invested in a SIB reported to have had a good or very good experience, and only one having had a poor experience
- Two third of all the investors were either very likely or likely to get involved in a SIB again
- Investors reported that they were in general, getting the social and financial returns that they had expected and forecast (allowing for the usual and expected variations in performance across a portfolio of investments)
- Investors also reported a wide range of target financial returns, ranging from 12 per cent, to investment on the basis of repayment of capital only (i.e. a 0 per cent return), and in some cases even to invest at a partial loss, if the alternative was a non-returnable grant (such as Foundations)
- The most commonly reported benefit of a SIB to an investor was the sharper focus on outcomes, encouraging service providers to achieve greater impact than would be the case if they were given growth or other investment that was not linked to outcomes, or were funded through a grant
- The most commonly reported challenge for investors was the complexity of some SIB structures and the associated transaction costs, although some noted that these challenges were easing as simpler SIB models emerge and with the ability to replicate previous SIBs in similar service areas (although still limited)
- Several investors stressed that track record of the provider, and whether the investor had confidence in their ability to deliver the intervention, was important to their decision to invest. These investors explained that it was more important than the intervention itself, or the existing evidence base for it, especially if that evidence base was delivered in a different geography or to a different cohort.

A final important finding from this survey is the evidence relating to the role of the social investors within the development of the SIB. Both commissioners and service providers cited difficulties understanding how to engage and negotiate with a social investor, as well as difficulties understanding the technical elements of the SIB contract (such as sharing the risk between different parties and agreeing the level of return). These findings were also true in 2014. However, further into the SIB development process, both service providers and commissioners highly rate the support from social investors as an important resource in setting up a SIB. Together, these findings suggest that commissioners and service providers need a better understanding of the role and scope of the investor within a SIB, as well as advice on effective and timely strategies to attract and engage investors in the process and support in understanding how to balance the risk and return to the different parties in SIBs.

Investors think SIBs could become more mainstream if transaction and overhead costs could be reduced. During the investor breakfast event investors shared their views on how Sibs could become more mainstream. The main findings from the workshop were that SIBs could become more widely adopted if:

- they were developed and implemented at greater scale;
- there was more replication of existing SIBs; and
- there was more transparency about previous SIBs, with commissioners being willing to share detailed information about such matters as SIB contracts, the outcomes being used and actual payment levels for different outcomes.

1.0 Introduction

This report is part of the evaluation of the CBO Fund, run by the Big Lottery Fund. The CBO Fund has a mission to support the development of more SIBs and other outcome based commissioning models in England. It is providing up to £33m available to pay for a proportion of outcomes[1] payments for these types of models in complex policy areas, as well as support to develop robust proposals for the funds. It launched in 2013 and will run until 2023. Specifically the CBO Fund has the following objectives:

- Improve skills and confidence of commissioners with regards to the development of SIBs
- Increase the number of organisations, including VCSEs, delivering early intervention and prevention services to address deep rooted social issues and help those most in need
- Support delivery organisations, including VCSEs, to access new forms of finance to reach more people
- Increase the learning and collective understanding of how to develop and deliver successful SIBs.

Ecorys UK are undertaking the CBO evaluation, in partnership with ATQ Consultants Ltd. As a part of the evaluation, the evaluation team is examining how the broader SIB landscape changes over the 10-year duration of the Fund. This is primarily being achieved through surveying and interviewing stakeholders involved in or interested in SIBs. The first wave of the stakeholder surveys was undertaken in 2014, and is reported on in the SIBs: The State of Play report. To continue to build on the learning reported here, two further waves of this research are planned for this survey in 2020 and 2023.

The main research aim for the current study was to explore with commissioners, service providers and investors their understanding of SIBs, their motivations and willingness to be involved in SIBs and their experiences of SIBs. The findings in this report are largely based on surveys implemented in 2017; however, where relevant this report will compare the current findings with those reported in the State of Play report. The findings from the State of Play report will be referred to in this report as *wave 1*, and findings from the current survey will be referred to as *wave 2.*

The primary focus of the current report is on describing the survey results. We include a broader interpretation of the findings, and what they mean for the SIB sector, in our second Update Report, published in autumn 2018.

[1] An outcome is a result or change experienced by a person, family or community, for example improved parenting.

1.1 Overview of methodology

This sections describes briefly the methodology used in the current research.

Commissioners and service providers were invited to complete an online survey. Investors were invited to participate in a telephone or face to face interview. Despite the difference in approaches, the main research aim with the stakeholder groups was common across the piece, and only a few additional areas were explored in the interviews with investors. The design of all the questions in the surveys and interviews were based on relevant themes identified through other strands of the CBO evaluation research.

Throughout this report, where there is commonality in questions across the research with service providers, commissioners and investors the research will be referred to as surveys. A separate section has been included that focuses on the additional questions from the investor interviews.

1.1.1 Commissioner and service provider research

Commissioners and services providers were invited to complete a 15-minute online survey, designed with a combination of similar and specific questions for the two stakeholder groups. The survey was live for three weeks, between 17th September and 7th October 2017. Three reminder messages were sent out about the survey, following the initial invite, as well as telephone prompting where telephone contacts were available.

The online surveys with commissioners and service providers purposively targeted stakeholders either involved in, or interested in becoming involved in, SIBs in England – both via the CBO Fund and other programmes. Email addresses and telephone contacts were sourced through:

- CBO Fund, including those who were either involved in a CBO-funded SIB, had applied to CBO, had made an enquiry about CBO or who had attended a CBO market engagement event
- Life Chances Fund (LCF)[2], including those who had applied to LCF, made an enquiry about LCF, or who had attended a LCF market engagement event
- Big Lottery Fund networks
- Government Outcomes Laboratory (GO Lab)[3] networks and
- Desk research of wider SIB projects in England.

This wide ranging approach to sourcing contacts for the survey meant that all the service providers, commissioners and investors had at least some interest in SIBs. However, not all were currently involved in a SIB contract. With the small sub-group of currently not involved, the survey explored the prospective interest and motivations of these groups to pursue a SIB in the future.

1.1.2 Investor research

Investors included in the research were invited to take part in an interview conducted either face to face or by telephone during November and early December 2017. The interview combined similar questions to the commissioner and service provider survey, relating broadly to stakeholder understanding and

[2] An £80 million government fund to provide payment-by-results contracts for locally developed projects by socially minded investors.

[3] The Government Outcomes Lab is a centre of academic research and practice based at the Blavatnik School of Government at the University of Oxford. Their mission is to improve the provision of public services through research, policy advice and cross-sector collaboration.

experience of SIBs. However, the interview with investor was also an opportunity to pose wider questions relating to the SIB landscape and explore in detail reasons for their views.

Contacts for the investor research were similarly sourced to the commissioner and service provider research. Including through contracts from CBO, Big Lottery Fund and GO Lab networks. Again, by including contacts from a range sources for both the interviews, this research is able to explore stakeholder views and experiences beyond the CBO Fund and potentially across the whole SIB landscape.

1.2 Caveats and notes on interpreting the current survey findings

This section outlines important caveats and notes for interpreting the findings reported in this research.

Firstly, similar to the previous wave in November 2014, the stakeholders taking part in the current surveys and interviews may be more engaged in the concept of SIBs than the wider stakeholder population. This may introduce bias into the survey responses and should be considered when interpreting the findings. Further to this, the investor survey was exclusively with social investors and therefore almost certainly shows a strong bias towards SIB involvement and understanding compared to all potential investors.

Secondly, a fifth of the commissioners (19 out of 91) and service providers (14 out of 77) completed only part of the survey once they started. However, for completeness all respondents have been included in the analysis. The report will include either the full sample or relevant sub-group sample as the main base in the charts, but will also specify if any stakeholders did not answer the question.

Thirdly, this report draws on comparisons between wave 1 and wave 2. However, due to the smaller sample size at wave 1, the findings are only indicative of a trend and should not be extrapolated too widely. Further to this, the final samples for the commissioner and service provider survey were less than 100, so all related findings in this report are reported as numbers and proportions rather than as percentage.

Finally, the findings from the investor survey are not generally compared directly to findings from wave 1, since the methodology for the wave 1 investor survey was different with no ranking or quantitative questions. In addition, the sample of investors is small and there is not significant overlap with the wave 1 sample. While we surveyed a similar number of investors across the two waves in the survey (wave 1 = 19, wave 2 = 18); only six investors were common to both. To overcome the issue of comparing with the earlier wave, we specifically asked all investors for their views on how the SIB landscape had changed since 2014, and on their positioning as investors within that landscape. The findings on changes in the SIB development landscape are discussed in chapter 6.

1.3 Government Outcomes Laboratory involvement (GO Lab)

Ecorys worked with GO Lab during the development and implementation of the survey research with commissioners and service providers. The aim of this involvement was to review the design of the survey and to improve where possible the validity and reliability of some of the survey questions. Overall, only small changes were made to this wave to enable comparisons to be drawn across wave 1 and wave 2. In addition to their help with survey design, GOLab provided contacts for the survey to broaden the survey responses beyond the CBO Fund.

Ecorys then held a meeting with GOLab following the end of the service provider and commissioner survey. The purpose of this meeting was to discuss areas of interest emerging from the surveys as well as ways to improve the survey design for subsequent waves. Specifically, GOLab conducted analysis into the potential underlying variables being measured in the questions relating to motivations, benefits and barriers associated with SIBs. The learning from this analysis has informed the interpretation of the findings, as well as informing the design of future waves in the survey (2020 and 2023)

2.0 Sample

Chapter summary

Commissioners

- 91 commissioners completed the survey. The majority were working at local authorities and in middle manager positions.
- There was a similar proportion of commissioners in the sample who had experience developing a SIB, compared to those who had only considered a SIB (just under half for each). Only a small proportion of the commissioners had no involvement in SIBs to date.
- The majority of commissioners had only been involved in one SIB project, with a further small proportion of commissioners with experience of two SIBs. Very few commissioners had been involved in three or more SIBs.

Service providers

- 77 service providers completed the survey. The majority were working in the areas of young people and education.
- More service providers were considering SIBs than had actually been involved in developing one. A small proportion reported to have no involvement in SIBs to date.
- The majority of service providers had only been involved in one SIB. Only a few service providers had been involved in two more SIBs.

Investors

- 18 investors were involved in the research. All were working at organisations primarily interested in social investment.
- The majority of the investors had invested in at least one SIB. A few had invested in multiple SIBs. Three investors had not currently invested but were all considering opportunities to do so.

Note: More information about the investors involved and interested in SIBs will be available in a separate thematic report from the CBO evaluation.

The purpose of this chapter is to provide context for the findings that then follow. It provides a brief overview of the key demographics (job role and organisation type/service area) of the stakeholders and their involvement in SIBs to date. It will also outline a profile of the SIB projects included in the research.

2.1 Demographics

2.1.1 Commissioner sample

91 stakeholders answered the commissioner survey. The majority of respondents were working in middle manager positons. A fifth of commissioners (n = 21) reported their job role as 'other' in the survey, but to ensure there was consistency and completeness across the categories, where possible we recoded the responses included into the existing categories in the survey[4].

A summary of commissioner respondents by job role is included in Table 2.1.

Table 2.1 Survey response by job role – commissioner survey (N = 91)

Job role type	n =
Top manager/executive (e.g. head of departments, board executives, and strategic roles)	19
Middle manager (e.g. lead commissioner and commissioning managers)	40
First-line supervisor and frontline staff (e.g. Project officer)	8
Team leader	4
Non supervisor	2
Other	4
Not answered	14

Over two thirds of commissioner respondents worked in commissioning roles in local authorities, with a smaller proportion working as other types of commissioners (e.g. CCG, Police Crime Commissioner).

A summary of commissioner respondents by organisation type is included in Table 2.2.

Table 2.2 Survey response by organisation type – commissioner survey (N = 91)

Organisation type	n =
Local authority (LA)	60
Clinical Commissioner Group (CCG)	2
Joint LA and CCG	2
Police and Crime Commissioner	2
Other types of commissioner (including commissioner support)	4
Not answered	13

2.1.2 Service provider sample

77 respondents answered the service provider survey. The majority of respondents were working in top manager and executive positions and a few were working in front line positions. While this is different from the commissioner survey, this may be because commissioning organisations are larger and it is likely that the survey would be completed at a middle manager than a top executive level. Within a service provider the top-level stakeholders may have the best working knowledge of the SIB project as well being involved in strategic-level decision making within the organisation.

[4] Job titles including 'head of', 'board' or 'executive' were included with 'top manager/executive'. Job titles with 'lead' or 'commissioning team' were included as 'Middle manager'. Finally, job titles with 'officer' and 'manager' were included with first-supervisor/frontline (to ensure there were equal size groups for comparison frontline stakeholders will incorporate views from first-line supervisors, team leaders and non-supervisors).

A summary of service provider respondents by job role is included in Table 2.3.

Table 2.1 Survey response by job role – service provider survey (N = 77)

Job role type	N =
Top manager / Executive	44
Middle manager	15
First line supervisor	1
Team leader	3
Other	2
Not answered	12

The majority of service providers working in the areas of young people, education and employment.

A summary of service provider respondents by service area is included in Table 2.4.

Table 2.2 Survey response by service area – service provider survey (N = 77)

Service area type	n =
Young people	36
Education	28
Employment	23
Children's Services	19
Health	16
Housing and homelessness	16
Crime and offending	15
Older people's services	10
Drug and alcohol dependency	8
Early years	7
Other (please specify)	11
Multiple options possible per respondent	

2.1.3 Investor sample

18 social investors took part in the survey. All can be described as *social investors* because they either explicitly aim to invest in social enterprises and/or social outcomes, or have invested in such enterprises or outcomes in the past. There were three types of social investor included in the research, with the majority (15 out of 18) being either direct investors or investment fund managers.

A summary of the investor respondents by investor type is included in Table 2.5.

Table 2.5 Survey response by type – investor survey (N = 18)

Investor category	N =	Description
Direct investor	10	These organisations are investing their own capital into providers or other organisations managing and delivering outcomes under a SIB. This includes organisations whose primary or only role is providing social investment, and some who are Foundations that also (and sometimes mainly) provide grants as well as repayable capital.
Investment fund manager	5	These organisations are collectively managing capital on behalf of other investors (e.g. individuals or pension funds) and investing that capital on their behalf through a Fund with a specific focus and other investment criteria. It should be noted that Fund managers can be further sub-divided into two main types: 1. Those that are managing Funds that are specifically and narrowly targeted at investment in SIBs and similar contracts

Investor category	N =	Description
		2. Those that are managing Funds that have a wider focus, covering both investment in SIBs but also other investments (for example providing simple growth capital to social enterprises)
Both direct investor and fund manager	3	These organisations have the capacity to work as both direct investors and investment fund managers – i.e. they are both investing their own capital, and managing and investing others' capital.

2.2 Stakeholder involvement in SIBs

This section outlines the level of involvement in SIBs for the three stakeholder groups. These three sub groups will then be used throughout the report to compare differences in views and experiences across the stakeholder groups.

The three main categories reported from the surveys were:

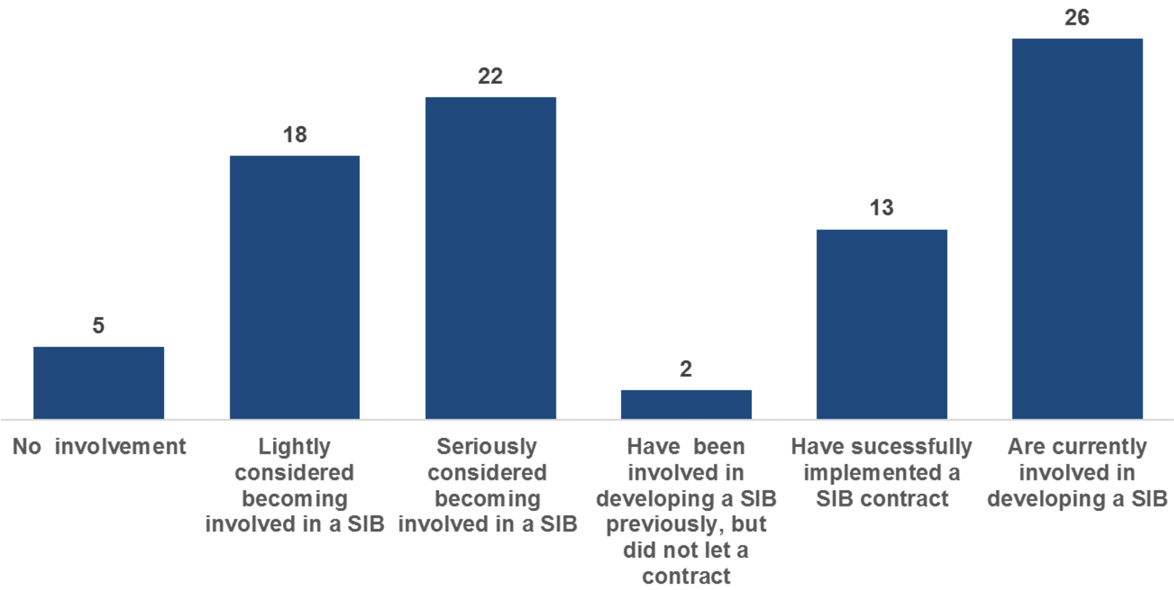
- *Involved in a SIB:* this includes respondents from organisations with experience of developing or implementing a SIB. This group includes stakeholders who were either currently developing a SIB, have successfully implemented a contract, or had been involved in developing a SIB but did not let a contract.
- *Considered a SIB*: this includes respondents from organisation that had either seriously[5], or lightly considered[6] being involved in a SIB; or
- *No involvement*: this relates to respondents with no current involvement a SIB project and are not currently considering one either.

2.2.1 By commissioners

Of the 91 commissioners who answered the survey, 41 reported that they had been involved in a specific SIB project and an almost equivalent group of commissioners (n = 40) were considering SIBs. The majority of commissioners who were considering a SIB were seriously considering a project rather than lightly considering one. Only a very small proportion of the commissioners in the sample were not involved in SIBs (see Figure 2.1).

[5] Seriously, considered becoming involved in SIB was described in the survey as: entered into discussions with commissioners, investors and/or investors and/or intermediaries; undertaken or been involved in feasibility studies; responded to an invitation to tender; expended staffing/financial resources on developing a SIB.
[6] Lightly considered becoming involved in SIB was described in the survey as: completed background research; held internal conversations and/or meetings; attended SIB events,

Figure 2.1 Commissioner involvement in SIBs



Source: Wave 1 and wave 2 commissioner survey. Base = all commissioners (n = 91). Not in the chart: Three respondents did not answer the question. Two respondents reported 'none of the above'

The proportion of commissioner involved in a SIB in wave 2 was just under 1 in 2 (41 out of 91) which is an increase since wave 1, where the proportion was just over a third (9 out of 24). Further to this, in wave 2 almost two thirds (n = 26) of commissioners who were involved in a SIB were currently developing a project and the remaining had been involved in one previously – either successful (n = 13) or not (n = 2). This is different from the level of involvement at wave 1, where all of the commissioners who were involved in a SIB at were currently developing a project.

In terms of the types of commissioning organisations, commissioners working outside of local authorities tended to report that in the main they were considering SIB projects rather than currently involved in a SIB. For example, out of the CCGs (n = 9), only two were already involved, four were considering and two were not currently involved. All of the commissioners who had successfully implemented a SIB contract were working in a local authority (n = 11).

A summary of SIB involvement by commissioning type is included in Table 2.6.

Table 2.6 SIB involvement by commissioning type

	LA	CCG	Joint	Central Gov.	PCC	Other
No involvement	2	2				
Lightly considered becoming involved in a SIB	13	2				
Seriously considered becoming involved in a SIB	16	2			1	1
Have successfully implemented a SIB contract	11					
Have been involved in developing a SIB, but did not let a contract	2					
Are currently involved in developing a SIB	15	2	2	2	1	1

LA=local authority, CCG = Clinical commissioning Group, Joint = LA and CCG, Central Gov =Central Government commissioner, PCC = Police Crime Commissioners, Other = e.g. Commissioning support and community commissioning.

Of the 41 commissioners that been in involved in developing a SIB, either currently or previously, the majority (n = 26) had been involved in a single project. 10 had been involved in two projects; and four had been involved in three or more projects.

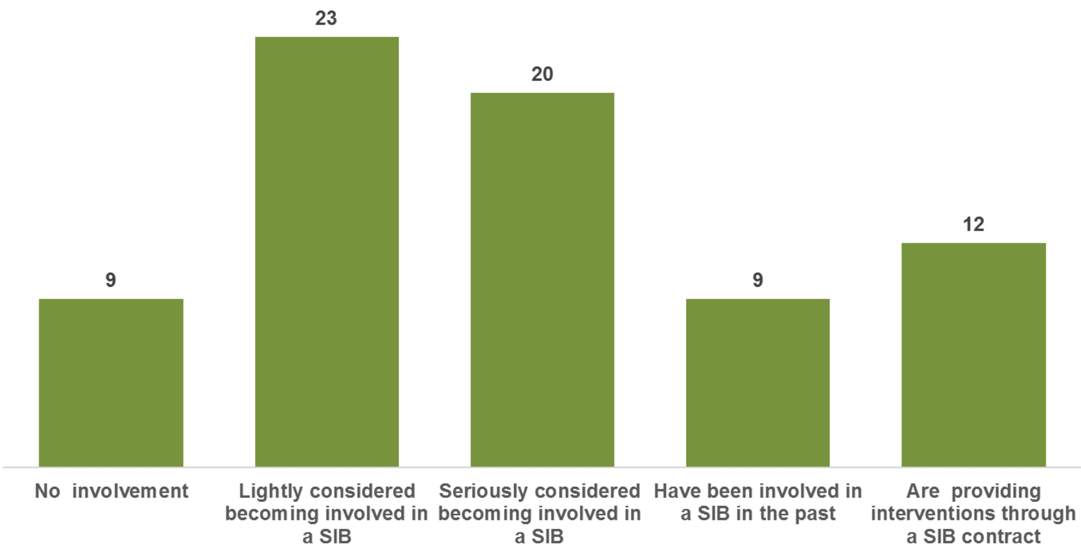
12 of the commissioners working on multiple projects were working in local authorities, one was a community foundation and the other a PCC (Police Crime Commissioner). Provisionally, this suggests that commissioners, and as in this case, local authority commissioners, are pursuing more than one SIB opportunity following an initial involvement.

The maximum number of SIBs a single commissioner had been involved in was six, although no further information was given with details about this involvement. At wave 1, the majority of commissioners (7 out of 9) had been involved in single project, and two had been involved in two projects.

2.2.2 By service providers

Of the 77 service providers who answered the survey at wave 2, just over 1 in 4 reported to be involved in a SIB (see Figure 2.2).

Figure 2.2 Service provider involvement in SIBs



Source: Wave 2 service provider survey. Base = all service providers (N = 77). Not in the chart: Three respondents did not answer the question. One respondent reported 'None of the above'.

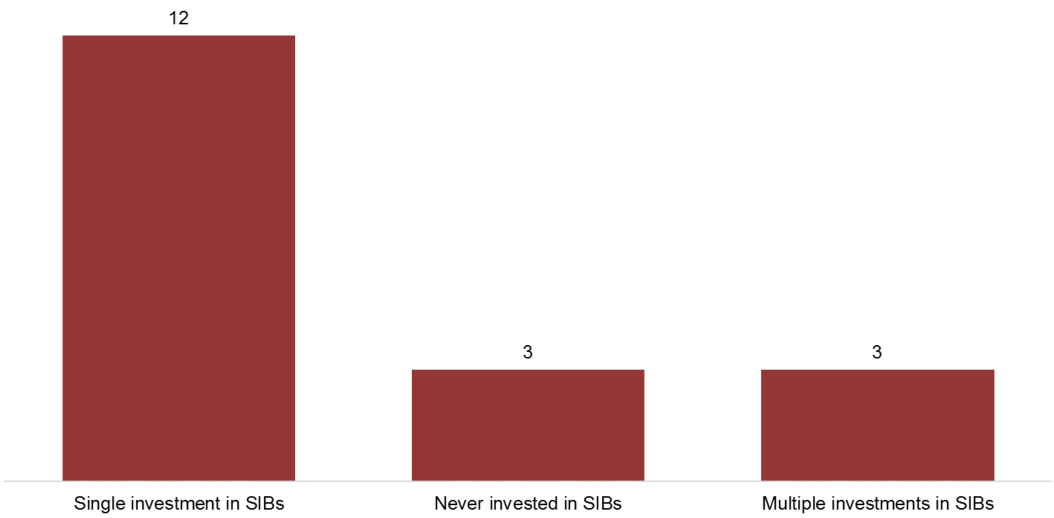
The proportion of service providers involved in SIB is lower than the level of reported at wave 1, where just over 1 in 3 service providers were involved in SIBs. Compared to wave 1, the proportion of service providers considering a SIB was the same – with around 1 in 2 service providers reporting to be either seriously or lightly considering a SIB at both time points.

Out of the 21 service providers with experience implementing a SIB project, 11 had been involved in a single project; four were involved in two projects; and six service were involved in three or more SIB projects. At wave 1, half of the service providers were working on one project (n = 8) – less than third were working on two projects, and only one service provider was involved in three SIB projects.

2.2.3 By investors

Out of the 18 investors involved the survey, 15 had been involved in investing in a SIB. The other three investors worked in social investment but had only considered investing in a SIB. Of those who had invested, three had invested multiple times (one investor had invested in nine SIBs across the world); while the majority had only invested in one SIB (see Figure 2.3).

Figure 2.3 Social investor involvement in SIBs



Source: Wave 2 investor survey. Base = all investor (N = 18)

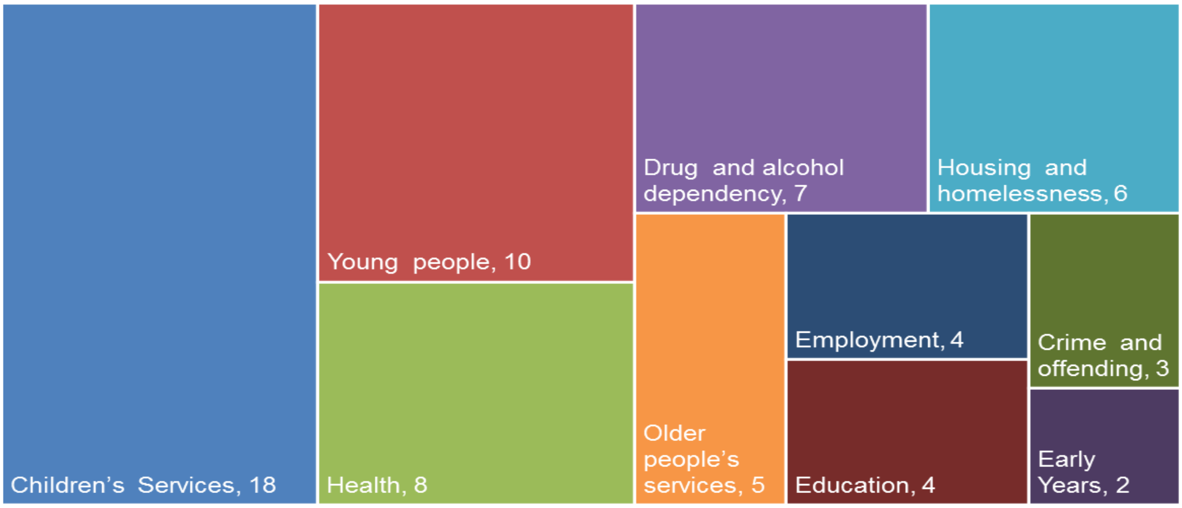
Some investors said that they had and would continue to invest only when approached especially about a potential opportunity by an intermediary: such approaches had led to a number of investors getting involved in SIBs funded by the DWP Innovation Fund, Fair Chance Fund (FCF) and Youth Engagement Fund (YEF).

2.2.4 SIB policy areas

66 SIB projects were included in the commissioner survey (55 included further details about the project, such as the project name, commissioner details etc.). Where details were provided, almost all of the commissioners were working on SIBs commissioned by local commissioners (n = 53) and only two SIBs were commissioned by central government. However, many of the projects were still in development the key stakeholders were not confirmed in the SIB so there may be some under reporting of other types of commissioners.

Almost a quarter (n = 12) of the commissioner SIB projects (with further details specified) spanned one or more policy area – a small proportion (n = 3) spanned three or more policy areas, the remaining (n = 9) spanned two policy areas. The majority of the projects were in the policy areas of children's services, young people and health (see Figure 2.4).

Figure 2.4 SIB policy areas – commissioner projects



Source: Wave 2 commissioner survey. Base = commissioner involved in SIBs (n = 41). 66 projects reported (55 with further details).

53 SIB projects were reported in the service provider survey (33 with further details). Almost a third of the service provider projects with the details specified involved local government commissioners (n = 10), the remainder (n = 23) involved central government commissioners. This included projects from within the following central government funds: Youth Engagement Fund (YEF), DCLG/GLA Rough Sleepers, DWP Innovation Fund and DfE Children's Social Care.

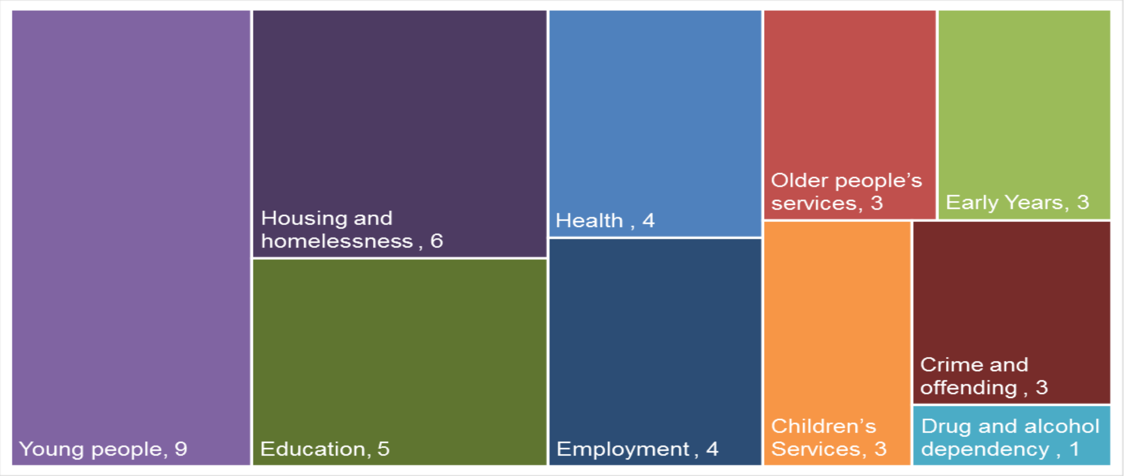
Almost a third of the projects with further details (9) spanned three or more policy areas. The majority of the service provider projects were in policy areas of young people and education (see Figure 2.5).

Figure 2.5 SIB policy areas – service provider projects

Source: Wave 2 service provider survey. Base = service providers involved in SIBs (n = 21). 53 projects reported (33 with further details).

Investors were also asked in which policy areas they had invested but not to state the total number of projects they had been involved in. Several investors pointed out that the SIBs in which they had invested did not fall neatly into a single policy area, and instead spanning several areas, such as homelessness and education. This applies especially to SIBs funded through the Fair Chance Fund and Youth Engagement Fund. Based on their descriptions, the majority of investors had invested in SIBs in the policy areas of young people (see Figure 2.6).

Figure 2.6 SIB policy areas – investors



Source: Investor survey. Base = all respondents (n = 18).

3.0 Stakeholder understanding of SIBs

Chapter summary

- On average, social investors reported a ‘good’ level of understanding within their organisations of SIBs; whereas both commissioner and service providers reported a ‘fair’ level of organisational understanding of SIBs.
- Commissioners and service providers with experience developing or implementing a SIB contract reported a higher level of understanding compared to those who had only considered a SIB project.
- There was a decline in both commissioner and service provider organisational understanding of SIBs since 2014, with the biggest difference in the commissioner group. However, this likely reflects the expanding market of SIBs to include stakeholders with varying understanding in SIBs than those involved from early on.
- Testing the feasibility of SIBs was the most common element of SIBs not understood by commissioners. Other areas of difficulties commonly cited included understanding the role of the investor and deciding the level of risk and returns to the investor if outcomes are met or not.
- For service providers the most common elements not understood related to involving the investor in the SIB process – including the timing of the investor involvement, agreeing the payments to the investor and splitting the risk between the service provider and investor.

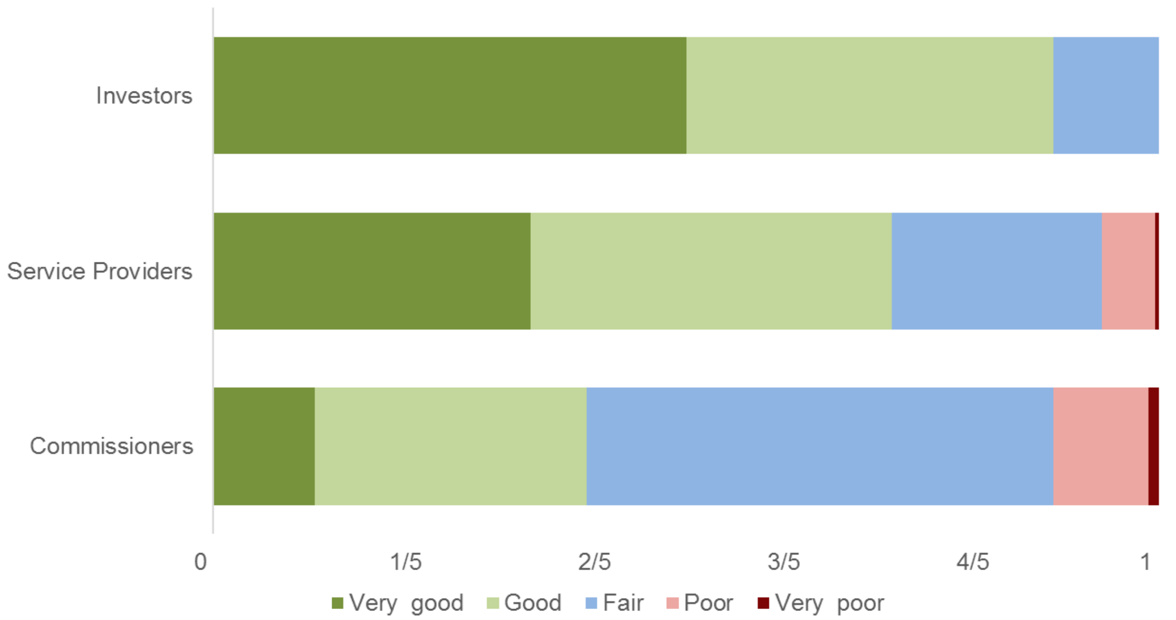
This chapter reports the findings from the commissioner, service provider and investor survey on the level of understanding of SIBs within their organisation (as rated on a Likert scale from 1, very poor, to 5, very good). Firstly the chapter will described the overall level of organisational understanding of SIBs across the three groups. Secondly, it will compare the differences in understanding by the level of stakeholder involvement (involved in a SIB, considering a SIB and not involved). Thirdly the chapter will describe how organisational understanding of SIBs has changed between 2014 and 2017 for commissioners and service providers. Finally the chapter will discuss the specific elements of SIBs that commissioners and service providers have difficulties in understanding and compare how these are different from the areas of difficulties reported in 2014.

3.1 Overall level of organisational understanding

"How would you rate your organisation's understanding of SIBs?"

Comparing the averages level of organisational understanding, investors reported the highest level across the three stakeholders – with a good level of organisational understanding of SIBs (mean = 4.3). This is higher than both service providers (mean = 3.7) and commissioners (mean = 3.1). However, overall all stakeholder groups have a reasonable level of organisational understanding, reporting an understanding level of 'fair' and above (see Figure 3.1). Furthermore, through our qualitative research we have found that usually a small number of individuals have a good/very good understanding of SIBs, whilst the understanding is fair across the rest of the organisation.

Figure 3.1 Level of organisational understanding about SIBs



Source: Commissioner, service provider and investor survey wave 2. Base = All respondents. (Commissioners N = 91; Service provider N = 77; Investor = 18). Stakeholder 'understanding' based on 5 point Likert rating based on self-reported organisational knowledge about SIBs (1= Very poor, 5 = Very good). Not in chart: Three respondents (2 commissioners and 1 service provider) reported 'do not know'.

It is possibly unsurprising that the investors reported the highest level of understanding of SIBs out of the three groups, as the current sample only includes those working in the social investment market and the majority were those most involved in a SIB within the organisation. Where investors reported lower levels of organisational understanding of SIBS, this was largely because of:

- **Limited understanding of social impact investing in other parts of the organisation**: that is while the interviewee may have had a good understanding of SIBs, they were aware that in other parts of the organisation it was less
- **Limited organisational understanding about the whole SIB development process:** in these cases, the interviewee typically had less of an understanding of the earlier stages of SIB development, including designing the SIB model with providers and commissioners or financial modelling in a feasibility study. In some cases, investors only became involved when an intermediary approached them, often with a fully worked up business and investment case.

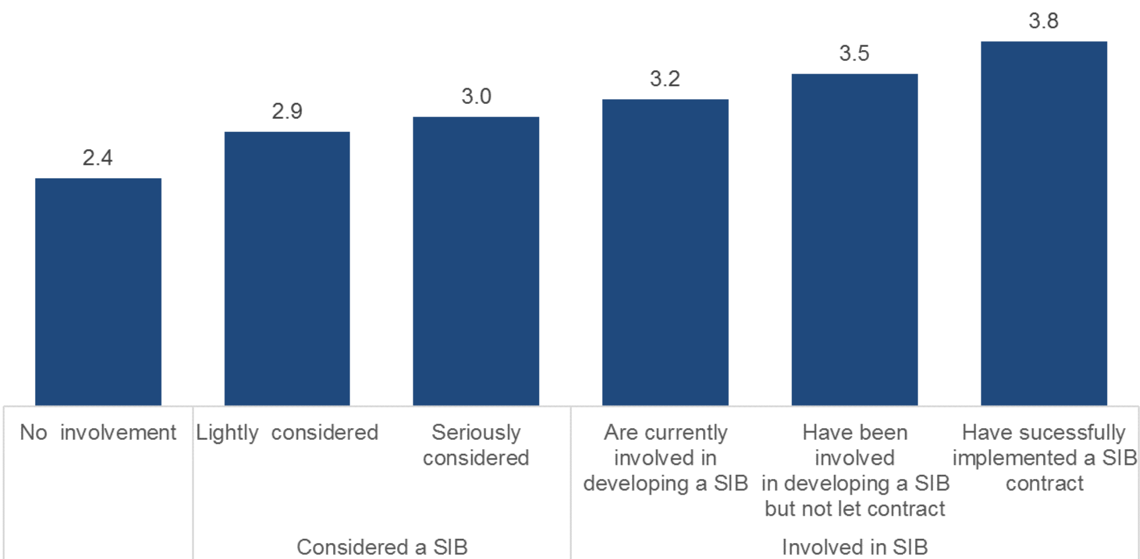
3.2 Understanding by current level of involvement in SIBs

This section will explore the commissioner and service provider understanding of SIBs in terms of the change from wave 1 to wave 2, and by their current level of involvement in SIBs. It will not report further on level of understanding amongst investors, as their views on how the landscape has changed since 2014 is reported differently in chapter 6. Overall - and perhaps unsurprisingly - organisational levels of understanding for both service providers and commissioners is rated higher amongst those who have experience developing or implementing a SIB project, compared to those who have only considered a SIB.

3.2.1 For commissioners

Commissioners who had developed a SIB reported a higher level of organisational understanding of SIBs compared to those who had only considered a SIB. Commissioners who had successfully implemented a contract were the most confident about their organisation's level of understanding of SIBs. Commissioners with the least confidence were those that had not been involved in a SIB at all (see Figure 3.2).

Figure 3.2 Commissioner understanding by current involvement in SIBs

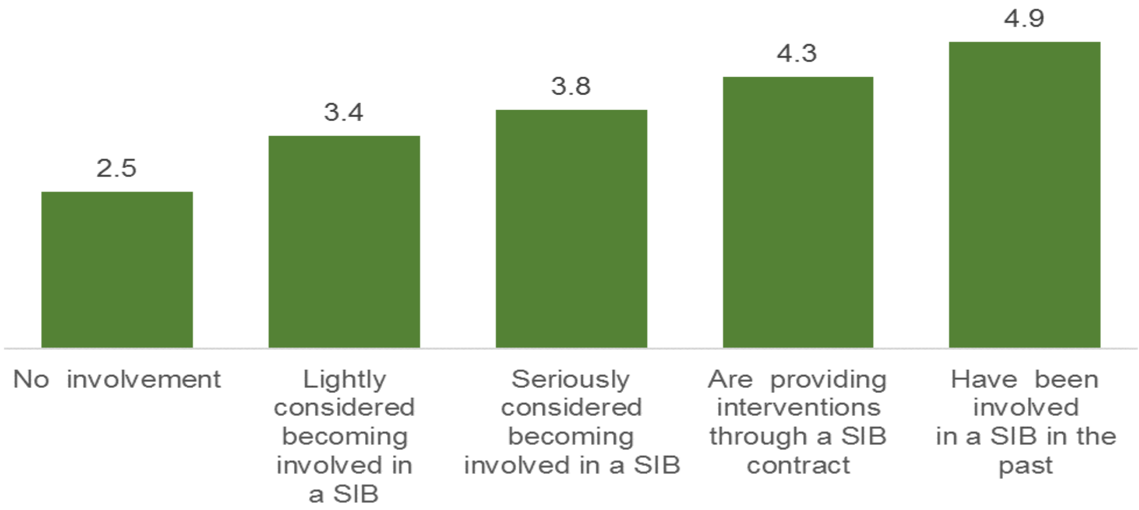


Source: Wave 2 commissioner survey. Individual bases for each stakeholder group: No involvement = 5, lightly considered = 18, seriously considered = 21), Are currently developing a SIB = 26, Have been involved in developing a SIB but not let a contract = 2, Have successfully implemented a SIB contract = 13. Average rating of 'understanding' based on 5 point Likert rating based on self-reported organisational knowledge about SIBs (1= Very poor, 5 = Very good). Not shown in chart: Two respondents reported 'none of the above'. 1 respondent reported 'prefer not to say'. Two respondents did not answer the question. Not included in rating: 1 'seriously considered' commissioner reported 'don't know'.

3.2.2 For service providers

Similar to commissioners, service providers with more experience in SIBs reported higher levels of confidence in their understanding. The most confident groups were those who had been involved in a SIB in the past; and the least confident were those who were not involved (Figure 3.3).

Figure 3.3 Service provider understanding by current involvement in SIBs



Source: Wave 2 service provider survey. Individual group bases: No involvement = 8; lightly considered = 23; seriously considered = 20; providing interventions through a SIB contract = 12; Have been involved in a SIB in the past = 9. Average rating of 'understanding' based on 5 point Likert rating based on self-reported organisational knowledge about SIBs (1= Very poor, 5 = Very good). Not shown in chart: 1 respondent reported 'none of the above'. 4 respondents did not answer the question. One respondent report 'don't know' (No involvement).

There are only small differences in understanding across different job roles with the service providers. There is a slightly bigger difference between the first line supervisor/front line staff (mean = 2.5), who on average reported a 'poor' level of understanding, and the top manager executive, who reported on average a 'fair' understanding (mean = 3.8). There is less of a difference between the middle manager and the top manager executive (see Figure 3.4).

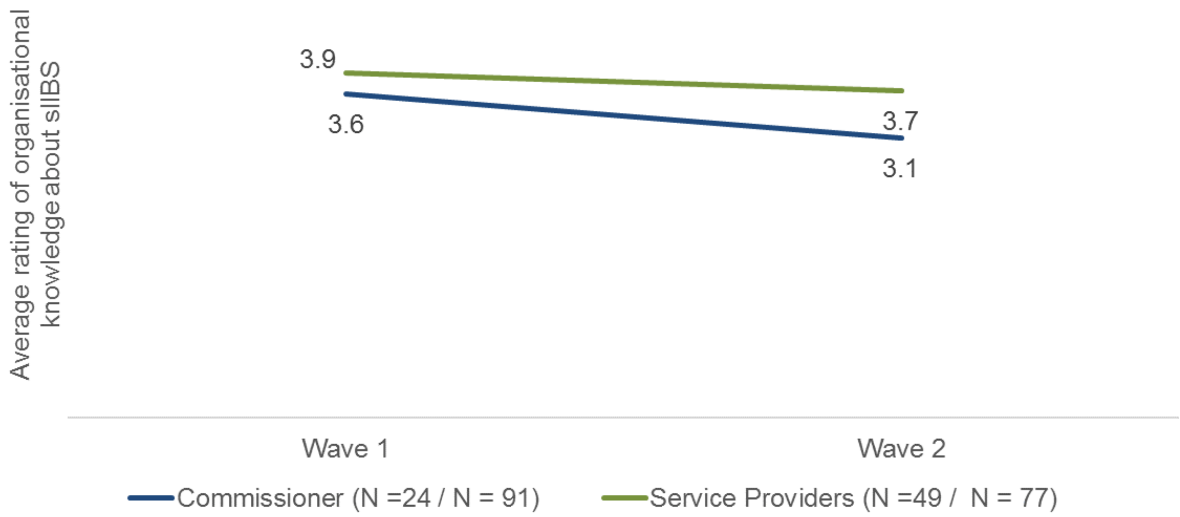
Figure 3.4 Service provider understanding by job role

Source: Wave 2 service provider survey. Base = all respondents who answered the question about job roles. First line supervisor front line = 4, Middle manager = 15, top manager executive = 44, other = 2. Not in chart: 12 respondents did not answer the question. Not included in rating: one respondent answered 'don't know' (first line supervisor/frontline)

3.3 Change in levels of understanding between wave 1 and wave 2

On average, there was a decrease between wave 1 and wave 2 in self-reported organisational understanding of SIBs amongst service providers and commissioners (see Figure 3.5).

Figure 3.5 Change in organisational knowledge about SIBs from Wave 1 to Wave 2



Source: Commissioner and service provider survey wave 1 and wave 2. Base = all respondents (as specified). Average rating of 'understanding' based on 5 point Likert rating based on self-reported organisational knowledge about SIBs (1= Very poor, 5 = Very good).Not included in rating respondents who answered do not know, none above or did not answer the question.

This change may reflect a growing SIB market and the inclusion of Life Chances Fund (LCF) projects in this survey. The newer stakeholders, particularly from earlier stage LCF projects may be introduced to SIBs as a possible contract option without the same pre-existing knowledge or interest as stakeholders involved from early on in the SIB landscape.

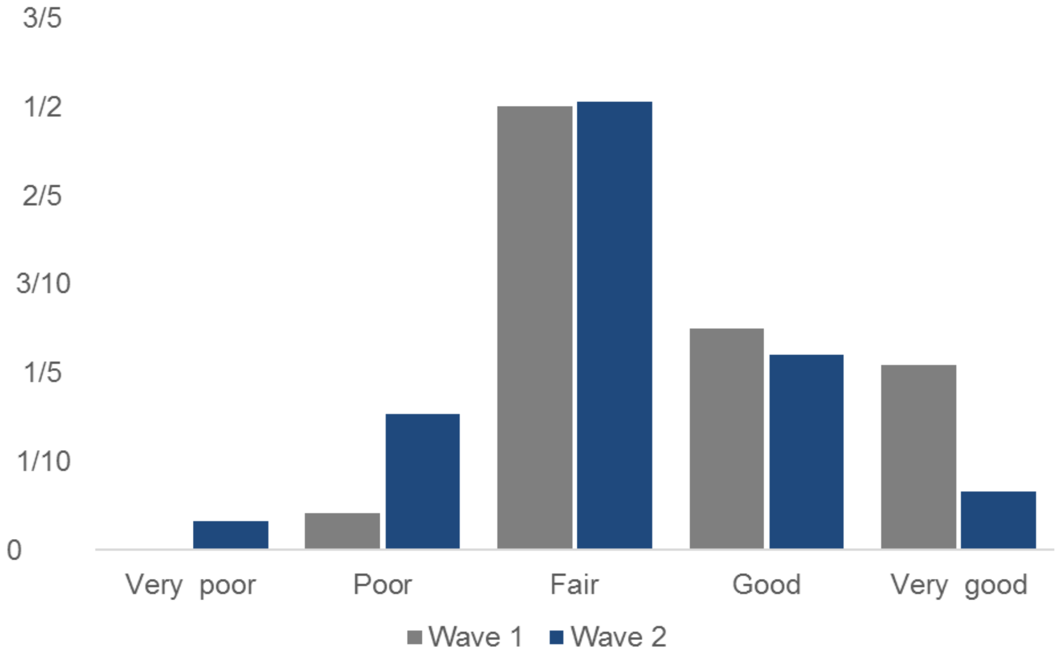
While both service providers and commissioners have shown a decrease in their level of understanding on average, the proportion of ratings (see Figure 3.1 on pp 10) indicates that there is still a high number in both groups that rate their understanding as 'fair' or better. Further to this, within the service provider group there is still three fifths of stakeholders who report to have 'good' or 'very good' understanding of SIBs.

3.3.1 For commissioners

Comparing the actual commissioner ratings of organisational understanding between wave 1 and wave 2, there is a trend towards commissioners having a lower level of understanding (see Figure 3.6):

- At wave 1, almost half of commissioners (11 out of 24) rated their understanding as 'good' or 'very good'; at wave 2 just over a quarter (26 out of 91) reported to have this level of understanding
- At wave 1, only one commissioner indicated a 'poor' understanding of SIBs, but at wave 2 one in five commissioners reported either 'poor' or 'very poor' level of understanding (wave 2 includes a number of early stage LCF projects)
- A similar proportion of commissioners (one in two) rated their level of understanding as 'fair' at wave 1 and wave 2.

Figure 3.6 Commissioner organisational understanding - change since wave 1



Source: Commissioner Survey wave 1 and wave 2. Base = all respondents (wave 1 N = 24; wave 2 N = 91). Not in chart: 2 respondents who responded 'don't know' (Wave 2)

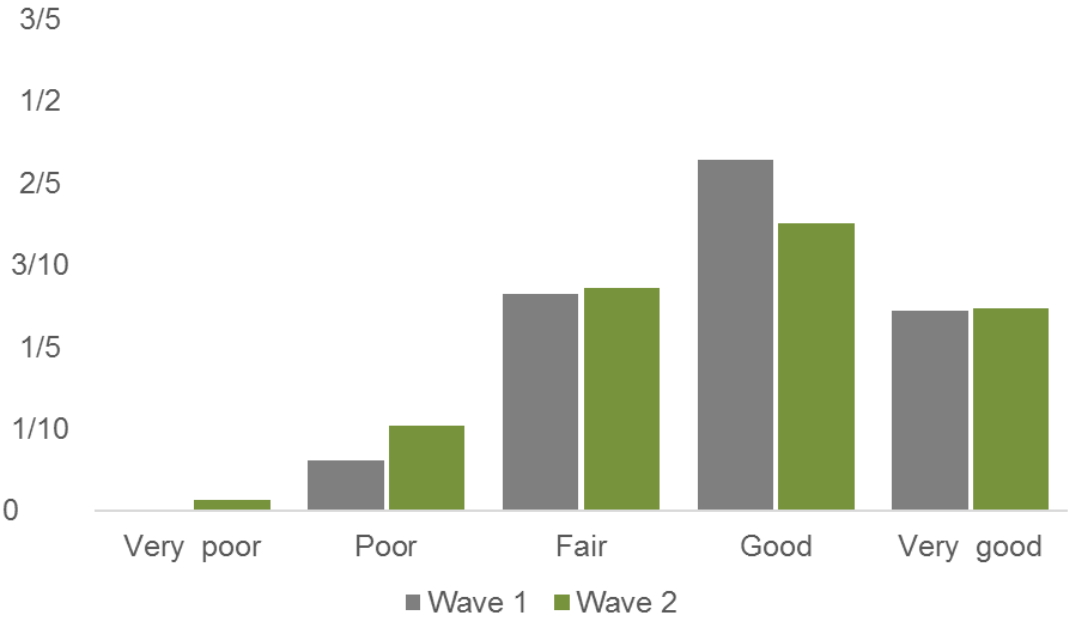
3.3.2 For service providers

Comparing understanding between wave 1 and wave 2 for service providers, there is less difference between the two waves. This may be because newer service providers, such as those funded by Life Chances Fund, were not included in the survey.

Specific findings when comparing the two waves include:

- At wave 1, more than two-thirds (33 out of 49) reported a 'good' or 'very good' understanding of SIBs. Almost three-fifths (46 out of 77) reported this level of understanding at wave 2, with fewer reporting a 'good' level of understanding
- At wave 1, a quarter of service providers (n = 13) reported to have a 'fair' understanding of SIBs. At wave 2, this increased to almost a third
- At wave 2, one in ten service providers (n = 9) indicated that they had poor or very poor understanding of SIBs 2. This is almost double the proportion reported at wave 1 (see Figure 3.7).

Figure 3.7 Service provider understanding of SIBs - change since wave 1



Source: Service provider survey wave 1 and wave 2. Base = all respondents (Wave N = 49; Wave 2 N = 77). Not in chart: 2 respondents who responded 'don't know' (Wave 2)

3.4 Elements of SIBs identified as difficult to understand

"Which aspects of SIBs do you feel your organisation does not fully understand?"

Stakeholders who reported that their understanding about SIBs in their organisation was 'fair' or less, then answered a further question about the elements of SIB that they had difficulties understanding. The purpose of this question was to identify the specific areas of the SIB model that are more difficult to understand. 61 commissioners and 28 service providers answered the question.

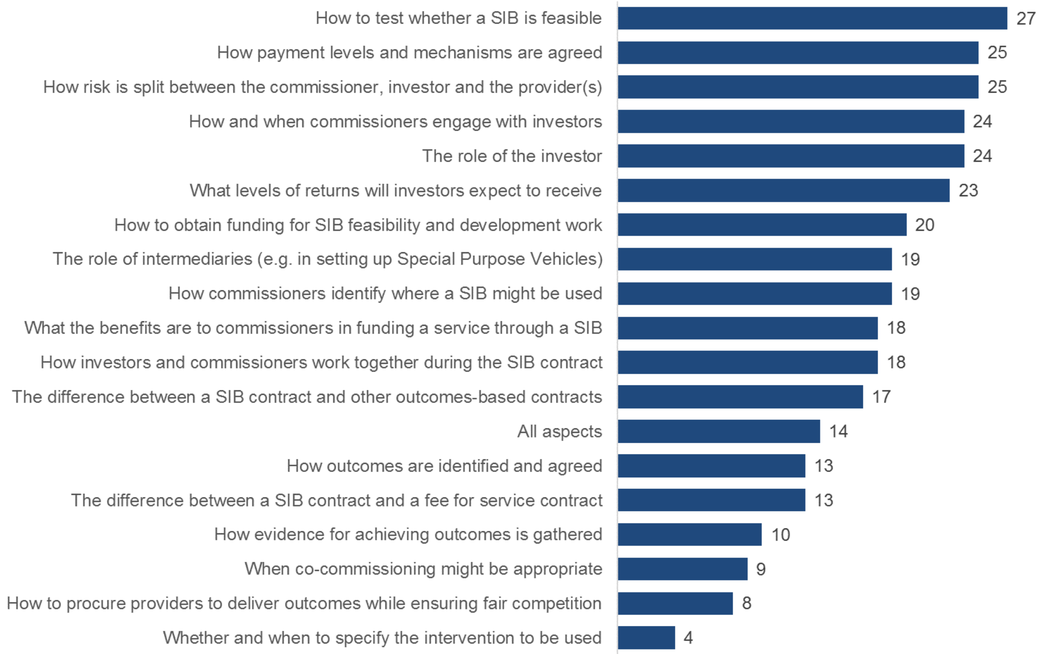
The findings from the commissioner and service provider survey suggest similar issues in understanding how to engage the social investor in the SIB development process and in understanding the technical details the investor loan agreement. In particular, service providers and commissioners reported difficulties understanding how to split the level of risk between the stakeholder groups. This a complex element of the SIB contract because even where the investor is bearing all of the financial risk in providing the initial working capital, service providers are still at least bearing the operational risk in delivery, and therefore the consequential financial risk. However, some service providers may also agree to take on some of the financial risk directly themselves by agreeing to repay part of the loan if outcomes from the service are not met. It is also fairly common that a contract includes a minimum number of referrals to a service, otherwise the commissioner or service provider may need to make payments to the investor regardless of the outcomes. The findings in the the surveys suggest that commissioners and services providers may need to be supported in understanding this complex element of the SIB contracts going forwards.

3.4.1 For commissioners

In the commissioner survey, key areas of difficulties understanding SIBs included:

- Almost a third of commissioners had difficulties understanding elements of the SIB relating to both involving social investor in the process and the details of the contract and risk/return payment, including: the timing of engaging the investor, the role of the investor, how payment levels and mechanisms are agreed, the split of risk between the stakeholder groups, and the levels of return to the investor
- Almost half reported that it was difficult to understand how to test the feasibility of a SIB
- Far fewer commissioners found it difficult to understand about the procurement process, selecting the providers or engaging with other commissioners (see Figure 3.9).

Figure 3.8 Elements of SIBs not understood by commissioners (n = 61)



Source: Commissioner survey. Base: respondents with an understanding level reported as fair, poor or very poor (n = 61). Multiple responses possible. Not shown in chart: One respondent reported 'don't know. Two did not answer the question. Four reported 'other responses':

Broadly there were similiarities between the commissioner surveys at wave 1 and wave 2:

- Half of the 13 commissioners at wave 1 reported diffiuclties understanding the role of investor (n = 7) and intermediaries (n = 7). While understanding the role of the intemediary was less of a common issue at wave 2, the role of the investor still ranked high (3rd overall)
- At wave 1 other common difficulties included how commissioners worked with investors during the contract (n = 6) and when commissioners should engage investors (n = 5). At wave 2, difficulties understanding how the different parties worked together was reported less, but difficulties understanding the timing of engaging investors remained (as described in previously).
- The majority of commissioners at both wave 1 and wave 2 (over three fifths in both surveys), reported that they understood the process of selecting providers and specifying an intervention for a SIB.

Table 3.1 compares the findings from wave 1 and wave 2 on elements of SIBs that commissioners did not understand.

Table 3.1 Comparing commissioner understanding of SIB elements

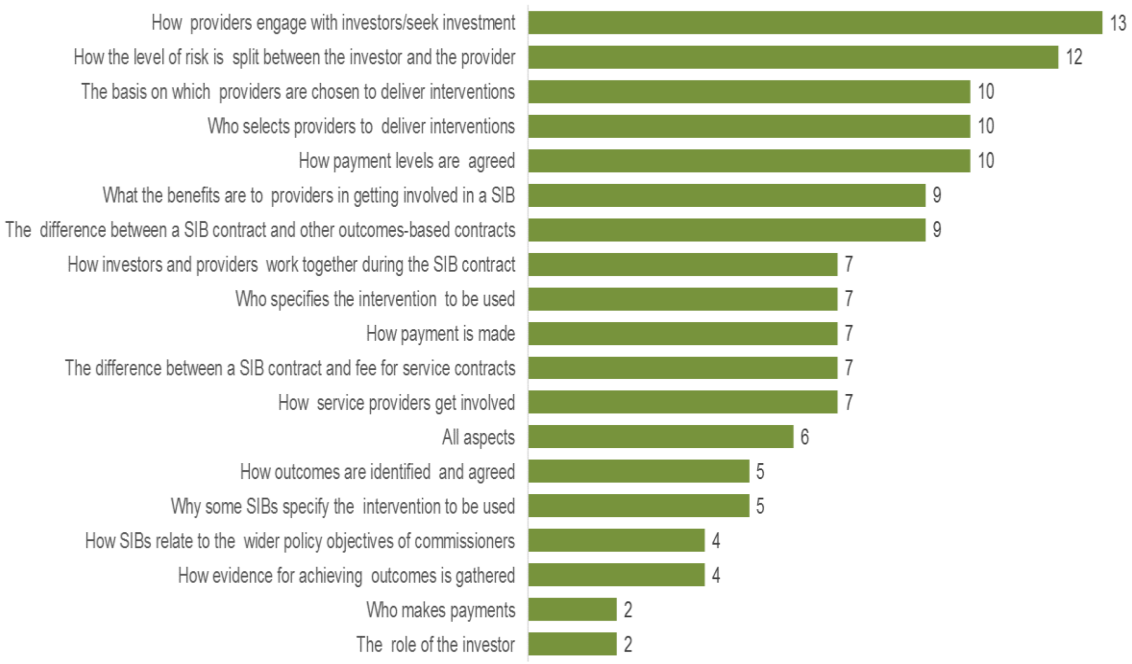
Areas of SIB	Wave 1 (n = 13)		Wave 2 (n = 61)	
	n =	Proportion	N =	Proportion
The role of the investor	7	0.5	24	0.4
The role of intermediaries (e.g. in setting up Special Purpose Vehicles)	7	0.5	19	0.3
What level of returns will investors expect to receive	6	0.5	23	0.4
How investors and commissioners work together during the SIB contract	6	0.5	18	0.3
How and when commissioners engage with investors	5	0.4	24	0.4
How to test whether a SIB is feasible	4	0.3	27	0.4
How payment levels and mechanisms are agreed	4	0.3	25	0.4
How risk is split between the commissioner, investor and the provider(s)	3	0.2	25	0.4
How to obtain funding for SIB feasibility and development work	3	0.2	20	0.3
What the benefits are to commissioners in funding a service through a SIB	3	0.2	18	0.3
How evidence for achieving outcomes is gathered	3	0.2	10	0.2
When co-commissioning might be appropriate	3	0.2	9	0.1
How commissioners identify where a SIB might be used	2	0.2	19	0.3
The difference between a SIB contract and a Payment by Results contract	2	0.2	17	0.3
How outcomes are identified and agreed	2	0.2	13	0.2
Who selects providers to deliver interventions	2	0.2	4	0.1
Whether and when to specify the intervention to be used	2	0.2	4	0.1
All aspects	1	0.1	14	0.2
How the selection of providers can be undertaken in line with competitive tendering rules	1	0.1	8	0.1
The difference between a SIB contract and a fee for service contract	Not asked		13	0.2
Responses sorted by frequency of items at wave 1				

3.4.2 For service providers

Service providers had some similarities to the commissioners on the elements of SIBs they had difficulties understanding, but also some differences.

- Almost half of service providers reported that they had difficulties understanding how to engage a social investor and over two-fifths reported difficulties understanding how to split the risk between investors and the provider.
- However, very few service providers reported that they did not understand the role of the investor. This suggests that service providers might understand the role of the investor more than commissioners, and their area of less understanding is more related to the process of engaging and negotiating with a social investor in practice.
- It was more common for service providers to report that they did not understand the process for deciding how providers are chosen to deliver interventions in SIBs. This is different from the commissioners, who did not report this as an area of issue.

Figure 3.9 Elements of SIBs not understood by service providers



Source: Service provider survey. Base = service providers who rated their knowledge of SIBs as fair or less (n = 28). Multiple responses possible. Not shown in chart: One respondent reported 'none of the above'. Two respondents did not answer the question.

Broadly there were similarities in the finding across the service provider surveys in 2014 and 2017.

- The most common issues at wave 1, engaging investors, how the level of risk is split between the provider and investor, and how payments are agreed, were some of the most common issues reported at wave 2. The exception to this related to why some SIBs specify the intervention to be used – which was a common difficulty reported at wave 1 but less common at wave 2.
- The least common issues at wave 1, relating to who makes payments and how payment is made, how outcomes are identified and how SIBs fit with policy objectives, were similarly reported less frequently at wave 2.
- Overall this suggests that there is a degree of consistency in where service providers have issues understanding and these continue to relate specifically how the contract is structured and payments arrangements made.

Table 3.2 compares findings from wave 1 and wave 2 on the elements of SIBs service providers did not understand

Table 3.2 Elements of SIB not understood by service providers – wave 1 and wave 2

Areas of SIBs	Wave 1 (n = 16)		Wave 2 (n = 28)	
	n =	proportion	n =	proportion
How providers engage with investors/seek investment	6	0.4	13	0.5
Why some SIBs specify the intervention to be used	6	0.4	5	0.2
The role of intermediaries (e.g. in setting up Special Purpose Vehicles)	5	0.3	10	0.4
How the level of risk is split between the investor and the provider	5	0.3	12	0.4
How payment levels are agreed	5	0.3	10	0.4
Who selects providers to deliver interventions	5	0.3	10	0.4
How investors and providers work together during the SIB contract	5	0.3	7	0.3
What the benefits are to providers in getting involved in a SIB	5	0.3	9	0.3
The basis on which providers are chosen to deliver interventions	5	0.3	10	0.4
The difference between a SIB contract and other outcomes-based contracts	4	0.3	9	0.3
Who specifies the intervention to be used	4	0.3	7	0.3
How evidence for achieving outcomes is gathered	4	0.3	4	0.1
How service providers get involved	3	0.2	7	0.3
The role of the investor	3	0.2	2	0.1
How payment is made	2	0.1	7	0.3
Who makes payments	2	0.1	2	0.1
How outcomes are identified and agreed	2	0.1	5	0.2
How SIBs relate to the wider policy objectives of commissioners	2	0.1	4	0.1
All aspects	2	0.1	6	0.2

4.0 Stakeholder experience of SIBs

Chapter summary

- Broadly, four fifths of service providers, just over three fifths of investors and two fifths of commissioners reported to have had a good or very good experience developing or investing in a SIB. All service providers report at least a fair experience, whereas a small proportion of investors and commissioners report a poor or very poor experience.
- There was a trend towards commissioners reporting a less positive experience of SIBs compared to service providers and investors, but on average, the commissioner experience was still fair.
- Similarly, commissioners were less likely than service providers and investors to be involved in a future SIB project, but on average commissioners were still fairly likely to get involved.
- Common benefits perceived by both commissioner and service providers related to embedding an outcomes culture within the service provider organisation. Commissioners also cited the external investment for services was a key benefit. Service provider reported that another main benefit related to the opportunity for innovative service delivery. Investors identified both the benefits of outcomes focused services and innovation as benefits of SIBs.
- For commissioners common challenges related to understanding within their organisation, both in terms of developing it and sustaining it. For service providers the most common challenge reported related to meeting the data requirements of a SIB.
- The main challenges reported by investors related to the complexity of a SIB investment compared to other types of investment and the high transaction costs involved.
- Potential disadvantages of SIBs were reported not to be a great issue in most areas. While commissioners indicated less knowledge about service delivery, service providers reported that the main issue they had observed related to staff turnover and morale (as a result of the increased focus on targets) and potentially over ambitious modelling during SIB development leading to unrealistic targets.
- The most popular and widely used resources, reported by service providers related to the advice and support from either external advisors or the investors. Commissioners also valued the support from investors and advisors, but the most highly rated resource in terms of helpfulness was the SIB contract developed by DCMS. Less commonly used were the specific tools used to set-up SIB (e.g. the Unit Cost Database or the SIB knowledge box).

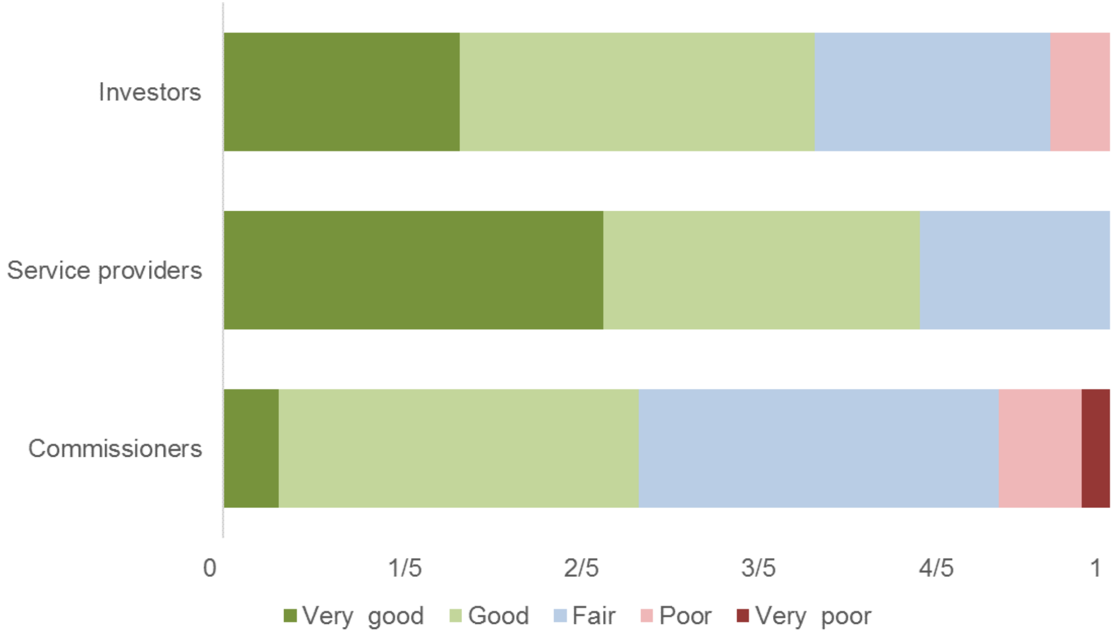
This chapter reports on the experiences of stakeholders that were currently, or had been previously, involved in a SIB project. In the recent wave of research, this included 41 commissioners, 21 service providers and 15 investors who reported experience of being involved in at least one SIB project. Firstly, the chapter will describe the stakeholders' overall experience of SIBs and then their likelihood of future involvement in SIBs. Then the chapter will outline specific aspects of the stakeholder experience including views on the perceived benefits and challenges of SIBs and their awareness and utilisation of resources to help set up the SIB. Finally, the chapter will report on the perceived impact of the SIB model on service delivery.

4.1 Overall experience

"Overall, what was/is your experience of working within a Social Impact Bond model?"

Service providers who had experience developing a SIB (either currently or previously) were the most positive about their experience, compared to investors and commissioners. On average service providers reported a 'good' level experience (mean = 4.2); whereas commissioners and investors both reported a 'fair' experience working on a SIB – although, commissioners reported a slightly worse experience (mean = 3.4) compared to investors (mean = 3.8). The proportion of ratings for each of the stakeholder groups illustrates this trend, with four fifths of service providers reporting to have had a good or very good experience developing or investing in a SIB (see Figure 4.1).

Figure 4.1 Overall experience of developing or investing in a SIB



Source: Wave 2 Commissioner, service provider and investor surveys. Base: Stakeholders involved in SIBs (commissioner n = 41; service provider n = 21, investor =15). Not shown in chart: Four commissioners answered 'do not know'. 12 respondents did not answer the question (Five commissioners and seven service providers).

Comparing the trends across the groups, services providers and commissioners have quite different experiences of SIBs; where investors generally reported similar positive experience to the service providers.

- All the service providers reported to have had at least a 'fair' experience (n = 14), with none reporting to have a poor experience, and the majority reporting a 'very good' experience (n = 6).
- In comparison, the majority of commissioners reported to have either a fair or good experience, suggesting some satisfaction, however, very few reported a 'very good' experience (n = 2) and one in ten reported that their experience was poor (n = 3) or very poor (n = 1).
- The overall trend of service providers reporting a better experience compared to commissioners was similarly observed in the finding at wave 1: where four fifths of service providers reported a good or very good experience; and only half of commissioners reported a good experience.

4.1.1 Reasons underlying positive and negative investor experiences

Amongst the investors who reported good or very good experience of SIBs, the reasons included:

- Good overall performance on a specific SIBs and/or across a portfolio of SIB investments, with outcomes had been achieved, and the social and financial returns in line with or ahead of expectations
- If performance on a SIB had fallen short, it had been offset by other SIB investments that had performed better than expected.

However, over a quarter of investors also reported that their experience was only ‘fair’ and a smaller proportion rated the experience as poor. For the investors who reported less good experience of SIBs, their reasons included:

- Poorer than expected performance of current SIB investments
- Lack of resources to conduct to conduct adequate due diligence on an investment leading to a challenging contracting process
- Overcomplicated investment and contracting process.

One investor gave an example of a health SIB which would have needed up to 25 separate contractual arrangements. While this may have been due to the complexities of health commissioning, as much as the investor arrangements per se, the net effect in deterring investors from investing in SIB in this area was much the same.

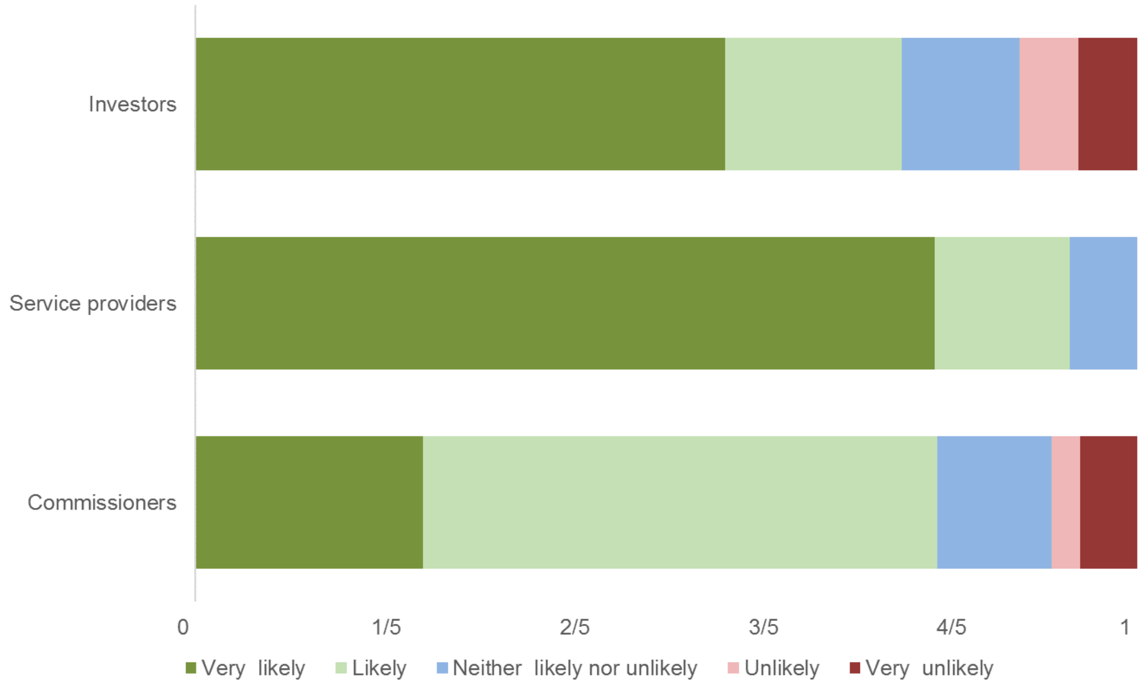
4.2 Likelihood of future involvement

“Based on your experience, how likely are you to become involved in future Social Impact Bonds?”

Out of the respondents who had been involved in a SIB, either currently or previously, all three-stakeholder groups on average reported at a middling chance that their organisation would pursue another SIB opportunity. Service providers were typically keener to be involved in a SIB again, reporting on average they would be likely to pursue another SIB (mean = 4.7), compared to the slightly lower rating, reported by commissioners (mean = 3.9) and social investors (mean = 3.9).

However, when considering the proportion of the commissioners and investors who would be ‘likely’ or ‘very likely’ to be involved in a SIB again, a higher proportion of investors would be very likely to be involved again (9 out 18), whereas only a fifth of commissioners (8 out of 41) reported they would be very likely to be involved again. While the findings here suggest an overall positive interest from service providers, and better than investors and commissioners’ experience, a third of the service provider group did not answer this question (n = 7) and therefore the trends should be considered cautiously (See Figure 4.2).

Figure 4.2 Likelihood of being involved in a SIB again based on current experience



Source: investor, service provider and commissioner survey. Base = respondents involved in SIBs (commissioner = 41, service providers = 21, investors 18). 5 point Likert scale (1, 'Very unlikely'; 5, 'Very likely'). Not shown in chart: Four respondents answered 'don't know (three commissioners and one investor). 12 respondents did not answer the question (five commissioners and seven service providers.)

At the other end of the scale of interest, a small proportion of both investors and commissioners who reported they would be 'unlikely' or 'very unlikely' to pursue a future SIB opportunity. The main reasons to not become involved in future SIBs related to for investors (commissioners were not asked for details) included:

- A specific bad experience: such as a shortfall in referrals to a programme, which meant that the investor would make negative returns on a project
- A preference for another type of investment model, such as a venture capital model or focusing on technological innovation.

Investors explained that in some ways SIB were riskier investments compared to other types of investment. Partly because there was less opportunity for investors to spread the risk of high losses and high gains across a portfolio of mixed investments. But also because it was difficult to balance the risk of high losses (including losing all of the original investment), with an equal opportunity of high gains, as commissioners tended to put a cap on their payments or stipulate a maximum return if the SIB achieved all of its outcomes.

4.3 Perceived benefits

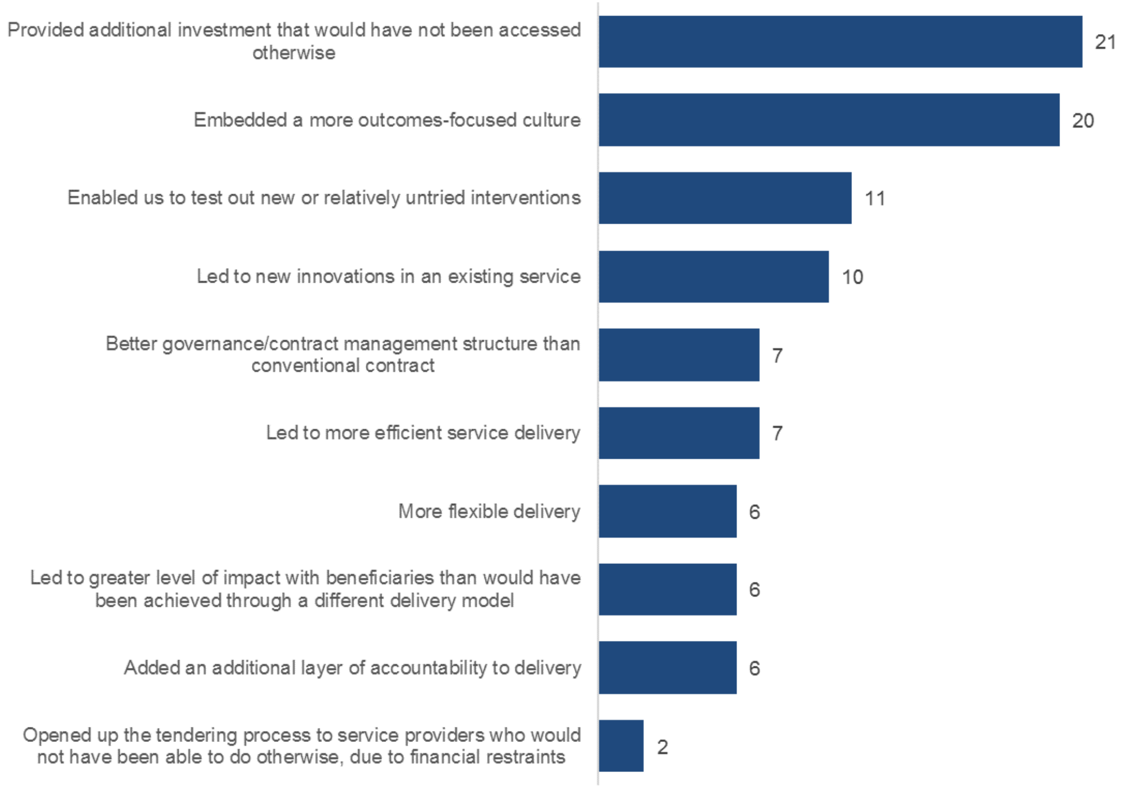
"What were/are the benefits of working within a Social Impact Bond model?"

This section describes the common benefits associated with SIBs as reported by commissioners, service providers and social investors. The main benefit of SIB reported across all three stakeholder groups was the opportunity for organisations to focus on their outcomes and actual social impact.

4.3.1 For commissioners

For commissioners who had experience developing a SIB, the two main benefits reported in the current survey related to accessing funding from the social investor (which we take to mean up-front payment, rather than additional, bearing in mind that strictly it is repayable) and embedding a more outcomes-focused culture within the service. The least common reason related to opening up the tender process to service providers who would not have been able to do so otherwise, due to financial restraints (see Figure 4.3).

Figure 4.3 Perceived benefits of a SIB – commissioner



Source: Wave 2 commissioner survey. Base: Commissioners who currently or have been involved in a SIB (n = 41). Multiple answers possible. Not shown in chart: Five commissioners did not answer the question. Three reported 'do not know/Prefer not to say'. One respondent reported 'no difference'. Eight commissioners reported 'other' benefits.

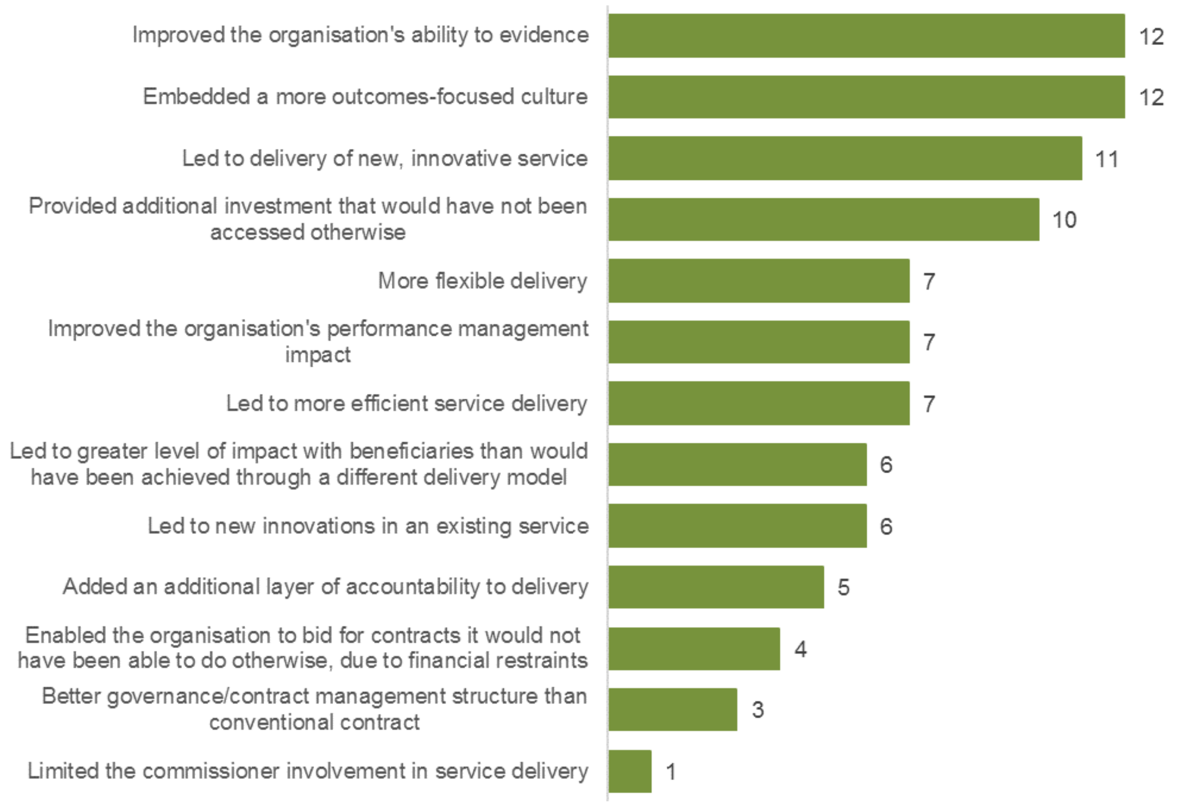
Compared to wave 1, there were similarities and differences in the benefits reported by commissioners:

- Two thirds of commissioners at wave 1 (6 out of 9) reported that embedding an outcomes-based-culture was a main benefit of a SIB, which is similar to the finding at wave 2.
- Previously over half of commissioners identified that SIBs are having a greater impact with beneficiaries (5 out of 9), whereas in the current survey less than a third (6 out of 21) reported this as a benefit.

4.3.2 For service providers

Service providers also reported that the main benefits in a SIB related to the outcome-focused culture and the organisational ability to evidence their practice. The least common reason related to limiting the level of commissioner involvement in delivery (see Figure 4.4).

Figure 4.4 Perceived benefits of a SIB – service provider



Source: Wave 2 service provider survey. Base: service providers currently or have been involved in a SIB (n = 21). Multiple answers possible. Not shown in chart: Seven service providers did not answer the question.

Compared to wave 1, the perceptions of benefits were similar to an extent:

- Over half of the service providers at wave 1 reported embedding an outcomes focused culture (9 out of 16) and improving their ability to generate evidence of impact (n = 8) as main benefits to being involved in a SIB. This finding is similar to that reported at wave 2.
- However, it was more common for the service providers at wave 1 to report that another main benefit of a SIB related to innovative service delivery (11 out of 16) and providing additional investment that would have otherwise not been accessed (11 out of 16). Both these benefits were reported at wave 2 but as the third and fourth most common benefit respectively.
- In both waves, service providers did not often report that better governance and contract management was a benefit of a SIB.

4.3.3 For investors

Investors who had experience investing in SIBs cited a number of benefits of SIBs, both to their social investment organisation and, where they were fund managers, to their primary investors.

Firstly, investors consistently reported that **SIBs encouraged a stronger focus on outcomes amongst service providers or other organisations they were investing in**. From the investor perspective, SIB encouraged – or arguably forced – the organisation they are investing in to pay attention to their outcomes and overall level of social impact. One investor commented that' the SIB approach "*forces a better management structure with an eye on outcomes and financial returns".* Another leading Fund Manager explained that a key motivation for their investors was "*there is much more precise measurement of outcomes achieved and their value"*. Some investors compared SIBs favourably to simple growth investment in a VCSE and to providing a straight grant – where, in both cases, there is less/no linkage between the finance provided and the outcomes achieved. Focusing on outcomes was the most commonly cited of the benefits, and reported by both direct investors and Fund Managers (although we should caution that this was a qualitative survey so interviewees were not prompted to choose from a list of possible benefits). Focusing on outcome was also a benefit reported by investors in 2014 but the findings in this current research suggest that it may have become more prominent.

Secondly, **investors cited the scope in SIBs for increased flexibility in service delivery**. This was cited by a number of investors in Fair Chances Fund and Youth Engagement Fund SIBs. Investors saw the advantage in projects where the intervention was not heavily prescribed, because then there was scope for the service provider to change the service to meet users' needs and achieve social and financial benefits – both during the initial service design and in adapting the service in the light of contract performance.

Lastly, **investors cited opportunities in SIBs to test new contractual structures.** This included encouraging cooperation between the parties to a contract, as well as enabling stakeholders to test the effectiveness of new interventions and approaches.

4.4 Perceived challenges

"What were/are the challenges of working within a Social Impact Bond model?"

This section describes the common challenges associated with SIBs as reported by commissioners, service providers and investors. The main challenge of SIBs for commissioners related to ensuring adequate understanding within the organisation, for service providers it related to the reporting requirements and for investors the complexity of contracts and transaction costs were the main challenges.

4.4.1 For commissioners

The two main challenges reported by commissioners related to understanding the SIB mechanism within the organisation and balancing the needs of the different stakeholder groups. Interestingly, the working relationships with the service provider or the commissioner was not often reported by commissioners as a challenge in itself. This suggests that the difficulties more relate to having an arrangement between the three parties together, rather than the direct working (see Figure 4.5)

Figure 4.5 Perceived challenges in implementing and developing SIBs – commissioner

Sources: Wave 2 commissioner survey. Base: Commissioners involved in a SIB (n = 41). Multiple answers possible. Not shown in chart: Five did not answer the question. One commissioner reported 'no challenges', one reported 'prefer not to say. 11 reported 'other' challenges were reported.

A comparison between wave 1 and wave 2 survey findings was not possible for this question on challenges in SIB, as the relevant question was insufficiently answered at wave 1 and therefore not included in the reporting.

4.4.2 For service providers

From the perspective of the service providers, the main challenge of a SIB related to the reporting and data requirements, agreeing the contract to satisfy all parties (n = 9), and understanding the SIB mechanism within the organisation. It was more common for service providers to report the direct working relationship with commissioners and investors as an issue, which is different from commissioners who did not commonly report this as a challenge. (Figure 4.6).

Figure 4.6 Perceived challenges of working in a SIB – service provider

Source: Wave 2 Service provider survey. Base: Service providers involved in a SIB (n = 21). More than one response possible. Not shown in chart: seven service providers did not answer the question.

At wave 1, the main challenge identified by service providers was again related to agreeing the contract (9 of 16 respondents). The second common challenge related to evidencing service outcomes (7 out of 16), which is similar to the finding in wave 2 relating to the challenges in managing the reporting and data requirements.

4.4.3 For investors

Investors who had experience investing in SIBs reported challenges in the complexity of the models, the continuing high transaction costs and the lower than expected levels of investment required for the working capital.

Investors criticising the complexity of SIBs tended to focus on SIBs that are loosely described as 'intermediated' – that is, where the SIB contract is not held directly between the provider and the commissioner and elements of performance or contract management are overseen by a third organisation, subsequently requiring a more extensive governance structure. However, the criticism was not in the design of the intermediated SIBs, but in how often it was used. Investors suggested that it may be used in circumstances where it is not justified, therefore complicating the model unnecessarily.

Although investors frequently discussed the complexity of SIBs as a challenge, some investors reported that the elements of the SIB model that added complexity to the contract were essential to making SIBs work successfully.

Others thought that the concept of SIBs could be complicated, but the underlying principles were still straightforward. One commented that:

> *"SIBs are potentially a concept that is complicated when all you are actually doing is providing long-term working capital for an outcomes based contract."*

On the high transaction costs of SIBs, investors observed that this was a challenge because the costs had not fallen as far or as fast as some had hoped and expected due to standardisation. Largely this was thought to be because the scope for such standardisation and replication had been much lower than expected – one commented that:

> *"Every SIB is different, even if the service area appears to be the same. Lumping a number of projects together as 'edge of care SIBs' is misleading and an oversimplification."*

A wider challenge reported by the investors had been that individual SIB deals have generally required lower amounts of investment as working capital than forecast. This partly because the scale of the contract date have been fairly small; but also because the contracts have been structured to include early payment triggers and/or the outcome payments are recycled early on in the model cover the provider costs. Overall this has meant that less up-front working capital has been required from the investors and as a result the investors have not been able to invest in SIBs as fast as expected.

4.5 Perceived disadvantages

This section summarises the stakeholder perceptions of the disadvantages of SIBs. The surveys included a series of statements asking for views on the perceived negative impact of the SIB on the service. For each statement, commissioners and service providers provided a rating on 1 to 5, indicating the extent to which aspects of the SIB were a perceived disadvantage to the service.

Together the service provider and commissioner surveys suggest that the commonly perceived disadvantages of SIBs are not in fact experienced as a high level issue in any of the areas – with all the statements included in the survey being rated on average 3 or less on a scale of 1 to 5, by commissioners and service providers.

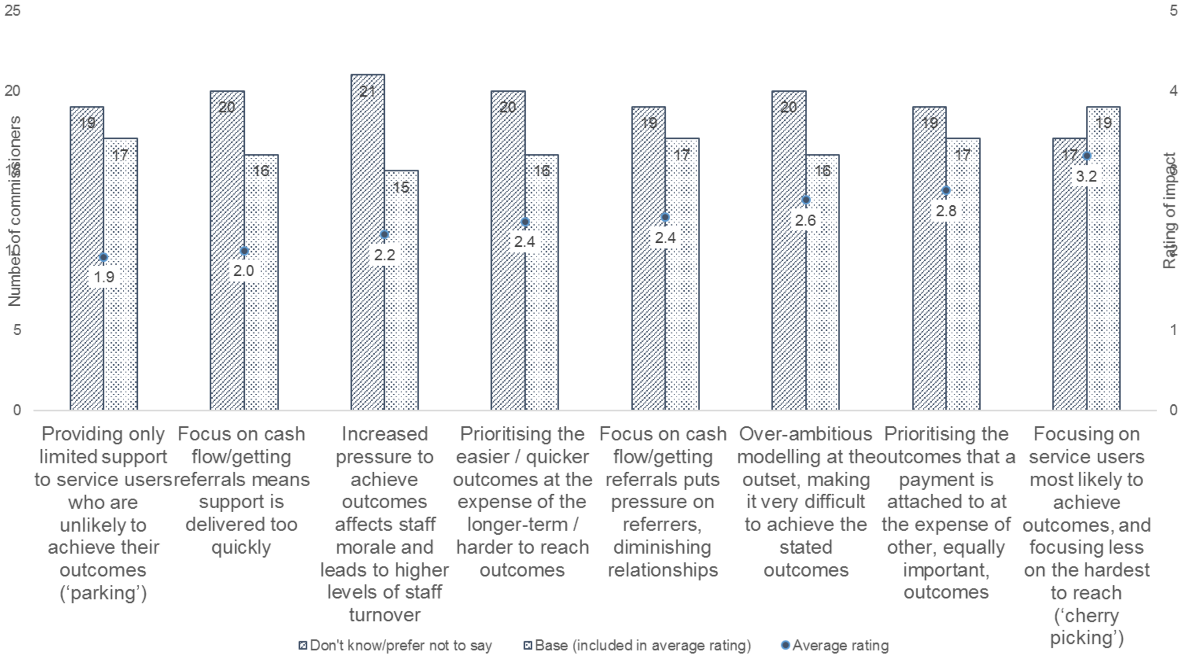
From the perspective of the commissioners, the evidence of the negative impacts is less conclusive as the findings suggest that commissioners are less aware of the impact of the SIB on frontline practice.

For the service providers the main negative effects of the SIBs related to the changing processes and mind-sets to align with an outcomes focused culture, rather than changing the experience of the service for the beneficiary. Combined with the evidence that the majority of service providers report that the outcomes-focused culture and improving their capacity to evidence their intervention was benefit of SIBs, the observed high staff turnover and ambitious modelling reported in the service provider survey may be less of an issue as stakeholders become more practiced and experienced in these areas.

4.5.1 For commissioners

The majority of commissioners found it difficult to rate these statements of observed negative effects of SIBs and responded to the statements with 'don't know' rather than providing a rating. One interpretation of this response is that the areas described in the statements relate closely to day-to-day service delivery, which commissioners, particularly senior commissioners, may know less about. Out of the commissioners who did provide a rating (13 out of 41), the evidence indicates that the disadvantages are not perceived significantly more or less in any of the areas – that is they all rated at a similar level of severity (on average 3 or less). Overall, though, all of these ratings by commissioners should be treated with caution as, even the respondents who gave a response, may have less knowledge about frontline practice (as with those who answered 'don't know), but chose to give a response to the question anyway (see Figure 4.7).

Figure 4.7 Perceived disadvantages of SIB on service design and delivery - commissioner



Source: Wave 2 commissioner survey. Base = commissioners involved in SIBs (n = 41). Average rating based on 5 point Likert rating (1, not at all; 5, to a great extent). Respondents who reported 'don't know' or 'prefer not to say' excluded from base and average calculation (included in chart). Not shown in chart: Five did not answer the question.

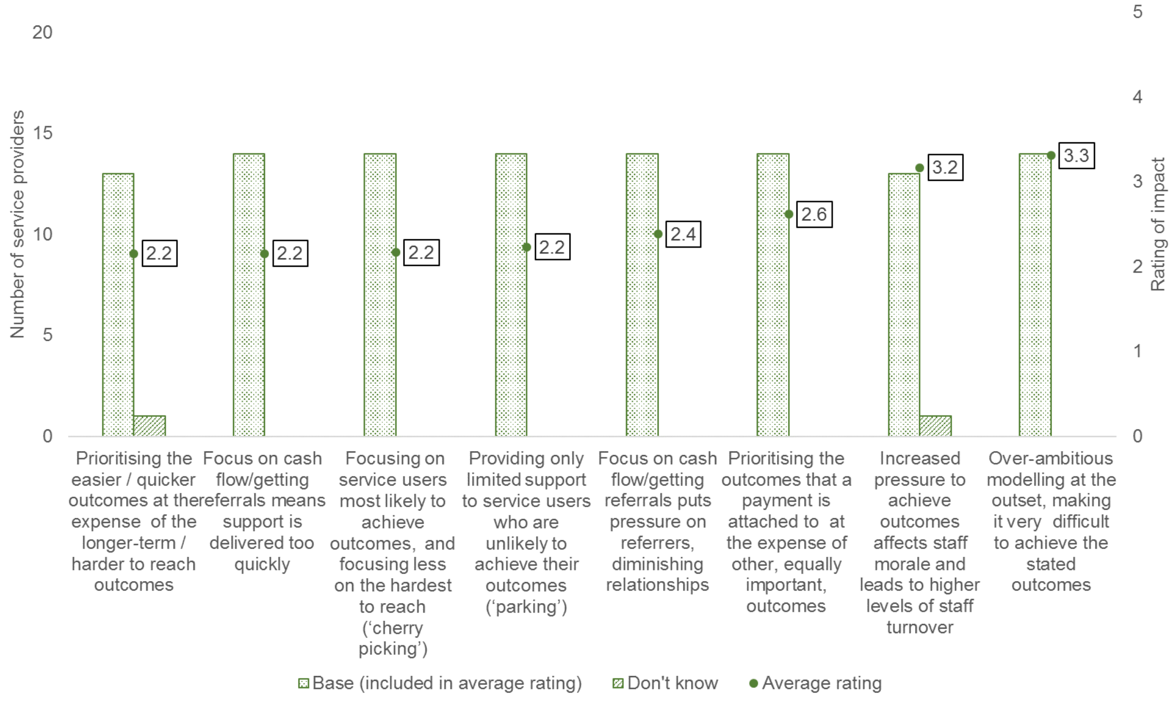
That said, in other parts of the research and future waves, we should explore why commissioners perceive cherry picking, the practice of focusing on service users most likely to achieve outcomes and less on the hardest to reach, as a greater potential impact of SIBs; whereas they perceive 'parking' (providing limited support to service users who are unlikely to achieve outcomes) or delivering support quickly in order to increase cash flow linked to referrals as much less of one. Essentially underlying all of these area is the negative practice of service providers to work differently with the service users to achieve higher payments underlies both.

4.5.2 For service providers

Service providers were able to provide more complete responses to the negative impact statements.

- The greatest area of negative impact related to over ambitious modelling at the outset, making it difficult to achieve the stated outcomes (on average 3.3 out of 5).
- A similarly highly rated area related to impact on staff morale from the increased focus on outcomes in the service, leading to higher levels of turnover (on average 3.2 out of 5)
- Areas perceived to have less impact – rated at a similar low level on average (2.2.out of 5) - related to prioritising easier/quicker outcomes, delivering support too quickly to increase the number of referrals, cherry picking and impact on relationships with referrers.
- It is particularly interesting to note the diverging opinions on the scale of cherry picking, with service providers (mean = 2.2) rating this as less of an issue than commissioners (mean = 3.2). Again, though caution should be taken in extrapolating from the views of the commissioners.
- Overall, areas with a high impact rating related to service providers focusing more on outcomes, and the impact this has on practice, and less to do with changing the approach to delivery to suit the SIB mechanism (see Figure 4.8).

Figure 4.8 Perceived disadvantages of SIBs on service design and delivery – service provider



Source: Wave 2 service provider survey. Base: Service providers involved in SIBs (n = 41). Average rating based on five-point Likert rating (1, not at all; 5, to a great extent). Respondents who reported 'don't know' or 'prefer not to say' excluded from base and average calculation (included in chart). Not shown in chart: Seven service providers did not answer the question.

4.6 Utilisation of support tools and resources

This section describes commissioners and service provider experience of using tools and resources to support the development of SIBs. Similar to what was found in wave 1 survey, the evidence from the commissioner and the service provider surveys indicates that stakeholders are aware of, and use, a range of resources to help them develop a SIB.

While the resources were used differently between commissioners and investors, common and popular to both was the support from external advisors and social investors. This likely reflects a tendency for people to value and use face to face sources of support. Similar to the previous wave, there was less awareness, and use of, specific instruments (such as the Outcomes Matrix and the Unit Cost database) compared to other types of tools and resources.

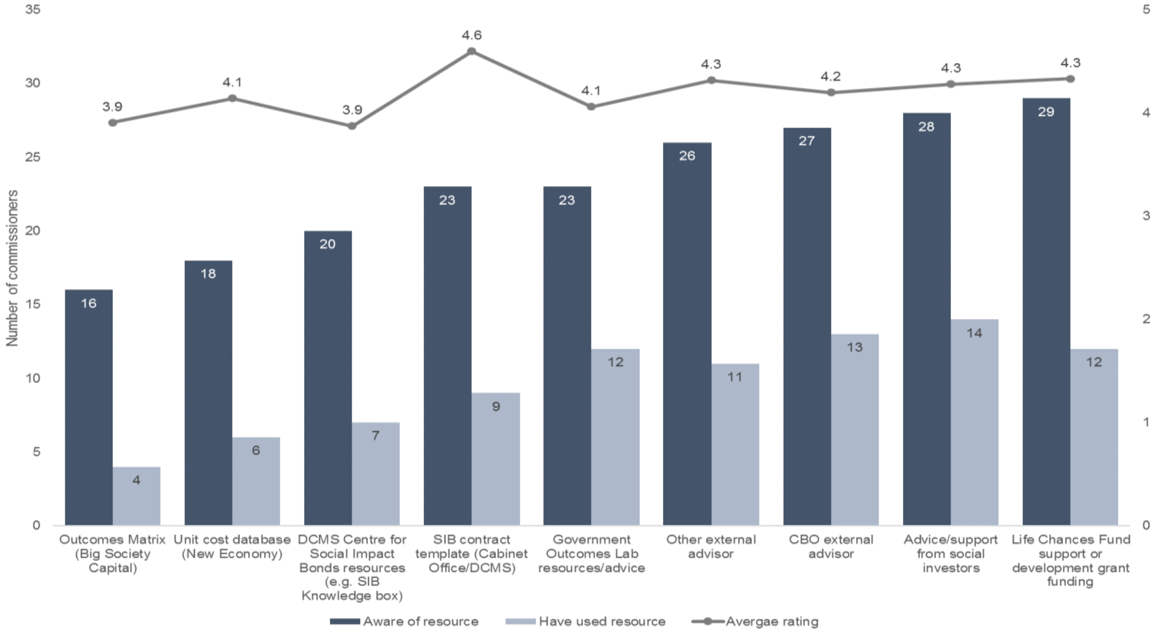
4.6.1 Resources used by commissioners

Key findings from the commissioner survey include:

- Over two thirds of commissioners were aware of the Life Chances Fund support or development grant funding, advice, support from social investors, external advice from an advisor on the CBO provider list or another external provider. Similar high proportions had used all four of these types of resource.
- The least used resource (and the ones commissioners were aware of the least) were the Outcomes Matrix developed by Big Society Capital (n = 16) and Unit Cost Database, developed by New Economy.

- The most helpful resources reported by the commissioners was the SIB contract template. Notably though, the SIB contract was used much less compared to other popular resources. There was a high number of 'don't know' responses to this question (reported in the chart footnote), meaning a smaller base for the average rating as a result. However, it is still a finding that there is less awareness and use of a resource rated to be the most helpful.
- The other highly rated resources included Life Chances Fund support, advice from social investors and other external advisors. These three resources were also the most widely used amongst commissioners (see Figure 4.9)

Figure 4.9 Commissioner utilisation of resources and views on helpfulness



Source: Wave 2 commissioner survey. Base: Commissioners involved in SIBs (n = 41). Average rating based on five-point Likert rating of helpfulness (1, Very unhelpful, 5, Very helpful). Not included in average rating: Commissioners who reported 'don't know' or 'prefer not to say – individual bases for each resource: Outcomes matrix = 11, Unit cost database n = 14, Centre for Social Impact Bond resources n = 16, SIB contract template n = 15, GO Lab resources n = 16, Other external advisor n =22, CBO external advisory n = 25, Support from social investors n = 25. LCF support = 21. Not shown in chart: Five commissioners did not answer the question.

The use of tools and resources compared to the wave 1 commissioner survey:

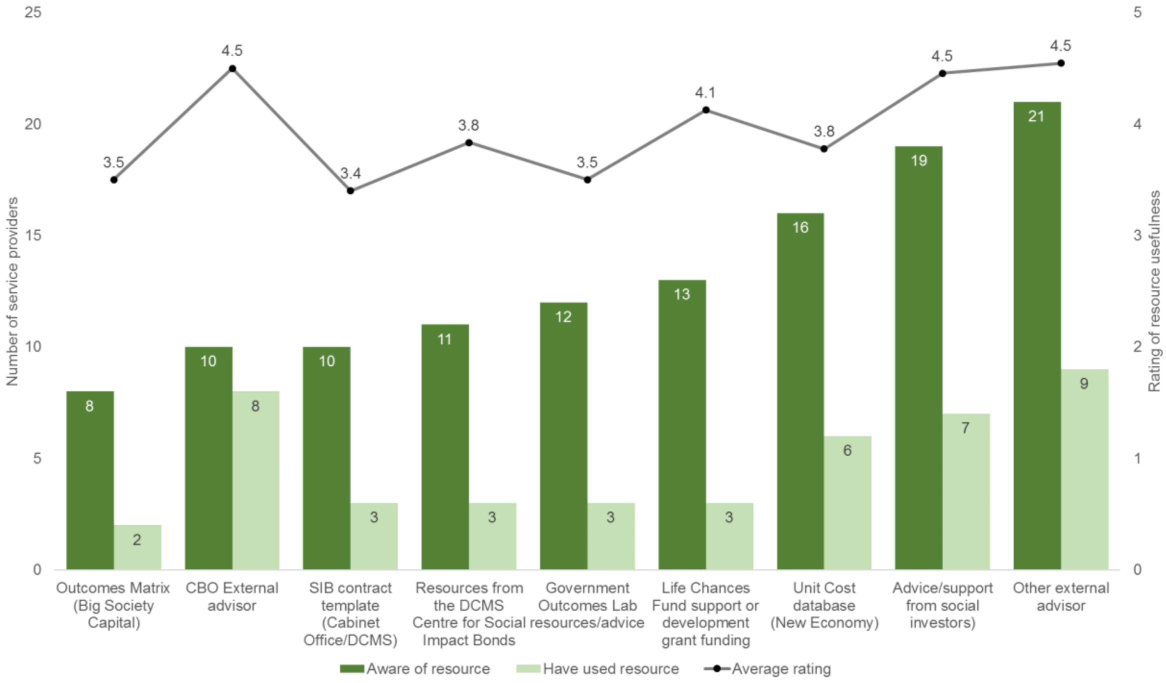
- The majority of respondents at wave 1 (two thirds or 15 out of 24) had similarly accessed some form of external advice from consultants (not specified previously whether related to CBO or not).
- The support from external consultants was also rated as most helpful out of the others, with the majority (n = 7) rating this kind of support as very helpful.
- There was a difference in the reported awareness and use of the resources from the Centre for SIBs (e.g. SIB knowledge box): at wave 1, two thirds of commissioners (11 out of 24) reported to have used this resource and the majority (n = 7) rated it very helpful. However, at wave 2 less than two-fifths (7 out of 41) had used the resource and it was one of the lowest rated resources in terms of helpfulness. This most likely reflects the fact that GOLab was formed between the survey waves and provides similar information to the SIB knowledge box.

4.6.2 Resources used by service providers

Key findings from the service provider survey include:

- Support from external advisors was reported by service providers as the most used resource, from either the CBO provider list or another advisor.
- All types of external advisor were rated as very helpful, similar to the findings from the commissioner survey.
- Over half of service providers were aware of, and over a third had used, support and advice from social investors. This support was also very highly rated in terms of its helpfulness.
- The least used, and rated comparably less helpful than other resources, was the outcomes matrix developed by Big Society Capital. Following the aforementioned trend, the outcomes matrix was also the resource that service providers were aware of the least (see Figure 4.10).

Figure 4.10 Service provider use of resources and views on helpfulness



Source: Wave 2 service provider survey. Base: Service providers involved in SIBs (n = 24). Average rating helpfulness based on five-point Likert rating of helpfulness (1, Very unhelpful, 5, Very helpful). Not included in average rating: Service providers who reported 'don't know' or 'prefer not to say. Individual bases for each average rating: Outcomes matrix = 7, Cost unit database n = 15, Centre for Social Impact Bond resources n = 9, SIB contract template n = 9, GO Lab resources n = 10, Other external advisor n =20, CBO external advisory n = 9, Support from social investors n = 19. LCF support = 11. Not shown in chart: Seven did not answer the question. Not shown in chart: Five service providers did not answer the question.

4.6.3 Resources used by investors

Investors were also asked for their views on the usefulness of external resources, but were not asked to quantify which they had used or their relative effectiveness. Interesting findings include:

- Investors had, on the whole, used external advisors less than other SIB parties (though investors cannot access CBO or LCF funding to pay for support, and therefore rely on work done by advisors with commissioners and providers)
- Several leading investors were positive about both the Unit Cost Database and the SIB Contract Template, even though they do not appear to have been much used by commissioners and providers
- Several investors observed that GOLab was starting to make a useful contribution to SIB development, in particular by providing relevant and up-to date guidance on which commissioners and providers could draw on.

5.0 Stakeholder willingness to be involved in SIBs

Chapter summary

- Commissioners, service providers and investors who were not currently involved or investing in a SIB all had a relatively high interest in pursuing a SIB opportunity. Those who were most likely to pursue a SIB in the future were those who are currently seriously considering one.
- The most common barrier reported by commissioners to getting involved in a SIB related to the resource needed to set up a SIB contract. For service providers, the most common barrier related to the financial risk involved in a SIB.
- There were slight differences between the motivations reported by stakeholders who were currently involved in SIBs, compared to those who were not.
- For commissioners the main motivations broadly related to accessing up-front investment and improving the effectiveness and efficiency of services. For service providers, common motivations related to additional funds and being able to deliver an innovative service. In this survey we have assumed that the service providers and commissioners are reflecting on the working capital made available by the investors; rather than top-up payments from CBO. We will explore as part of wider research the perceptions of both sources of financing and the role each plays in the decision to pursue a SIB.
- Stakeholder who were not interested in SIBs cited complexity (commissioners) and financial risk (service providers) as the reasons they were not interested.
- Change in previously available funding was much less of a motivation for commissioner involvement 3 out of 41) in the current survey compared to the previous wave (6 out of 20).

This section of the report primarily details the findings from stakeholders from organisations that do not have experience developing a SIB project. In the current research, over half of the commissioners (n = 48) and almost two thirds of service providers (n = 53) reported that they had either only considered a SIB or had no involvement to date. This most likely reflects the current situation in the SIB market – i.e. that there are a large number of SIBs currently being developed that have not yet launched. Three investors who were interviewed reported that they had not currently invested in SIBs.

Firstly the section will outline overall levels of interest amongst these groups and the likelihood of pursuing a SIB opportunity in the future. Then it will outline the perceived barriers associated with SIBs. This section will also describe the underlying motivations for pursuing a SIB opportunity, drawing both from stakeholders currently developing a SIB and those who are not, for comparison. In the main, this section will focus on the findings from service providers and commissioners, with only small commentary on the findings from the investors where relevant.

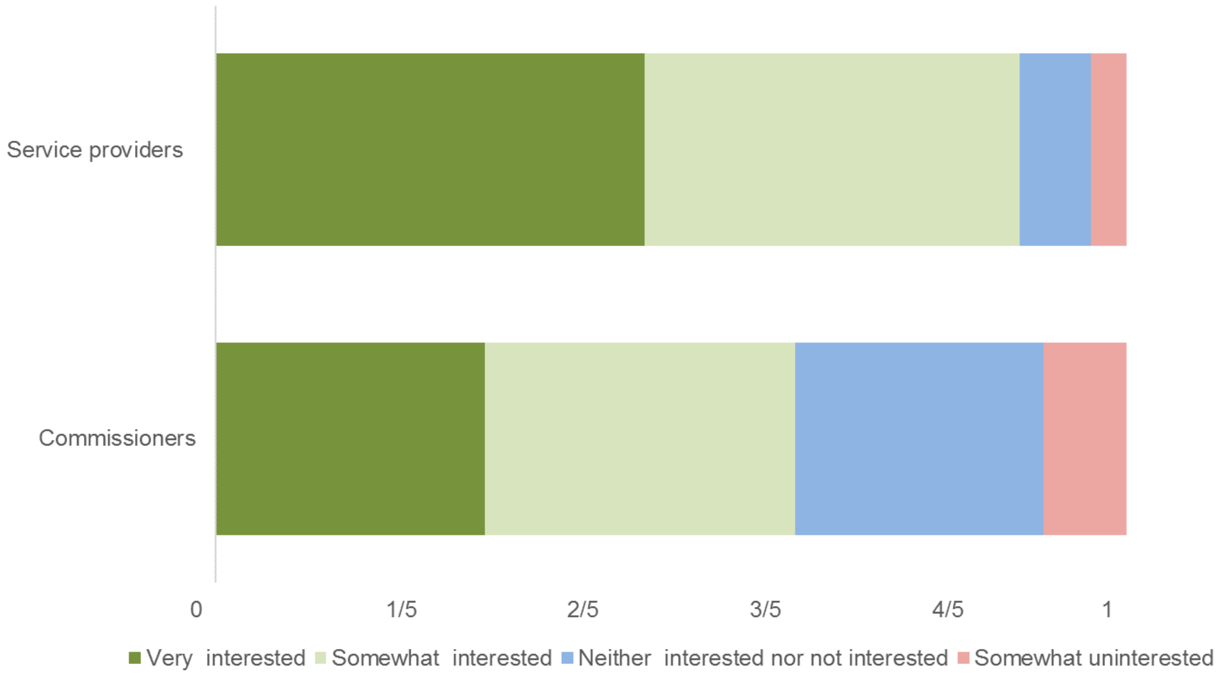
5.1 Prospective interest in SIBs

"How interested is your organisation in getting involved in a SIB?"

This section provides a description of the findings relating to the service providers and commissioners prospective interest in SIBs. Overall, both service providers and commissioners who were currently not involved in SIBs reported a relatively high level of interest in pursuing a SIB opportunity. This is perhaps unsurprising considering the survey was targeted at stakeholders who were either currently developing, or had expressed an interest in SIBs.

On average service providers reported a higher level of interest (mean = 4.3) compared to commissioners (mean = 3.4). Illustrating this trend, a higher majority (almost nine tenths) of service providers reported to be somewhat interested (n = 21) or very interested (n = 24) in a SIB, which was a greater proportion than compared to commissioners (just over three fifths: somewhat interested, n = 15, and very interested n = 13) (see Figure 5.1).

Figure 5.1 Prospective interest in SIBs

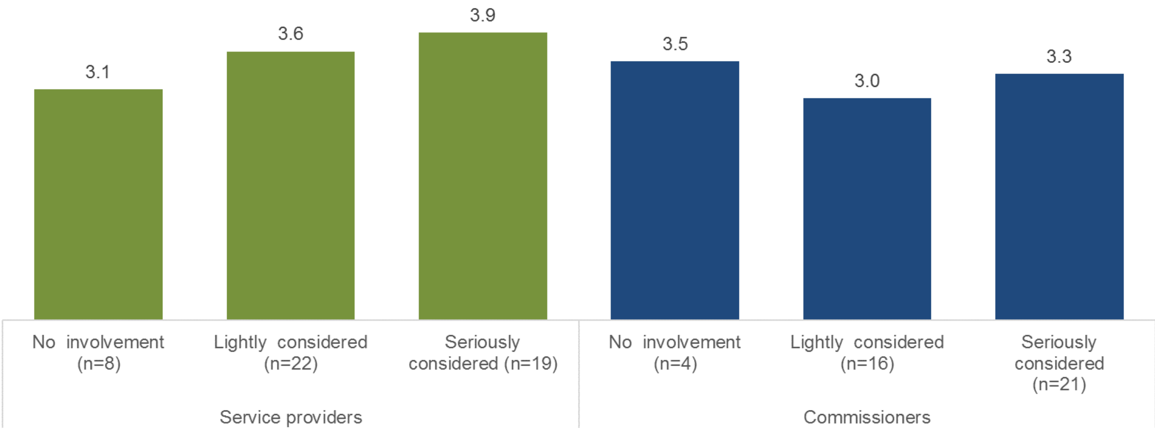


Source: Wave 2 service provider and commissioner survey. Base: Currently not involved in a SIB (commissioners n = 48, service providers = 53). Average rating of interest in SIB based on self-report rating on 5-point Likert scale (1, Not at all interested; 5, Very interested). Not shown in chart: Six respondents (4 commissioner and 2 service providers) reported prefer not to say / do not know.

5.2 Likelihood of being involved in a SIB

Both service providers and commissioners who had not developed a SIB project reported that their likelihood of being involved in SIB was on average 'fair' across the different groups based on involvement. The group most likely to be involved was the service providers who had seriously considered a SIB to date. In the commissioner group, a broadly similar trend can be seen amongst those who had slightly considered and lightly considered a SIB. The highest mean, from the group with no involvement, is likely to be inflated by a low base (see Figure 5.2).

Figure 5.2 Ratings of likelihood of being involved in SIB by current level of involvement.



Source: Wave 2 commissioner and service provider survey. Base = not currently involved in SIBs (Commissioner n =48, service provider n =53). Average rating based on 5 point Likert Scale (1, Very unlikely; 5, Very likely). Not shown in chart: Seven respondents reported 'don't know' (5 commissioners and 2 service providers). One respondent (service provider) did not answer the question.

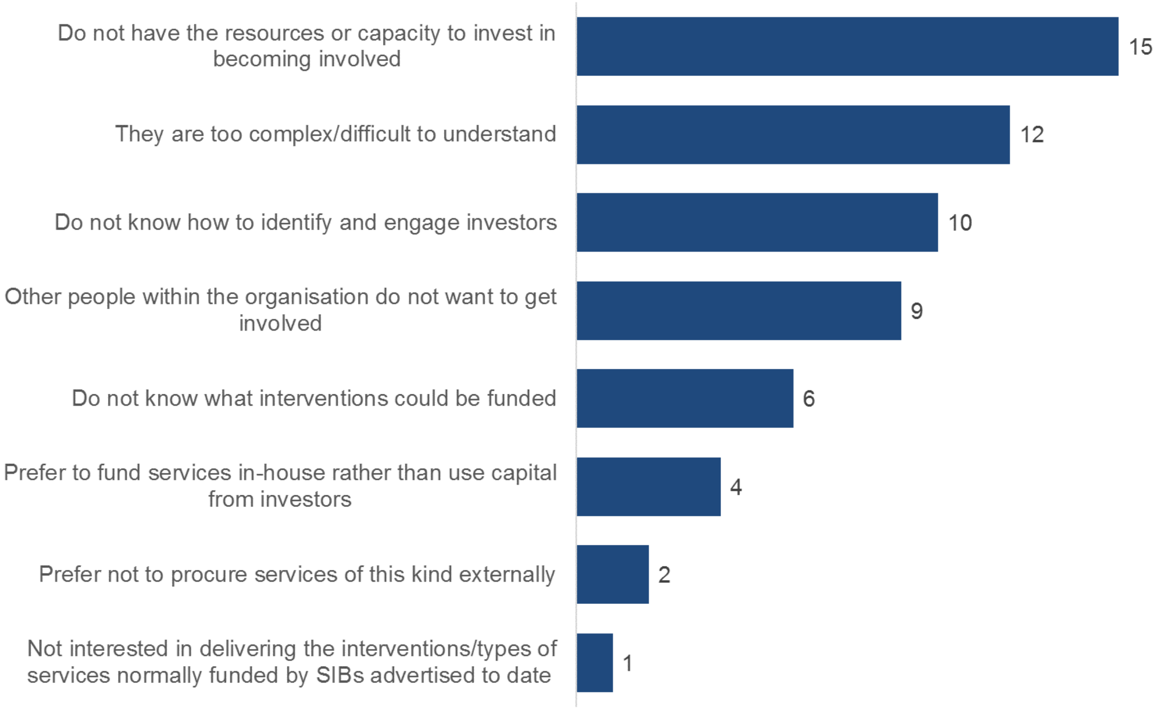
Out of the investors who had not invested in a SIB (n = 3), all were currently considering SIB investments but had not yet found a suitable opportunity. Their reasons for not investing to date included:

- Over complexity of deals
- A project of interest had failed to progress to contract and investment raising or
- A specific provider they were linked to had lost out to a competitor during procurement.

5.3 Perceived barriers to involvement in SIBs

Commissioners who were interested in SIBs but had not developed one reported that the perceived barriers mainly related to a lack of resources (n = 15) or capacity to invest in the process of setting up a SIB (n = 12). A preference to fund services internally, because of the associated straightforwardness of fee-for service contracts, was cited less often as a reason not to pursue a SIB (see Figure 5.3).

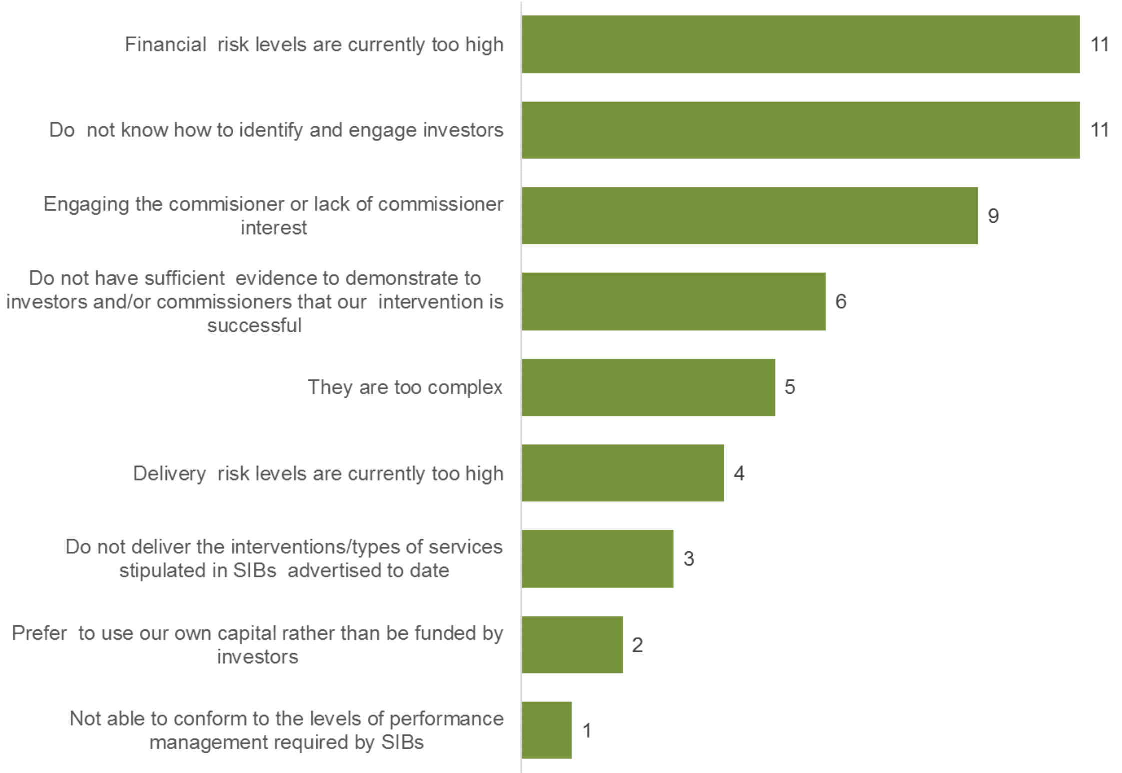
Figure 5.3 Commissioners' perceived barriers to becoming involved in a SIB



Source: Wave 2 commissioner survey. Base: Commissioners currently not involved a SIB but interested in becoming involved (n = 28). Multiple answers possible. Not shown: three commissioners reported 'other responses'. Five did not answer the question. One reported prefer not to say.

For services providers who were not involved in SIBs currently, the main barriers to their involvement related to: risk in the financial model; issues in attracting social investors; and appropriate levels of evidence for the intervention (n = 6). Similar to commissioners, the lack of involvement in SIBs was not related to an issue with funding the service with a social investor. A high number of 'other responses' were reported by service providers. On further examination here, almost all of the other responses related to challenges engaging a commissioner, so this has been added to the chart (see Figure 5.4).

Figure 5.4 Service providers' perceived barriers to becoming involved in a SIB



Source: Wave 2 service provider survey. Base: Service providers interested in SIBs but not currently involved (n = 45). Multiple answers possible. Not shown in chart: seven did not answer the question.

In wave 1, only one commissioner answered the question and therefore it is difficult to compare results between the surveys. For the service providers, all three of the main barriers reported at wave 2 were common to the main reasons also reported at wave 1 (financial risk being too high, difficulties evidencing effectiveness of the intervention). Therefore, for service providers the barriers to getting involved in SIBs remains the same.

5.4 Motivations to getting involved in a SIB

"Why is your organisation interested in getting involved in a SIB?"

This section outlines and compares the main motivations reported by commissioners and service providers currently involved in SIB projects with those who are not currently involved (this includes stakeholders who either have considered a SIB or have had no involvement to date). At wave 1, the perspectives of the two groups were combined: the two most common reasons reported by commissioners related to financial reasons (creating upfront funds and the potential to save money). Similarly service providers reported that the SIB opportunity was attractive because it provided additional funding through the investors, but it was seen as an opportunity for them to deliver more innovative services.

A key motivation in the current research for commissioners and service providers was the external investment from the social investors as a way to pay for services that otherwise would not have been funded, rather than seeing the new capital as an alternative way to pay for an existing service. We have assumed in the survey that where commissioners and service providers reported their motivation as related to accessing additional funds or upfront investment, they are referring to accessing the working capital from the investors. However, we can assume that the top-up funds through CBO were also attractive, particularly to commissioners as this offer reduces the amount they need to pay for the outcome payments.

We also did not explore specifically with commissioners the extent to which the investment is perceived as an addition to other resources, or whether what is attractive is the immediacy of accessing the funds before the results are proven. As part of the wider research in CBO, and in the Update Report, we will explore directly views on accessing the working capital, and the top-up funding from CBO, and how this has a part in commissioner and service provider decision making in SIBs.

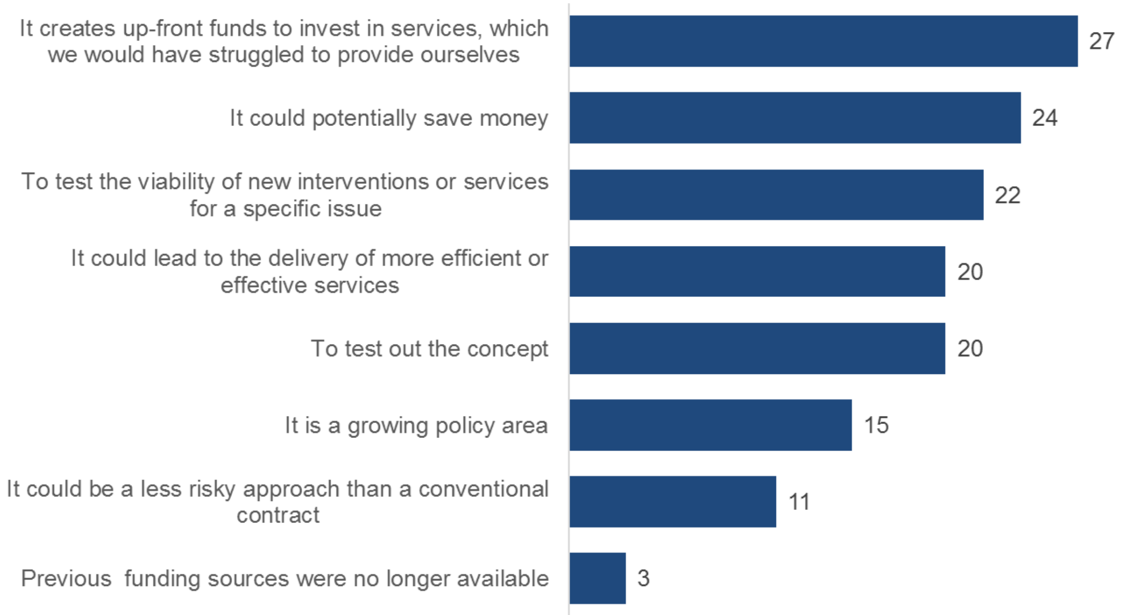
Overall, motivations of commissioners and service providers not currently involved in SIBs were broadly similar to those currently involved in a SIB project. However, the findings from the surveys suggest some key differences, as outlined in this chapter. The difference may be explained by stakeholder motivations changing with level of involvement in a SIB. In other words, once involved in a SIB the stakeholder's motivation for becoming involved may be remembered or reported differently. It could also reflect changing perceptions around the benefits of SIBs – that the motivation of the new wave of stakeholders developing SIBs is different to those who developed them in the past. It may also indicate some issues within the items posed in the two questions. Further testing will confirm whether there are valid differences between the groups.

5.4.1 Stakeholders with experience developing SIBs

5.4.1.1 *Commissioners*

The main reason reported by commissioners for their involvement in SIBs related to the financial benefits and using existing resources better: both in terms of accessing the upfront funds for a service, and the potential to save money in the long-term. The second main area of motivation for commissioners related to trialling new ways of working and improving existing provision - either by testing out the viability of services or new concepts, or to lead to more efficient or effective commissioned services. Change in previously available funding was much less of a motivation for commissioner involvement. (see Figure 5.5).

Figure 5.5 Commissioner motivations to become involved in a SIB



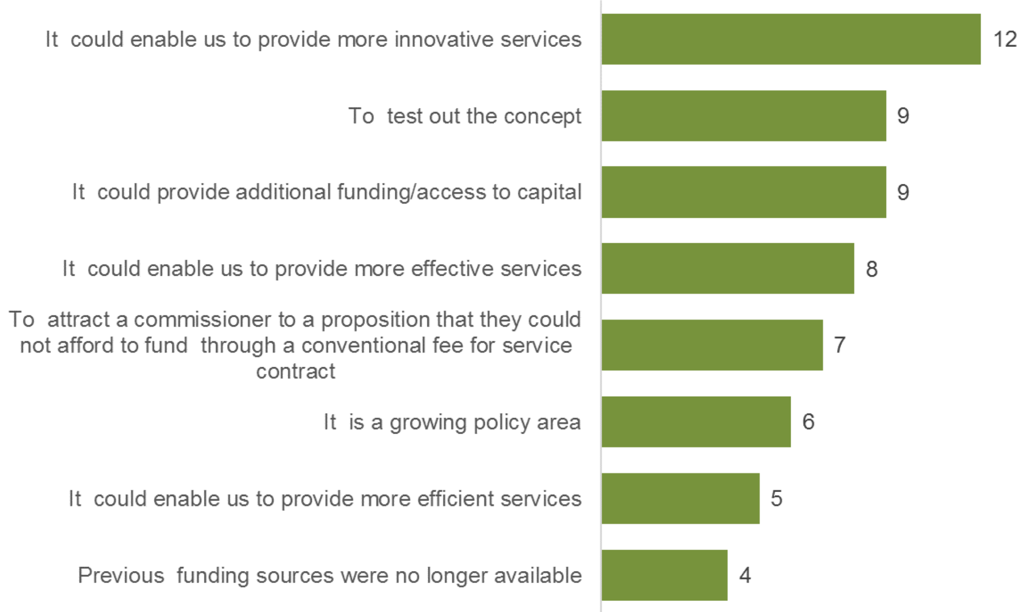
Source: Wave 2 commissioner survey. Base = commissioners involved in a SIB (n = 41). Not shown in chart: Five did not answer the question. Six reported other motivations:

This is largely consistent with the finding of common motivations at wave 1. The most common response at wave 1 relating to motivations was the opportunity to create up-front funds to invest in services (16 out of 20) and to potentially save money (16 out of 20). However, at wave 1 a third (6 out of 20), reported that the motivation was replace previous funding sources that were no longer available. At wave 2 the proportion is lower (less than one in 10).

5.4.1.2 *Service providers*

The most common motivations for service providers' involvement in SIBs related to being able to provide a more innovative service and an opportunity to test out a concept. While accessing additional funding was a common benefit, as in the commissioner survey findings, change in previously available funding was less of a motivation for the service providers, which is different from the findings from commissioners (see Figure 5.6).

Figure 5.6 Service provider motivations to become involved in a SIB



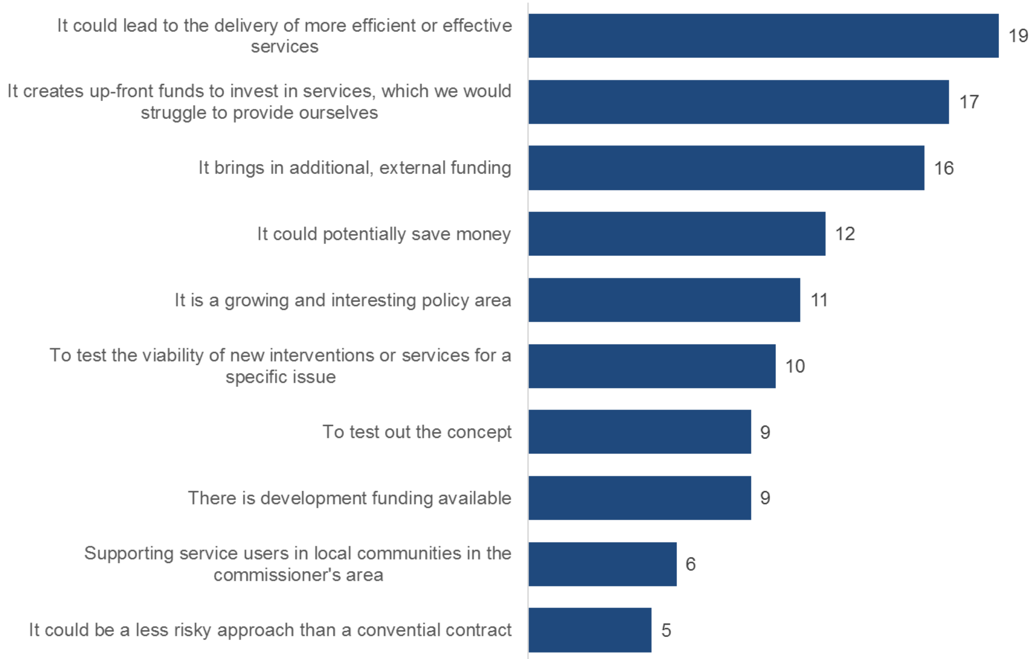
Source: Wave 2 service provider survey. Base = service provider involved in a SIB (n = 21). Not shown in chart: One respondent reported 'other' as a response. Seven respondents did not answer the question.

5.4.2 Stakeholders not currently involved in SIBs

5.4.2.1 *Commissioners*

Commissioners not currently involved in SIBs cited SIBs an opportunity to create up-front funds for the services and leading to more efficient and effective services as the two most common reasons for their interest in a SIB (see Figure 5.7).

Figure 5.7 Commissioners' motivations for prospectively getting involved in SIBs



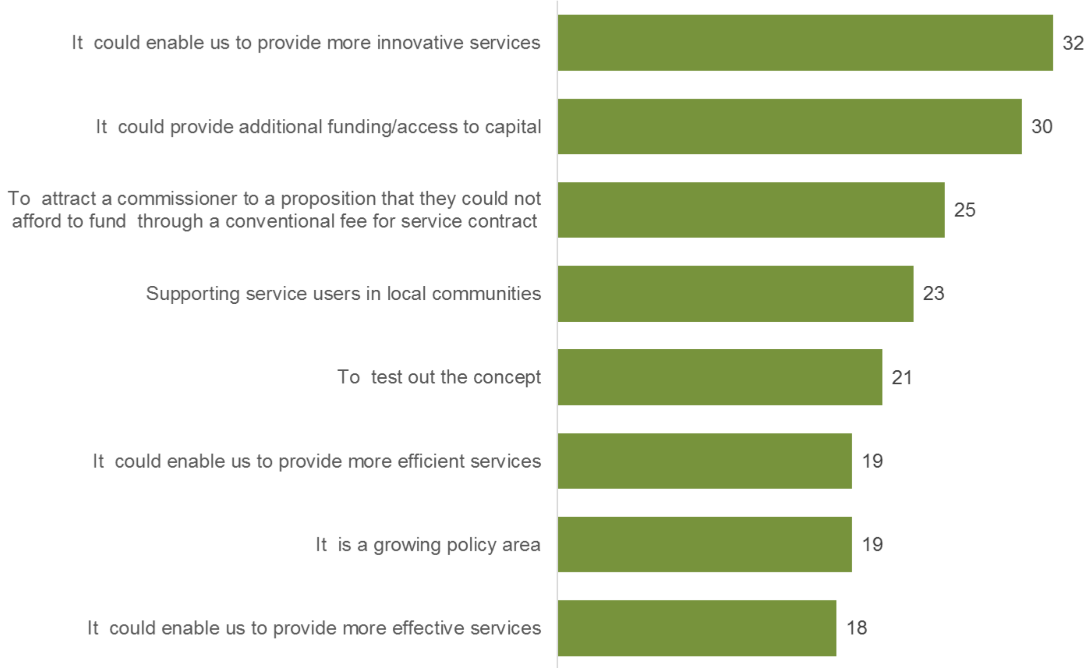
Source: Wave 2 commissioner survey. Base: Commissioners not involved in SIBs but expressed an interest in SIBs (n = 28).

As discussed in section 5.4.1, commissioners who had experience developing a SIB also cited these motivations; however, the potential to save money and testing the viability of new interventions were more common amongst stakeholders currently involved in SIBs than those not yet involved. This may reflect a broader trend of commissioners now being interested in SIBs for reasons other than creating savings.

5.4.2.2 *Service providers*

From the perspective of the service providers not currently working in SIBs, the most common reasons to be interested in SIBs related to providing more innovative services and accessing additional funding (see Figure 5.8).

Figure 5.8 Service provider motivations for prospectively getting involved in SIBs



Source: Wave 2 service provider survey. Base: Service providers not involved in SIBs but expressed an interest in SIBs (n = 45). Not shown in chart: Four respondents reported 'other' responses.

Both innovative services and additional funding were also commonly reported by service providers who were currently involved in SIBs (as discussed in section 5.4.1). However, one difference to note between service providers involved and not involved in SIBs was in the rating of SIBs enabling the service provider to deliver services that are more effective. This was reported the least often in the group of service providers not currently involved in SIBS, but in the group of service providers involved in SIBs it was the third most common.

5.5 Reservations to becoming involved in SIBs

"Why is your organisation not interested in getting involved in a SIB?"

In the current survey, four commissioners and two service providers reported that they had no interest in becoming involved in SIBs.

For commissioners the reasons for not wanting to be involved in SIBs included: SIBs are too complex (n = 3), preference for traditional fee-for-service contracting (n = 1); lack of understanding (n = 1); and lack of capacity and resource needed to set one up (n = 1).

For the service providers the level of financial risk was a key reason for their lack of interest in SIBs (n = 2), as well as risk involved in delivery (n = 1); lack of understanding (n = 1); preference to use own capital (n = 1); and to have direct contact with commissioner (n = 1); as well as being ideologically opposed to the SIB mechanism (n = 1).

6.0 Other findings from Investors

This chapter includes the additional learning from the investor research, which reflects the difference in methodologies from the commissioner and provider research (online survey with commissioners and service providers, and interview with investors). It also summarises the findings from a separate 'investor breakfast' event held with selected social investors. The face to face and telephone interviews with investors, and separate breakfast event, meant there was more opportunity to gather further insight and analysis on their views. This section describes investors' views on:

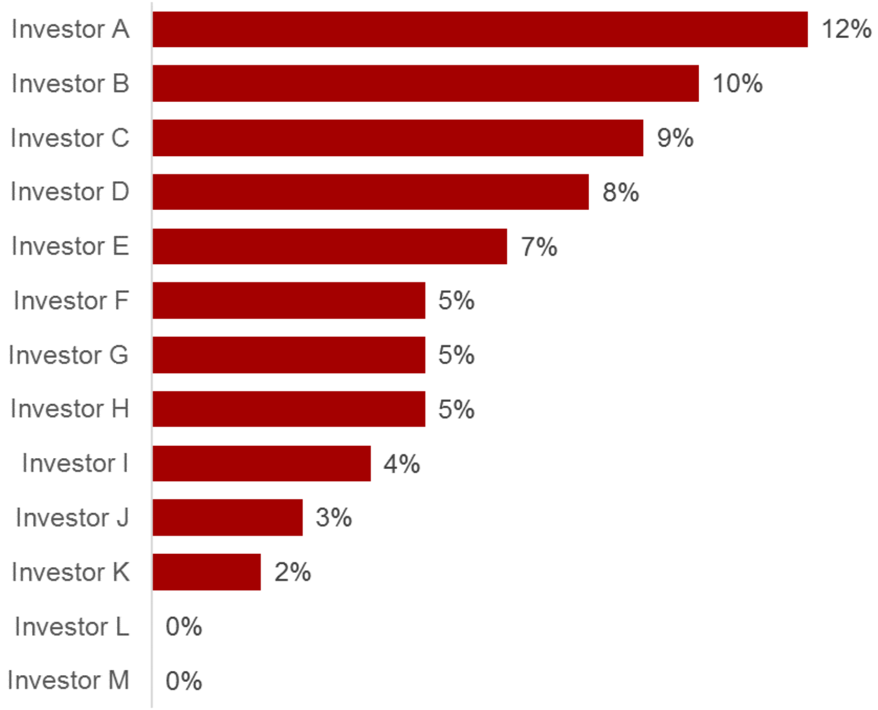
- Target returns
- Investor positioning
- Changes in the SIB investor landscape since 2014
- The outlook and likely future for SIBs

6.1 Expected and experience of target returns in SIBs

We asked all investors to tell us about their expectations and experience of the target returns from SIBs. Typically, information about the financial returns is difficult to access in the context of SIBs. Service providers and commissioners often report that they have difficulties finding this information and the details are not disclosed in relation to specific contracts (including those that we have reviewed in depth as part of this evaluation). This lack of reporting is partly because of the commercial sensitivity of the information; but, also because the financial returns relating to specific deals are not easily stated – since in many cases returns depend on the achievement of levels of outcome, rather than a defined interest rate or other pre-defined rates of return on investment.

Despite this, in the current research we were able to ask all investors to tell us about their experience and expectations of target returns from SIBs. For their experience, investors generally reported that their SIB investments had generated the expected level of financial returns. Although some SIBs had under-performed, across SIB portfolios the returns were in line with what had been forecast. Larger investors and fund managers in the sample were also able to tell us what overall rates of return they are targeting, across a portfolio of investments with differing terms. These are important and interesting findings from the research and go some way in helping support the transparency in this area (see Figure 6.1)

Figure 6.1 Target investor returns from SIB investments



Source: Wave 2 investor survey Base: interviewees prepared to disclose information (N = 13)

When reviewing the returns in figure 6.1 it should be noted that:

- These returns are the maximum that investors will seek for particular deals, rather than average returns across the portfolio (e.g. investor A aims for returns in a range from 5 – 12 per cent, and investor C in a range from 6 – 9 per cent)
- Some of the investors who are seeking a target return of 5 per cent are doing so because they are backed by Big Society Capital as a co-investor, and are therefore tied to their minimum return of 5 per cent
- Some of the investors aiming for lower levels of return (or to break-even at 0 per cent return) are Foundations, who would otherwise give a grant with no expectation of return. In some circumstances, these organisations stated that they are prepared to invest at a loss, since a partial return is still favourable compared to a grant.

6.1.1 Restrictions and considerations for SIB investment

We asked all investors to tell us about their positioning in the SIB marketplace, and whether there were any constraints on their ability to invest such as service policy areas or geographical focus. On the whole, investors described very few pre-set criteria or restrictions limiting how and where they would were prepared to invest in SIBs. Where restrictions were imposed, they tended to be set by other organisations such as Big Society Capital, rather than the investors themselves.

Areas of potential restrictions discussed by investors included:

- **Nearly all investors would only invest in a VCSE**

- **While most were not restricted to a particular policy area, some investors had priority areas for investment,** had developed a focus from previous investments, or had some geographic bias or focus on a particular geographical area
- **Very few investors reported that a minimum deal size**, as expressed by total contract value or the size of the investment raised, was a requirement for a SIB investment. This is different from view reported the survey in 2014, where a number of investors said that they would not consider an investment below a certain value
- **Some investors could only make relatively small investments** because of internal limitations on the amount they could invest in each deal
- **Some investors said that they would be less willing to invest in a deal with high transaction costs.** Either arising from additional costs in a complex structure; from needing to do extensive due diligence on the provider or other aspects of the proposal; or where there was not scope to reduce costs through replication or adaptation of previous work because the proposal was very different in its design.

Instead investors consistently reported that what mattered most was the specific proposition for the SIB. Specifically investors were interested in whether:

- **The proposed contract and terms were fair to all parties, with a reasonable balance of risk and reward**. Some investors observed that commissioners tended to ask for more than was reasonable, especially during formal procurement,
- **There was a good level of commitment and interest from the commissioner**. One leading investor said that they would almost due diligence the commissioner as much as the provider.
- **Investors could have confidence in the service provider's ability to deliver the intervention and, ultimately, the outcomes.** Several investors stressed that the service providers' track record was more important to them than the intervention itself, or the existing evidence base for it, especially if that evidence base was delivered in a different geography or to a different cohort.

One investor was explicit in saying that their approach was to avoid SIBs where the service provider expected the investor to bear outcome risk, or where an intermediary was taking that risk. Their aim was to look for providers who wanted themselves to bear outcome risk and to provide loan finance direct to such providers. Providers would thus need to have, or develop the capacity to manage their performance, and the commercial skills to manage a loan repayment effectively. This investor took this position because their mission was to use investment to help VCSEs build their capacity and capability, not to provide such capability for them.

6.2 Changes in the SIB investor landscape since 2014

We asked all investors whether and how the SIB landscape had changed since the wave 1 survey, especially for investors. We also asked whether the market for investment in SIBs was growing and was starting to become a defined asset class[7].

[7] An asset class is a group of securities that exhibits similar characteristics, behaves similarly in the marketplace and is subject to the same laws and regulations. The three main asset classes are equities, or stocks; fixed income, or bonds; and cash equivalents, or money market instruments.

6.2.1 Changes in the SIB landscape for investors

There were a mixture of views relating to the developments in SIB landscape since 2014, with both positive and negative observations in the changes.

Positive changes in the SIB landscape reported by investors included:

- **More SIBs are being initiated by local commissioners,** rather than by central government
- **Increasing understanding of SIBs amongst service providers and commissioners.** This was important because investors expect the 'fear of the novel' to reduce as the number of SIBs grows and learning from projects is disseminated from different projects. However, at the moment understanding is still varied, with more advanced understanding in some policy areas, notably children's services and health, than in others
- **Commissioners are involving investors and providers at earlier stages in the SIB development,** which is helpful from the perspective of investors
- **Commissioners are getting better at specifying the outcomes** they wish to see and the payment levels they are prepared to pay
- **Simpler contracts are starting to emerge**: For example, the move to tariff or rate card based payment models (where the commissioner specifies a fixed amount to be paid for the achievement of outcomes for each individual in the cohort) is generally viewed as a welcome development by investors because they are quicker and easier to implement.
- **There are enough investors in the market and that the market has developed:** For example the Youth Engagement Fund and Fair Chances Fund have been largely self-sustaining and there has been no requirement for Big Society Capital to get involved as a direct investor, as was the case with the Department for Work and Pensions Innovation fund.
- **Providers are getting more aware of the options for investment available to them** and there is therefore more competition for investment than was previously the case.

Less positive changes in the SIB landscape included:

- **Paucity in data available on existing SIBs and the outcomes that they have achieved[8].** Investors argue that in order for the market to grow, wider availability on the quantitative data on outcomes achieved is needed to provide a solid evidence base for investment. While independent evaluations are useful, the academic rigour that they require means that they take much longer to appear. In their view, basic 'administrative' data, published regularly and quickly, on how many outcomes are being achieved relative to initial forecasts would be at least as useful.
- **Some commissioners still have a poor understanding of SIBs and outcomes-based approaches and make unreasonable demands on the SIB contract.** Investors reported that commissioners are still expecting providers and investors to take more risk than is reasonable for the premium that the commissioner is prepared to pay. For example, commissioners sometimes want to make payments long after completion of the intervention, where attribution is harder to prove and other factors can significantly influence outcomes.
- **Lower than expected deal flow** (the number of opportunities being presented to them). This is in part due in part to commissioners and providers starting to develop SIBs that did not come to fruition.
- **Disappointing quality of business cases presented to investors by commissioners and service providers.** Some investors have become more directly involved in SIB development, where they have capacity, in supporting commissioners and providers in the co-design of SIBs and in areas

[8] Though it is worth noting that two important independent evaluations of the London Homelessness and Fair Chance Fund SIBs were published after we had completed the bulk of this survey.

such as financial modelling. For these investors, this approach has the added benefit of also dispelling some of the misconceptions commissioners may have about the role and motivation of investors at a much earlier stage. This correlates with the evidence in the commissioner and provider surveys, where stakeholders valued the investors input as a helpful resource.

- **The investor landscape is not widening as much as it should**, with significant barriers to entry for new investors due to the dominance of some leading providers with an established position.
- **Complexity in the design of some SIB models is making it harder to put investment money to work quickly and easily**.

There has also been a noticeable change in the market in terms of the involvement of investment foundations and trusts. In our 2014 survey we noted that foundations and trusts that had invested in some early SIBs – such as Peterborough One and the Essex edge-of-care SIB - had started to withdraw from investment in SIBs because the returns did not match those they could get from conventional investment in e.g. equities. There are therefore fewer foundations investing in SIBs today, but those that are doing so recognise that the returns from a SIB – both social and financial - should be compared more closely with a grant. While grants still have a major role to play, for such investors SIBs offer the advantage of a greater focus on outcomes - and therefore potentially greater social impact compared to a grant – and of course the prospect of at least some or even all the capital being repaid, unlike a non-repayable grant.

6.2.2 SIBs as a recognised asset class

On the specific question of whether SIBs are becoming, or ever would be, a recognised asset class investors drew a clear distinction between SIBs as a specific and narrow financial instrument, and what might more loosely be termed impact investing and outcomes-based financing.

In general, investors were negative about SIBs as a specific and narrow financial instrument, arguing that traditional 'over-engineered' SIB models were off-putting and still overly complex. They also argued that SIBs in the UK were largely of insufficient scale to attract significant mainstream investment, and are likely to remain a specialist product attractive only to investors with a focus on social impact. Some investors also observed that there were issues of definition – of what is and is not a SIB – that this would prevent it ever becoming a stand-alone asset class. One investor with an institutional background observed that he did not see SIBs as ever anything more than a niche financial product:

> *"SIBs on their own will never be an alternative asset class as there are too many challenges in developing them and the pricing and risk/reward ratio is sub-commercial."*"

However several investors reported that they had seen growing interest in investment in outcomes, including from private and high net worth investors, and that a move away from a narrow focus on specific types of SIBs – notably so-called 'traditional' intermediated SIBs – and restrictions on when and how investors could invest - would help to grow the market further.

> *"There is a huge opportunity for financing payment by results type contracts but it is not developing as quickly as it should because models are often more complicated than they need to be."*

Several investors emphasised that the limitations in the SIB market would continue until there was more data in the market about the performance of existing contracts and the returns that were being achieved from them.

6.2.3 The outlook for SIBs

As mentioned in the introduction we held a separate investor breakfast event to supplement and complement the survey findings; the evaluation team presented the survey findings and asked investors to reflect on these findings and consider their implications for the future direction of SIBs. This event was held somewhat later than the fieldwork for the survey (in October 2018) and its main findings were summarised in a blog post compiled by the evaluation team. This blog can be accessed here and is also attached at Annex A. In general investors agreed with the survey findings and the event deliberately aimed to look forward, exploring the outlook for SIBs and ways in which some of the barriers identified by investors and others could be overcome. In particular we explored how SIBs could become more 'mainstream', and whether this would be desirable.

The main findings from the workshop were that SIBs could become more widely adopted if:

- **They were developed and implemented at greater scale.** The scale of SIBs has become less of an obstacle than it once was to their development (especially in areas where they are building on previous examples) but investors still thought that SIBs should be bigger because this would reduce transaction and overhead costs as a proportion of total costs and subsequent value achieved. One option is to encourage more commissioning of SIBs simultaneously by the same organisation.
- **There was more replication of existing SIBs**. This can be achieved in a number of ways, for example through the use of centrally-funded rate cards (using the models pioneered by the DWP Innovation and Youth Engagement Funds, and DCLG Fair Chance and Rough Sleepers Funds); or providing a base SIB model that can be adopted, with less development and lower transaction costs, by other commissioners (which is being pioneered by both providers such as HCT through their travel training SIB, and intermediaries such as Social Finance through MHEP).
- **There was more transparency about previous SIBs**, with commissioners being willing to share detailed information about such matters as SIB contracts, the outcomes being used and actual payment levels for different outcomes. This would support replication and lower development costs for commissioners and transaction costs for investors.

It is interesting to note that our surveys have found that there is support for both greater transparency by investors (to make it easier for commissioners to overcome resistance to social investment and thus engage in SIBs more quickly and easily) and for greater transparency by commissioners (to make it easier and cheaper for investors and commissioners to develop follow-on SIBs). There thus appears to be a degree of mutual benefit in transparency being encouraged on all sides.

7.0 Conclusions

This section provides key reflections on the findings from the survey. The wider significance and implications of these findings are discussed in more depth in the CBO End of Year 2 Report.

Overall investors, commissioners and service providers report a broadly positive view about their involvement in SIBs to date, with service providers reporting the best experience compared to the other two groups. In the current survey, four fifths of service providers, over three fifths of investors, and two fifths of commissioners reported a good or very good experience working in SIB. In addition, the majority in all groups also cited they would at least be likely be involved in a SIB again, with around four fifths of service providers and two fifths of commissioners reporting that they would be *very* likely to pursue a SIB again. These findings on the experiences, and the differences between the groups, largely confirm and build on the evidence from 2014, which generally reported that the proportion of stakeholders having a good experience of SIBs, compared to those who did not, remains very similar across commissioners, service providers and investors.

A key difference from the first wave of the research relates to the level of understanding amongst service providers and commissioners. The current survey found that on average ratings of understanding were lower than reported in 2014. Commissioners in particular reported a lower level of understanding and commonly cited developing organisational understanding as a main challenge of working in a SIB. While this may be an effect of the widening of the SIB market and more commissioners (and service providers) considering SIBs as a contract option, it may also suggest the need for support to ensure that understanding of, and possibly interest in, SIBs is sustained.

More promisingly, in the current research there is evidence that commissioners who are currently considering a SIB are motivated by the potential to deliver more effective and efficient services, rather than simply as a way to access upfront funding for a service. In the current survey we are unable to say for definite what the main incentives are in the current SIB arrangements, whether it is accessing the working capital from the investors, so the service can be financed outside of mainstream resources while the results are proven; or if it's availability of money from CBO Funds to support the outcome payments meaning that commissioners are paying less for the service than they would have done otherwise. It is important to understand which has a greater influence on the current projects, particularly because the CBO Fund will only run until 2020 and therefore it relates to the sustainability in the interest in SIB's longer term. We will explore in future waves of the stakeholder survey, and as part of the qualitative strands in the CBO evaluation, the perceptions of the investment and the CBO top-up funds.

A further key finding from the current survey is that service providers, commissioners and investors all strongly perceive the outcome-focused culture that SIBs encourage is a main benefit of working in a SIB. Service providers also reported that there is a second benefit for them, in being able to use the data to evidence the effectiveness of their intervention. However, these findings are given in the context of a further finding, that the manner in which current SIBs are structured and measure outcomes may be having an adverse effect on staff morale and turnover, with the increased pressure to meet short term targets. Additionally, some of the initial modelling may be over ambitious and unrealistic which therefore may be inflating some of the pressure.

Overall though, the SIBs in question were not seen to be a disadvantage for the beneficiaries of the service and there was little reporting by service providers that they were focusing on service users most likely to achieve outcomes (cherry picking) or providing limited support to service users who are unlikely to achieve outcomes (parking). This evidence is promising and as service providers become more familiar with the monitoring and reporting processes of SIBs then the issues of SIBs affecting the workforce moral and turnover may abate.

Interestingly, the current survey suggests differences in motivation between commissioners involved in SIBs and those interested in principle (but not currently involved). Commissioners not currently involved in SIBs cited creating up-front funds for the services and leading to more efficient and effective services as the two most common reasons for their interest in a SIB. Commissioners who had experience developing a SIB also cited these motivations; however, the potential to save money and testing the viability of new interventions were more common amongst stakeholders currently involved in SIBs than those not yet involved. The difference may be because stakeholder's motivation for becoming involved may be remembered or reported differently. It could also reflect changing perceptions around the benefits of SIBs – that the motivation of the new wave of stakeholders developing SIBs is different to those who developed them in the past - and commissioners are now interested in SIBs for reasons other than creating savings. It may also indicate some issues within the items posed in the two questions. Further testing will confirm whether there are valid differences between the groups, as well as exploring the differences in subsequent waves of the survey.

From the perspective of investors, there is some mixed reports on experiences of SIBs, but overall it has been positive. Investors reported that they were, in general, getting the social and financial returns that they had expected and forecast, allowing for the usual and expected variations in performance across a portfolio of investments. Investors also reported a wide range of target financial returns, ranging from as high as 12 per cent to some who were happy to invest on the basis of repayment of capital only (i.e. a 0 per cent return) or in some cases (such as Foundations) even to invest at a loss if the alternative was a non-returnable grant. Where experience has been more varied this largely relates to projects performing differently to expected, and investors reviewing the risk of investing in SIBs compared to other social investment opportunities.

What is also important to note is the role of the social investors within the development of the SIB. Firstly, both commissioners and service providers cite difficulties understanding how to engage and negotiate with a social investor, for service providers they all cite difficulties attracting investors, out of the many elements of a SIB model. These findings were also true in 2014. Further in the process though, both highly rate the support from social investors as an important resource in setting up a SIB, which continues the finding from 2014 that resource from external parties is more helpful than specific tools in developing a SIB. Together these findings suggest that commissioners and service providers need a better understanding of the role and scope of the investor within a SIB as well as effective strategies to the engagement process. This would go some way to ensuring that support then received later in the development process was firstly accessed, but also properly understood and fairly managed.

There are some caveats that should be considered when interpreting the results from these surveys, particularly when questions have not been answered by a high proportion of individual groups or there are significant differences between the stakeholder groups when drawing a comparison. However, with even with this consideration, the findings here do explore and present important learning on the SIB landscape in 2017 and build on some themes emerging on the views and experiences of service providers, commissioners and investors.

In our second Update Report, available here. we bring together the findings from the survey with the wider evidence from the whole evaluation to consider the overall progress, benefits, challenges and disadvantages of SIBs.

Annex A – Investor Breakfast blog

Where next for SIBs? Lessons from the main investors

On October 31st ATQ and Ecorys hosted a breakfast briefing for the main investors involved in SIBs to date. The aim was to share the findings from our recent survey of investors and discuss the current and future landscape of SIBs. James Ronicle and Edward Hickman, who hosted the briefing, summarise key points, and highlight that more information needs to be shared to make SIBs quicker and cheaper..

There was broad agreement, both from our survey and in the discussion, that SIBs were overcoming the 'hype cycle' – investors did not consider SIBs as a panacea and applicable in all cases. The difficult work launching the first set of SIBs had been overcome, and investors were broadly happy with the current landscape.

Our survey of investors shows that SIBs they invested in are generating their expected social and financial returns (publication forthcoming). Investors liked them because they provided the flexibility and incentives for service providers and investors to work more closely together than in other types of investment. The SIB contract enabled investors to work with providers and adapt the service as problems occurred, often in the first six months, thus improving the service and maximising outcomes.

The focus of the discussion was therefore on 'what next'? How do SIBs move from their relatively niche position to be more mainstream? And should they? Three big themes emerged from the discussion: scale, replication and transparency.

Scale

Since SIBs were launched, the size and proportion of investment put in has grown, helped by dedicated 'top-up' funding programmes such as the Life Chances Fund. However, in the fund that preceded this, the Commissioning Better Outcomes Fund, a few SIBs have been notable for working at a smaller scale than market players expected. Some SIB investments were as little as £150k (such as the Be the Change).

In 2014 we identified that scale was an issue for SIB viability, with investors stating they were reluctant to invest in SIBs below £1m due to the required organisation, transaction costs and on-going contract performance overheads. So why has this changed? In part this was necessary – SIB funds were launched and these were the only opportunities available. But it is also because small scale is now more possible. In some deals a lot of the work had already been done when developing previous projects, so the transaction costs were lower, justifying a smaller investment.

However, there was consensus amongst investors that in order for SIBs to be more mainstream they need to be more affordable for commissioners. The key to this is scale. But what does scale look like? It may include cross-SIB Funds that some local authorities are experimenting with. This is where investors invest in one large pot and this is distributed across a range of projects.

However, investors were wary of "blind pots" – i.e. putting their investment into one pot that the commissioner can distribute across projects as they saw fit. They still wanted to test each project and monitor performance. Indeed our SIB evaluations have found that one of the main benefits of a SIB is the external scrutiny from investors during delivery stage, thus removing this would be a disadvantage.

Replication

Replicating SIB structures that already exist in policy areas can also make them simpler and cheaper. Investors reported that it often takes 18 months to design the SIB with the commissioner and provider. It's rare for an investor to spend such a long time preparing for a deal unless it's really large.

The investors (and outcomes funders in the room) reported that replication is happening. A number of SIBs are building on previous designs, making them cheaper to develop and quicker to launch. However, caution was cited that just because a particular SIB model works in one place, doesn't mean it will apply on an identical basis in another contract. It was important that lessons learnt from previous SIBs were applied, and SIB structures adapted accordingly.

Transparency

Whilst replication is a positive thing, investors felt it was hindered because commissioners lacked detailed information on previous SIBs. The investors reported the need for more information on contracts, outcomes, and payment levels for outcomes. Whilst a good learning structure around SIBs exists (with multiple evaluations being conducted and research institutions exploring them), the investors felt that this focus did not foster replication.

Investors felt the current focus is on establishing whether a SIB model adds value above and beyond other commissioning models. Whilst valuable, they wanted to see greater focus on gathering information others could use, such as contracts, outcome metrics and payment levels for outcomes. They felt this information should be more widely available (though one could argue that the same point could be made about actual rates of return generated).

As well as these main points, the group also discussed where SIBs seem to work best. There was a general consensus among the investors currently active in the market, that SIBs work best when operating in a relatively 'closed system'. In other words, where the intervention funded through the SIB is the main factor in the 'system' around the subject which is driving the outcomes, and therefore is the legitimate focus of performance monitoring and related payments. When SIBs operate in a very complex system, where multiple factors are impacting on the outcome, it's hard to be sure any outcomes can be attributed back to the intervention.

With all these points considered, the true test of whether SIBs will become a mainstream commissioning tool lies in the SIBs about to be launched through the Life Chances Fund. Can these new SIBs be scaled up? Are they designed in a transparent way? Does this transparency enable replication? Time will tell…