Commissioning Better Outcomes Fund Evaluation

2nd Update Report

Summary Report Targeted at Commissioners

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Introduction

Background

This report provides a summary for commissioners[1] of the of the findings since 2016 from the Commissioning Better Outcomes (CBO) Fund evaluation undertaken by Ecorys UK in partnership with ATQ Consultants (ATQ) on behalf of The National Lottery Community Fund.

This report focuses on the key findings that are of relevance and interest for commissioners currently involved in, or interested in, social impact bonds (SIBs). It is one of three similar summary reports targeted respectively at commissioners, providers and investors, alongside a more general summary report. Each report aims to identify the main issues for these audiences but a number of issues are of wider relevance and stakeholders may therefore wish to view all three reports. In particular commissioners and providers may wish to look at the sections in the Investor Targeted Report that summarise our findings on the returns that investors are seeking, and the different ways in which investment in SIBs is being structured. Those with greater and more in-depth interest may also wish to refer to the full Update Report and an accompanying Survey Report on the findings from a survey of key stakeholders. All of these reports are available here.

Commissioners interested in sharing lessons about SIBs are also welcome to attend the SIB Knowledge Clubs hosted by The National Lottery Community Fund, Ecorys and GO Lab. To find out more visit https://golab.bsg.ox.ac.uk/guidance/sib-knowledge-club/about/ or, if interested in joining, email golab@bsg.ox.ac.uk.

The CBO Fund is funded by The National Lottery Community Fund, with a mission to support the development of more SIBs and other outcome-based commissioning[2] models in England. The Fund launched in 2013 and closed to new applications in 2016, although it will continue to operate until 2023. The CBO Fund is making up to £40m available to pay for a proportion of outcomes[3] payments for SIBs and similar outcomes-based contractual models in complex policy areas. It also funded support to develop robust proposals and applications to the Fund.

The CBO evaluation is focusing on the following three areas:

- Advantages and disadvantages of commissioning a service through a SIB model, the overall added value of using a SIB model and how this varies in different contexts
- Challenges in developing SIBs and how these could be overcome
- The extent to which CBO has met its aim of growing the SIB market in order to enable more people, particularly those most in need, to lead fulfilling lives, in enriching places and as part of successful communities, as well as what more The National Lottery Community Fund and other stakeholders could do to meet this aim.

[1] A commissioner is an organisation which funds or contracts for delivery of a service

[2] Outcomes-based commissioning describes a way to deliver services where all or part of the payment is contingent on achieving specified outcomes. The nature of the payment mechanism in an outcome based contract can vary, and many schemes include a proportion of upfront payment that is not contingent on the achievement of a specified outcome.

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

This report draws on the main findings from the following work undertaken for the evaluation since the last update report in 2016:

- Stakeholder consultations (4) including telephone and face-to-face consultations with organisations centrally involved in the policy development, strategic development and operational delivery of SIBs in England, and stakeholder engagement meetings and events
- Stakeholder surveys involving e-surveys with commissioners (91 responded) and service providers (77) either involved in or very informed about the SIB agenda; and a qualitative survey with investors (18) , conducted either through face to face or telephone interviews
- In-depth review reports produced for the West London Zone (WLZ) (available here) and HCT Travel Training SIBs (available here)
- The LOUD report (available here), summarising the four factors essential in ensuring whether a SIB is launched
- Tele-consultations with 20 CBO applicants who did not proceed with a SIB
- A review of findings to date from the local evaluations of CBO-funded SIBs
- A review of The National Lottery Community Fund Management Information and internal work
- Review of wider literature

This report includes the following sections:

- Policy context and role of commissioners in SIBs
- Summary of CBO Fund to date
- Advantages of SIBs
- Disadvantages of SIBs and challenges to their development
- Other SIB observations
- Changes to the SIB landscape since 2014
- Conclusions, recommendations and areas for further research.

Policy context

A SIB is essentially a type of payment by results[4] (PbR) contract. Like other types of PbR, a commissioner (usually one or more public sector bodies) agrees to pay for outcomes delivered by service providers[5], and unless those outcomes are achieved, the commissioner does not pay. Where a SIB differs from a PbR contract, is that the providers in the SIB model do not use their own money to fund their services until they get paid – instead, money is raised from 'social investors'[6] who get a return if the outcomes are achieved.

There is no generally accepted definition of a SIB beyond the minimum requirements that it should involve payment for outcomes and any investment required should be raised from social investors. The Government Outcomes Lab (GO Lab) defines Impact Bonds[7], including SIBs, as follows:

"impact bonds are outcome-based contracts that incorporate the use of private funding from investors to cover the upfront capital required for a provider to set up and deliver a service. The service is set out to achieve measurable outcomes established by the commissioning authority (or outcome payer) and the investor is repaid only if these outcomes are achieved. Impact bonds encompass both social impact bonds and development impact bonds."
[8]

The issues of definition, and the fact that new SIBs are launching all the time, makes it difficult to estimate how many current contracts qualify as a SIB, but according to the Government Outcomes Lab (GO Lab) as of April 2019, 68 SIBs had been launched in the UK[9], more than in any other country These SIBs are being used to tackle a range of social issues including homelessness, youth unemployment and children in care[10].

Since our last update report, quantitative evidence has emerged from other SIB evaluations (including local CBO evaluations and evaluations of other non-CBO SIBs) that suggests that the interventions funded achieved positive outcomes. However, due to the design of the programmes and evaluations it is not possible to determine the extent to which the SIB mechanism itself led to better outcomes in these cases, or whether the same outcomes would have been achieved through a standard commissioning approach. The CBO evaluation team will use qualitative research to estimate the extent to which outcome levels can be attributed to the SIB mechanism.

[4] Payment by Results is the practice of paying providers for delivering public services wholly or partly on the basis of results achieved.
[5] A service provider is an organisation which is contracted or funded to deliver the service.
[6] A social investor is an investor seeking social impact in addition to financial return. Social investors can be individuals, institutional investors, dedicated social investment funds and philanthropic foundations, who invest through their endowment.
[7] See https://golab.bsg.ox.ac.uk/the-basics/impact-bonds/
[8] See: https://www.tnlcommunityfund.org.uk/media/documents/full-cost-recovery/Commissioning-Better-Outcomes/CBO_glossary_terms.pdf?mtime=20181214114549
[9] See: https://golab.bsg.ox.ac.uk/knowledge/project-database/
[10] Social Finance, 2016, Social Impact Bonds, The Early Years.

The role of the commissioner in SIBs

The commissioner plays the key role in any SIB contract of procuring the provider and/or investor and subsequently paying for the outcomes that the SIB is intended to achieve. Commissioners might be national, regional or local organisations and can be Local Authorities (LAs), Clinical Commissioning Groups (CCGs) or other public sector contracting bodies such as Police and Crime Commissioners (PCCs) working in policy contexts as wide as social care, education, health and crime. Many of the SIBs commissioned to date have a single commissioner, but an increasing number are co-commissioned by one or more organisations. Among SIBs that we have studied as part of this evaluation the Reconnections SIB[11] has been co-commissioned by three CCGs joining the LA lead commissioner, Worcestershire County Council; and the WLZ SIB has been co-commissioned by two West London LAs and several local schools.

There has also been an increase in the number of SIBs that have been commissioned sequentially by different organisations from the same delivery organisation to deliver the same intervention. Examples that we have reviewed in-depth include the HCT Travel training SIB, which has now been commissioned by three LAs from the same provider, HCT; and the Mental Health and Employment Partnership (MHEP)[12], which has also been commissioned by three LAs via Social Finance as intermediary[13] and management organisation.

In large part due to support from the CBO Fund, and latterly the Life Chances Fund (LCF), there has been a marked increase in the number of SIBs that have been locally commissioned, rather than being commissioned by central funds such as the Fair Chance Fund and Youth Engagement Fund. All of the 11 SIBs that had launched at the end of 2017 with support from the CBO Fund were locally commissioned, and we estimate that around half of all SIBs in the UK are now locally commissioned, with the remainder being centrally funded.

[11] The indepth review of the Reconnections SIB is available here: https://www.tnlcommunityfund.org.uk/media/research-documents/social-investment/Reconnections-SIB-In-Depth-Review-Report_190320_122442.pdf?mtime=20190320122442

[12] The indepth review of the MHEP SIB is available here: https://www.tnlcommunityfund.org.uk/media/research-documents/social-investment/comissioning_better_outcomes_in_depth_review_190320_122442.pdf?mtime=20190320122441

[13] An intermediary is a party that offers intermediation services between other parties. In a social impact bond, that means an intermediary is not the commissioner, service provider or investor. Intermediaries have offered different services to the social impact bonds developed so far. Services that can be provided by intermediaries include introducing parties to the deal; gathering evidence and producing feasible options; facilitating negotiations between parties; raising investor capital; establishing a special purpose vehicle; and managing performance.

Summary of CBO Fund to date

As shown in Table 1 below, as at February 2019 the number of full awards made by CBO to establish a SIB stood at 22. This was against a target set by The National Lottery Community Fund England Committee to support the commissioning of 20 outcomes-based projects.

Table 1: CBO Fund: Summary of progress to 7 February 2019

Task	December 2015 (cumulative total)	December 2016 (cumulative total)	December 2017 (cumulative total)	December 2018 (cumulative total)
CBO EoI agreed	78	83*	87**	87
Development Grants (DG) agreed	51	62	62	62
Full awards agreed by CBO	4	22	28	22
SIBs launched with CBO support	2	5	11***	19****
Commissioners in SIBs in delivery	2	10	20	45
Providers active in delivery	5	11	42	51
Total number of investors *****	1	4	4	8

**7 with no direct DG support ** 11 with no direct DG support. ***1 SIB was only soft launched, delivering from 10.18 ****1 SIB was soft launched delivering from 1.19 *****These are the retail investors in CBO SIBs and do not include wholesale investors/funders such as Big Society Capital*
Source: The National Lottery Community Fund.

As at December 2018, 11 of the 22 full awards were commissioner-led, four were provider-led and seven were led by intermediary management agents. Across the projects, 50 local commissioners and three national commissioners are engaged, including 31 LAs, 18 CCGs and one police authority.

Advantages of SIBs from a commissioner perspective

The majority of stakeholders (commissioners, investors and service providers) that responded to our surveys and who have been involved in the in-depth reviews that we have conducted, have been positive about their experience of SIBs. Those who had prior involvement in SIBs have on the whole, had a positive experience so far and most are likely to choose to become more involved in SIBs in the future. In addition, all bar one of those involved in developing but failing to implement a SIB under the CBO Fund were also keen to develop a SIB in the future. Moreover, some of those that did not develop a SIB nevertheless chose to implement the intervention through a more traditional pay for service model. So there were some benefits of attempting to develop a SIB even when it was not successful.

However, the positive view of SIBs came more from investors and providers than from commissioners. On average service providers responding to our survey had a ‘good’ experience, while commissioners’ experience was only ‘fair’. Service providers also reported a higher level of interest in getting involved in future SIBs compared to commissioners. This continues a finding from our previous Update Report in 2016 and indicates that the claim that SIBs benefit all parties needs to be treated with caution as regards commissioners, largely because they have to bear most of the time and cost of development with limited resources, and also be sure that they will be able to make future outcome payments in an era of continuously falling budgets. Thus most of the costs (in terms of outcome payments but also capacity demands and opportunity costs) fall to commissioners, whilst most of the benefits (in terms of delivering new services and receiving returns) fall to service providers and investors.

The table below summarises the main advantages linked to SIBs for commissioners as reported by commissioners, investors and service providers either considering, developing or involved in SIBs.

Advantage	Reason for Advantage
Provides up-front funding for preventative services	Our research suggests that the main motivation for a commissioner to become involved in a SIB was that it leverages up-front funds from investors to invest in services that they would have struggled to provide themselves. This was the benefit most cited in our commissioner survey and, also, came across strongly in some of our in-depth reviews. For the commissioners involved in the HCT SIB, the Ways to Wellness (WtW) SIB[14] and the Reconnections SIB the up-front funding from investors was a significant attraction, and in all these reviews commissioners reported that, without the SIB mechanism, it is unlikely they could have commissioned the service. For a commissioner, this initial funding replaces the need for them to fund the service on a fee for service[15] basis. Commissioners reported that they found this attractive because it guaranteed that they only paid for success – so if the intervention did not achieve its expected outcomes the commissioners had not wasted resources on an unsuccessful intervention This 'de-risking' is seen by commissioners and providers as a critical advantage of SIBs at a time of constricting budgets in the public sector. The SIB funding also has attractions for some commissioners because it enables 'twin-tracking' of existing, often statutory provision and a new intervention that is untried, and therefore risky. In both contexts the funding is temporary and the commissioner will eventually have to fund outcome payments. The attraction is in not having to pay for failure, and/or in creating the headroom for a new intervention to work alongside existing provision, sometimes generating cashable savings which fund (part or all of) the eventual payments. The provision of upfront funding also has attractions for providers who do not usually have to incur a deficit unless and until outcome payments started to flow, as they would in a conventional PbR contract. For providers unwilling or unable to bear such risks, investors in a SIB can cover the costs and themselves be the party that is financially at risk if outcomes are not achieved. However it is worth adding that not all SIBs are structured to relieve providers of all financial risk, and some deals are deliberately constructed to enable or encourage providers to bear or share risk, or impose a degree of risk on providers by linking their up-front payment to specific outputs – such as the achievement of a target number of referrals
Helps embed more outcomes-focused culture in service providers	Investors, service providers and commissioners consistently reported that SIBs embed an outcomes-focused culture in service providers. This was the second most-cited benefit of SIBs for commissioners and the most-cited benefit of all for providers. Encouraging an outcomes-focused culture was again a key feature and benefit of the WtW and Reconnections SIBs. This also has benefits for participants receiving the service or intervention, as the provider has a better sense of whether their support is working (and can adapt if not). There is however some evidence[16] to suggest that 'conventional' PbR is equally effective in having this effect, and therefore it is the linking

[14] The indepth review of Ways to Wellness is available here: https://www.tnlcommunityfund.org.uk/media/research-documents/social-investment/CBO_ways_to_wellness_report_190320_122441.pdf?mtime=20190320122441.

[15] A fee for service contracts is one where payment is based on service levels or outputs delivered, rather than outcomes.

[16] Edmiston, D., & Nicholls, A. (2018). Social Impact Bonds: The Role of Private Capital in Outcome-Based Commissioning. *Journal of Social Policy*, See https://www.cambridge.org/core/journals/journal-of-social-

Advantage	Reason for Advantage
	of payment to outcomes rather than the social investment that is the key driver.
More flexible service delivery	The third most important benefit reported by stakeholders comes from the flexibility that service providers have to more easily adapt provision part-way through the delivery period due to the outcomes-based nature of the contract. In fee for service type projects the contracts normally tightly prescribe the activity that needs to be delivered in terms of scope, type and intensity. For a SIB, the contracts focus more on the outcomes rather than the activity, leaving room for flexibility to respond to certain situations. This again has potential benefits for recipients, as the service can be more responsive and tailored to their needs. It is worth highlighting, however, that flexibility has not always been stated as a benefit and strength across all of the SIBs we have looked at. It can depend on the model adopted and the level of flexibility the commissioner and investor decide to build into the delivery process and selection of payment triggers.

Disadvantages of SIBs and challenges to their development from a commissioner perspective

At one level our more recent research confirms that the main challenges to and disadvantages of SIBs are the same as in the early days of SIB development, and as reported in our last update report at the end of 2016. In particular, we have found that the main challenges to SIBs (with some changes in their relative importance and scale of impact) continue to include:

- length of time to develop;
- relatively large set-up costs;
- complexity and lack of understanding of key parties;
- agreeing contracts to suit all parties; and
- limited commissioner capacity to develop SIBs.

What has changed since our last update report is that there is now more evidence, from a range of sources, as to what are the most important factors in successful SIB development, and conversely that it is challenging to develop a SIB when these factors are not present. We set out these factors in the LOUD report, which identified that SIBs are unlikely to be launched if a commissioner (or provider) attempts to develop a SIB without a clear focus on four key factors. These are:

- **Collective Leadership:** senior leaders must communicate clearly and effectively with staff involved in SIB development and ensure that all staff are engaged and committed to the process.
- **Clear Outcomes:** Ultimately, the commissioner needs to be satisfied that the outcomes are worth paying for, and the providers (and investors) need to believe that the outcomes are achievable.
- **Shared Understanding** of the policy 'problem' among commissioners and, to a lesser degree, providers, intermediaries and investors, and how it can credibly be addressed, is crucial.
- The availability of the right **Data**, especially on the target cohort, the outcomes they are currently achieving and the current cost of supporting them; and the outcomes likely to be achieved by the intervention funded through the SIB, including when these would take place and for how long they are likely to be sustained.

policy/article/social-impact-bonds-the-role-of-private-capital-in-outcomebased-commissioning/83B92D884934604E21EE2A963EB4E11C

In addition, our more recent research suggests that the complexity of SIBs and the challenges they create are all part of a larger picture whereby SIBs involve a range of parties whose interests need to be accommodated before the SIB development can proceed successfully. Of particular importance are:

- Commissioners' and providers' understanding of the role of the investor
- Understanding of SIBs within and across commissioning organisations
- All parties understanding the constraints sometimes placed on commissioners
- The relationship between providers of interventions and those making referrals to them.

The table below summarises what our research reveals about these challenges and also the broader challenges listed above, as reported to us by commissioners, providers and investors.

Challenge	Reason for Disadvantage/Challenge
Length of time to develop	The SIBs on which we have conducted in-depth reviews took between 2 and 3.5 years to develop, which tended to be longer than expected. For example, our review of WLZ reported that the core development process *"took longer than expected (18 months), as it proved more challenging to develop a model that was attractive to social investors and one that the commissioners would buy".* The HCT SIB with Lambeth took somewhat less time to develop, but still took longer than expected despite a deliberately simple SIB model and outcome payments structure. What is emerging more clearly from our research is that these long lead times do not always reflect the challenges of SIB development per se, and are in some cases the inevitable result of putting in place arrangements that are new to many people, require the engagement of multiple stakeholders in a complex project, and/or reflect incomplete understanding of the issues faced by other parties to the SIB contract. To again take the HCT example both commissioners reported that other parties did not seem to understand that putting in place complex contracts for new services took time, especially when they had to comply with statutory local government procedures. According to NLCF data, it has on average taken CBO projects 22 months to get from CBO final award to start of delivery
Large set-up costs	In part because of the long development periods and challenges of multiple stakeholder engagement, SIBs continue to incur large set-up costs. Our four in-depth reviews show that on average SIBs cost £150,000 in direct costs to set up, and some commentators have pointed out that there has been considerable subsidy of the external input needed by SIBs developed to date in general. Furthermore, these estimates do not capture the indirect costs of internal stakeholder time; our evidence suggests these costs are likely to be high. It is worth noting that those involved in SIB development whom we have consulted mostly report that the costs of development are justified and not excessive in view of the complexity of the arrangements that are being put in place. Furthermore, those we have consulted assert that the costs of development are in general falling, although we do not yet have evidence from implemented SIBs to support this. Additionally, one commissioner responding to our survey reported that they required less external support for a second SIB than they had for a first.

Challenge	Reason for Disadvantage/Challenge
Commissioners' understanding of the role of the investor	As mentioned above this is one of four key issues that we have identified relating to the complexity of SIBs and the systemic challenges they pose. Despite the efforts of investors and others, including the CBO team at The National Lottery Community Fund, to improve investor engagement and commissioner awareness, there is no evidence in the evaluation that commissioners' overall understanding of investors has increased. In our 2017 survey over a third of commissioners reported that they did not fully understand the role of the investor and almost half of service providers did not fully understand how providers engage with investors/seek investment. Commissioners and service providers reported similar levels of misunderstanding in the 2014 survey wave. In addition, some commissioners interviewed were wary of the role of investors in public sector contracts, misunderstood or were suspicious of their social motivation, and/or were reluctant to pay what investors regarded as a reasonable return, for the amount of risk that the investors were being asked to assume. Evidence suggests that suspicion, misconception and misunderstanding would reduce if investors were more open with commissioners and others. It might also reduce if there were clear and easy-to-understand guidance available to commissioners on what investors do and how they do it.
Limited understanding of SIBs within and across commissioning organisations	While project teams directly involved in SIB development, often working with external advisors, have usually had a good understanding of SIBs, levels of knowledge and understanding in other parts of the organisation – such as Finance, Legal and Procurement – have often been much lower. This variation in levels of understanding can lead to delays in SIB development or even to SIBs being completely derailed. This is one reason why establishing a shared understanding of the problem from the outset among all these departments and between parties, as identified in the LOUD report, is so important. In order to address this, those involved in developing SIBs need to bring their colleagues on board as soon as possible and ensure that they are up to speed on the proposal and its benefits and risks
All parties understanding the constraints on commissioners	Other parties to SIBs and, also, external funders and influencers such as The National Lottery Community Fund and the Department for Digital, Culture, Media and Sport (DCMS), can become impatient with the pace of SIB development or other factors that appear to inhibit progress. Commissioners interviewed felt this was due to an incomplete understanding from these parties of the constraints under which commissioners must operate, as public bodies subject to both internal and external scrutiny.
Under-estimating the importance of referrals and the relationship between providers of interventions and those making referrals to them	The relationship between commissioners and providers and those making referrals into the SIB programme is crucial and needs to be fully analysed and understood by all parties. In addition, assumptions about the number and ease of making referrals need to be robustly tested when developing the business case. Investors whom we surveyed stressed the important ramifications of the assumptions made about referrals and the risk to a SIB's sustainability if, for example, referrals are at a lower level than forecast in the business case, or those referred have different characteristics (such as more challenging needs) to what was expected.
Agreeing contracts to suit all parties	Our research indicates that it is frequently challenging to align the different interests of the multiple stakeholders involved in SIBs so that a contract is acceptable to all parties. Our research shows that contracts must contain the appropriate terms to make them suitable for an outcomes-based approach, without which there will either be a total contract failure or substantial work will be needed to put right any contract failings.
Limited commissioner capacity to develop SIBs	It is becoming clearer that at least some commissioners lack the capacity to develop SIBs successfully. This compounds, and to some degree underpins, the other challenges listed above. The challenge of commissioner capacity came out strongly in the 2017 survey. The most commonly reported barrier to becoming involved (cited by over half of commissioners not currently involved in SIBs) was that commissioners did not have the resources or capacity needed. This was corroborated by our consultations with organisations that explored, but did not launch, SIBs

Other SIB observations

As well as the main advantages and disadvantages currently associated with SIBs, our research has revealed some other interesting findings for commissioners:

- **Assumptions in original business cases not being correct, making it challenging for SIBs to achieve their forecasted outcomes.** An advantage of SIBs identified in the early stages of this evaluation was the development of a strong business case to underpin the intervention prior to it being implemented, based on a level of business planning that was greater than commissioners would have undertaken if the service was commissioned through a fee for service contract. However, as the focus of the evaluation has shifted to delivering (rather than designing) SIBs, there is some evidence to show that some business cases are not as robust as first thought, with the service provider survey reporting that the biggest negative effect of SIBs is over-ambitious modelling at the outset, making it very difficult to achieve the stated outcomes. This highlights a particular challenge for SIBs: they require 'robust' business cases in order to model expected outcomes and payments, but face difficulties if the assumptions in the cases do not materialise.
- **SIBs lead to increased performance management, which has benefits but also disadvantages.** Stakeholders reported that SIBs can lead to better performance management than fee for service contracts, because the alignment of interest between the investor, commissioner and service provider increases the focus on achieving the outcomes to which payments are attached. This in turn improves partnership working and enhances contract management. This effect of SIBs is also found in evaluations outside the CBO – notably The Health Trailblazers review[17] which also found that SIBs instil 'market discipline" in the VCSE sector, covering elements of both better business planning and improved contract management. The DWP Innovation Fund evaluation also highlights that, "*The funding model appeared to have created a high intensity of focus on performance across nearly all projects and PbR was widely seen as having incentivised better performance*."[18] However, the performance management aspect of the SIB was also one of the areas that could discourage commissioners from further developing a SIB and did add an extra layer of pressure on those delivering the provision. This is because the increased pressure to achieve outcomes can affect staff morale and lead to higher levels of staff turnover – though service providers still reported the outcomes focus as the main benefit of SIBs despite this possible adverse effect.
- **Diverse nature of SIBs.** A key finding from the first round of surveys and our last update report was that a 'one-size-fits-all' approach to SIB development and implementation is not appropriate; the multiplicity of partners that exist within a SIB (investors, commissioners, service providers and intermediaries) means that the combination of wants and needs from those involved varies relatively widely from one SIB to another. There seems to be no doubt from our latest surveys and other research that this trend has continued and has if anything accelerated. There is a continuing trend towards diversity in the policy and service areas in which SIBs have been successfully implemented and are currently being developed; and the range of interventions that are commissioned and funded using an outcomes-based approach.

[17] Tan et l al, 2015. *An evaluation of Social Impact Bonds in Health and Social Care*. Policy Innovation Research Unit (PIRU), London. See: http://www.piru.ac.uk/assets/files/Trailblazer%20SIBs%20interim%20report%20March%202015,%20for%20publication%20on%20PIRU%20siteapril%20amendedpdf11may.pdf

[18] DWP, 2016. Qualitative evaluation of the DWP Innovation Fund: Final Report. DWP, London. See: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/535032/rr922-qualitative-evaluation-of-the-dwp-innovation-fund-final-report.pdf

- **Some SIB development is driven by providers**. A substantial minority of SIBs continue to be driven and led by service providers, or by specialist intermediaries. Our in-depth research and the commissioner survey tend to indicate that this is in part because some VCSEs are naturally entrepreneurial, and in part because some commissioners lack the capacity and resources to pursue SIB development themselves. It could therefore be argued that providers are simply taking the initiative because they are willing and able to do so while some commissioners are not.

  As we argued in our previous update report, a provider-driven approach continues to have both strengths and weaknesses. On the plus side a provider-led SIB can change the dynamics of the relationship between commissioners and service providers and energise commissioners to get involved in innovative interventions, contracting and financing arrangements that they might otherwise not consider. However, it remains a significant risk that substantial amounts of time and funding can be spent by service providers, intermediaries and grant funders on developing SIBs that commissioners are ultimately unwilling to commission, despite the efforts latterly made by funders to ensure earlier and better engagement of commissioners in the development process. This includes SIBs that providers and intermediaries are aiming to replicate, since not all successor commissioners that are engaged will ultimately enter into a contract.

  In addition, the prominence of providers in developing SIBs continues to lead to challenges at procurement stage. Much of this arises because of the tension between providers who have invested, often significantly, in SIB development and commissioners aiming to ensure proper competition and value for money. Some providers who have invested time and money in developing a contract have a wish to see a contract awarded to them without open competition, and the relatively new 'light touch' procurement regime offers entirely legal and proper routes to achieving this in the right circumstances[19]. For example, both HCT commissioners showed how the light touch regime can be used successfully. Conversely, we have found some local authorities and other commissioners to be cautious about using such procedures (notably the single stage Prior Information Notice[20] and even more so the Voluntary Ex Ante Transparency (VEAT) Notice[21]) when they believe that there is a prospect of genuine competition, and potentially achieving better value from other providers and/or investors.

[19] See: GO Lab, 2019. *Awarding the Public Contract in a Social Impact Bond*: https://golab.bsg.ox.ac.uk/guidance/technical-guides/awarding-public-contract-social-impact-bond/

[20] A Prior Information Notice (PIN) is a method for providing the market place with early notification of intent to award a contract/framework and can lead to early supplier discussions which may help inform the development of the commissioners' specification.

[21] A VEAT provides retrospective notice through the OJEU (Official Journal of the European Union, which publishes information on public sector contracts) process of a decision to award a contract to a provider without competition. A VEAT is the reverse of a PIN (see above) in that it does not provide for a competition.

How the landscape has changed since 2014

The general view amongst stakeholders is that since 2014, the baseline for this evaluation, the SIB landscape has generally moved towards a position where SIBs are becoming more widely established, after a period when there were first unreasonably high expectations of what they could achieve and then premature disillusionment about their effectiveness.

Since 2014 the number of SIBs has quadrupled, from 16 in 2014 to around 40 at the end of 2017, and nearly 70 in April 2019. Some of these newer SIBs are in the same policy areas as the very first SIBs, such as youth employment, homelessness and support for children in or on the edge of care. However, SIBs have also expanded into new policy areas, particularly in the health sector.

The market has in general matured, with more sources of advice and support available and external support being used more sparingly and in a more targeted way. Commissioners and providers continue to use and value external paid support, but are also using other sources of advice and guidance (such as GO Lab and the CBO/LCF team) and are thus using paid advisors to provide more specialised and focused advice.

Many of the benefits and challenges surrounding SIBs have however stayed broadly the same. There is arguably more evidence for some benefits of SIBs (such as bringing upfront funding from external investors and embedding an outcomes-focused culture). What is perhaps interesting is that many of the challenges identified in 2014 still exist: SIBs still take a long time to develop and require large set up costs; and there are still challenges in agreeing contracts to suit all parties.

The most noticeable change for commissioners has been a significant increase in the number of SIBs developed locally – around half of all SIBs in 2019 compared to a small proportion in 2014. In addition just over half of all the projects currently supported by the CBO (11 out of 21) are led by local commissioners, with the rest led by VCSEs or intermediaries. This is in large part due to the activity funded through the CBO Fund, notably the Development Grants and allied support, which has enabled commissioners to develop SIBs in new policy areas; and the top-up funding, that has directly led to SIBs being launched that would not have done otherwise.

Conclusions, recommendations and areas for further research

Conclusions

Stakeholders involved in the CBO-funded SIBs that we have consulted are broadly satisfied with how the SIBs are developing: Commissioners because external investors provide up-front funding for services that would otherwise have been too risky to fund directly or could not have been afforded in the current climate; service providers because SIBs allow them to deliver services that would not have been commissioned otherwise; and investors because of the social and financial returns they are receiving, and the way SIBs embed an outcomes-focused culture in providers.

However, the SIB landscape is not yet at the point where mainstream adoption starts to take off. Awareness has increased but they are still niche, only a small number of people have a detailed understanding of them, and they rely on subsidies (top up funding, development grants and free support) to get off the ground. The evidence base underpinning them has strengthened but is still relatively limited.

Commissioners' experiences have moreover been more mixed compared to service providers and investors. We believe this is likely because most of the costs (in terms of outcome payments but also capacity demands and opportunity costs) fall to commissioners, whilst most of the benefits (in terms of delivering new services and receiving returns) fall to service providers and investors. So whilst they appear to be 'win, win, win', it would appear that some stakeholders win more than others.

Recommendations

In light of our findings we have the following recommendations that are addressed directly to commissioners:

- **Consider closely the terms and conditions in SIB contracts:** See above on the importance of using an appropriate contract for outcomes-based commissioning
- **Where possible take the lead on developing the SIB:** As noted above provider-led SIBs lead to a range of complications, mostly in relation to procurement issues. The SIB development process would arguably be more efficient if it were led by the commissioner, save where a proposition such as the HCT Travel Training SIB or MHEP is offered to a commissioner with much of the supporting infrastructure already in place. Where this is the case, commissioners should consider early on if they are comfortable using light-touch procurement regimes.
- **Focus on ensuring the four LOUD factors are in place when developing a SIB:** Our research has found there are four critical success factors that determine whether a SIB is launched (collective leadership; clear outcomes; shared understanding; and good quality data to underpin the business case, referrals profiling, outcomes modelling and performance management). Stakeholders developing a SIB should focus on ensuring these factors are in place.

In addition the following recommendations are relevant to commissioners (though not addressed solely to them):

- **Provide independent guidance on how commissioners and service providers could engage with investors** depending on the role sought from the capital, and when, how and why some investors seek to split the risk in SIBs between stakeholders, rather than carry it all themselves
- **Provide clear and easy to understand information on the different ways investors can apply capital to SIBs**, and the positioning and preferred approaches of specific leading investors
- **Provide clearer guidance to providers on when and when not to expect commissioners to use the light-touch procurement regime**
- **Stakeholders should publish real-time data on the structure, business case, performance and outcomes of SIBs**, and their rationale for pursuing a SIB compared to other options, in order to facilitate replication and increase stakeholders' awareness of the effectiveness of SIBs
- **Stakeholders developing SIBs need to recognise and make clear that the SIB will require a cultural transformation** and way of working that is focussed on all parties' involvement in systems change; to achieve this they must engage all necessary parts of all organisations as early as possible to work out what tools and attitudes they need to apply in their work in pursuit of this.

Areas for further research

Listed below are areas that we believe require further research from the evaluation and academic community in order for them to be fully understood, whether or not they will be explored through later waves of the CBO evaluation. We would also encourage commissioners to consider these areas if commissioning their own local SIB evaluations:

- Impact of the SIB mechanism on the level of outcomes achieved.
  - *This evaluation will measure qualitative perceptions on the extent to which the SIB contributed to the levels of outcomes achieved. Due to the design of the programme it will not be possible to measure this quantitatively, as there are no comparison sites through which to measure the counterfactual robustly.*
- In the SIBs that are not self-funded by the cashable savings they generate, why it is that a commissioner can pay for the outcomes in the future, but not at the present time?
  - *This will be explored over the remainder of the evaluation, particularly by understanding how commissioners fund outcome payments*
- What are service providers' overall views on the impact of the outcomes-focused culture brought about by SIBs? How is it that service providers report this to be a benefit overall, yet also report that it reduces staff morale?
  - *To be explored in remainder of evaluation through further qualitative analysis of impact on providers*
- The cost of setting up SIBs in programmes since CBO, and whether costs are falling
  - *This is beyond the scope of the evaluation*
- Further information on commissioners' views on whether the benefits of the increased contract management linked to SIBs outweighs the costs
  - *To be explored in remainder of evaluation through capturing commissioners' views over time*
- How the balance of risk between parties is captured in contracts, and commissioners' understanding of the process
  - *To be explored in remainder of evaluation*
- The level of robustness of the SIB business cases, and what happens to the SIB when the assumptions in the business case prove to be incorrect
  - *To be explored in remainder of evaluation by comparison of actuals to business case forecast, and exploration and analysis of all parties responses to variation*
- How the different SIB models (particularly the 'intermediated' and 'direct' models) affect the delivery and performance of the interventions
  - *To be explored in remainder of evaluation, particularly by comparing the perfomance of different models*
- Whether the 'win-win-win' for commissioners, service providers and investors holds true when the SIB is not succeeding against its outcome targets
  - *To be explored in remainder of evaluation*
- How both the CBO-funded SIBs and other SIBs develop outside of a SIB-stimulation programme
  - *This is beyond the scope of the evaluation*
- Why commissioners' experiences of SIBs are more mixed compared to the experiences of investors and service providers
  - *To be explored in remainder of evaluation*