



Commissioning Better Outcomes Fund Evaluation

Update Report

Full Report

James Ronicle, Tim Fox and Neil Stanworth
December 2016

Commissioning 
Better Outcomes
Evaluation



Contents

	Executive Summary	i
1.0	Introduction	1
1.1	Evaluation focus.....	1
1.2	Evaluation activity completed in Year 1 and 2.....	2
1.3	Summary of CBO Fund.....	3
1.4	SIB definition	3
1.5	Structure of the remainder of the report	4
2.0	Summary of CBO Fund to Date	5
2.1	Progress to date	5
3.0	Advantages of SIBs.....	8
3.1	Additional investment.....	8
3.2	Alignment of financial and social returns	9
3.3	Robust business cases and evidence for intervention effectiveness	10
3.4	Better performance management	10
3.5	Helps embed more outcomes-focused culture in service providers.....	11
3.6	More flexible service delivery.....	12
4.0	Disadvantages of SIBs and challenges to their development.....	13
4.1	Length of time to develop.....	13
4.2	Large set-up costs	14
4.3	Complexity	14
4.4	SIB ‘myths’ inhibiting their development.....	15
4.5	Lack of understanding of investors.....	17
4.6	Agreeing contracts to suit all parties	18
4.7	Policy uncertainty	19
4.8	Scale.....	19
4.9	Stakeholder engagement within commissioners	20
5.0	Other SIB Observations	22
5.1	Diverse nature of SIBs	22
5.2	Some SIB development is being driven by service providers and intermediaries.....	23
5.3	There is a move away from ‘hard’ outcomes	25

5.4	The strengths and weaknesses of intermediary involvement.....	26
5.5	How innovative are SIB-funded interventions?	27
5.6	Involving smaller VCSEs in SIBs	28
6.0	A Tale of Two SIBs: Comparing the Ways to Wellness and Reconnections SIBs	29
6.1	Main difference between the WtW and Reconnections SIBs: Outcomes metrics.....	30
6.2	Other similarities and differences between the SIBs	32
6.3	Conclusion.....	32
7.0	Conclusions and Recommendations	33
8.0	Glossary	38

Executive Summary

Introduction

The CBO Fund aims to support the development of more social impact bonds (SIBs) in England, and the evaluation is tracking the impact of these SIBs over their lifetime. This report provides an update on the findings from the Commissioning Better Outcomes (CBO) Fund Evaluation undertaken by Ecorys UK in partnership with ATQ Consultants (ATQ) on behalf of the Big Lottery Fund.

The CBO evaluation is focusing on the following three areas:

- Advantages and disadvantages of commissioning a service through a social impact bond (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; and
- 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 Big Lottery Fund and other stakeholders could do to meet this aim.

This report draws on the main findings from the following strands of the CBO evaluation:

- A literature review drawing together what is already known about SIBs;
- Stakeholder consultations with organisations centrally involved in the policy development, strategic development and operational delivery of SIBs in England;
- Surveys with investors, commissioners¹ and service providers² either involved in or very informed about the SIB agenda;
- In-depth review reports produced for the Ways to Wellness and Reconnections SIBs; and
- A case study report focussed on a potential SIB in North Somerset.

All of the reports listed above, and other reports produced as part of the CBO Fund evaluation, can be found on the Big Lottery Fund website: <https://www.biglotteryfund.org.uk/research/social-investment/publications>

It should be noted that this research is in its early stages and we have not yet collected sufficient evidence to conclude on the overall effectiveness of the SIB model or CBO Fund. Instead this Update Report describes the early experiences of those developing SIBs; as well as the immediate, and potential future, advantages and disadvantages of the approach. Where possible we have compared the SIB approach with alternative commissioning models. This comparison is based on reflections by stakeholders on their prior experience of different models; however, in the future the evaluation will test different models through quasi-experimental counterfactual³ approaches where possible.

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

² A service provider is an organisation which is contracted or funded to deliver a service.

³ A counterfactual is the estimate of indicating what would have happened either a) without the intervention, or b) with an alternative intervention, to provide a comparator. A quasi-experimental design identifies a cohort with similar characteristics as to the cohort being supported by the intervention (treatment group), and compares the



Policy context

A SIB is essentially a type of payment by results⁴ (PbR) contract. Like other types of PbR, a commissioner (usually one or more public sector bodies) agrees to pay for outcomes⁵ delivered by service providers, and unless those outcomes are achieved, the commissioner does not pay.

Where a SIB differs from a PbR contract is that the provider in the SIB does not use their own money to fund their services until they get paid – instead, money is raised from so-called ‘social investors’, who receive a return if the outcomes are achieved. And usually – though not always – the provider is paid up-front by a third party body which holds the contract, rather than holding the contract directly.

At present, there is not one accepted model of a SIB - beyond needing to involve payment for outcomes and that any working capital required should be raised from social investors. Those involved in outcomes-based commissioning such as Voluntary, Community and Social Enterprise (VCSE) organisations and social investors, are currently trying to innovate and develop new contractual and financial structures. Therefore any attempts to constrain the definition of a SIB are likely to stifle such innovation within what is a relatively new and developing area of contracting for services.

There is no definitive source on the number of active SIBs, but according to the Centre for SIBs, as of July 2016, 32 SIBs had been implemented in the UK to tackle a range of social issues, including: homelessness, youth unemployment and children in care. Four of the thirty two are part-funded by the CBO Fund.⁶

Summary of CBO Fund to Date

The CBO Fund is funded by the Big Lottery Fund, with a mission to support the development of more SIBs in England. The details of the progress of the project pipeline are shown in the table below.

Table 1: CBO Fund: Summary of progress to date

Task	2016
CBO/ SOF Eol agreed	78
Development grants agreed	62
Full awards agreed by CBO	22

Source: Big Lottery Fund

22 actual full awards (including in-principle awards that potentially may not progress) have been provided by CBO. 14 of the 22 full awards are commissioner-led, five are provider-led and three are currently led by intermediary management agents⁷. All of them involve the VCSE sector.

outcomes achieved by the treatment group with those that did not receive the intervention (comparison group). See: https://www.unicef-irc.org/publications/pdf/brief_8_quasi-experimental%20design_eng.pdf

⁴ Payment by Results is the practice of paying providers for delivering public services wholly or partly on the basis of results achieved.

⁵ An outcomes is a result or change experienced by a person, family or community, for example improved parenting.

⁶ See: https://data.gov.uk/sib_knowledge_box/home

⁷ 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



Advantages of SIBs

On the whole, stakeholders that have been involved in SIBs reported to have had a positive experience so far, and the majority report that they are likely to choose to be involved in SIBs again in the future. Stakeholders, who had set up, or were in the process of establishing, a SIB reported that the process was resource intensive but the new approach was worth the effort. One investor described SIBs as a potential “*win, win, win*” – a win for the investor, a win for the commissioner and a win for the service provider.

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

Benefit	Reason for Benefit
Able to bring in additional, external investment	The funding from the investor replaces the need for the commissioner to fund the service on a fee for service ⁸ basis, or service provider to raise up-front working capital, which is seen by both stakeholders as critical in a time of constricting budgets. This was seen to be worth the additional cost of paying a return to the investor to access the capital.
Better alignment of financial and social returns	Investors are able to achieve social outcomes and receive a return on their investment. This was a key benefit for Charitable Foundations and Trusts, who sometimes feel that investing in more traditional markets was at odds with their social objectives.
More robust business cases	SIBs require a significant amount of work to ensure that the business case underpinning the intervention ⁹ is accurate. Service providers and commissioners have found that a side-benefit of this work is that the intervention is built on a solid foundation and business case, and more so than would have been developed through a traditional fee for service approach.
Better contract management, creating more efficient delivery	SIBs lead to an alignment of interest between the investor, commissioner and service provider to maximise the outcomes achieved by the intervention. This in turn improves partnership working and enhances contract management. The overseeing role of a Special Purpose Vehicle ¹⁰ (SPV), or other governance body on which all parties are represented, was also seen to enhance contract management in some instances, although not all SIBs follow this model
Embeds more outcomes-focused culture	The focus on evidencing outcomes to trigger payments can improve services providers’ ability to demonstrate their impact.

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.

⁸ A fee for service contracts is one where payment is based on service levels or outputs delivered, rather than outcomes.

⁹ An intervention is the activities undertaken with the intention of producing the desired outcome.

¹⁰ A special purpose vehicle (SPV) is a legal entity that is created solely for a particular financial transaction or to fulfil specific objectives.

Benefit	Reason for Benefit
More flexible service delivery	SIB contracts focus on outcomes, not outputs ¹¹ , and so they tend to be less prescriptive about the support the service provider has to deliver. This can enable service providers to be more flexible in the support they provide and adapt their support more easily. Commissioners can also test new interventions at minimum risk, as there is little or no payment unless the intervention succeeds.

Disadvantages of SIBs and challenges to their development

Despite the reported advantages, and the existence of CBO, SIB development has been slower than some anticipated and only a few local SIBs have been developed outside of central government programmes. Stakeholders interviewed during the research did not understand why more SIBs had not been developed.

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

Challenge	Reason for Disadvantage/Challenge
Long time to develop	SIBs can take a very long time to develop and circumstances can change in that time that can curtail their development (e.g. a key member of staff leaving).
Large set up costs	The long development time of the SIBs can mean large set-up costs for the different groups of stakeholders involved. The Reconnections SIB in Worcestershire, for example, had direct costs alone (funded from various development grants) at £200,000 – although our review also confirmed that all stakeholders thought these costs were justified by the innovative nature of the SIB as the first to address social isolation.
Complexity	<p>SIBs can involve multiple investors, commissioners, intermediaries and service providers; and outcomes-based commissioning, which often involves with very robust monitoring (including counterfactuals - an estimate of what outcomes would be without the SIB intervention) to evidence impact. All of these factors can lead to SIBs being very complex and difficult to understand.</p> <p>Stakeholders from one major investment organisation found setting up a SIB to be most complex in the health sector, compared to other sectors. This is due to several reasons:</p> <ul style="list-style-type: none"> ▶ Multiple health commissioning organisations: This means that different commissioners benefit from different outcomes. Creating an intervention that is funded only by the organisation that reaps the direct benefits is a challenge, and can limit the scope of a SIB;

¹¹ An output is a unit of service delivered, for example number of people completing a programme.

Challenge	Reason for Disadvantage/Challenge
Complexity (continued)	<ul style="list-style-type: none"> ▶ SIB has to operate for a long time period in order to evidence outcomes: To date, the SIBs funded in the health sector have included a longer time-lag between the intervention and the outcome. Consequently, it is harder to predict the scale of outcomes, making it harder to develop the financial model. The time-lag also means that more work has to be done to be confident any changes in outcomes can be attributed to the intervention¹²; ▶ Limited experience of health-related outcomes-based commissioning: CCG systems and processes are not necessarily geared to outcomes-based commissioning; ▶ Challenges in accessing outcomes data: Due to data collection procedures within the Health sector. <p>However, there are only a handful of examples of health-related SIBs; some of these issues appear to be prevalent in SIBs in other sectors, especially those which involve early intervention; and, not all SIBs in the health sector have experienced these problems.</p>
SIB myths inhibiting their development	<p>There appears to be a mystique and set of ‘myths’ surrounding SIBs. In some cases, these have led organisations to ignore normal/best practice on issues such as conflicts of interest, project management, and risk management during procurement; in a small number of instances this has contributed to the commissioner/service provider abandoning their SIB development. These myths include:</p> <ul style="list-style-type: none"> • SIBs have to be complicated • A SIB must have an intermediary • SIBs give lots of money to investors • SIBs must save money • SIBs must fund an Evidence-Based Programme
Lack of understanding of investors	<p>Commissioners and service providers have misconceptions as to investors’ rates of return, and can be surprised by the returns that might be expected, especially if the outcomes sought carry significant risk. This is compounded by the fact that some commissioners and investors involved in SIBs sometimes seem reluctant to openly discuss potential returns for investors, meaning there is limited public information on actual payments on which to base decisions and help set expectations</p>
Agreeing contracts to suit all parties	<p>Agreeing contracts is a challenge for all parties, but especially for commissioners who need to set outcomes and metrics that suit all stakeholders. Commissioners need metrics that reflect the benefits of change and avoid perverse incentives¹³; investors need metrics that they can be easily measured and assess the risk of them not being achieved; and service providers need metrics that they can easily capture and use as evidence of progress towards their outcomes.</p>

¹² Attribution is the ability to link a specified intervention with the achievement of a specified outcome.

¹³ A perverse incentive is an incentive that has unintended results which go against the desired outcome or aims of the programme.

Challenge	Reason for Disadvantage/Challenge
Policy uncertainty	Some investors observed that national and local policy changes (such as changes to the GCSE marking system) could affect outcome metrics, and ultimately impact on the potential to achieve outcomes and payments. Such policy uncertainty is unlikely to diminish, and may increase, in the current political climate.
Scale	Some investors indicated that SIBs were only viable when they were above a certain investment value level (typically £1m), due to the required organisation, transaction costs and on-going contract performance overheads. Some service providers reported that this scale of delivery excluded them from getting involved in SIBs. Some emerging SIB models (e.g. spot purchase SIBs ¹⁴) could help address this issue and achieve greater economies of scale. However, some investors are more willing to invest at a lower level.
Stakeholder engagement within commissioners	A number of organisations mentioned internal engagement with stakeholders and decision makers as an important part of the process which had caused challenges and led to delays. This was particularly true of commissioners consulted. Both our own In Depth Reviews and other research shows how critical stakeholder engagement can be to successful SIB development. The Fund's experience is that successful applicants to the CBO Fund engage with decision makers and contractors in the commissioning organisation as well as service departments.

Other SIB Observations

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

- Diverse nature of SIBs:** One of the main aspects our surveys highlight is how diverse the wants and needs of those involved in SIBs are. Because of the multiple partners that exist within a SIB, this most likely means that the combination of wants and needs from those involved varies relatively widely from one SIB to another. This will likely have consequences for the future development of SIBs: most notably that a 'one-size-fits-all' approach to SIB development and implementation will be less likely to work.

¹⁴ A spot purchase SIB is one developed by one or several service providers, which is then offered to commissioners for a pre-agreed price per outcome and with the flexibility for the commissioner to purchase only a single outcome, or a number of outcomes.

- In many instances development is being driven by service providers and intermediaries:** This service-provider- or intermediary-driven approach seems to have both strengths and weaknesses. In terms of strengths, a provider-led SIB can change the dynamics of the relationship between commissioners and service providers, creating more of an equal partnership rather than a service design led by the commissioner. However, the weakness of this approach is that these SIBs can be supply-, not demand-led. In some instances, significant amounts of time and funding have been spent by service providers, grant funders and intermediaries on developing SIBs that commissioners have been unwilling to commission. This has led some SIBs to face indefinite delays and others to end completely despite significant development funding. A further disadvantage is the issue that SIBs led by providers or intermediaries (or sometimes both) can cause for procurement, especially when the provider/intermediary has had a role in the co-design of the project and subsequently wishes to compete for the SIB contract.
- There is a move away from 'hard' outcomes.** In the early days of SIB development most SIBs were built around a single primary outcome which would be easy to define and measure. While objective outcomes remain widely used and are preferred where possible and appropriate, recently commissioned SIBs have to some extent moved away from this 'objective' outcomes approach and included payments linked to softer, more 'subjective' outcomes. These developments appear in part to be a response to the inherent difficulty of setting hard outcomes in some areas, and the need to set measures that will indicate progress towards hard outcomes that can only be achieved in the medium to longer term.
- There are strengths and weaknesses to intermediary involvement:** Some, but not all, SIBs involve intermediaries and it is clear both from our own and others' research that that they can play a crucial role in making SIBs happen. They can also play an important role in managing and measuring performance under SIBs once they are in place; and in acting effectively like a prime contractor¹⁵, so enabling smaller voluntary, community and social enterprise organisations (VCSEs) to become involved. The involvement of intermediaries also has some disadvantages, including that they can add to costs, especially of development and contract management.
- How innovative are SIB-funded interventions?** Innovation in service delivery is often cited as one of the key benefits of SIBs, encouraged by the outcomes-based payment framework and relative freedom providers are given to devise their own solutions. Indeed, many of the service providers responding to our survey reported that SIBs led to more innovative service delivery. There is, however, some evidence that the interventions commissioned via SIBs are not always as innovative as might be perceived or expected. We have found, as have others researching SIBs, that some interventions are relatively conventional in approach and/or are similar to other programmes which are not SIB funded. There are potentially a number of reasons for this apparent contradiction, including that references to innovation in delivery should more properly refer to flexibility within the delivery model, and the willingness of all parties to adapt it to changing circumstances; and that innovation was demonstrated more clearly in other aspects of the SIB.
- Are SIBs enabling smaller VCSEs to get involved?** One of the advantages often claimed for SIBs is that the up-front funding that they provide enables the involvement of relatively small VCSEs as service providers, because such providers are shielded from the financial risk involved in conventional PbR contract. While we have found scepticism among commentators about the extent to which SIBs could sensibly be embraced by smaller providers, there is some evidence that smaller providers are getting involved in SIBs, certainly as far as the CBO-funded SIBs we have reviewed are concerned.

¹⁵ A prime contractor is a provider who is directly contracted to deliver a service and acts as the single point of contact for the commissioner. Prime contractors may pass on work to subcontractors.



A Tale of Two SIBs: Comparing Ways to Wellness and Reconnections SIBs

The first two SIBs that have featured as the evaluation's In-Depth Reviews – Ways to Wellness (WtW) SIB and Reconnections SIB – are in many ways similar. They both support older people and they are both focused on improving wellbeing (in the WtW SIB the focus is on improving patients' self-management of their long-term conditions, measured through improved wellbeing, and in the Reconnections SIB the focus is on reducing loneliness). Both also have the ultimate aim of reducing hospital admissions within the cohort population¹⁶. Yet interestingly the stakeholders involved have approached key elements in different ways. The main differences are as follows:

- **Outcomes metrics:** In WtW, payments are tied to a metric that measures whether the commissioner is making cashable savings (hospital admissions within the cohort, compared to a comparison group). In contrast, for the Reconnections SIB payments are tied to a metric that measures intermediate outcomes; the cashable savings are not measured but it is assumed they will be achieved.
- **Co-commissioners:** The Reconnections SIB is co-commissioned; the WtW SIB has one commissioner;
- **Investor involvement:** The commissioners of the WtW SIB appear to have a closer working relationship with the investors than the commissioners of the Reconnections SIB; and in Reconnections the service provider has part-invested in the SIB; in WtW they have not.

They also have some similarities, including:

- Both SIBs have an SPV; however, the type of organisation running the SPV differs: in WtW this is a local VCSE; in Reconnections this is a national SIB-specialist intermediary; and
- both have attached outcomes payments to a 'soft' outcome: in WtW this is improved wellbeing; in Reconnections it is reduced loneliness.

What this comparison demonstrates is that there are multiple approaches to structuring SIBs. It also shows that, based on early evidence, at times the approach to developing a SIB is dependent on local circumstances (such as whether co-commissioning is already embedded) and the priorities of the stakeholders involved (such as to the extent to which the SIB must pay for itself with its cashable savings).

Conclusions and Recommendations

SIBs are still in their early stages of development and the evidence base is limited, although the number being developed is increasing. Those involved in SIBs confirm that some of the potential delivery benefits of SIBs are being achieved: they not only bring in upfront capital to fund services, but they also embed an outcomes-focused culture in service providers and allow for more flexible service delivery and stronger performance management.

There is also an appetite from other investors, commissioners and service providers to get involved in SIBs. However, what is not yet known is whether this translates into better outcomes. SIBs also require additional resource compared to a fee for service contract to develop and deliver; what is also unknown at present is whether the benefits of a SIB justify the additional resource.

¹⁶ A cohort is a group of people identified to receive an intervention

The findings also suggest, however, that their development has been slow – particularly local SIBs outside of central government-supported programmes. People developing SIBs face multiple challenges, mostly in understanding their complexity and engaging stakeholders internal to their organisations. These challenges create delays, which increase the risk that the SIB is not launched.

Despite these challenges, there are four points to note that could suggest their development will increase:

- many commissioners and service providers involved in SIBs are likely to choose to become involved in future ones;
- support is available and has been well received;
- some stakeholders believe most challenges are solvable; and
- some stakeholders involved report they are getting quicker to develop.

Furthermore, some of the challenges faced are likely to subside as the market develops, and as commissioners, service providers, investors and advisors/intermediaries get more used to working together. This emphasises the importance of ensuring stakeholders involved in SIBs are transparent about their work and share their learning with other stakeholders. This evaluation will play a crucial role in ensuring the lessons learnt from the CBO-funded SIBs are shared.

In light of these findings we recommend the following to further develop the SIB market:

For **organisations supporting the development of SIBs**:

- Support to local SIBs, such as funding consultancy support and developing resources, is helpful and should be continued;
- More work needs to be done to ‘demystify’ SIBs;
- Support needs to be focused on linking together the different groups making up a SIB;
- Innovation in the delivery of services and interventions needs to be encouraged;
- Over-prescription needs to be avoided;
- Focus on engaging commissioners;
- Ensure provider- or intermediary-led SIBs have a commissioner engaged before providing funding;
- Encourage (or even stipulate in funding agreements) funded organisations to share the learning from their SIB with other stakeholders in order to increase the wider understanding of SIBs;
- Support commissioners and service providers to understand the different types of intermediaries and advisors.

For **service providers**:

- If developing a provider-led SIB, engage commissioner as soon as possible;;
- Be active in sharing learning.

For **commissioners**:

- Do not see a SIB as 'unique' to other types of commissioning;
- Consider early on how the SIB will be procured, and involve procurement teams from the outset;
- Explore how perverse incentives could be avoided;
- Focus on internal engagement;
- Be active in sharing learning.

For **investors**:

- Be transparent about deals to manage expectations.

For **intermediaries/advisors**:

- Be aware that commissioners/service providers may be inexperienced in procuring support and be clear on what intermediaries/advisors can offer and when potential conflicts of interest may arise.

1.0 Introduction

This report is an updated review of the Commissioning Better Outcomes (CBO) Fund Evaluation undertaken by Ecorys UK in partnership with ATQ Consultants (ATQ), on behalf of the Big Lottery Fund. The report updates the information and data found in our report [SIBs: The State of Play](#)¹⁷ and draws on a number of pieces of work undertaken throughout 2015/2016 by the evaluation team.

It should be noted that this evaluation is still in its early stages and we have not yet collected sufficient evidence to conclude on the overall effectiveness of the SIB model or CBO Fund. In particular, the in-depth reviews of SIBs supported by CBO are so far only linked to the first two SIBs coming out of the programme which are both in their early stages of delivery. This report therefore is focussed on the early experiences of those developing SIBs; as well as the immediate, and potential future, advantages and disadvantages of the approach.

1.1 Evaluation focus

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 Big Lottery Fund and other stakeholders could do to meet this aim.

The evaluation findings will contribute to an overall judgement of the effectiveness of the SIB model, though it is only focusing on SIBs part-funded through the CBO fund and therefore will not be evaluating all SIB models.

¹⁷ Ronicle et al, 2014. *Social Impact Bonds: The State of Play*. See: https://www.biglotteryfund.org.uk/-/media/Files/Programme%20Documents/Commissioning%20Better%20Outcomes/SIBs_The%20State%20of%20Play_Summary%20Report.pdf

1.2 Evaluation activity completed in Year 1 and 2

The main outputs of the CBO evaluation produced between 2014 and 2016 that this report draws on are as follows:

- **A literature review** drawing together what is already known about SIBs to fully understand both the national and international development of SIBs as well as understand the current evidence base for SIBs and extent of their impact
- **Stakeholder consultations**, including telephone and face-to-face consultations with organisations centrally involved in the policy development, strategic development and operational delivery of SIBs in England.
- **Stakeholder surveys** involving a Computer Assisted Telephone Interviewing (CATI) survey with investors and an online survey with commissioners¹⁸ and service providers¹⁹ either involved in, or very informed about, the SIB agenda. These surveys helped establish baseline perceptions of SIBs, including stakeholder knowledge and experience of SIBs.
- **In-depth review reports** produced for the Ways to Wellness and Reconnections SIBs. The in-depth reviews were undertaken to understand the development stage of establishing these SIBs.
- **A case study report** focussed on a potential SIB in North Somerset aimed at reducing the need for children to be looked after by the local authority. The case study was focussed on the theme of developing a SIB from a commissioner's perspective.

While we have not done a full update of the literature review we undertook in the summer and autumn of 2014 to inform the State of Play report, this report includes the findings from significant research that have been published since that review. In particular, we have reflected on the findings from the following reports:

- Interim Process Evaluation of the Health and Social Care SIB Trailblazers²⁰;
- Second Interim Report from the Qualitative Evaluation of the London Homelessness Social Impact Bond²¹;
- The Qualitative Evaluation of the DWP Innovation Fund²²;
- The Interim Evaluation of the Essex Multi Systemic Therapy Social Impact Bond²³;
- The Final Process Evaluation of the Peterborough Social Impact Bond²⁴; and

¹⁸ A service provider is an organisation which is contracted or funded to deliver a service.

¹⁹ Organisations commissioned to deliver a service to service users.

²⁰ Tan et. 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>

²¹ DCLG, 2015. *Qualitative evaluation of the London homelessness social impact bond: Second interim report*. DCLG, London. See: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/414787/Qualitative_evaluation_of_the_London_homelessness_SIB.pdf

²² 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

²³ OPM, 2014. *Evaluation of the Essex MultiSystemic Therapy Social Impact Bond: Interim evaluation report*. See: <http://www.opm.co.uk/wp-content/uploads/2015/10/Interim-report-Essex-MST-SIB-Evaluation.pdf>

²⁴ Disley et al., 2015. *The payment by results Social Impact Bond pilot at HMP Peterborough: final process evaluation report*. Rand Europe. See: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/486512/social-impact-bond-pilot-peterborough-report.pdf



- Choosing Social Impact Bonds: A Practitioner's Guide, produced by Bridges Impact+, the research and advisory arm of Bridges Ventures.²⁵

1.3 Summary of CBO Fund

The CBO Fund is funded by Big Lottery Fund, with a mission to support the development of more SIBs in England. It is operating alongside the Cabinet Office's Social Outcomes Fund (SOF). Between them these funds are making up to £60m available to pay for a proportion of [outcomes](#)²⁶ payments for these types of models in complex policy areas, as well as support to develop robust proposals for the funds.

The shared overarching aim of the two funds is to grow the market in SIBs, while each fund has a specific focus that reflects the missions of Big Lottery Fund and Cabinet Office. The mission of Big Lottery Fund is to enable more people, particularly those most in need, to lead fulfilling lives, in enriching places and as part of successful communities. The mission of the Cabinet Office is to catalyse and test innovative approaches to tackling complex issues using outcomes-based commissioning.

Further details about the aims, funding and activities of CBO can be found on the [website](#)²⁷.

1.4 SIB definition

A SIB is essentially a type of [payment by results](#)²⁸ (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, and unless those outcomes are achieved, the commissioner doesn't 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 so-called 'social investors' who get a return if the outcomes are achieved. And usually – though not always – the providers get paid up-front by a third party body which holds the contract, rather than holding the contract directly. A simplified example of one type of SIB structure is shown in [Figure 1.1](#).

There is however no generally accepted definition of a SIB beyond the minimum requirements that it should involve payment for outcomes and any working capital required should be raised from social investors. It is apparent that those involved in the outcomes-based commissioning, VCSE and [social investment](#)²⁹ sectors are trying to innovate and develop new contractual and financial structures. In this environment, attempts unnecessarily to constrain the definition of a SIB are likely to stifle such innovation.

As at July 2016 there were 34 established Social Impact Bonds in the UK. These are being used to tackle a range of social issues including homelessness, youth unemployment and children in care³⁰.

²⁵ Bridges Venture and Bank of America Merrill Lynch, 2014. Choosing Social Impact Bonds: A Practitioner's Guide. Brides, London. See: <http://bridgesventures.com/choosing-social-impact-bonds-practitioners-guide/>

²⁶ An outcomes is a result or change experienced by a person, family or community, for example improved parenting.

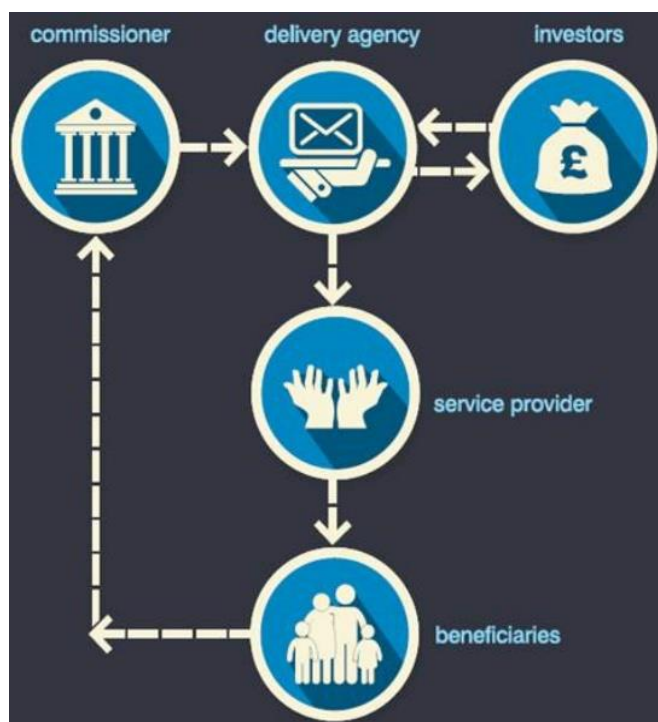
²⁷ See: <https://www.biglotteryfund.org.uk/sioutcomesfunds>

²⁸ Payment by Results is the practice of paying providers for delivering public services wholly or partly on the basis of results achieved.

²⁹ Social investment is the provision of capital for the purpose of generating social as well as financial returns.

³⁰ [Social Finance](#), 2016, Social Impact Bonds, The Early Years.

Figure 1.1 Example SIB Structure



1.5 Structure of the remainder of the report

The remainder of the report is structured as follows:

- [Chapter 2: Summary of CBO Fund to Date](#) provides a short overview of the CBO Fund and provides summary details of the progress the fund has made since its inception using monitoring information provided by the Big Lottery Fund.
- [Chapter 3: Advantages of SIBs](#) outlines the advantages of SIBs, as reported by commissioners, service providers and investors either involved in, or considering getting involved in, SIBs.
- [Chapter 4: Disadvantages of SIBs and challenges to their development](#) outlines the disadvantages of SIBs, as reported by commissioners, service providers and investors either involved in, or considering getting involved in, SIBs. This also includes some of the challenges stakeholders have faced in establishing SIBs.
- [Chapter 5: Other SIB observations](#), includes other interesting findings within the research.
- [Chapter 6: A Tale of Two SIBs: Comparing the Ways to Wellness and Reconnections SIBs](#) provides a comparison of the first two SIBs examined in-depth as part of the evaluation.
- [Chapter 7: Conclusions and Recommendations](#) draws the previous chapters together to conclude on the overall progress of the CBO Fund, and offers recommendations for organisations supporting the development of SIBs, service providers, commissioners and investors.
- [Glossary](#): The report includes a set of technical terms, and this glossary provides definitions for these terms. Where they are first used, there is a link to the glossary and a footnote with a definition for the term.

2.0 Summary of CBO Fund to Date

This section provides a short overview of the CBO Fund and a summary of the progress the CBO Fund has made since its inception using monitoring information provided by the Big Lottery Fund.

2.1 Progress to date

The CBO Fund closed for applications in July 2016. In total, the CBO Fund have agreed 81 Expression of Interests (Eols). The Eols were short statements from the organisations who were interested in seeking financial support from the CBO Fund to help establish and implement a SIB.

Further to the EOI stage, 62 Development Grants have been awarded to date. These grants were one-off payments to help organisations who had been successful with their Eol to develop their full CBO application.

Full awards by CBO to establish a SIB are still being assessed, and currently stand at 22 (Table 2.1). The summary of progress to date over the last twelve months shows a relatively large jump in EOIs, development grants and full awards as the pipeline of SIBs increases.

Table 2.1: CBO Fund: Summary of progress

Task	2015 (cumulative total)	2016 (cumulative total)
CBO/ SOF Eol agreed	38	78
Development grants agreed	15	62
Full awards agreed by CBO	2	22

Source: Big Lottery Fund. Progress as of May for both years

In terms of the types of applications received and awarded to date by CBO, forty five per cent of the applications for in principle awards have been in children and youth, health, and social care (Table 2.2). Over a quarter (26 per cent) of applications have been London based applications (Table 2.3).

Table 2.2: CBO Social Policy Coverage of Applications

Policy Area	EOI	Development	Full Award *
Children & Youth	11%	16%	17%
Employment	7%	7%	9%
Health	25%	27%	21%
Housing and Homelessness	5%	6%	7%
Preventing Crime	12%	11%	9%
Public Health	13%	7%	7%
Social Care	27%	26%	30%

** Includes applications received*

Table 2.3: CBO Geographical Coverage

Region	EOI	Dev. Grant	Full Award *
East	5%	3%	12%
East Midlands	8%	3%	2%
London	18%	27%	26%
North East	6%	6%	4%
North West	10%	12%	2%
South East	17%	17%	14%
South West	18%	17%	17%
West Midlands	11%	11%	14%
Yorkshire and Humber	7%	3%	9%

Source: Big Lottery Fund.

22 actual full awards (including in-principle awards that potentially may not progress) have been provided by CBO to date. 14 of the 22 full awards are commissioner-led, five are provider-led and three are currently led by intermediary management agents³¹. All of the SIBs involve the VCSE sector. Details of the full awards can be found on the CBO page of the Big Lottery Fund website³²:

The first two SIBs supported by CBO are the most advanced in terms of delivery and activity on the ground. Further descriptions of these SIBs along with higher level management information are as follows:

- Ways to Wellness SIB:** The Ways to Wellness (WtW) project is being set up as a SIB by Newcastle West CCG. The project is focusing on patients with Long Term Conditions (LTCs) – introducing social prescribing (whereby patients are supported to improve their self-care and management of their conditions) with two aims: to improve the quality of life for people with LTCs; and save the NHS money in treating them. The project aims to engage 8,500 patients in the first six years of operation. The project is receiving £1.65m up-front investment from the Bridges Social Sector Fund. The total expected outcomes payments made to WtW in its first six years of operation are £8.2m. CBO is providing £2m in outcomes payments. The project is three per cent above its target for referrals of new patients and had worked with a total of 1,126 patients in 2015/16. Patients who have been supported have reported a four-point improvement in their well-being score (the secondary outcome)³³.

³¹ 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.

³² See: <https://www.biglotteryfund.org.uk/-/media/Files/Programme%20Documents/Commissioning%20Better%20Outcomes/Commissioning%20Better%20Outcomes%20grant%20awards%20July%202013%20-%20October%202016.xls>

³³ Big Lottery Fund monitoring data.

- **Reconnections SIB:** Reconnections is the first SIB in England aimed at reducing loneliness and social isolation. Worcestershire County Council (WCC) with co-commissioners from Redditch & Bromsgrove, South Worcestershire and Wyre Forest Clinical Commissioning Groups commissioned Reconnections, a [Special Purpose Vehicle](#) (SPV)³⁴, to deliver the Reconnections SIB. It will deliver a new service specifically targeting 3,000 over 50 year olds who are lonely and reside in Worcestershire. The SIB will provide one-to-one tailored support for lonely older people who will co-develop an action plan to establish ways in which they can (re)connect with a variety of local support networks. The improved health and well-being of beneficiaries is expected to deliver more than £3million worth of savings to the public sector over 15 years. The maximum amount of outcome payments attached to the SIB is £2.02 million based around a key payment outcome of an improvement in levels of loneliness. So far 600 referrals have taken place with 270 people receiving support through the project³⁵.

³⁴ A special purpose vehicle (SPV) is a legal entity that is created solely for a particular financial transaction or to fulfil specific objectives.

³⁵ Big Lottery Fund monitoring data.

3.0 Advantages of SIBs

Those spoken to who have set up, or are in the process of establishing, a SIB reported that they were resource intensive but worth the effort – though it is too early to state the full impact of the SIBs. Those that have had prior involvement of SIBs have, on the whole, had a positive experience so far and the majority are likely to choose to get involved in SIBs in the future.

In terms of the advantages of SIBs, Investors, commissioners and service providers reported that SIBs:

- provide additional investment;
- provide an opportunity to align financial and social returns;
- support a more robust business case for [interventions](#)³⁶;
- lead to better performance management;
- help embed a more outcomes-focused culture in service providers; and
- lead to more flexible service delivery.

Many of these advantages are interrelated and reflect the original potential benefits stated by commentators when SIBs were first introduced; suggesting SIBs are performing well against their original expectations. In the remainder of this section we provide more detail on these reported advantages.

3.1 Additional investment

The funding from the investor in the SIB model is a form of additional investment, which replaces the need for the commissioner to fund the service on a [fee for service](#)³⁷ basis; or for a service provider to raise up-front working capital. Both of which are seen by commissioners and providers as a critical advantage at a time of constricting budgets.

The majority of service providers (24 out of 28) reported in the survey that the additional investment was the main attraction of SIBs for them. Investors thought that smaller service providers benefited the most from the additional investment providers, as they may lack the initial working capital or the ability to assume the financial risks normally associated with Payment by Results (PbR) contracts. This was seen to be worth the additional cost of paying a return to the investor to access the capital.

Commissioners reported that the additional investment available was a key benefit to them of becoming involved in SIBs. Key to this is that it is the social investors who take on the initial risk on this investment as it is they who usually lose their money if the expected outcomes are not achieved. This enables commissioners to take risks and fund interventions that they would not have been funded otherwise, such as if; the evidence base underlying the intervention is not strong enough to justify the risk.

³⁶ An intervention is the activities undertaken with the intention of producing the desired outcome.

³⁷ A fee for service contracts is one where payment is based on service levels or outputs delivered, rather than outcomes.

For both the commissioners involved in the WtW SIB (Newcastle) and the Reconnections SIB (Worcestershire) the additional investment was a significant attraction to pursue a SIB due to budgetary pressures. Specifically, the commissioners acknowledged that the SIB provided short term funding in an area where the commissioner would have otherwise found it difficult to invest directly; and also the payment for results ethos meant that there was little risk of paying for an intervention that then did not prove to be effective.

The interim review of the Health Trailblazers³⁸ gives a slightly different slant on this, highlighting that SIBs “provide financial freedom from shorter grant-giving cycles and process-measure-driven contracts”. The report argues that the emphasis on innovation within SIBs is welcomed by service providers who feel that more traditional funding streams, such as grants or block contracts from commissioners, “encourage the delivery of programmes focused on short-term, narrow, process measures of successful service delivery”.

The report also states that SIB contracts give service providers more freedom in terms of both the type of intervention and the time allowed to prove effectiveness, for example “allowing service providers to pursue preventive interventions with predetermined measures of success over longer periods of time”. In other words, the benefit is not just the additional investment, but that the investment is available for a longer period of time.

3.2 Alignment of financial and social returns

Alignment of financial returns and social outcomes was an advantage of SIBs identified by investors. Charitable Foundations and Trusts reported in the survey that this was a key reason for their investing in SIBs, as they sometimes felt that investing in more traditional markets was at odds with their social objectives. This motivation is best summarised by Panaphur Charitable Trust, who invested in the Peterborough Prison SIB, who explain why they shifted to investing all their funds through social investment:

“[Our] investment and charitable activities were conflicting with one another... [As] financial markets were increasing inequalities in societies³⁹. “

The successful alignment of social and financial returns is highlighted in the evaluation of the DWP Innovation Fund, through which ten SIBs were funded to address issues faced by disadvantaged young people⁴⁰. The report of this evaluation found that

“By and large, partners were pleasantly surprised at how committed they found their investors to be in wanting to secure good social returns from projects. Beyond seeking to ensure that projects did not fail financially (and that therefore investments would be repaid), investors were seen to give priority to measures that would maximise the social impact and benefit to young people. This was reported to be the case even where this entailed making decisions that would likely reduce the financial rate of return achieved.”

³⁸ Tan et 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%20site%20amended%2011%20may.pdf>

³⁹ See: <http://www.panaphur.org/about/history/>

⁴⁰ See: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/535032/rr922-qualitative-evaluation-of-the-dwp-innovation-fund-final-report.pdf



3.3 Robust business cases and evidence for intervention effectiveness

The SIBs observed through our primary research, and reported in wider literature, required a significant amount of work to ensure the business case underpinning the intervention was accurate. This included ensuring that the outcome metrics were robust; reliably captured the key outcomes of the project; and reflected the cost savings associated with them.

Stakeholders interviewed reported that this level of business planning was greater than they would have undertaken if the service was commissioned through a fee for service contract. However, service providers and commissioners have found that a side-benefit of this work is that the intervention is built on a solid business case.

In the WtW SIB, setting the outcomes and PbR structure forced stakeholders to fully examine the underlying logic model of the intervention, the outcomes it was trying to achieve and the financing:

“It doesn’t half test your business model.” (Representative from WtW)

In the Reconnections SIB, commissioners made it clear that the research undertaken by Social Finance, which linked the costs, issues and metrics of ‘investing’ in loneliness was important in persuading them to take the SIB forward. According to the commissioner, the early stage research, data and evidence made a much stronger case for both the intervention and the SIB than they were used to. This meant that the ‘case’ for a SIB intervention was perceived to be stronger than many of the previous propositions that went through their Integrated Commissioning Unit around ways to save financial resources.

Although stakeholders report that the SIB processes allows more opportunity to develop a robust business case, there is not yet evidence of how this added depth increases the likelihood of a successful intervention.

3.4 Better performance management

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 maximises the outcomes achieved by the intervention. This in turn improves partnership working and enhances contract management. The close partnership can also bring together distinct expertise and address knowledge gaps across the partners.

This benefit was evident in independent evaluations of current SIBs and was also frequently reported by commissioners and investors surveyed: almost half of commissioners (four out of nine) reported that SIBs add an additional layer of accountability. The following quote is from the evaluation of the Innovation Fund, which found that there was strong performance management amongst the SIBs:

“The interest of all parties in ensuring the projects are successful and the need to generate cash-flow for continued delivery to be sustained, has led to careful and pro-active performance management by intermediaries, investors and deliverers alike.” (⁴¹)

⁴¹ 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

However, the performance management aspect of the SIB was also one of the areas that could discourage commissioners from further developing a SIB. Some commissioners were concerned that the additional contract management, and associated time demands, did not justify the potential benefits from the SIB approach.

The evaluation of the DWP Innovation Fund pilots suggested that the involvement of investors and intermediaries led to improved performance management and enabled providers to focus on delivery: specifically it reported that *“the tripartite structure involving investors and a Board was said to have added ‘a further level of scrutiny’ over performance”*. However, the evaluation also reported that *“...the high fees involved in contracting for these services had placed an additional financial burden on projects which they had not initially costed for. Some believed these costs could be reduced or avoided, either through the reallocation of responsibilities among partners, or through a simplification of the processes of outcomes verification and payment.”*

Similarly, the interim evaluation of the Essex SIB found that:

‘It is some respondents’ perception that the MST service in Essex has tighter programme management and governance arrangements in place as a result of the SIB structure. These arrangements provide robust oversight of the programme delivery with a strong focus on performance.’⁴²

but also that:

‘The information and reporting requirements of the SIB have felt onerous for all partners but particularly for Action for Children, for whom the realities of the resource required exceeded their initial expectations about what it may involve.’

It is also worth noting that not all SIBs involve all parties in governance, and nor do they have active involvement by investors. For the Reconnections SIB, for example, investors are not directly involved in the governance of the SIB and there has been no direct contact between the investor and the commissioner. However, Social Finance as the intermediary have been heavily involved in contract management and governance. .

3.5 Helps embed more outcomes-focused culture in service providers

Investors, service providers and commissioners surveyed all identified the potential for a SIB to embed an outcomes-focused culture as a key benefit from the process. The outcomes-focused culture develops and embeds from the focus on evidencing outcomes that is affiliated with a PbR contract. One investor described the process as *“eye-opening”* for service providers, who had to adapt delivery management in order to drive towards outcomes effectively. Encouraging an outcomes-focused culture is also a key feature and benefit of the WtW and Worcestershire SIBs. However, as mentioned previously, this outcomes-focused culture does create additional demands on service providers.

⁴² Evaluation of the Essex MultiSystemic Therapy Social Impact Bond: Interim evaluation report, OPM, 6 November 2014. See: <http://www.opm.co.uk/wp-content/uploads/2015/10/Interim-report-Essex-MST-SIB-Evaluation.pdf>

The Health Trailblazers review⁴³ supports the evidence for all these aforementioned benefits in sections 3.3, 3.4 and 3.5. The report also makes a somewhat broader point about the benefits of SIBs instilling ‘market discipline’ in the VCSE sector, covering elements of both better business planning, improved contract management as well as the broader benefit of linking payment to outcomes and embedding an outcomes-focused culture.

The more recent DWP Innovation Fund evaluation also strongly supports this view, highlighting that “*While the social investment aspects of the SIB model added an important dimension to the IF programme, it was a ‘pure’ PbR programmewhich had perhaps the greatest impact on the experience of those involved.*” and “*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.*”⁴⁴

3.6 More flexible service delivery

The flexibility comes from the fact that service providers are more easily able to adapt support, due to the outcomes-based nature of the contract. This was particularly noted in the Peterborough SIB, where the final delivery model was very different to that envisaged at the outset. This is facilitated by the improved contract management mentioned above – as everyone’s interests are aligned there is a desire to move quickly to adapt the delivery model when it is not working. Investors compared this to a more traditional commissioner/provider contract, where there can be time-consuming contract change procedures which slow down this innovation.

⁴³ Tan et 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>

⁴⁴ 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

4.0 Disadvantages of SIBs and challenges to their development

Despite the reported advantages, SIB development has been slower than some anticipated. It remains unclear why more SIBs have not been developed. In particular, very few local SIBs have been developed outside of central government programmes.

Investors, commissioners and service providers either considering, developing or involved in SIBs report that the main disadvantages linked to SIBs and the challenges to their development include:

- Length of time to develop;
- Large set-up costs;
- Complexity;
- Lack of understanding of investors;
- Agreeing contracts to suit all parties;
- Policy uncertainty;
- Scale; and
- Stakeholder engagement within commissioners.

In the remainder of this section we provide more detail on these reported disadvantages and challenges.

4.1 Length of time to develop

SIBs can take a very long time to develop. For example, Social Finance invested 2.5 years of resource and 300 hours of pro bono legal advice into the development of the Peterborough Prison SIB⁴⁵.

Additionally, it was three years from VONNE⁴⁶ exploring the concept of SIBs to the WtW SIB being set up (although the specific development work took 18 months). Stakeholders reported that this then creates a further challenge - as circumstances can change that can curtail their development (e.g. key member of staff leaving):

“They take too long from starting the initial business case through to putting in place and service starting.” (Service Provider, surveyed as part of the Service Provider Survey)

⁴⁵ Disley et al, 2011. *Lessons learned from the planning and early implementation of the Social Impact Bond at HMP Peterborough* London: RAND Europe 2011. See: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/217375/social-impact-bond-hmp-peterborough.pdf

⁴⁶ An umbrella organisation and a support body for the voluntary, community and social enterprise sector (VCSE) in the North East of England.

4.2 Large set-up costs

Independent evaluations, such as the Health Trailblazers evaluation⁴⁷, report that the long development periods mean many SIBs currently incur large set-up costs. The Reconnections SIB in Worcestershire continues these trends, with direct costs alone (funded from various development grants) at £200,000 – although our review also confirms that all stakeholders thought these costs were justified by the innovative nature of the SIB as the first to address social isolation.

4.3 Complexity

SIBs can involve multiple investors, commissioners, intermediaries and service providers and involve outcomes-based commissioning, often with very robust monitoring (including [counterfactual methods](#)⁴⁸) to evidence impact. All of these factors lead to SIBs being very complex and difficult to understand. For example, North Somerset Council described them as being a steep learning curve.

This complexity around SIB has discouraged some investors from exploring the models:

“We think there are easier and better ways to put our money to work.” (Investor, surveyed as part of Investor Survey)

4.3.1 Are SIBs more complex in the health sector?

One major investor in SIBs has found setting up a SIB to be more complex in the Health sector than other sectors. In their view this might be for some or all of the following reasons:

- **Multiple health commissioning organisations:** Local health commissioning is complex due to the split between the CCG, NHS England and Public Health (which is further split between Public Health England and local authorities). This means that different commissioners benefit from different outcomes. Creating an intervention that is funded only by the organisation that reaps the direct benefits is a challenge, and can limit the scope of a SIB. For example, the WtW SIB is only being commissioned by the CCG and therefore they are only willing to pay outcomes payments that link to outcomes that directly benefit them (reduced cost of secondary healthcare services). Other commissioners (notably NHS England, DWP and local authorities) were unwilling to co-commission even though they were likely to benefit from other outcomes of the SIB such as reduced demand for primary care. The fragmentation of health commissioning is likely still to be a factor in some SIBs, but others have suggested that joint commissioning can be achieved, especially if commissioners are already suited to working together. For example, the Reconnections SIB in Worcestershire has been jointly commissioned successfully by a local authority and four CCGs, all of whom already work through an Integrated Commissioning Unit for appropriate services.

⁴⁷ Tan et 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%20site%20amended%20pdf11may.pdf>

⁴⁸ A counterfactual is the estimate of indicating what would have happened either a) without the intervention, or b) with an alternative intervention, to provide a comparator. A quasi-experimental design identifies a cohort with similar characteristics as to the cohort being supported by the intervention (treatment group), and compares the outcomes achieved by the treatment group with those that did not receive the intervention (comparison group). See: https://www.unicef-irc.org/publications/pdf/brief_8_quasi-experimental%20design_eng.pdf

- **SIB has to operate for a long time period in order to evidence outcomes:** Because of the time-lag between the intervention and the changes in secondary health care the Ways to Wellness SIB is operating for longer than other SIBs supporting children on the edge of care. As a consequence, it is harder to predict the scale of outcomes, making it harder to develop the financial model. The time-lag also means that more work has to be done to be confident any changes in outcomes can be attributed to the intervention. The Reconnections SIB faces a similar challenge, but this does not appear to be an issue unique to health-related SIBs: in our view, it applies in any area where the SIB is aiming to achieve outcomes that take longer to realise, and health was simply the first area to address such outcomes. Similar issues apply in relation to SIBs commissioned through the Youth Engagement Fund, for example, which does not have a focus on health outcomes, focusing instead on preventing young people aged 14 – 17 from becoming Not in Education, Employment or Training (NEET), but does involve a significant lag between intervention and eventual outcomes.
- **Limited experience of health-related outcomes-based commissioning:** In the WtW SIB the CCG's systems and processes were not geared to such outcomes-based commissioning, leading to cultural differences and tensions between the CCG and Special Purpose Vehicle (SPV) when creating an outcomes-based contract. This was compounded by the new establishment of the CCG and a fledgling working relationship between the CCG and the Commissioning Support Unit (CSU). Again we would note that this does not appear to have been a sufficient barrier to SIB development for the Reconnections SIB, possibly because of the involvement of a local authority (where the cultural challenges of outcomes-based commissioning are less pronounced); and also possibly because of the pre-existence of an Integrated Commissioning Unit as already noted above;
- **Challenges in accessing outcomes data:** In the London Homelessness SIB, it appears to have proved impossible to collect data relating to the intended outcome against which payments were to be made (reductions in cohort A&E admissions) from the baseline⁴⁹ at the start of the SIB contract. Payments in the first two years have been made without data, due to “a data protection concern” that was not present at the time of the agreement between DCLG and the Health and Social Care Information Centre, which was intended to provide the data. This appears to continue to be problem in relation to health-related SIBs, and to be largely a problem that is unique to that sector, given the much stricter arrangements regarding the control and use of data and information in the sector compared to others.

4.4 SIB ‘myths’ inhibiting their development

Although awareness and understanding of the SIB model is increasing, some commissioners and service providers interviewed showed significant and important misunderstandings of the ways SIBs work and how they need to be structured and commissioned. In some cases, these have led organisations to ignore normal/best practice on issues such as conflicts of interest, project management, and risk management during procurement in a way that we believe they would not do in conventional fee-for-service or even outcome-based contracts.

⁴⁹ The baseline is the level of performance measured before the intervention begins, against which the intervention's impact can be assessed.

In a small number of instances this has contributed to the commissioner or service provider abandoning their SIB development. In particular, there appear to be a set of ‘myths’ surrounding SIBs which not only deter some from pursuing SIBs, but also delay SIB development as these myths and misperceptions have to be explored and, where necessary, challenged by SIB development teams and their advisors. These myths include:

- **‘SIBs have to be complicated’:** While eventual SIB structures that involve a range of parties are necessarily complicated, the process of development for a commissioner does not need to be; a commissioner can focus on the outcomes and what they are prepared to pay for them, letting the providers and investors do the rest - i.e. determining the intervention and the financial and investment structures. The Impact+ Practitioner’s Guide is helpful in identifying the essential points on which a commissioner needs to concentrate when designing a SIB, rather than straying into areas best left to other parties. The guide suggests that commissioners need to address only five key questions, which are:
 - ▶ Ensure payment metrics directly relate to intended outcome;
 - ▶ Clearly define target beneficiaries;
 - ▶ Identify the full cost to society of the issue being addressed;
 - ▶ Establish a way of accounting for what would have happened anyway; and
 - ▶ Ensure all parties will agree on whether outcomes have or have not been delivered, against which payment will be made.

Additionally, some investors believe they could be made simpler, especially to make it easier for commissioners to purchase outcomes. For example, one major investor of SIBs is very interested in the ‘Direct’ SIB model (see [Section 5.1: Diverse Nature of SIBs](#)) because they believe it to be a simpler type of model.

- **‘A SIB must have an intermediary’:** This is not true, and a significant proportion of SIBs have no intermediary. For example, the DWP Innovation Fund evaluation noted that the Fund allowed for SIBs both with and without intermediaries, and four out of ten of the SIBs did not have an intermediary⁵⁰.
- **‘SIBs give lots of money to investors’:** Some SIBs could generate relatively high returns to investors, but usually only if outcomes exceed expectations. Potential returns reflect the risk taken by investors in a business case that conventional investors or large providers would not be prepared to back, and the fact that investors can lose all their money means that the concept of a fixed return is in any case misguided. One investor (Bridges Ventures) has recently argued⁵¹ that unless the SIB programme delivers demonstrably better results than the commissioner could get elsewhere, the return to investors should be zero – i.e. only the principal should be repaid. Bridges call this the ‘Base Case Zero’ approach and argue that it is essential if the SIB model is to succeed at scale. To a large extent, therefore, this appears to be a matter of perception, as expanded on in Section 4.2 below.

⁵⁰ 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

⁵¹ See: http://bridgesventures.com/wp-content/uploads/2016/03/SIBs_Better-Outcomes-Better-Value-screen-view.pdf

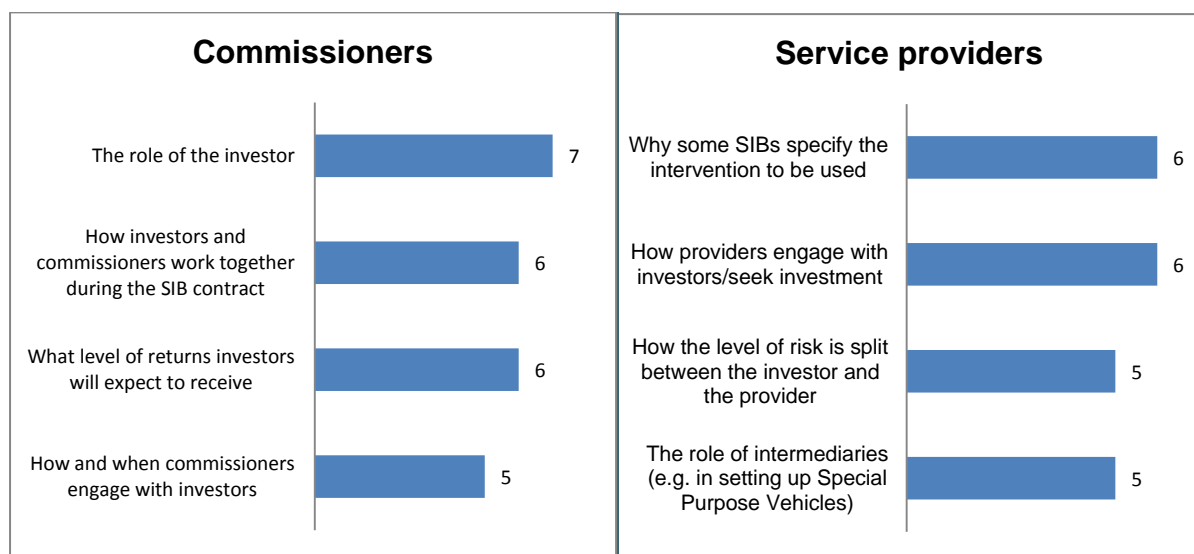


- **‘SIBs must save money’**: While many SIBs generate cashable savings others do not, and the need to save money is only critical if the cashable savings generate the means to pay the investors for the outcomes achieved. In many SIBs (especially those funded by central government) the motivation is to test whether the intervention works and might reduce costs to the state, but there is no expectation that this will always happen. As we explore further in [Chapter 6: A Tale of Two SIBs](#), the Reconnections SIB aims to improve value for money for the public purse but the value case is long term, and does not depend on cashable savings. However, it is important that the Ways to Wellness SIB has a direct impact on demand for secondary care in order to justify the investment in outcome payments by the CCG.
- **‘SIBs must fund an Evidence-Based Programme’**: While it is important that the intervention funded by the SIB is likely to be effective, it does not have to be a so-called Evidence-based Programme. Only a very small number of SIBs fund interventions which are truly evidence-based.

4.5 Lack of understanding of investors

Service providers and commissioners reported in the survey that the role of the investor, and to a lesser extent the intermediary, were the elements of SIB that they understood the least ([Figure 4.1](#)). This is perhaps unsurprising given that, for many service providers and commissioners, the role of an investor, and the role of intermediaries, working in this way is likely to be new to them.

Figure 4.1 Which aspects of SIBs do you feel your organisation does not understand?



Source: Ecorys survey with commissioners and service providers. Commissioner Survey Base =13; Service Provider Survey Base =16. More than one response possible.

4.5.1 Challenges understanding investors

Interviews with commissioners revealed their misconception as to investors' expected rates of return. Two commissioners reported that they felt misled by intermediaries/advisors, and were led to believe that investors would only require a marginal, if any, rate of return. In contrast, one commissioner reported that it had not been easy to find an acceptable balance between investor expectations and what they would find a reasonable cost of money in relation to the delivery of a public service, with the commissioner describing the investors as “hard-nosed”.

One investor's counter-argument to this is that commissioners and service providers would struggle to find more favourable rates of return from more traditional lenders of money. However, this may be about perspective – the rate of return may be more favourable than other traditional money lenders, but, as many commissioners and service providers are more familiar with receiving unrepayable grants than loans to fund these types of interventions, any rate of return appears high.

This is compounded by the fact that some commissioners and investors involved in SIBs sometimes seem reluctant to openly discuss potential returns for investors, meaning there is limited public information on payments to investors. Some commissioners are nervous as it can be seen as using public money to pay private investment; some investors are nervous as stating potential returns may lead some to inaccurately perceive that investors are receiving a guaranteed return, or that it highlights under-performance. However, to overcome the challenge described above it is important that investors are clearer on their expected rates of return and manage commissioners and service providers' expectations early on.

4.6 Agreeing contracts to suit all parties

There are usually multiple stakeholders involved in SIBs, and more so than in fee for service or other PbR contracts, each with their own interests and own contracts. Aligning them can be immensely difficult. For example, the WtW SIB includes the CCG, a Special Purpose Vehicle (SPV), four service providers, the Big Lottery Fund, Cabinet Office and Bridges Ventures, leading to what WtW described as a “complex web of contracts”.

One of the largest challenges in the contracts relates to agreeing outcomes metrics, as the three stakeholder groups have different needs from these metrics:

- Investors need to be able to understand them and the level of risk involved in their achievement. The literature shows that investors prefer one or two ‘main’ outcomes, as this makes measurement and monitoring easier. It may also be why the DWP Innovation Fund – which had a small number of prescribed outcomes – was popular amongst investors;
- Commissioners need to be confident in their robustness of the metrics, in order to make payments against them, and that they will not produce [perverse incentives](#)⁵². In some cases, they also need to be confident they will generate cost savings that cover the costs of the outcome payments;
- Service providers need to be confident they can deliver the outcomes and measure them.

The WtW SIB provides a good example of the challenges of agreeing suitable outcomes metrics. In developing the SIB, the steering group rejected no fewer than five different outcomes metrics because they did not meet their needs.

⁵² A perverse incentive is an incentive that has unintended results which go against the desired outcome or aims of the programme.

4.7 Policy uncertainty

Some investors commented that policy changes might affect the measurement of impact, and ultimately on the potential payments against outcomes, which might or might not be made. The impact of policy changes is potentially greater in a SIB context than in conventional contracts because all, or a high proportion, of payments is tied to performance.

One example of this is termination of the third cohort of the Peterborough prison SIB, which occurred due to wider changes in the criminal justice system through the Transforming Rehabilitation programme. Investors mentioned other policy changes that may have an impact on SIBs – such as changes to the structure and marking of GCSE examinations on educational attainment. Whilst these policy changes did not dissuade the investors we interviewed from getting involved in future SIBs, it did make them more cautious. In addition, local policy issues can have as great an impact as national ones, illustrated by the comment below from a commissioner responding to the Commissioner Survey:

“Our authority received a bad Ofsted judgment during the period when SIB was under consideration; this impacted on the authority’s appetite for innovation and risk, leading to our pull-out.” (Commissioner, surveyed as part of the Commissioner Survey)

The second interim report from the Qualitative Evaluation of the London Homelessness SIB⁵³ has an interesting example of policy change potentially improving outcomes. The report highlights that recent benefit changes which restrict the availability of benefits to migrants from the European Economic Area might have the positive effect of leading them to return home. This in turn might affect the ‘Reconnection’ outcome without it being certain that any change in impact could be attributed to the SIB intervention.

Policy uncertainty is likely to remain a factor in the willingness of all parties to take risks on SIBs. The current climate, immediately following the result of the referendum in the UK to leave the European Union, is likely to increase this uncertainty at the macro level. However policy changes at the micro-level – for example currently planned changes in the management of children’s services, including direct intervention by government in ‘failing’ services, may have an equal if not greater impact.

4.8 Scale

Some investors indicated that SIBs were only viable when above a certain investment value level (£1m), due to the required organisation and on-going contract performance overheads. This issue of scale can potentially inhibit the development of SIBs which are aimed at a small [cohort](#)⁵⁴ – either because the target population is inherently small (within a relatively small local authority area for example) or because the service issue applies only to a small group of people. In such cases a SIB may only be viable if the potential costs benefits per outcome are very high.

⁵³ DCLG, 2015. *Qualitative evaluation of the London homelessness social impact bond: Second interim report*. DCLG, London. See: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/414787/Qualitative_evaluation_of_the_London_homelessness_SIB.pdf

⁵⁴ A cohort is a group of people identified to receive intervention

However, some investors have always been willing to invest at a lower level. Big Issue Invest recently invested £400,000 in the Mental Health and Employment Partnership (MHEP) SIB and other investors are finding ways to structure SIBs so that transaction costs are lower and therefore more limited investment becomes viable.

Some service providers reported in the survey that the availability of finance in smaller amounts excluded them from getting involved, such as this comment:

“The model is a good one until one realises the size an individual SIB must be in order to be viable.” (Service provider, surveyed as part of the Service Provider Survey)

Some key stakeholders argued that the lack of small-scale finance is one reason why there should be more [spot purchase](#)⁵⁵ SIBs - not only because they make it easier to engage commissioners but also because they enable economies of scale and reduce overall set-up and management costs. There may also be further SIBs which are locally commissioned but designed in such a way that further commissioners can engage in the SIB at later stages, thus lowering overall transaction costs. The recent Mental Health and Employment Partnership (MHEP) SIB is an example of this type of expandable model.

4.9 Stakeholder engagement within commissioners

A number of organisations, but particularly commissioners, mentioned internal engagement with stakeholders and decision makers as an important part of the process which had caused challenges and led to delays. Commissioners reported that, in some cases, they had undertaken extensive stakeholder consultation and then experienced delays due to changes in key personnel and the need for re-engagement.

The CBO Fund's experience is that successful applicants engage with decision makers and contractors in the commissioning organisation as well as service departments, and so stakeholders within all these departments need engaging.

⁵⁵ A spot purchase SIB is one developed by one or several service providers, which is then offered to commissioners for a pre-agreed price per outcome and with the flexibility for the commissioner to purchase only a single outcome, or a number of outcomes.

Stakeholder engagement is important to gain commitment to any major innovation in public services, but at least some of the engagement required in SIBs appears to be additional, due to the unique nature and understanding of SIBs. Some concerns raised by stakeholders to commissioners that were interviewed included:

- why the project needed to be funded through external investment rather than from conventional public sector sources; a question some council members asked North Somerset Council;
- why, if the commissioner was confident the intervention would lead to cost savings, they were losing some of these savings through returns to the investor;
- concerns that SIBs were a ‘gimmick’;
- concerns that the investor would demand a lot of time from the commissioner; and
- concerns about the principles that lie behind SIBs which are perceived, for example, to broaden the involvement of the private and VCSE sectors in public service provision. There is also concern in some quarters that investors are profiteering from the delivery of such services.

The importance of stakeholder engagement is not confined to senior decision makers, as the involvement of operational managers and staff is also important. The interim evaluation of the Essex SIB⁵⁶ notes for example that *“it is important to involve frontline staff and relevant stakeholders at an early stage when planning for a SIB. This ensures that relevant insights are levered in from different perspectives to give commissioners, investors and providers a much clearer sense of key issues to be considered.”*

⁵⁶ Evaluation of the Essex MultiSystemic Therapy Social Impact Bond: Interim evaluation report, OPM, 6 November 2014. See: <http://www.opm.co.uk/wp-content/uploads/2015/10/Interim-report-Essex-MST-SIB-Evaluation.pdf>

5.0 Other SIB Observations

As well as the main advantages, disadvantages and challenges currently associated with SIBs, our research has revealed some other interesting findings. These include:

- the wants and needs of those involved in SIBs are very diverse;
- in many instances SIB development is being driven by service providers (and by intermediaries);
- a move away from focusing on Evidence Based Programmes as the interventions used in SIBs;
- the increasing use of 'soft' outcome measures and metrics in SIBs, instead of or, as well as, hard metrics;
- an emerging debate about the relative merits of SIBs which are driven by or involve intermediaries, as well as by providers;
- the extent to which SIBs lead to innovative service delivery; and
- the involvement of smaller providers in SIB delivery.

We provide more detail on each of these observations below.

5.1 Diverse nature of SIBs

A key finding from the survey was that the different stakeholder groups involved in SIBs have diverse wants and needs from the SIB. For example, stakeholders are motivated to become involved for different reasons and different people are willing to take on different levels of risk. This may be why the literature refers to numerous different and sometimes conflicting benefits of SIBs.

Secondly, 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.

This diversity may mean that a 'one-size-fits-all' approach to SIB development and implementation is less appropriate. Indeed, this may be why investors criticised the over-prescription from some central government SIB programmes, which seem to channel stakeholders into adopting a limited number of SIB models.

Equally, investors criticised organisations for promoting a limited number of SIB models, when other viable models are possible. Instead, the development of each SIB will likely need to be tailored to the wants and needs of all those involved and the nature of the problems the SIB is trying to address.

The literature review undertaken for this evaluation confirms this point⁵⁷. The review found that at least five broad types of SIB model exist in the UK, without allowing for sub-variants which have different structures and relationships between the key parties. The models adopted overseas, in the United States, Australia and elsewhere in Europe, are different again from all these UK models in a number of important respects. This diversity in SIB models confirms the potential for other approaches that could be used beyond what is currently being implemented in the UK.

⁵⁷ Ronicle et al, 2014. *Social Impact Bonds: The State of Play*. See: https://www.biglotteryfund.org.uk/-/media/Files/Programme%20Documents/Commissioning%20Better%20Outcomes/SIBs_The%20State%20of%20Play_Summary%20Report.pdf



Recent literature has some interesting additions to the debate about diverse structures. The interim evaluation of the Health Trailblazers⁵⁸, which explicitly aims to develop a typology of the different possible ways in which SIBs can be designed, also concludes that “*there is no ‘typical health and social care SIB model’ identified so far. Rather, proposed contractual relationships differed based on local partnerships, service provider preferences, and commissioner comfort with the model and investment sources*”.

However the Bridges Impact+ Practitioner’s Guide is potentially helpful in identifying that, allowing for numerous differences of detail, and some overlap between categories, SIBs can be divided into three main types:

- **Direct:** Delivery contract is between outcomes payer and service provider, with investment into service provider to finance delivery contract, with returns linked to successful delivery of outcomes (for example the Manchester SIB based on the MTFC(A) Intervention for young people in care, as well as both Rough Sleepers’ Bonds and the Birmingham SIB).
- **Intermediated:** Delivery contract is between outcomes payer and investor-owned Special Purpose Vehicle (SPV), which contracts service provider(s) (for example the Essex SIB which funds MST for children on the edge of care, or the Triodos/New Horizons Ltd SIB which is one of the DWP Innovation Fund pilots).
- **Managed:** Delivery contract is between outcomes payer and [prime contractor](#)⁵⁹ (often an intermediary) or prime contractor-owned SPV which contracts service provider(s) (for example the Peterborough SIB). The SPV is in turn backed by social investors who provide up-front funding to service providers.

5.2 Some SIB development is being driven by service providers and intermediaries

In the CBO Fund a substantial number of applications of applications are being driven by service providers (40 out of 115 EOTs were provider led) and/or intermediaries (9 out of 115 EOs were intermediary-led). This service-provider and intermediary-driven approach seems to have both strengths and weaknesses.

In terms of strengths, a provider-led SIB can change the dynamics of the relationship between commissioners and service providers. In the WtW SIB, for example, the CCG reported that the SIB created more of a partnership relationship between the CCG and WtW (the Special Purpose Vehicle), rather than a commissioner/service provider relationship. This is because the investor funding WtW could access through the SIB gave them leverage and confidence, so they could be more rigid with the CCG about how the intervention would look:

⁵⁸ Tan et 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%20site%20april%20amendedpdf11may.pdf>

⁵⁹ A prime contractor is a provider who is directly contracted to deliver a service and acts as the single point of contact for the commissioner. Prime contractors may pass on work to subcontractors.

“[WtW] wouldn’t have had the leverage without the SIB. It’s meant we worked with elements of the VCS [voluntary and community sector] in a way we wouldn’t ordinarily...It’s opened my eyes up to how they do things, and think outside the box, and that we need to work with them more often...We probably wouldn’t have worked with the VCS without that [SIB] model.”
(Representative from Newcastle West CCG)

However, the weakness of this approach is that significant amounts of time and funding can be spent by service providers, intermediaries and grant funders on developing SIBs that commissioners are unwilling to commission. To avoid this, service providers developing a SIB should seek to engage commissioners as soon as possible, and arguably they should not receive development funding until a commissioner is firmly engaged.

In addition to SIBs which are driven by providers, there are also a number of SIBs which have been initiated and heavily driven by intermediaries. The Reconnections SIB was heavily driven by Social Finance Ltd, and as has already been noted in section 3 the depth of research that they carried out was instrumental in enabling the SIB to move forward.

To a large extent the strengths and weaknesses of SIBs led by intermediaries appear to mirror those of SIBs led by providers – i.e. they can act as a catalyst without which the SIB would not take place or would be unlikely to succeed, but can lead to commissioners pursuing a SIB which may not align fully with their primary interest or concerns (although it does not appear to be as likely that a SIB led by an intermediary will be pursued without clear commissioner commitment).

A further disadvantage is the issues that SIBs led by providers or intermediaries (or sometimes both) can cause for procurement, especially when the provider/intermediary has had a role in the co-design of the project and subsequently wishes to compete for the SIB contract. Our reviews of WtW and the Reconnections SIBs show the issues that this caused for the commissioning organisations, and the challenges of finding an appropriate balance between open dialogue with a single intermediary and the desirability/necessity of open procurement.

The interim evaluation of the Essex SIB⁶⁰ suggests some similar tensions, commenting that:

“The SIB procurement involved a competitive process; however it was unusual because Social Finance was the only bidder that passed the PQQ. A robust process was followed to ensure that value for money and compliance with EU procurement regulations could be demonstrated. The process was felt by some to act as a barrier to open communication at a time when all parties were under huge time pressure to deliver.”

In the view of some in the SIB market, including some leading investors, such conflicts, both real and perceived, are a cause for concern and may potentially inhibit the growth of SIBs and similar contracts, or have other unfortunate consequences. Ultimately, however, it is largely up to commissioners to ensure that they apply a procurement process that is open, transparent and allows all those wishing to compete for a contract to do so fairly – both because it is in the best interests of value for money and because it is necessary to do so to comply with legal and regulatory requirements.

⁶⁰ Evaluation of the Essex MultiSystemic Therapy Social Impact Bond: Interim evaluation report, OPM, 6 November 2014. See: <http://www.opm.co.uk/wp-content/uploads/2015/10/Interim-report-Essex-MST-SIB-Evaluation.pdf>

5.3 There is a move away from ‘hard’ outcomes

In the early days of SIB development it was widely accepted that the payment by results mechanism should be built around a single (or at least very few), easy to define, primary outcome(s). This was to minimise the risk of any disagreement about whether outcomes had been achieved and largely avoiding any subjective interpretation of success.

For these reasons, early SIBs generally focused on outcomes which were objective and easy to define, such as reducing reoffending and preventing children going into care. With these outcomes it is easy to measure whether the beneficiary has either been convicted or not, or has/has not gone into a local authority placement.

However, some recently commissioned SIBs have to some extent moved away from this ‘objective’ outcomes approach and included payments linked to softer, more ‘subjective’ outcomes. For example, the WtW SIB is linking part of the payment to improved wellbeing, as measured using Outcomes Star™. The Reconnections SIB has gone further, and is linking payments to reduced social isolation as measured entirely by reductions on the internationally accredited R-UCLA loneliness scale.

These developments appear in part to be a response to the inherent difficulty of setting hard outcomes in some areas, and also to the need to set measures that will indicate progress towards hard outcomes which will only be achieved in the medium to longer term, and which cannot be set as the main outcome because there is too long a lag between intervention, outcome and payment.

The use of soft measures also appears, based on limited evidence, to be changing other aspects of the SIB model. Notably, for the Reconnections SIB, the commissioner has worked hard to ensure that the SIB programme is inclusive and the providers are not incentivised to work only with those most likely to achieve improvement – for example the provider is not penalised if those whom they are supporting become more isolated during the intervention, and their score rises on the loneliness scale. These specific measures to address the risk of perverse incentives may in part reflect the fact that the risk of ‘cherry-picking’ or ‘creaming’ is likely to be greater when the metric that is driving payment includes a subjective element.

It is important to note that SIBs remain easier to manage for all parties if relatively simple objective metrics can be used, and such metrics remain prevalent in many SIBs that are in place or under development. Where the use of objective measures is difficult, however, the increased use of soft outcome measures appears to be a welcome development, since provided the commissioner is prepared to make payments against subjective outcomes, and investors can get comfortable with the risk involved in their achievement, it will enable SIBs to be used in a much broader range of service areas.

As the number of SIBs increases, and the CBO evaluation progresses, it will be interesting to explore:

- whether the increased use of softer outcomes continues, and leads to SIBs being applied in a wider range of areas where simple metrics cannot be easily used;
- whether specific mechanisms to avoid perverse incentives, such as those that have been applied in the Reconnections SIB, become more prevalent, in order to minimise the risk involved in applying subjective measures; and
- perhaps most importantly, whether the improvement indicated by the use of such progress measures does in fact materialise – i.e. whether the intervention does lead in the longer term to the achievement of other outcomes and to the predicted reductions in demand for, and costs of, public services.

5.4 The strengths and weaknesses of intermediary involvement

As noted above some, but not all, SIBs involve intermediaries and it is clear that they can play a crucial role in making SIBs happen. It is evident both from the Reconnections SIB and from emerging findings from the review of the MHEP SIB that Social Finance Ltd was important in enabling and shaping the SIB models. It appears unlikely that either SIB would have come to fruition without intermediary involvement.

The DWP Innovation Fund evaluation also notes the positive role played by intermediaries (albeit in a different context, since DWP was the commissioner and initiator of the SIBs, and intermediaries did not need to play a similar ‘enabling’ role to that performed in the Reconnections SIB).⁶¹ The evaluation report observes that *“because of the complexities of the [Innovation Fund] funding model, and because virtually all those involved were new to SIBs, the intermediary role was found to be key to the effective running of the pilots.”*

One further advantage of an intermediary is that they can effectively act as a prime contractor, so enabling smaller VCSEs to become involved, delivering highly specialised services on a small scale as part of a larger overall delivery mode that is managed by the intermediary.

However, the involvement of intermediaries also has some disadvantages. One is that they appear to add to costs. As the Innovation Fund evaluation also observes, *“...there were some voices critical of the cost of contracting this work to a separate organisation. In the view of several delivery managers, the high fees involved in contracting for these services had placed an additional financial burden on projects which they had not initially costed for”*.⁶²

A further concern – as already noted in section 5.3, is that the involvement of intermediaries – especially if they are involved in the co-design of the SIB with commissioners – can lead to issues in running an open procurement process and potentially to the risk of an intermediary having a conflict of interest.

⁶¹ 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

⁶² 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

In our report on the review of the Reconnections SIB we have made some observations about how such tensions might be avoided by earlier engagement with all those willing and able to work with the commissioner in SIB development, and avoiding deep discussion with only one intermediary (or provider) prior to a competitive process. It is also worth noting that others who are progressing SIBs are doing so without intermediary involvement, and moving to procurement without prior engagement with an intermediary, though other advisors may have been involved notably in the design of outcome metrics and development of the financial case. This is a similar model to that adopted by DWP for the Innovation Fund.

It will be interesting to explore whether and how commissioners resolve such issues in future when progressing SIBs, and achieve the right balance between open procurement and sensible and beneficial involvement of intermediaries in SIB design. It will also be interesting to explore whether the use of intermediaries declines as providers and commissioners become more comfortable with SIB models.

The DWP Innovation Fund Evaluation⁶³ observes that a number of delivery organisations felt that they could take on some elements of the intermediary role themselves if they were to be involved in any future SIBs; but also that *‘there were those who believed that it was precisely the separation of roles within the SIB model which gave it its strength and dynamism’*.

5.5 How innovative are SIB-funded interventions?

Innovation in service delivery is often cited as one of the key benefits of SIBs, encouraged by the outcomes-based payment framework and relative freedom providers are given to devise their own solutions. In our survey of providers, we found that over two thirds of service providers surveyed (11 out of 16) reported that SIBs led to more innovative service delivery and service providers reported this as being one of the main benefits of SIBs, alongside the additional investment that they generate.

There is however some evidence that interventions commissioned via SIBs are not always as innovative as they might be perceived or expected. Even though, as mentioned above, there has been a move away from evidence based programmes (which require high fidelity, and are therefore by definition, not innovative). We have found that some interventions are relatively conventional in approach and/or are similar to other programmes which are not SIB funded.

As noted in the review of the Reconnections SIB, one of the reasons that the commissioners decided to open up the SIB to competition was in response to a concern that the approach proposed did not show enough innovation. In addition, the Final Process Evaluation of the Peterborough SIB⁶⁴ notes that the intervention model was not itself innovative, and, to the contrary, was *“well-established and aligned with theory and evidence from desistance studies”*. Similarly, WtW adopts both a broad delivery approach (social prescribing) and specific delivery model (based on caseworkers) that is not unique and has already been trialled elsewhere⁶⁵.

⁶³ 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

⁶⁴ Disley et al, 2015 The payment by results Social Impact Bond pilot at HMP Peterborough: final process evaluation report. Rand Europe, 2015. See: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/486512/social-impact-bond-pilot-peterborough-report.pdf

⁶⁵ See for example <http://www4.shu.ac.uk/research/cresr/sites/shu.ac.uk/files/social-economic-impact-rotherham.pdf>



Others involved in SIB development and research have reached similar conclusions. For example, a recent CRESSI Round Table⁶⁶ held at the University of Oxford, attended by 36 key SIB stakeholders, considered this aspect of SIBs, and found that:

“...contrary to greater freedom to innovate, third sector providers felt there was a significant degree of oversight and intervention due to supererogatory expectations from social investors...Overall, the evidence suggests that SIBs demonstrate a mixed capacity to support innovation in service delivery and achieve improved social outcomes relative to existing service interventions.”⁶⁷

There are potentially a number of reasons for this apparent contradiction, including:

- that references to innovation in delivery should more properly refer to flexibility within the delivery model; and
- the willingness of all parties to adapt it to changing circumstances; and that innovation was demonstrated more clearly in other aspects of the SIB.

The Peterborough evaluation devotes a whole section to aspects of the SIB that are truly innovative, and WtW can also claim to be innovative in terms of the scope of the programme and the number of recipients it aims to reach. However it is worth investigating further whether and to what extent SIBs do truly encourage innovation in delivery and in the choice or combination of interventions used.

5.6 Involving smaller VCSEs in SIBs

One advantage often claimed for SIBs is that the up-front funding that they provide enables the involvement of relatively small VCSEs as service providers, because such providers are shielded from the financial risk involved in conventional PbR.

Our review of SIB literature carried out for SIBs: the State of Play⁶⁸ found limited evidence for this, and some scepticism among commentators about the extent to which SIBs could sensibly be embraced by smaller providers. There is, however, some evidence that smaller providers are getting involved in SIBs, certainly as far as the CBO-funded SIBs we have reviewed are concerned. In WtW, a number of local providers have been able to deliver the services and in Reconnections, a larger network of small, local providers is delivering services under the umbrella provided by Age UK.

Against this there is a significant proportion of SIBs that involve only one provider, most of which (e.g. Action for Children) have a long track record of involvement in similar programmes through a conventional ‘fee for service’ basis.

It will be interesting, therefore, to evaluate whether and to what extent SIBs continue to genuinely encourage new market entrants including those who would otherwise be unable to bear the operational or financial risk of an outcomes-based contract. The opposite could be that a smaller group of larger providers become increasingly established as ‘known quantities’ with a track record of successful delivery within the confines of SIBs.

⁶⁶ Social Innovation and Social Impact Bonds: The Role of Private Capital in the Delivery of Welfare Services. CRESSI Policy Round Table, Oxford 2016. See: <http://www.sbs.ox.ac.uk/sites/default/files/research-projects/CRESSI/docs/cressi-policy-roundtable-summary-SIBs.pdf>

⁶⁷ CRESSI Policy Roundtable Summary. See: <http://www.sbs.ox.ac.uk/sites/default/files/research-projects/CRESSI/docs/cressi-policy-roundtable-summary-SIBs.pdf>

⁶⁸ REFERENCE NEEDED



6.0 A Tale of Two SIBs: Comparing the Ways to Wellness and Reconnections SIBs

The first two SIBs that have featured as the evaluation's In-Depth Reviews – Ways to Wellness (WtW) SIB and Reconnections SIB – are in many ways similar. They both support older people and they are both focused on improving wellbeing⁶⁹. They also have the ultimate aim of reducing hospital admissions within the cohort population. Yet interestingly the stakeholders involved have approached key elements in different ways, most notably the outcomes metrics used for the outcome payments.

These differences present an opportunity to explore the different approaches that stakeholders can adopt when creating a SIB. They can also help us understand the strengths and challenges of different approaches and under what circumstances it is best to adopt certain approaches. The remainder of this chapter therefore compares the approaches adopted within the WtW and Reconnections SIBs.

In order to compile this chapter the evaluation team held a peer learning activity with the commissioners involved in the WtW and Reconnections SIBs. The findings within this chapter therefore involve a combination of the commissioners' views and analysis undertaken by the evaluation team.

More SIBs will be added to this comparison as more In-Depth Reviews are undertaken.

The two SIBs being compared are summarised below. Further information on each of the SIBs can be found in the [WtW SIB In-Depth Review](#)⁷⁰ and [Reconnections SIB In-Depth Review](#)⁷¹.

Ways to Wellness SIB

This SIB aims to improve outcomes for 8,500 patients with Long-Term Conditions (LTCs) over its first six years. Newcastle Gateshead CCG will pay up to £8.2m to the service providers based on the achievement of two outcomes: improved self-management of LTC and reduced costs of secondary healthcare services. The service provider is receiving an up-front investment of £1.65m from the Bridges' Social Sector Funds, to be repaid in the later years of the project.

Reconnections SIB

This SIB aims to directly reduce loneliness and isolation for 3,000 people over the age of 50 in Worcestershire.

⁶⁹ In the WtW SIB the focus is on improving patients' self-management of their long-term conditions, measured through improved wellbeing, and in the Reconnections SIB the focus is on reducing loneliness.

⁷⁰ See: https://www.biglotteryfund.org.uk/-/media/Files/Programme%20Documents/Commissioning%20Better%20Outcomes/CBO_ways_to_wellness_report.pdf

⁷¹ Ronicle et al, 2014. Social Impact Bonds: The State of Play. See: https://www.biglotteryfund.org.uk/-/media/Files/Programme%20Documents/Commissioning%20Better%20Outcomes/SIBs_The%20State%20of%20Play_Summary%20Report.pdf



The SIB facilitates access to services to reconnect these individuals with their communities to improve their levels of loneliness. The improved health and well-being of beneficiaries is expected to deliver more than £3million worth of savings to the public sector over 15 years. The maximum amount of outcome payments attached to the SIB is £2.02 million based around a key payment outcome of an improvement in levels of loneliness. The SIB has access to a total of up to £850,000 of social investment, provided by Nesta Impact Investments; the Care and Wellbeing Fund and Age UK.

6.1 Main difference between the WtW and Reconnections SIBs: Outcomes metrics

6.1.1 The Ways to Wellness approach

In the WtW SIB, Newcastle Gateshead CCG only pays for the outcomes generated by the service if there is evidence that these outcomes have generated savings for the CCG. The CCG only pays if there is a reduced cost of secondary healthcare services as a result of improvement in self-management of LTCs. This is defined as:

- cost of use of hospital services (reductions in GP visits are not counted because these services fall to NHS England, not the CCG);
- planned and unplanned admissions; and
- use of out-patient and A&E services.

Progress is measured through a counterfactual – comparing secondary care costs of patients in Newcastle West with patients with similar characteristics in Newcastle North and East. The project accesses HES (Hospital Episode Statistics) data from the North East Commissioning Service (NECS) to inform the counterfactual. Over the long term 70 per cent of the outcomes payments are made against the achievement of this outcome. The other 30 per cent are made against improved self-management of LTCs, leading to greater sense of well-being, reduced social isolation and fewer GP visits, measured through changes in scores on the Wellbeing Star. The payment for this outcome from the CBO Fund and SOF in the first instance, with the CCG paying for this over time.

The benefit of this approach is that it ensures the SIB ‘pays for itself’, as the savings the SIB generates can be used to pay the outcomes payments. This was paramount to the SIB being established, as the CCG felt they could not afford to fund the SIB through additional funds, especially as they were the only commissioner of the SIB.

However, the main disadvantage of this approach is that it is necessary to establish a counterfactual study in order to measure the savings generated. Such an approach is complex, time-consuming and has methodological limitations (primarily the differences between the treatment and comparison populations) that mean the results are not guaranteed to robustly measure the counterfactual. These methodological limitations mean the approach is also riskier for an investor, since there are other factors external to the SIB-funded service that will influence how the cohort accesses secondary healthcare services, and therefore to some degree investor returns are dependent on external factors beyond the control of the SIB.

“I will not deny that WtW is complicated. That secondary care metric is complicated in more ways than you can imagine.” (Representative from Newcastle Gateshead CCG)

6.1.2 The Reconnections approach

In the Reconnections SIB, it is assumed that the outcomes from the service will generate savings for the commissioners, but outcomes payments are not tied to evidence that these savings have been generated. This is despite the fact that the reduced use of secondary healthcare was a key priority for the commissioners. Instead, outcomes are tied to the reduction in loneliness of supported individuals, measured through changes in the R-UCLA loneliness scale. The SIB intermediary, Social Finance, have undertaken research that estimates that the reduced loneliness will generate savings for the commissioners. The loneliness outcome is therefore a 'proxy' indicator of savings.

This approach carries an element of risk for the commissioners. It is possible that the cohort's loneliness is reduced, but that this does not lead to reductions in the cohort's use of secondary healthcare. If this were to occur then the commissioner would make payments even though the SIB has not generated savings; there is risk, therefore, that the SIB will not 'pay for itself'.

The commissioners were aware of this risk, and considered an approach similar to that adopted in the WtW SIB. However, they concluded that such an approach would be too resource intensive, and were aware that they commissioned many services with no guarantee that savings would be generated. Additionally, the intermediaries highlighted the additional risk that this causes investors, and were concerned that this would discourage investors from investing. As the SIB had multiple co-commissioners involved, the risk that the SIB would not pay for itself was spread across many parties; they therefore felt they could afford the risk.

6.1.3 Conclusion on outcomes metrics approaches

For both sets of commissioners a reduction in secondary care admissions was a primary focus, as this would generate savings for the commissioners. Despite this similarity, they have developed different approaches to the outcomes metrics structure; in the WtW SIB the service must evidence that these savings have been realised before the commissioners pays any outcomes payments; in the Reconnections SIB these savings are assumed to be occurring, and the service does not have to generate evidence that they have been realised.

Representatives from both the WtW and Reconnections SIBs concluded that, whilst it is ideal to tie outcomes payments to evidence of savings, in reality this is very complex, uncertain and time-consuming. Whether it should be embarked upon depends on how important it is that the SIB 'pays for itself'; if this is essential then it is necessary to tie outcomes payments to evidence of savings; if it is desirable but not essential it is simpler to not do this, and instead tie outcomes payments to a proxy measure that suggest savings are being made.

6.2 Other similarities and differences between the SIBs

6.2.1 Similarities

- **Both SIBs have a Special Purpose Vehicle (SPV):** However, the type of organisation running the SPV differs. In WtW this is a local VCSE; in Reconnections this is a national SIB-specialist intermediary.
- **Both have attached outcomes payments to a 'soft' outcome:** In WtW this is improved wellbeing; in Reconnections it is reduced loneliness. Both are measured using self-reporting tools, completed by the beneficiary in partnership with the practitioner. However, the difference, as mentioned above, is that 100 per cent of outcomes payments in Reconnections are tied to a soft measure; 30p per cent are in WtW (with the remaining 70 per cent tied to reduced cost of secondary healthcare services).

6.2.2 Differences

- **The Reconnections SIB is co-commissioned; the WtW SIB has one commissioner:** The WtW SIB is commissioned by Newcastle Gateshead CCG; they asked Newcastle City Council to co-commission the SIB, but the Council reported they lacked the funds to do so. In contrast, the Reconnections SIB has been commissioned by WCC and three CCGs (Redditch & Bromsgrove, South Worcestershire and Wyre Forest). This co-commissioning approach was helped by the existence of an Integrated Commissioning Unit in Worcestershire which helps link the Local Authority and the CCGs together to jointly tackle health problems in the area.
- **The commissioners of the Ways to Wellness SIB appear to have a closer working relationship with the investors than the commissioners of the Reconnections SIB.** In the WtW SIB the investors played a major, hands-on role in developing the SIB and were in close liaison with the commissioners; in the Reconnections SIB this investor-commissioner close working did not take place to the same degree. Both sets of commissioners agreed that it is preferable for the commissioners and investors to communicate; they believe commissioners can help investors understand both the local context and the workings of the commissioner, which will help the investor with their due diligence and in monitoring the performance of the SIB.

6.3 Conclusion

This chapter has highlighted how two SIBs with the same aims and similar interventions have been approached and implemented in very different ways. What this demonstrates is that there are multiple approaches to structuring SIBs.

What this chapter also shows is that, based on early evidence, at times the approach to developing a SIB is dependent on local circumstances (such as whether co-commissioning is already embedded) and the priorities of the stakeholders involved (such as to extent to which the SIB must pay for itself).

7.0 Conclusions and Recommendations

SIBs are still in their early stages of development and the evidence base is limited, although the number being developed is increasing. Those involved in SIBs confirm some of their potential delivery benefits are being achieved: they not only bring in upfront capital to fund services, they also embed an outcomes-focused culture in service providers and allow for more flexible service delivery and stronger performance management. There is also an appetite from other investors, commissioners and service providers to get involved in SIBs. However, what is not yet known is whether this translates into better outcomes. The SIBs examined so far have also required additional resource compared to a fee for service contract to develop and deliver; what is also unknown at present is whether the benefits of a SIB justify the additional resource.

The findings also suggest, however, that their development has been slow – particularly local SIBs outside of central government-supported programmes. People developing SIBs face multiple challenges, mostly in understanding their complexity and engaging stakeholders internal to their organisations, particularly within commissioners. These challenges create delays, which increase the risk that the SIB is not launched.

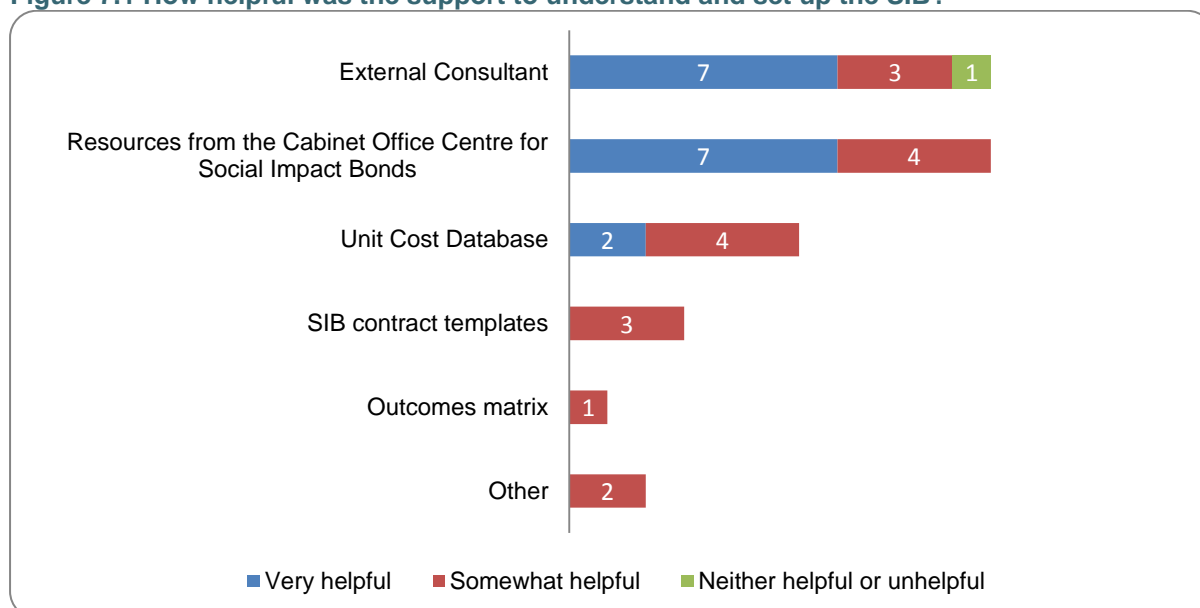
Despite these challenges, there are four points to note that could suggest their development will increase:

- **Many commissioners and service providers involved in SIBs are likely to choose to become involved in future ones:** All of the service providers (16 out of 16) and all but one (6 out of 7) of the commissioners surveyed were likely or very likely to become involved in future SIBs.
- **Support is available and has been well received:** Stakeholders can access a wide range of support to aid their SIB development, including Development Grants from the CBO Fund, support from external advisors and resources on the Cabinet Office Centre for SIBs (including a HM Government/New Economy Unit Cost Database, contract templates and Big Society Capital outcomes matrix). As **Figure 7.1** below shows, stakeholders surveyed and interviewed have been, on the whole, positive of the external support they have accessed. Additionally, 88 per cent of CBO Development Grant recipients reported in a survey undertaken by the Fund that the Development Grant was essential
- **Some stakeholders believe most challenges are solvable:** The commissioner involved in the WtW SIB reported that, although they faced multiple challenges, they always managed to find a solution that all parties were willing to work with:

“However complex it is, there is a way through.” (Newcastle West CCG)

- **Some stakeholders involved report they are getting quicker to develop:** One major investor interviewed, who has invested in multiple SIBs, reported that they are getting quicker to develop. The reason some SIBs face so many challenges is because they are breaking new ground – as each SIB breaks new ground, others can learn from and replicate their work. Indeed, North Somerset Council reported that they learnt a lot about SIBs from talking to local authorities who had developed similar SIBs (Cardiff, Essex and Manchester). Additionally, Bridges Ventures believes WtW has created a social prescribing SIB model that can be replicated by others.

Figure 7.1 How helpful was the support to understand and set up the SIB?



Source: Ecorys survey with commissioners. Base =17 .More than one response possible.

Furthermore, some of the challenges faced are likely to subside as the market develops and as commissioners, service providers, investors and advisors/intermediaries get more used to working together. This emphasises the importance of ensuring stakeholders involved in SIBs are transparent about their work and share their learning with other stakeholders. This evaluation will play a crucial role in ensuring the lessons learnt from the CBO-funded SIBs are shared.

7.1 Recommendations

This section provides a series of recommendations based on the research evidence in this report.

For organisations supporting the development of SIBs:

- Support to local projects is helpful and should be continued:** There seems to be a good level of awareness, usage and opinion of the support available for commissioners and service providers developing SIBs. Although it has not been possible to undertake a thorough review of the cost-effectiveness of this support this does suggest that stakeholders wishing to grow the SIB market should continue to focus on providing support to commissioners and service providers, either through direct support or through producing resources. However, stakeholders should also be mindful that commissioners and service providers are inexperienced in accessing this support, and should either play a mediating role in supporting commissioners/service providers to work with intermediaries/advisors, or at least encourage them to be transparent about the support they can provide and how they will work (see below).
- More work needs to be done to ‘demystify’ SIBs:** Simple and clear advice should be provided to commissioners (especially) and others dispelling some of the most common myths surrounding SIBs, fleshing out the type of issues described in Section 4.1 above.

- Support needs to be focused on linking together the different groups making up a SIB:** There is a group of investors, commissioners and service providers who are willing to become involved in SIBs yet are often being held back because of a lack of understanding of, and communication with, each other. This could be overcome through increasing the different groups' knowledge of each other and providing opportunities for the different groups to network. Some stakeholders argue it could also be helped by enabling and supporting certain types of SIB (notably spot-purchase SIBs) which reduces the need for detailed interaction and complex contract negotiation. It is also clear that intermediaries and advisors have a valuable role to play here, but there needs to be better explanation of the roles they can best perform. Additionally, they should not be a barrier to commissioners and providers improving their own learning and capacity to develop SIBs with less external support.
- Innovation needs to be encouraged:** There seems to be a paradox in the development of SIBs. In order to reduce the transaction costs associated with setting up a SIB, some SIBs are replicating other SIB models previously developed. However, due to the diverse wants and needs of those involved in SIBs, these previous models may not meet the needs of everyone. Indeed, we believe this could possibly explain why some central government-led programmes are prescribing SIB models, and why some investors have been unsatisfied with the terms prescribed. We believe the solution to this paradox might be to create more diverse SIB models, so that areas wanting to replicate a previous model have more choice and could select a model that suits their needs.
- Over-prescription needs to be avoided:** As highlighted above, the motivations of groups getting involved in SIBs are very diverse, and there is therefore no 'one size fits all' approach to implementing a SIB. Consequently, SIB programmes should avoid being overly-prescriptive, and organisations should be wary of promoting only a few SIB models, and should instead allow partners to agree their own structures and terms to suit their individual wants and needs.
- Focus on engaging commissioners:** It seems clear that commissioners have been slower to engage in SIBs than providers, and more providers than commissioners have engaged with the CBO Fund. In part this may be because the latter are keen to find new sources of funding, while the former may be deterred by the cost and time involved in SIB development, and to an extent by misunderstanding the SIB process. The fact that most commissioners who have engaged in SIBs (and got past some of these misconceptions) appear positive about their involvement does suggest that misunderstanding is a key barrier to involvement, and one those seeking to grow the SIB market should focus on addressing.
- Ensure provider- or intermediary-led SIBs have a commissioner engaged before providing funding:** Precisely because commissioners still appear reluctant to engage in SIBs, it is important that providers are not allowed to undertake significant SIB development without active commissioner engagement. This would not only reduce the risk of SIB development being aborted, but also ensure that providers (and sometimes their investors) play an active part in overcoming commissioner resistance and misunderstanding.
- Encourage (or even stipulate in funding agreements) funded organisations to share the learning from their SIB with other stakeholders in order to increase the wider understanding of SIBs:** This would help demystify SIBs, encourage better link-up and networking between key parties, and reduce dependency on intermediaries and other advisors.

- **Support commissioners and service providers to understand the different types of intermediaries and advisors:** We recommend the production of a guide on the different intermediaries/advisors available and their respective services. To ensure impartiality, this advice should be developed by an independent body, such as Big Lottery Fund and/or Cabinet office, in consultation with the intermediary/advisor market as a whole, rather than by any existing intermediary/advisory.

For service providers:

- **If developing a provider-led SIB, engage commissioner as soon as possible:** As stated above, commissioner engagement is pivotal to provider-led SIBs. Engaging commissioners as soon as possible avoids any wasted resource developing a SIB that commissioners are unwilling to commission.
- **Be active in sharing learning.**



For commissioners:

- **Do not see a SIB as ‘unique’ to other types of commissioning:** A SIB is an intervention that requires approximately the same underlying management and procurement processes as any other.
- **Consider early on how the SIB will be procured, and involve procurement teams from the outset:** This was a lesson learnt in both the WtW and Reconnections SIBs.
- **Explore how perverse incentives could be avoided:** Payment by Results contracts more generally have been criticised for creating perverse incentives, including ‘creaming’ or ‘cherry picking’ (focusing on the least in need, as an outcome can be achieved with the least effort, and avoiding the most in need) and ‘parking’ (reducing support for beneficiaries who are unlikely to achieve a positive outcomes). The Reconnections SIB contract was designed to attempt to minimise this, including:
 - ▶ specifying that the services of the SIB needed to partly target individuals living in Super Output Areas which contain high levels of deprivation (to ensure the service supports those most in need);
 - ▶ Ensuring that everyone who is referred into the programme and who scored above the threshold would need to be supported in some way (to again avoid cherry picking); and
 - ▶ the provider not being penalised if those who they are supporting become more lonely and isolated during the intervention (to avoid parking).



Whilst it is too early to know whether these actions did indeed reduce perverse incentives, their focus is encouraging and other commissioners should actively consider how perverse incentives could be avoided.

- **Focus on internal engagement:** A number of organisations, but particularly commissioners, mentioned internal engagement with stakeholders and decision makers as an important part of the process which had caused challenges and led to delays. SIBs can lose their momentum if a key senior person who is driving the SIB development leaves. Some commissioners reported that they learnt of the importance of engaging a broad set of senior leaders, so the SIB does not lose momentum if a key individual leaves.
- **Be active in sharing learning** so others can benefit from the knowledge and experience gathered by in developing and delivering a SIB.



For investors:

- **Be transparent about deals to manage expectations:** There is a misconception amongst commissioners and service providers as to investors' expected rates of return. To overcome this we believe it is important that investors are clearer on their expected rates of return and manage commissioners and service providers' expectations early on.



For intermediaries/advisors:

- **Be aware that commissioners/service providers may be inexperienced in procuring support** and be clear on what intermediaries/advisors can offer and when potential conflicts of interest may arise.



8.0 Glossary

Below are list of definitions of terms used within the report. These definitions have three sources, and the source is listed at the end of each definition:

- National Audit Office (NAO) report: Outcome-based payment schemes: government's use of payment by results⁷².
- Centre for SIBs⁷³
- Our own definition

Attribution: Ability to link a specified intervention with the achievement of a specified outcome. (NAO definition)

Baseline: The level of performance measured before the intervention begins, against which the intervention's impact can be assessed. (NAO definition)

Cohort: Group of people identified to receive intervention. (NAO definition)

Commissioner: Organisation which funds or contracts for delivery of a service. (NAO definition)

Counterfactual: Estimate of indicating what would have happened either a) without the intervention, or b) with an alternative intervention, to provide a comparator. (NAO definition)

Quasi-experimental counterfactual design: A quasi-experimental design identifies a cohort with similar characteristics as to the cohort being support by the intervention (treatment group), and compares the outcomes achieved by the treatment group with those that did not receive the intervention (comparison group). (Own definition)

Fee for service: Payment based on service levels or outputs delivered, rather than outcomes. (NAO definition)

Intermediary: 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.

(Centre for SIBs definition)

Intervention:: Activities undertaken with the intention of producing the desired outcome. (NAO definition)

⁷² NAO, 2015. *Outcome-based payment schemes: government's use of payment by results*. See: <https://www.nao.org.uk/wp-content/uploads/2015/06/Outcome-based-payment-schemes-governments-use-of-payment-by-results.pdf>

⁷³ See: https://data.gov.uk/sib_knowledge_box/home

Outcome: A result or change experienced by a person, family or community, for example improved parenting. (NAO definition)

Output: Unit of service delivered, for example number of people completing a programme. (NAO definition)

Payment by results (PbR): Practice of paying providers for delivering public services wholly or partly on the basis of results achieved. (NAO definition)

Perverse incentive: An incentive that has unintended results which go against the desired outcome or aims of the programme. (NAO definition)

Prime contractor: Provider who is directly contracted to deliver a service and acts as the single point of contact for the commissioner. Prime contractors may pass on work to subcontractors. (NAO definition)

Service provider: Organisation which is contracted or funded to deliver the service (this is defined as a 'provider' in the NAO report).

Special Purpose Vehicle (SPV): Legal entity that is created solely for a particular financial transaction or to fulfil specific objectives. (Centre for Sibs definition)

Spot purchase SIB: A SIB developed by one or several service providers, which is then offered to commissioners for a pre-agreed price per outcome and with the flexibility for the commissioner to purchase only a single outcome, or a number of outcomes. (Own definition).

Social investment: The provision of capital for the purpose of generating social as well as financial returns. (NAO definition)