



# Commissioning Better Outcomes Fund Evaluation

## Update Report

### Summary Report Targeted at Service Providers

James Ronicle, Tim Fox and Neil Stanworth

December 2016

Commissioning  **Better** Outcomes  
Evaluation



## Introduction

This report provides a summary for service providers of the findings to date 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 (BLF). The report focuses on the key findings that are of relevance and interest for providers currently involved in, or interested in, social impact bonds (SIBs).

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; 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 BLF 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, commissioners<sup>1</sup> and service providers<sup>2</sup> either involved in or very informed about the SIB agenda;
- In-depth reviews 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>.

The report includes the following sections:

- Summary of CBO Fund to date;
- Advantages of SIBs;
- Disadvantages of SIBs and challenges to their development;
- Other SIB observations; and
- Conclusions and recommendations.

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

<sup>2</sup> A service provider is an organisation which is contracted or funded to deliver a service.

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 summary 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 counterfactual<sup>3</sup> approaches where possible.

## Policy context

A SIB is essentially a type of payment by results<sup>4</sup> (PbR) contract. Like other types of PbR, a commissioner (usually one or more public sector bodies) agrees to pay for outcomes<sup>5</sup> 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 involved in a 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 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.<sup>6</sup>

## The role of providers in the SIB model

Providers are involved at the delivery end of the SIB model and provide the direct support to target beneficiaries. Providers who have been delivering services through a SIB in the UK include the YMCA, St Mungos, Action for Children and Dyslexia Action, as well as less well known providers including Nottingham Futures, Think Forward and the Ormiston Children and Families Trust. Target beneficiaries these providers have supported include: prisoners, young people Not in Education, Employment or Training (NEET), children on the edge of care, and rough sleepers.

The relationship between the commissioner and provider of services varies according to the structure of the SIB. For instance, there are SIBs which contain a single service provider, who is funded directly by the investor, who in turn receives outcome payments from the commissioner. Variants on this structure have been used to date in the Manchester SIB, where the provider is Action for Children, and the Birmingham and Cardiff SIBs, where the provider is Core Assets, with Bridges Ventures being the investor in all cases.

<sup>3</sup> A counterfactual is an estimate of 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](https://www.unicef-irc.org/publications/pdf/brief_8_quasi-experimental%20design_eng.pdf)

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

<sup>5</sup> An outcome is a result or change experienced by a person, family or community, for example improved parenting.

<sup>6</sup> See: [https://data.gov.uk/sib\\_knowledge\\_box/home](https://data.gov.uk/sib_knowledge_box/home)

It is also worth noting that SIBs often have more than one service provider delivering the activity to target beneficiaries. For instance, for the Peterborough Prison SIB there are six providers including St Giles Trust, Sova, MIND and the YMCA. It is not uncommon for a SIB to have a prime provider and then a series of secondary providers who may, for instance, deliver services for a certain sub-set of beneficiaries (e.g. prisoners suffering from mental health problems), or a certain geographical area where a SIB covers a relatively large area (as is the case with the WtW SIB).

In the Reconnections SIB, Age UK Hertfordshire and Worcestershire is the main provider, but it is supported by five main delivery partners from the local Voluntary, Community and Social Enterprise (VCSE) sector and other VCSEs are expected to partner to support specific activities.

**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 EoI 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 agents<sup>7</sup>. All of them involve the VCSE sector.

**Advantages of SIBs from a provider perspective**

The views from providers generally informed about SIBs paint an early positive picture. Over four fifths of providers reported in the service provider survey to have had a good or very good experience of SIBs they had been involved in. All of the providers responding to the survey stated that they were likely or very likely to be involved in a SIB in the future.

There is a strong emphasis in the literature on the biggest single benefit of SIBs for providers being that they enable smaller, VCSE providers to participate in payment by result type contracts where they would otherwise be unable to due to a shortage of working capital and/or the inability or unwillingness to take on financial risk. As noted above, this is a key distinction between SIBs and conventional PbR.

<sup>7</sup> 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.

This benefit of the SIB model to smaller providers is supported by our research with the VCSEs involved in the CBO-funded SIBs, who reported that: if the contract had been issued as a standard PbR contract they would not have been able to bid for the reasons described above (i.e. shortage of working capital and/or inability to take on financial risk); and the SIB structure enabled them to get involved.

In terms of motivations as to why providers wanted to get involved in a SIB, most respondents to our service provider survey, and consultations during our in-depth reviews, indicated funding and access to new capital as the main reason. Providers felt that the SIB model was likely to bring in new financial opportunities for them, at a time when funding sources are becoming more difficult to find. In turn, providers felt that this new funding would enable them to provide more innovative, efficient and effective services, particularly because the SIB model allows for greater flexibility and is focussed on achieving outcomes (rather than activities or outputs<sup>8</sup>). Embedding an ‘outcome focussed culture’ among service providers was another key benefit perceived by providers, when they initially became involved in a SIB, as they believed it could help them achieve more social impact.

The table below summarises the main advantages of SIBs for providers as directly reported by those providers taking part in the consultations who were either considering, developing or involved in SIBs.

Advantage	Reason for Advantage
<b>Additional and new funding</b>	<p>A key driver and motivator for service providers getting involved in SIBs was around it introducing a new source of funding into the organisation which would not have been accessed otherwise.</p> <p>Through the involvement of social investors, SIBs have allowed providers to deliver more activities as a consequence of this new finance and introduced them to new types of delivery models which they can use in their other (non SIB) related activities.</p> <p>Service providers have also found that the funding provided through a SIB tends to be for longer periods of time, and is more ‘protected’ (i.e. not subject to year-on-year reductions) than traditional fee-for-service contracts.</p>
<b>Embeds more outcomes-focused culture</b>	<p>The focus on evidencing outcomes to trigger payments improves services providers’ ability to demonstrate their impact. This ‘proof’ of positive impact is helpful to demonstrate to stakeholders outside of the project/contract in other areas of the organisations’ work.</p> <p>In practice, a SIB can help providers deliver more efficient and effective services because of the focus on outcomes and results.</p> <p>The focus on outcomes also allows providers to have flexibility around the design and delivery of their service. However, as we expand upon below, this does create additional demands on service providers.</p>
<b>More flexible service delivery</b>	<p>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.</p> <p>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.</p>

<sup>8</sup> An output is the unit of service delivered, for example number of people completing a programme.

# Disadvantages of SIBs and challenges to their development from a provider perspective

Despite generally positive views from the providers outlined above, there were a few reported disadvantages and challenges for providers to overcome. Although most providers reported in the Service Provider Survey that they generally had a good understanding of a SIB, there were still elements of the model that were understood less. In particular, providers highlighted a limited understanding around the role and relationship of the investor in the SIBs. This included less understanding of how best for providers to engage with investors in the first place; how to share risk between providers and investors; and generally the best ways for providers and investors to work together in the design and delivery of a SIB.

The table below summarises the main disadvantages of, and challenges linked to, SIBs for providers, as reported by the providers in the research taking part in the consultations who are either considering, developing or involved in a SIB.

Challenge	Reason for Disadvantage/Challenge
<b>Long time to develop</b>	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).
<b>Complexity</b>	<p>SIBs can involve multiple investors, commissioners, intermediaries and service providers; and outcomes-based commissioning, which often involves very robust monitoring to evidence impact. All of these factors lead to SIBs being complex and difficult to understand for service providers - particularly those who are new to SIBs.</p> <p>A SIB may also require a VCSE to operate in new ways. For example, staff may need to adjust to changes including measuring progress on a daily basis, and have in place a flexible resource structure which can be adapted to meet unexpected patterns of demand. It is therefore likely that they will need to develop new skills and knowledge.</p>
<b>Developing new relationships</b>	SIBs may also require providers to develop new relationships with stakeholders they have previously not worked with before, such as investors and those overseeing the management of the SIB in a vehicle like a Special Purpose Vehicle (SPV). The amount of effort required to establish and maintain these new relationships is often significant.
<b>Lack of understanding of investors and intermediaries</b>	<p>Interviews with providers revealed their lack of understanding of the role of the investor, as well as their belief of certain myths around the SIB model more widely. Although most understood that the investor provided the upfront payments many providers had a lack of understanding around:</p> <ul style="list-style-type: none"> <li>- The expected rates of return required by investors if the SIB achieved the outcomes expected;</li> <li>- The extent to which the investor will involve themselves in the design and management of the service;</li> <li>- The way outcome payments work for providers; and</li> <li>- The level and type of evidence required by the providers for the outcome payments (and to prove 'impact').</li> </ul>

Challenge	Reason for Disadvantage/Challenge
	<p>However, it is worth highlighting that a provider does not necessarily <i>need</i> to know all these factors, provided they know what outcomes they are working towards, and what data they are required to collect to evidence their progress towards them.</p>
<p><b>Agreeing contracts to suit all parties</b></p>	<p>Agreeing contracts is a challenge for all parties. However, pertinent to providers, there has sometimes been too much transfer of risk from the commissioners and investors to the providers. Too much risk transfer is a deterrent for providers, who are ultimately responsible for the achievement of outcomes among the beneficiaries. When there is a primary and secondary provider involved in the SIB, then there is often an additional layer of contracts to design and agree.</p> <p>A way to overcome the challenges associated with agreeing the contracts for SIBs could be to involve providers early on when designing the SIB.</p>
<p><b>Scale</b></p>	<p>Investors reported in the Investor Survey that SIBs were only viable when they were above a certain investment value level (£1m). This was due to the required organisation and on-going contract performance overheads. Some service providers in the Service Provider Survey reported that this excluded them from getting involved in SIBs. However, some investors are more willing to invest at a lower level.</p>

## Other SIB Observations

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

- In many instances development is being driven by service providers:** In the CBO Fund a substantial number of applications are being or have been driven by service providers (40 out of 115 EOs were provider-led). This service-provider-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.

- **Increased data collection and performance management:** Both our own evaluation work, and evaluations of other SIB programmes (such as of the Essex Sib and Department for Work and Pensions Innovation Fund) have found that SIBs tend to have enhanced performance management than fee-for-service contracts. This is because there is an increased alignment of interest between the investor, commissioner and service provider to maximise the outcomes achieved by the intervention<sup>9</sup>. 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. Whilst this is generally regarded positively, other SIB evaluations have found that this leads to an increased demand on service providers to evidence outcomes and report on performance that is often not envisaged or costed for. What is not yet known is whether this increased performance management leads to more outcomes being achieved.
- **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. A recent CRESSI roundtable, held at the University of Oxford, found that service providers often feel innovation is constrained by the increased performance management requirements described above:

*“...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.”<sup>10</sup>*

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 encouraging 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. In our review of SIB literature carried out for SIBs: the State of Play we 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 evidence that smaller providers have been encouraged, certainly as far as the CBO-funded SIBs that 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 a significant proportion of SIBs involve only one provider, most of which (e.g. Action for Children) have a long track record of involvement in similar programmes on a conventional ‘fee for service’<sup>11</sup> 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, or conversely a smaller group of larger providers increasingly becoming established as ‘known quantities’ with a track record of successful delivery within the confines of SIBs.

<sup>9</sup> An intervention is the activities undertaken with the intention of producing the desired outcome.

<sup>10</sup> CRESSI Policy Roundtable Summary. See: <http://www.sbs.ox.ac.uk/sites/default/files/research-projects/CRESSI/docs/cressi-policy-roundtable-summary-SIBs.pdf>

<sup>11</sup> A fee for service contract is one where payments are based on service levels or outputs delivered, rather than outcomes.





## Conclusions and Recommendations

Those involved in SIBs to date (including most providers) recognise that there are a range of potential benefits: they not only bring in upfront capital to fund services, but they also improve the capacity of service providers and allow for more flexible service delivery. Moreover, there is an appetite from other service providers to get involved in SIBs. However, what is not yet known is whether this translates into better outcomes. Additionally, SIBs 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.

The findings suggest that SIB development can be slow and complex – particularly local SIBs outside of central government-supported programmes. People developing SIBs face multiple challenges, mostly in understanding their complexity and, for service providers as well as commissioners, working with investors and intermediaries, whom many have not worked with before.

However, despite these challenges, there are four points to note that could suggest the development of SIBs will increase:

- Many service providers and commissioners involved in SIBs often want to be involved in future ones;
- Support is available to help service providers (and commissioners) and this support has been well received;
- Stakeholders often believe most challenges are solvable and are partly down to the fact that this is the first involvement they have had with a SIB; and SIBs are getting quicker to develop and certain templates, working methods and good (and bad) practice examples are becoming more available for others to build on and to some extent replicate.

Furthermore, some of the challenges faced are likely to subside as the SIB market develops and as service providers, commissioners, 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 finding we recommend the following for service providers:

- **When developing a provider-led SIB, engage commissioner as soon as possible and early on in the process:** 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 and support.
- **Be active in sharing learning:** It is important to recognise that many providers are still unaware of SIBs. This means an open approach to learning and dissemination will be important.