Commissioning Better Outcomes Evaluation

Update Report - Executive Summary

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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 a summary 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, commissioners[1] and service providers[2] 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.

The full version of this report, 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 counterfactual[3] 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 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). See: **https://www.unicef-irc.org/publications/pdf/brief_8_quasi-experimental%20design_eng.pdf**

Summary of CBO Fund to Date

Policy context

A SIB is essentially a type of payment by results[4] (PbR) contract. Like other types of PbR, a commissioner (usually one or more public sector bodies) agrees to pay for outcomes[5] 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.

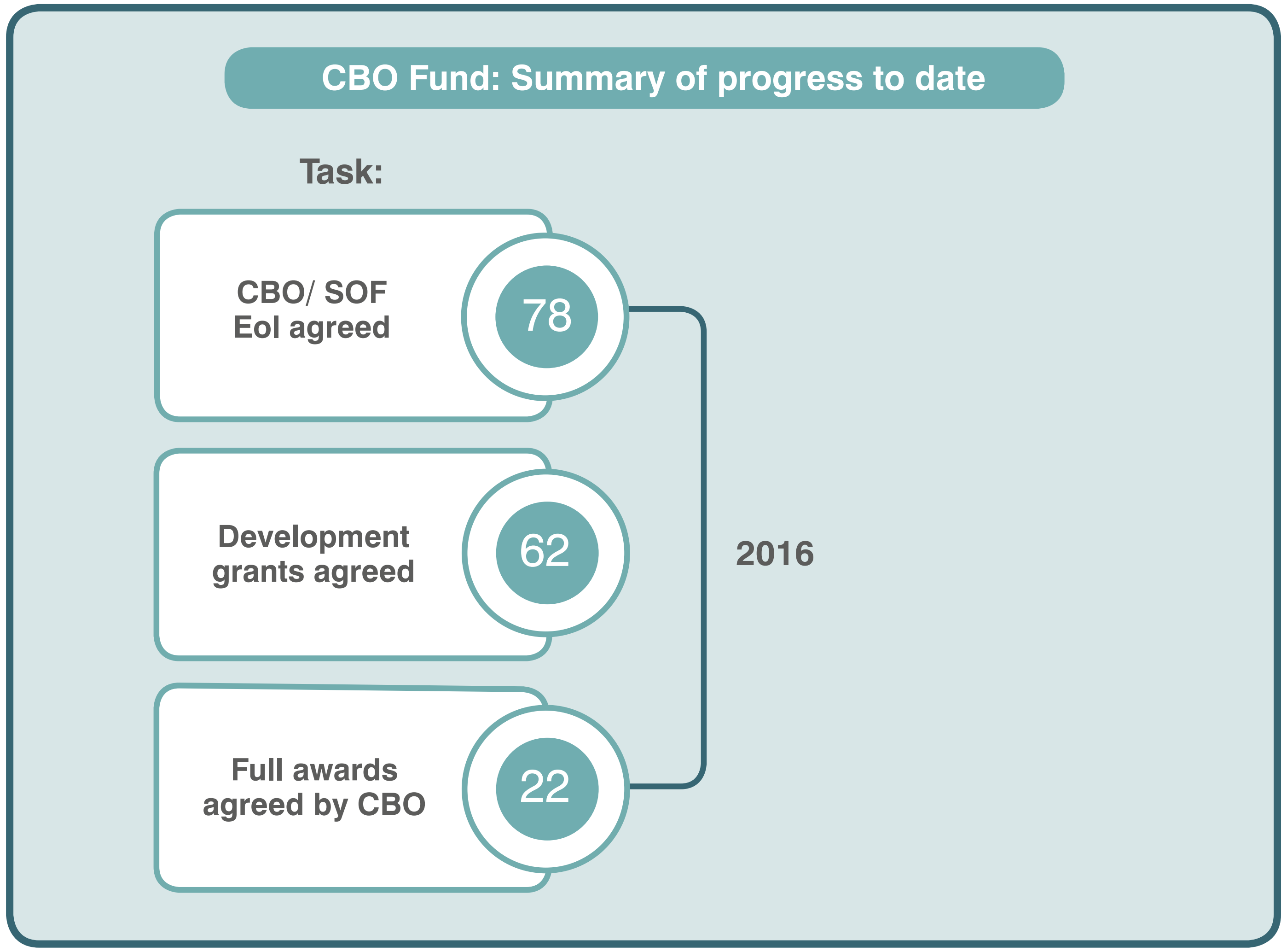
At present, there is not one accepted model of a SIB - beyond needing to involve payment for outcomes and that any working capital required should be raised from social investors. Those involved in outcomes-based commissioning such as Voluntary, Community and Social Enterprise (VCSE) organisations and 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]

[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**

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.



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[7]. All of them involve the VCSE sector.

[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 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.

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.

[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.

Benefit	Reason for Benefit
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.
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.

[10] A special purpose vehicle (SPV) is a legal entity that is created solely for a particular financial transaction or to fulfil specific objectives.
[11] An output is a unit of service delivered, for example number of people completing a programme.

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.
SIB myths inhibiting their development	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: • 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

Challenge	Reason for Disadvantage/Challenge
Complexity	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. 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: • 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; • 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 intervention[12]; • 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. 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.
Lack of understanding of investors	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

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

Challenge	Reason for Disadvantage/Challenge
Agreeing contracts to suit all parties	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 incentives[13]; 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.
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.

[13] A perverse incentive is an incentive that has unintended results which go against the desired outcome or aims of the programme.
[14] A spot purchase SIB in 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.

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.

- **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 contractor[15], 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 population[16]. 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).

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

Conclusion 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.

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.

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