

Developing Social Impact Bonds: A Commissioner's Perspective

A Case Study Report produced as part of the Commissioning Better Outcomes Evaluation

Introduction

Social Impact Bonds (SIBs) are a new concept (see Box 1). Our [own research](#) has found they can have many benefits, including bringing additional investment into public services, encouraging more innovative service delivery and creating better contract management. However, they can also be complex and difficult to get off the ground.

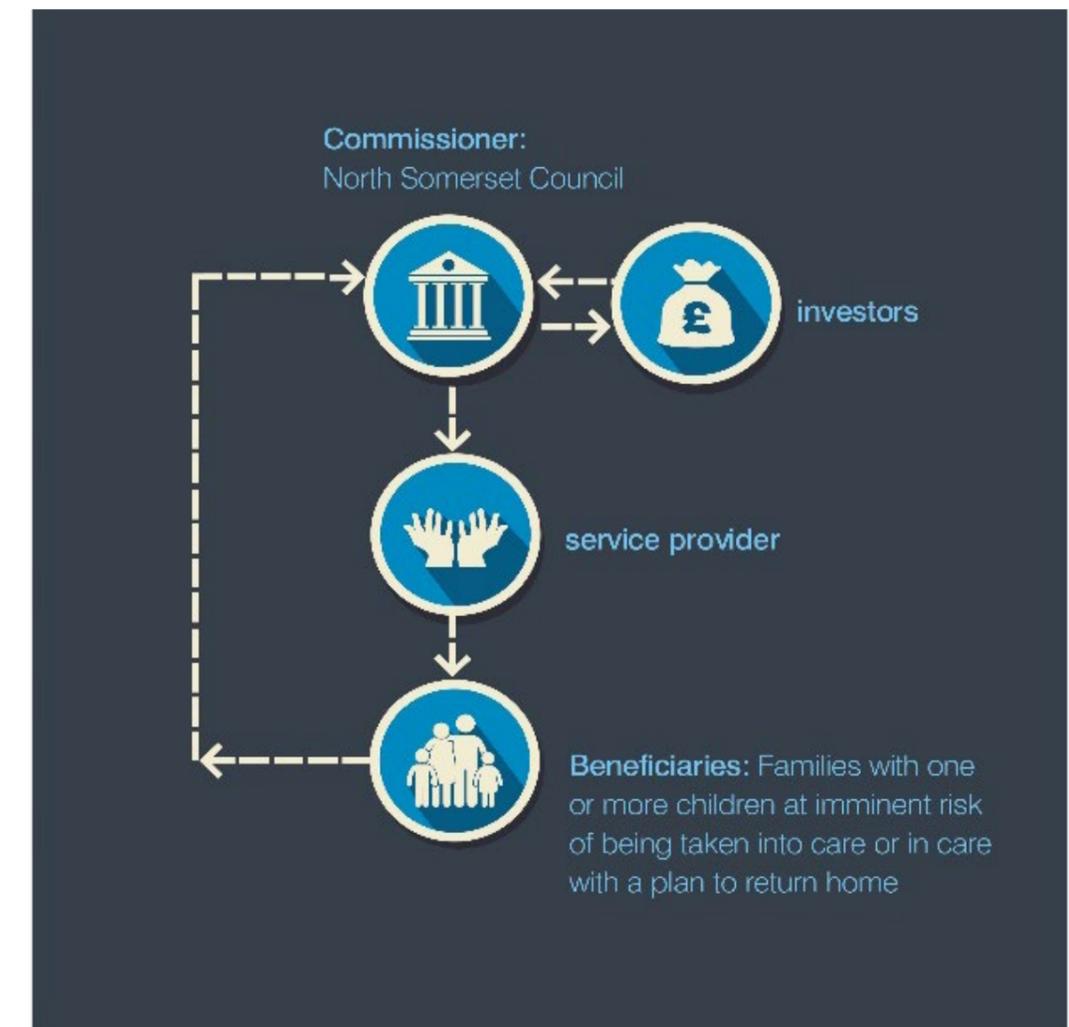
So how is a SIB instigated? How does it go from an idea to being developed? In this case study report we draw on the experience of North Somerset Council, who at the time of writing were in the middle of developing their SIB. The case study follows discussion with managers who are leading the development. The case study was published on 2 December 2015.

This case study report is the first of a series being produced as part of the Commissioning Better Outcomes (CBO) Fund evaluation, undertaken by Ecorys UK and ATQ Consultants. The Big Lottery Fund's [CBO Fund](#) aims to encourage the development of SIBs and similar financial mechanisms. More information about the evaluation can be found [here](#).

Box 1: What is a SIB?

A SIB is essentially a type of payment by results (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 PbR is that the providers 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. Figure 1 provides a simplified structure of the North Somerset SIB. As at November 2015 there were 32 established or announced Social Impact Bonds in the UK.

Figure 1: Example SIB Structure



Key learning

- 1. Make good use of advice and support where it is available.** SIBs can be a steep learning curve; even at the inception stage there are some technical issues that need to be addressed. However, there are sources of advice available that people can use to overcome this. North Somerset Council has made good use of the technical sources of advice that are available. They engaged with other Councils with experience of the issues involved and how to resolve them, though given SIBs are a relatively new concept there may not always be predecessors to look to.
- 2. Ensure you have good buy-in from internal stakeholders.** Early engagement with internal stakeholders is important in ensuring that everyone understands what the project will achieve and any concerns about the proposed model are allayed. Having the SIB championed by someone in the organisation who is senior and well-established can be critical in achieving this. Time spent in successful engagement at this early stage is likely to pay dividends later.
- 3. Prepare carefully and fully for the process of applying for CBO funding.** Development Grants from the Big Lottery Fund's CBO Fund are available to develop your SIB concept. If seeking Development Grant funding, it is important to ensure that you have a clear vision of what the project will achieve and how it will benefit communities and individuals, and support innovative and transformative services. While the application process is not difficult, the work required to make a successful application – in terms both of the information required and the need to prove value for money – should not be underestimated. The process may also take longer than expected and should be built into development plans.

The SIB

North Somerset Council is a unitary authority. It covers an area of 145 square miles on the coast of the south west of England, and has a population of around 212,000.

Their SIB concept is aimed at families with children aged between 10 – 17 with the objectives of reducing the need for children to be looked after by the local authority.

Subject to detailed development work the Council expects to commission an evidence-based intensive family preservation service, with payments linked to outcomes and up-front funding for those delivering the service from investors. The expectation is that the service will provide relationship brokering, intensive family interventions for families with children on the edge of care and those in care with a plan to return home.

How did the idea for the SIB begin?

The interest in commissioning a SIB stemmed from the opportunity it provided to encourage up-front investment. The Council faced a major predicament: how to fund new interventions in a climate of constricting budgets. Setting up a SIB was seen as a key way to overcome this, as investors would provide the up-front capital that the council would repay at a later stage, but only if the intervention was successful. The text below provides more detail.

How the idea for the SIB began

In North Somerset, the idea for a SIB approach came from two complementary strands of work in different parts of the authority. The Children's Services department faced issues relating to a rising number of children needing to be looked after by the authority, and had become aware of the work being done in this area by a number of other LAs, notably Essex County Council, which had developed a SIB to fund interventions with families to avoid the need for older children to be taken into care. At the same time, the Council's Corporate Services Department was thinking about steps that the Council could take to address worklessness within the area. This work focused on the strategic challenge of enabling families facing multiple deprivation to find and stay in work. The use of SIBs and PbR to fund support to those seeking work is well established, both through the UK-wide Work Programme, which uses PbR contracts with the private and voluntary sectors to fund employability support, and the DWP's Innovation Fund, which has funded 10 SIBs aimed at preventing young people from becoming not in employment, education or training (NEET), or support those already NEET to re-engage with education, training and employment.

So both parts of the Council were aware that there were precedents for an outcomes-based, payment by results approach to the social issues they were addressing, and that these approaches might also help overcome the considerable financial pressures the Council was under. Simply put, without the use of a SIB/PbR approach the Council would be unable to afford the interventions required, and try out new and innovative solutions which maintain statutory services.

North Somerset Council also considered the value for money of delivering the service through a SIB. They were aware that Edge of Care SIBs had already attracted investment and might be seen as a medium risk option for investors. They had a strong evidence base and data that suggested there was definite scope to reduce numbers in North Somerset. North Somerset therefore appeared to have considerable potential to reduce numbers of looked after children through a more effective edge of care service. They intended to undertake more work during the development stage of the SIB to assess value for money.



How was the SIB concept developed?

The Council was able to draw on a wide range of support to help them develop their SIB, including support from intermediaries and learning from other organisations who have worked on developing similar models.

How the SIB concept was developed

In North Somerset, the first challenge was to align two separate ideas for using an outcomes-based approach to addressing distinct, but potentially related, social issues. The two social issues (children in and on the edge of care, and worklessness) could have been addressed as separate projects, but the relevant Departments decided it would be better to work together. This led to the devising of a single programme aimed at families experiencing worklessness and social exclusion, and as a result having one or more children at imminent risk of being taken into care. However, as work progressed research indicated that only 13% of families with children looked after in the age range and who were being looked after due to a voluntary arrangement sighted worklessness as a significant issue affecting family resilience. The SIB development work enabled the focus to shift to those families with children looked after who had entered care through acute family stress.

In thinking about how to construct their project North Somerset benefited from support from [Social Finance Ltd.](#), funded by the latter's contract with the Big Lottery Fund to support potential applicants to the CBO Fund. Representatives from North Somerset Council found this support very useful, and at times invaluable, in helping them understand the technical issues and challenges involved in developing a SIB, and the questions they would need to answer in order to meet their own objectives and also satisfy the expectations of service providers and investors.

North Somerset also drew on other sources of advice and support including the Cabinet Office's Centre for SIBs and on-line Knowledge Box; and research with and visits to other Councils including Essex, Manchester and Cardiff – all of whom, at the time of the visit, had either considered or implemented SIB-type approaches to address the challenge of reducing or avoiding children entering care.

North Somerset Council also received a Development Grant from the CBO Fund, which they will use to buy in the right technical support to further develop their model.

The SIB development process has worked through the council's existing governance structures. They have a lead elected member who holds the portfolio for 'Children looked after' who is supportive and involved in the development work. To oversee the development of the project a steering group has been established that brings together key officers from across the council with the portfolio holder. Once the model is more refined this will be considered by the council's Corporate Management Team, Finance Board, Council Executive and Scrutiny panels.

What have been the challenges so far?

The main challenge the Council faced was gathering enough information to fully understand how a SIB works and how to develop their model. They also found engaging internal stakeholders to be challenging. This was overcome by investing time and effort in explaining their plans to Council members.

Challenges faced

North Somerset Council have faced two main challenges:

Internal Engagement

Even at this early stage, a key issue for North Somerset Council has been getting the right support to the proposal from internal stakeholders.

"We have on the whole had strong support from both officers and members and there is considerable excitement about trying something innovative and new." (Representative from North Somerset Council)

However, some Members had questions about the SIB model, including:

- whether a SIB was the best approach; and
- why the project needed to be funded through external investment rather than from conventional public sector sources.

The team has invested time and effort in explaining its plans and ensuring that they are well understood and supported by senior decision makers at both officer and member level. As a result there is now wide support to explore the development of an appropriate SIB model in more depth.

Applying for funding

The application process for a Development Grant from the CBO Fund is relatively straightforward, but somewhat different to those that North Somerset is used to, and led to more questions and issues requiring clarification than they had expected. Development grant funding is important to the project, because it pays for the specialist technical support that the Council will need during the detailed feasibility stage. So in order to apply for the Development Grant the Council needed to be sure that the SIB was clear as to its objectives, outcomes and impact before they had done any detailed work on this.

The next challenge is for North Somerset to engage with further stakeholders including investors, providers and other public sector agencies who may be interested in co-commissioning or otherwise contributing to the outcomes that will be achieved by the SIB.

