

Social Impact Bonds: **The State of Play**

Summary Report

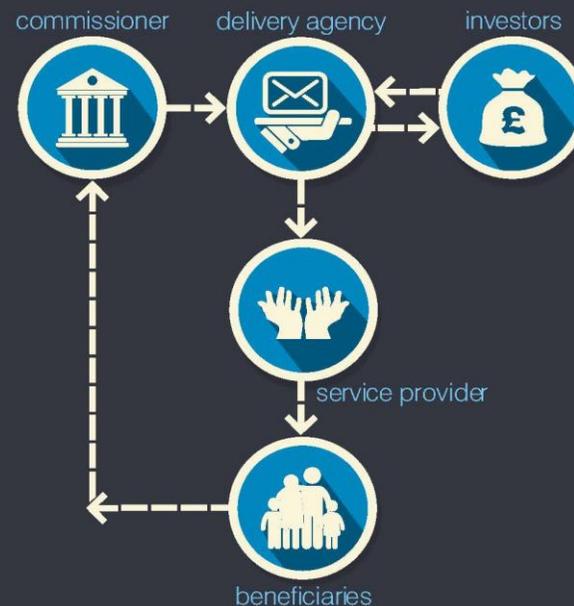
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November 2014

SOCIAL IMPACT BONDS

...The state of play

1 What is a Social Impact Bond (SIB)?

A form of payment by results (PbR) contract: The commissioner pays for the outcomes achieved, not for the interventions made. The working capital needed to fund the intervention comes from external investors who receive a return on their investment if the intervention is successful.



Peterborough Prison SIB (first in UK)

has reduced re-offending rate by

8.4%

compared to comparison group

Key Tools to Help with SIB Development

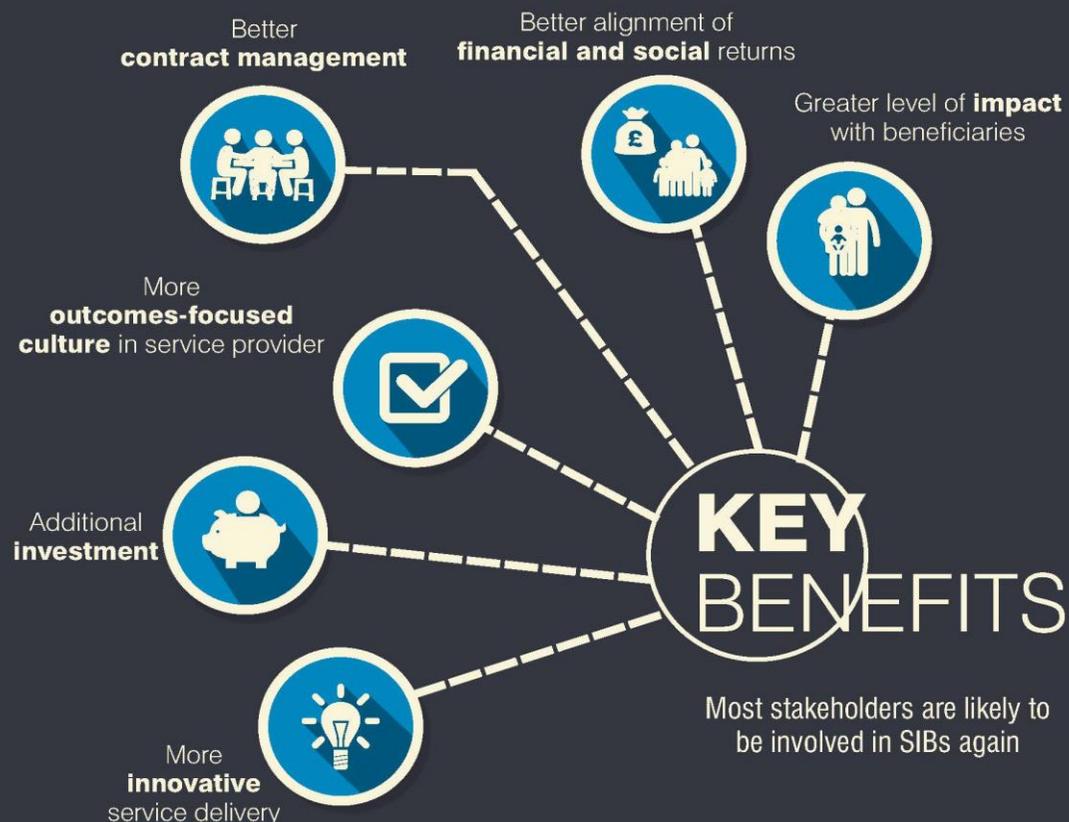
BSC's Outcomes Matrix
HM Government/New Economy Unit Cost Database
Cabinet Office template SIB Contract
Support from external consultants

Adapted from the Cabinet Office Centre for SIBs Knowledge Box:
http://data.gov.uk/sib_knowledge_box/sib-definition

This infographic was published on 17 November 2014 and produced by Ecorys UK and ATQ Consultants as part of the Commissioning Better Outcomes Fund Evaluation. To read the full report from which the findings have been taken visit: <http://www.biglotteryfund.org.uk/sioutcomesfunds>. For more information about the evaluation contact: James.Ronicle@uk.ecorys.com. The Stakeholders' perceptions of SIBs' information was drawn from our Stakeholder Surveys, undertaken as part of the evaluation. We surveyed 19 investors, 24 commissioners and 49 service providers involved in, or interested in, SIBs.

2 Stakeholders' Perceptions of SIBs: The Benefits and Challenges

Most stakeholders involved in SIBs had a positive experience (especially service providers).



MAIN CHALLENGES

-  Commissioners and service providers **don't understand the role of investors or intermediaries**
-  Service providers **struggle to generate evidence** that convincingly demonstrates to commissioners and investors that their interventions are successful
-  **Scale** of SIB needs to be large to justify resources
-  Agreeing **contracts** to suit all parties

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1.1 Introduction

A Social Impact Bond (SIBs) is a relatively **new concept**, but one that has caused **much interest** in the UK and overseas, especially in the US. But what is a SIB? What are the benefits and challenges of being involved, and what needs to be done to grow the market? This summary report answers these questions.

The report draws on a review of available literature about SIBs; a series of in-depth consultations with organisations centrally involved in the policy, strategic and/or operational development of SIBs; and surveys with the core groups involved in SIBs (commissioners, investors and service providers). This research was undertaken by Ecorys UK and ATQ Consultants as a part of the Commissioning Better Outcomes Fund evaluation for the Big Lottery Fund¹.

Both this summary and the full version can be accessed at: <https://biglotteryfund.org.uk/research/social-investment/publications>

1.2 What is a SIB?

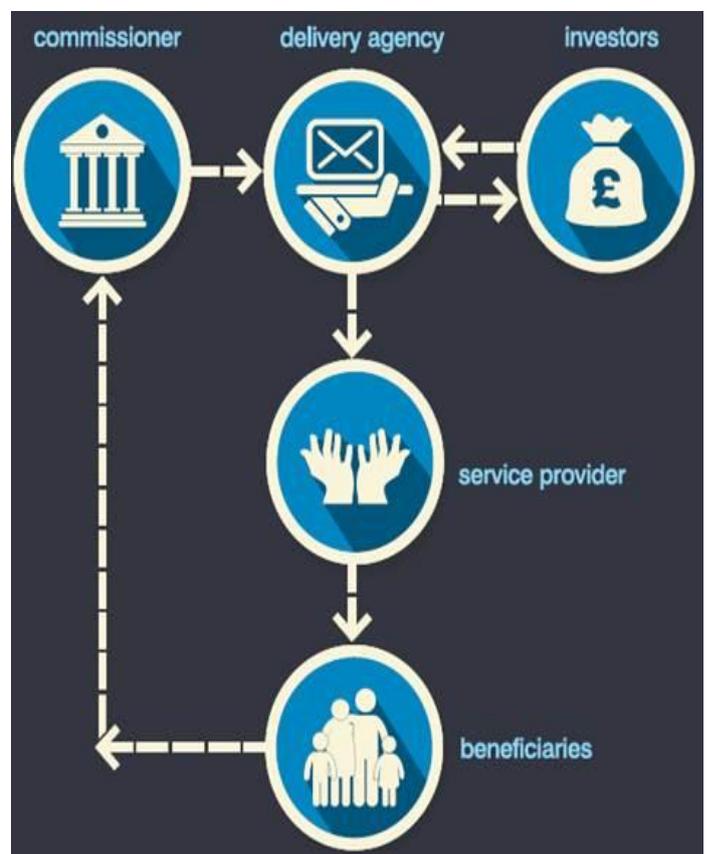
SIBs are becoming an increasingly important way of delivering services and interventions that improve outcomes for individuals and communities in both the UK and overseas. A SIB is a **type of Payment by Results (PbR) contract**, where the **finance needed to make the contract work is provided by social investors** rather than by service providers.

To qualify as a SIB, according to the Cabinet Office Centre for SIBs, there must be:

- A separate contract between a commissioner and a delivery agency (sometimes called a Special Purpose Vehicle (SPV));
- Payment from the commissioner for the achievement of one or more outcomes by the delivery agency;
- At least one investor legally separate from both the commissioner and the delivery agency; and
- Some or all of the financial risk of non-delivery of outcomes sitting with the investor.

A simplified example of one type of SIB structure is shown in Figure 1. However our research shows that **SIBs can take a number of forms** while meeting the definitions outlined above, and new structures are emerging as the SIB concept develops.

Figure 1: Example SIB Structure



*Adapted from the Cabinet Office
[Centre for SIBs Knowledge Box](#)*

¹ The activities undertaken to produce the findings in this report were: 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. The review covered all literature published up to 20 June 2014. In addition, two important evaluations of SIBs published later in Summer 2014 were also included; Stakeholder Consultations: telephone and face-to-face consultations with eight organisations centrally involved in the policy development, strategic development and operational delivery of SIBs in the UK; and Stakeholder Surveys: a tele-survey with 19 investors and e-surveys with 24 commissioners and 49 service providers either involved in or very informed about the SIB agenda. For more information about the evaluation contact: James.Ronicle@uk.ecorys.com

1.3 SIBs Today: Evidence from the Literature

At the end of October 2014 there were **16 'live' SIBs** in the UK. The first SIB started in 2010 and funded interventions to **reduce reoffending by short sentence prisoners from Peterborough prison**. Both government and other bodies have contributed to the development of the SIB concept (see **Box 1**).

In addition to Peterborough, **10 of the 16 SIBs now in place were commissioned by the** Department of Work and Pensions (DWP) through its Innovation Fund. The others are the London Rough Sleepers Bond, bonds developed and commissioned by Essex, Manchester and Birmingham Councils aimed at children in or on the edge of local authority care, and the Adoption Bond, which has been developed by a consortium of adoption providers.

More SIBs are known to be in development, and will be encouraged by funding from the Commissioning Better Outcomes (CBO) Fund (see Box 2). Two new central government funds, the Youth Engagement Fund and Fair Chance Fund, will create further SIBs and SIB-like structures aimed respectively at disadvantaged young people and young people who are homeless.

These SIBs follow a range of different models, and further and different structures are likely to emerge. Most are variants on a model where the structure is developed by one or more commissioner(s) or by an intermediary who is engaged by a commissioner (either before or after a procurement process). The Adoption Bond is different to all other current SIBs, in that it was developed by service providers and the outcomes it aims to achieve, based on the faster and better adopting of children in care, can be 'spot purchased' by any commissioner.

These SIBs are being delivered by a range of service providers and are supported by a number of social investors including both Foundations and Trusts with a long history of grant giving to achieve social change, and specialist fund managers. Notable investors include Big Society Capital (BSC) which has invested in seven SIBs, and Bridges Ventures (a specialist fund manager) which has also invested in seven and has established the Social Impact Bond Fund specifically to invest in SIBs.

There were at the end of June **nine known SIBs in place overseas**, and many more in various stages of development, especially in the United States. SIBs in the US (known as Pay for Success Bonds) and in Australia (called Social Benefit Bonds) are different in financial structure to UK SIBs, and are designed to encourage institutional investment by limiting financial risk. The processes by which SIBs overseas are developed and commissioned sometimes differ significantly from those that have so far been followed in the UK.

Box 1: Key milestones in SIB development

- **February 2011:** SIBs feature in the government's initial strategy for Growing the Social Investment Market
- **May 2011:** launch of first of two DWP Innovation Funds to support social investment projects for disadvantaged young people
- **November 2011:** Big Lottery Fund announces funding of up to £6m through its Next Steps Programme for social investment projects in England, including SIBs and SIB-like projects
- **April 2012:** Launch of Big Society Capital (BSC) with a specific mission to grow the social investment market, including by investing in SIBs
- **June 2013:** first awards of funding from the Cabinet Office Social Outcomes Fund
- **July 2013:** Big Lottery Fund announce the launch of the Commissioning Better Outcomes (CBO) Fund and its alignment with the Social Outcomes Fund

Box 2: The Commissioning Better Outcomes (CBO) Fund

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

As at 30 October the CBO Fund had approved 19 EOIs, six Development Grants and two full awards (one in principle). Applications have included SIBs relating to: youth and adult employment; adults with challenging behaviours and learning disabilities; looked after children; adults with challenging behaviours; rehabilitation services; end of life care and social prescribing for older people with long term health issues.

1.4 The Benefits of SIBs

There are a number of **significant benefits** to be gained from SIBs. An investor interviewed during the Investor Survey described them as “*win, win, win*” – a win for the investor, a win for the commissioner and a win for the service provider. Through our research we identified **eight main benefits**:

Stakeholder	Benefit	Reason for Benefit
All stakeholders (commissioners, investors and service providers)	More innovative and flexible service delivery	SIB contracts focus on outcomes, not outputs, and so they tend to be less prescriptive about the support the service provider has to deliver. This enables service providers to be more innovative in the support they provide and adapt the support more easily. Commissioners can also test new interventions at minimum risk, as there is little or no payment unless the intervention succeeds.
	Better contract management, creating more efficient delivery	This is linked to the requirement to evidence outcomes to trigger payments. Where applicable, this was reinforced by the contract management oversight operating in the SPV.
	Alignment of interests between commissioners, service providers and investors	Linking payments to outcomes leads to an interest from all parties to improve delivery and achieve better outcomes and financial returns. The close partnership can also bring together distinct expertise and addresses knowledge gaps across the partners.
Commissioners	Able to bring in additional, external investment	The investment from the investor replaces the need for the commissioner or service provider to produce up-front working capital.
	Potential savings to current budgets, both cashable and non-cashable	It is possible that the outcomes achieved by the SIB could prevent the need for further intervention, creating a saving that can be used to fund the intervention.
Investors	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 Foundations and Trusts to invest, who sometimes felt that investing in more traditional markets was at odds with their social objectives.
Service providers	Enable smaller service providers to participate in PbR contracts	Smaller service providers can be excluded from traditional PbR contracts because they do not have the working capital to fund an intervention or are unable to take the necessary financial risks. In a SIB the investor provides the up-front capital and takes on some or all the financial risk.
	Embed more outcomes-focused culture	The focus on evidencing outcomes to trigger payments improves services providers' ability to demonstrate their impact.

Although there were a common set of main benefits, our research highlighted how **diverse the wants and needs of those involved in SIBs** are. For example, stakeholders are motivated to become involved for different reasons: different people experience a variety of different benefits and face a range of challenges; whilst different people are willing to take on different levels of risk.

A number of tools have been developed by government and others to help support SIB development, including:

- [BSC's Outcomes Matrix](#);
- HM Government/New Economy [Unit Cost Database](#); and
- Cabinet Office [Knowledge Box](#) and [template SIB Contract](#).

1.5 The Challenges of SIBs

While, those surveyed saw more benefits from being involved in SIBs than challenges, both the literature and our surveys also identified nine **key challenges that seem to be impeding SIB development**. Some of these reflect the wider challenge compared to conventional contracts of **understanding and involving the third, ‘new’ group to the relationship – the investor** (and, to a lesser extent, intermediaries).

Stakeholder	Challenge	Reason for Challenge
All stakeholders (commissioners, investors and service providers)	Achieving right balance of risk	Partly because SIBs are in their infancy, there has sometimes been too much, or too little, transfer of risk to investors. Too much risk transfer deters investors; too little removes many of the benefits of SIBs compared to conventional fee for service contracts.
	The complexity of SIBs and consequent time and cost of development	The complexity of SIBs to both design and manage was identified as a key theme in the literature and among investors surveyed, though less so by commissioners and service providers surveyed. This can lead to them taking too long to put in place, or never getting past the design stage as other events intervene. It also drives arguments that SIBs must have a certain scale (typically £1m investment raise or more) to justify transaction costs; and that there should be more provider-led or spot purchase SIBs, which make it easier for commissioners to purchase outcomes and benefit from SIBs without major development effort and cost.
	Generating evidence and measuring impact	When bidding for SIB contracts, service providers struggle to generate evidence that demonstrates the effectiveness of their interventions to investors and commissioners. When delivering SIB contracts, service providers also struggle to evidence the outcomes they are achieving and to ensure this evidence is independently and objectively verified.
Commissioners	Developing the business and financial case for the SIB	The business case depends on financial benefits to the commissioner and others, which are hard to identify and calculate. It also depends on good answers to complex questions about such issues as how interventions are prescribed, how success is measured, and how the SIB is structured and procured.
	Agreeing contracts to suit all parties	This 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; investors need metrics that they can easily measure and assess for achievement risk; and service providers need metrics that they can evidence.
Investors	Managing and measuring progress in achieving outcomes	Investors need specialist help to manage their investments and ensure that providers are delivering outcomes, and are thus on track to deliver the social and financial returns expected.
	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.
Service providers	Developing the capabilities to work within a SIB model	Operating in a SIB model requires different skills and more flexibility than conventional delivery.
	Financial risk	Perhaps surprisingly, a quarter of service providers not yet involved in a SIB cited financial risk as a challenge to getting involved. This is could suggest a misunderstanding of how SIBs work, or the fact that some SIB models do leave some risk with the service provider.

Some of these challenges (achieving the scale of SIB necessary to justify the resources, financial risk and generating evidence) are perhaps a **counter-argument to the point made in many SIB documents to date that SIBs can enable smaller Voluntary, Community and Social Enterprise organisations (VCSEs) to participate in PBR contracts**. We will explore this paradox further in our future research.

1.6 Are SIBs Effective?

Independent evidence on the effectiveness of SIBs is relatively **limited**, but what has been published is **encouraging**. Most notably, the first results of the independent assessment of Peterborough (relating to the first of two cohorts, and published in early August 2014) showed that the SIB had **reduced reconviction across 936 offenders by 8.4% more than a comparison group** of ten times that number of offenders in other prisons. While below the 10% reduction level needed to trigger early payments to investors, this has been welcomed as **a positive outcome**, and likely to lead to outcome payments once performance is measured across both cohorts in 2016 (when the threshold for payments is a reduction of 7.5%).

The DWP Innovation Fund Pilots are also subject to impact evaluation which will not be available for some time, but the DWP has recently published figures showing that, in total, 10,700 young people had started participation in Innovation Fund projects up to the end of October 2013. In addition, the first process evaluation, published in July 2014, also suggests that **satisfactory progress is being made and that positive outcomes are being, or are likely to be, achieved**.

The recent interim qualitative evaluation of the London Rough Sleepers Bond shows **more mixed results** from its first year of operation. Across the four outcomes for which data is available, performance exceeded target on one outcome (In Stable Accommodation) and part of another (Progress Towards Employment). Performance was below target on part of the employment outcome, and on Reduced Rough Sleeping and Sustained Reconnection to Home Country.

More anecdotal evidence from our surveys supported the mainly positive picture from these independent assessments. Over half of commissioners (5 out of 9) and over a third of services providers (6 out of 16) reported that the SIB they were involved in was leading to a **greater level of impact** with beneficiaries than would have been achieved through a different delivery model.

1.7 Conclusion and Implications for the Market

The SIB agenda in the UK is still in its **early stages of development**. Although the number of SIBs being developed is increasing, the evidence base supporting them is still relatively limited, particularly in terms of their effectiveness. However, the **early signs are positive**: all three members of the core groups required for a SIB to work (investors, commissioners and service providers) have had a broadly positive experience of being involved, as evidenced by both our surveys and by independent process evaluations of SIBs to date. There is also **appetite from more members of each group to get involved in further SIBs**. However, our findings do suggest that their development has been **slow and relatively complex** – particularly local SIBs outside of central government-supported programmes. **Breaking down barriers and building relationships** and links between the different groups involved in a SIB seems to be crucial to growing the SIB market. Looking at the future development of SIBs, our research tells us that:

- **Support to local SIBs is helpful and should be continued:** There seems to be a good level of awareness, usage and opinion of the support available for commissioners developing SIBs. This suggests stakeholders wishing to grow the SIB market should continue to focus on providing support to commissioners;
- **Support needs to be focused on linking together the different stakeholders making up a SIB:** There is a group of investors, commissioners and service providers, who are willing to become involved in SIBs yet are being held back because of a lack of understanding of, and communication with, each other;
- **Innovation needs to be encouraged:** This is particularly in terms of expanding the different types of SIB models and structures that could be applied;
- **Over-prescription needs to be avoided:** The wants and needs of groups getting involved in SIBs are very diverse, and there is no 'one size fits all' approach to developing and implementing a SIB. Consequently, SIB programmes should avoid being overly prescriptive, and organisations should be wary of promoting only a few SIB models.