LESSONS AND OPPORTUNITIES: PERSPECTIVES FROM PROVIDERS OF SOCIAL IMPACT BONDS

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'The Social Impact Bond (SIB) model is an innovative method of financing welfare and other social services. It aims to improve a social outcome through the collaboration of government, service providers and external investors'.[1]

Introduction: SIBs under construction

When the first Social Investment Bond (SIB) was rolled out with HMP Peterborough in 2010, it was hailed as a breakthrough vehicle that would enable solutions to social problems to be scaled up and risks to be managed differently. A potential solution to local and national budget shortfalls, this new funding model brought complexity but also brought choice.

To date, 15 SIBs have been commissioned in the UK and have started to provide services under the terms of their contract. With this growth in SIBs, new models have emerged, tailored to different needs and circumstances. Today, the UK is recognised for its role in pioneering these new products. Bonds of different types have been launched in Australia, Israel and the USA and they are under serious consideration in Canada, Finland, Sweden and a number of other countries.

Several years on, SIBs provoke mixed reactions and draw strong criticisms from some quarters. This is perhaps an inevitable result of having been conceived by commissioners and investors rather than the third sector, and because of their somewhat controversial role in filling a gap in public service provision.

In April this year, NPC hosted a roundtable to examine the evolution of SIBs from a providers' perspective. This event brought together sector experts and a variety of charities involved in delivering interventions as part of SIB structures. The discussion was held under Chatham House rules and includes a discussion of lessons from existing SIBS and opportunities for further development in the future. Some of the key ideas are shared in this paper.

We are grateful to Baker Tilly and Bates Wells & Braithwaite for their support on this project.

[1] Nicholls, A. & Tomkinson, E. (2013). The Peterborough Pilot Social Impact Bond. Oxford: Saïd Business School, Oxford University.

Foreword

Jim Clifford OBE

Social Impact Bonds: are they a cynical attempt to de-risk the public sector, an Anglo-Saxon capitalism-meets-social care aberration, or a much-needed, modern variation on the traditional service level agreements between outside contractors from the third and private sectors and public commissioners? We are increasingly hearing from commentators, but what do the social enterprises and charities involved in actually delivering the services under SIBs contracts think? An NPC roundtable held earlier this year tackled that question, and provided a collective voice from this important group.

It is now nearly four years since the first SIB was launched, through the pioneering work of Social Finance Ltd in the UK. The world has moved on considerably since then, and the SIB has developed with it. With the work of the Social Impact Investment Taskforce established by the G8 nearing its conclusion[2] and the Social Business Initiative in the EU[3] bringing into mainstream international discussion many of the facets of this fascinating field, there is a real and exciting bringing together of effort and thought around it. SIBs however still bring mixed reactions some, I'd suggest, are born out of a genuine understanding of the complexities that they bring, blended with the promise they offer, although some are perhaps less informed.

Even the definition of a SIB poses challenges in some quarters. Is it a commissioner-led, public sector initiative in which outside funders carry government risk for a return on their investment? Or is it, as I believe, a tool in which third and private sector providers deliver services to create social outcomes which are paid for by commissioners or others based on their success, and which have outside finance lines attached to them?

This paper outlines some of the views and experiences from those at the frontline of service delivery in SIBs and makes for interesting reading.

The SIB is here to stay but it needs to evolve and develop to meet new social needs and new market opportunities. I look forward with interest to seeing how we use it over the next decade, and how it evolves, as one of the more creative tools in the social outcomes toolbox.

Jim Clifford OBE, formerly Head of Not-for-Profit Advisory at Baker Tilly, and now heading the Advisory and Impact practices at Bates Wells Braithwaite, is the co-founder of the Adoption Bond, and was appointed its first chair on its launch in October 2013.

[2] http://www.theguardian.com/social-enterprise-network/2013/dec/09/impact-investing-ronald-cohen-government-social-enterprise

[3] http://ec.europa.eu/internal_market/social_business/expert-group/index_en.htm

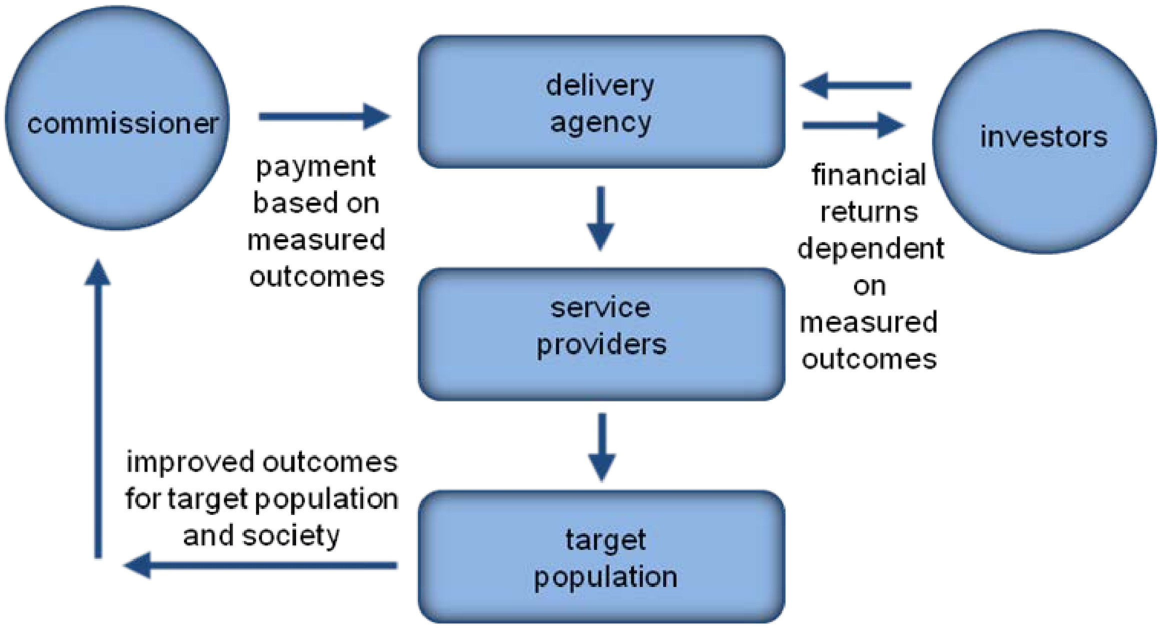
Defining characteristics of SIBs

The Centre for Social Impact Bonds defines a Social Impact Bond (SIB) as an arrangement with the following four features:

1. A contract between a commissioner and a legally separate entity 'the delivery agency';
2. A specific social outcome or outcomes which, if achieved by the delivery agency, will activate a payment or payments from the commissioner;
3. At least one investor that is a legally separate entity from the delivery agency and the commissioner; and
4. Some (or all) of the financial risk of non-delivery of outcomes sits with the investor

Figure 1: Social Impact Bond structure

The diagram below shows an example of the structure of a Social Impact Bond[4]. Some of the newer bonds referred to later in the paper use other structures.



[4] Costa, K., Shah, S., Ungar, S. & The Social Impact Bonds Working Group (2012). Frequently Asked Questions: Social Impact Bonds. Washington: Centre for American Progress.

Lessons

1. There is no blueprint

One oft-cited advantage of SIBs is their flexibility, and recent years have seen different models emerging, tailored to local needs and circumstances. However this flexibility is also a barrier for charities who find SIBs overly complex and often lack the knowledge, skills and resources to make the most of the plethora of options available.

- There is **no 'one size fits all'** delivery model. In the single intervention model one service provider is accountable for meeting the performance standards specified in the contract (Essex children in care SIB, London rough sleepers SIB). A different model involves a combination of interventions, where several service providers work together to achieve the defined outcome for the target population [5](Peterborough Prison SIB, the One Service).
- Different **legal structures** suit different delivery models. The SIB delivery organisation can be a service provider or a special purpose vehicle (SPV[6]). Typically SIBs have been set up with SPV structures, however the Rough Sleepers SIB (developed by the Department for Communities and Local Government and the Greater London Authority) has contracted differently with its two providers. For one cohort, the contract is directly with the provider. For the other cohort however, the contract is with an SPV that includes the provider and investors. The variety of contracting models is likely to grow as the market develops.
- Different types of **outcome payment** have developed. Cohort-based outcome payments, for example, compare the results of the group receiving the intervention with a group that does not. In the Peterborough SIB the primary metric was the reduction of reconviction events for three cohorts of 1,000 short-sentenced male prisoners released from HMP Peterborough. This structure tends to be vulnerable to changes in public policy which can make a cohort comparison invalid.

  In Essex, the SIB focused on vulnerable young people, the primary metric is the number of days a child stays in care in a 30-month period that follows a referral. The control is the average number of days spent in care by a comparable group of children in the same period.

  An alternative, *per capita* outcome payment structure, is in use in which the commissioner pays for one or more outcomes per participant. The ten SIBs within the Department for Work and Pensions' Innovation Fund do this with payments made on outcomes per participant which can be linked to improved employability.[7] This approach does not enable the calculation of the specific impact of an intervention over and above what might have happened anyway and there is a danger of paying for outcomes that the intervention is not delivering.
- There are different approaches to working within **existing market structures** and in all cases it appears that additionally is key. A SIB should not be seeking merely to refinance existing public service delivery. However some bonds work by predefining a cohort and effectively pre-selling the service whereas others (of which the "It's All About Me" Adoption Bond[8], is the first) create a new service that can be purchased freely within existing market or service choice structures. With the Adoption Bond the service sources, trains and supports adoptive families for children which the Local Authority commissioner considers harder to place. It can be purchased on a child-by-child basis from an approved list of providers within the SIB structure.

[5] So,I and Jagelewski ,A(2013)i Social Impact Bond Technical Guide for Service Providers. (2013) Mars

[6] A legal entity created for the SIB that allows it to contract with various parties

[7] The Rough Sleepers SIB is a mix of the two: five specific outcomes are measured, two of which are compared to a cohort baseline and three where small outcome payments are made. In the Adoption Bond, outcomes payments are calculated on a *per capita* basis and paid upon the achievement of four separate milestones. These milestones are an outcome in their own right, and also indicate progress towards the ultimate outcome of a change in life course. This cohort of children is very unlikely to have found a home in the absence of this intervention given the rates of adoption and their characteristics, and therefore it is assumed that none of the cohort would have been placed without the Adoption Bond.

[8] www.IAAMAdoption.org

2. Be prepared

Setting up a SIB is a major undertaking for a charity and takes huge commitment by both the executive and trustees. Understandably, many organisations are daunted by the task at hand and the advice to keep it simple should be heeded. One organisation saw a long-term funder put off by the complexity of the structure and commented that there is a tendency towards overcomplicating the bond, an approach which is clearly counterproductive and resource intensive.

- A SIB needs to have a **clear theory of change**, and a recognised set of outcomes which meet the needs that have been agreed by the relevant stakeholders. While different needs and outcomes may exist for different stakeholders within the same SIB, they should be broadly aligned.
- Work spent on discussing and **agreeing outcomes with commissioners** in advance is essential. This should involve working with commissioners to agree the most suitable outcomes from the start: outcomes that are rooted in the needs of beneficiaries and that might also include softer outcomes such as family support. Providers point to misunderstandings by commissioners which have resulted in outcomes which were too diffuse and numerous to be realistic.
- Any charity considering a SIB needs to have a proven **commitment to measurement and evaluation** in place, as well as high levels of confidence in their service delivery and ability to generate the specified outcomes. One provider thought that it had a rigorous evaluation process before setting up a SIB, but has found evaluation within a SIB structure considerably more demanding than expected. Significant preparatory work is required on outcomes and this will, in turn, build confidence in the success of an intervention.

3. Delivery is different

Here the main message to charities and others is not to underestimate the difficulty of delivering to a new business model.

- It will take time to **educate staff** and for staff to adjust to any changes required in their working practices, such as measuring progress on daily basis. That means that staff throughout the organisation have to understand the new business model. Participants commented that this has, ultimately, changed and improved staff performance. A completely new intervention, or one where licence requirements place additional constraints, will require even more work in this area.
- Managing a personalised delivery model requires **flexible resource structures** which can be adapted to meet unexpected patterns of demand. Excellent data collection and analytics are central to achieving this and should lead to service improvement, such as changing the location and length of an intervention to improve outcomes. Infrastructure and sharing protocols should be in place from the start. There can be tensions between balancing a target-led vs. a traditional beneficiary-focussed approach.
- It is often necessary to **innovate and to develop partnerships outside the SIB** contract. Although the spill-over benefits of non-contractual delivery to meet targets are neither captured nor rewarded under the SIB, service providers regularly exceed what they are contracted to do.
- Where the model requires the development of **new markets for services**, as in the Adoption Bond, the delivery approach needs not just to develop the service delivery but also the market and management. This may require a change of approach, and sometimes a change of focus by providers and others involved.

4. Management can be complex

SIB structures bring new stakeholders for service providers to manage. In addition to the commissioners, there are investors and usually a SIB delivery organisation, which is distinct from the service provider on the ground.

- **Managing stakeholders is time consuming** and challenging. SIB stakeholders are highly engaged and require a higher level of management than service providers have historically been used to. To a degree, this is welcomed by service providers but pre-planning management is essential.
- It can help to try to engage stakeholders in order to moderate and **reconcile their perceived needs** rather than automatically accede to them all. One charity has managed to work stakeholder engagement into part of their service offer. The temptation to be driven simply by the view of finance providers or commissioners should be resisted.
- All **stakeholders have different perspectives** and investors will likely bring a fresh viewpoint that is mission driven and has a focus on project management.
- It is easier to **work with partners that you know** and have worked with before; charities should be wary of ‘arranged marriages’ especially within a new business model.

5. Outcome measurement is essential and achievable

Outcomes measurement can create difficulties but these are generally being overcome. There is a growing focus on the alignment of outcomes between different stakeholders. Proposals from the EU’s Group of Experts on Social Entrepreneurship[9], for example, focus on measurement of outcomes which are originated from the frontline of service delivery rather than by funders or commissioners.

- A **sound understanding of the outcomes** to be delivered, and the means by which this takes place, allows outcomes and payment measures for payment by results to be sensibly aligned. Where there is an imbalance between provider, commissioner and funder input this becomes harder to achieve, and tensions are likely to arise.
- **Outputs need to be strong aligned** where they are being used as proxies for desired outcomes or milestones *en route* to delivery of the outcomes themselves. Differing timescales between longer- and shorter-term definition for payment by results will have a different impact in this context.

[9] http://ec.europa.eu/internal_market/social_business/docs/expert-group/social_impact/140605-sub-group-report_en.pdf

Opportunities

The roundtable discussed the likelihood of a broader range of SIBs being developed in the future and these are outlined below.

Commissioner-led SIBs

The commissioner-led SIB is the dominant model in the UK and the number of commissioners getting involved in SIBs is increasing. However several significant obstacles were highlighted.

- There is a **lack of capacity** among commissioners to develop the skills and knowledge required to manage the SIB process. Budget cuts have led to a reduction in non-service delivery areas within local authorities. However the development of standard contracts and templates will go some way to reduce the costs and level of expertise required.
- Commissioners tend to be **risk averse** and SIBs are complex vehicles without a track record. Commissioners will take time to understand how their statutory responsibilities and duty of care can be discharged in an outcomes driven environment. Their inclination is to retain control over service delivery.
- At a **practical level**, SIBs do not fit into the current public sector budgeting and commissioning cycle.

As commissioners get more comfortable in valuing outcomes and understand their service cost data, SIBs may become a more realistic option. In areas such as health and social care, where the mismatch between need and service provision is growing rapidly, there is a pressing need for SIBs to be developed.

Charity-led SIBs

Charities' unique understanding of need and their knowledge of the gaps in service delivery on the ground should ideally lead to the development of charity-led SIBs. There are a number of obstacles to this.

- Charities **lack capacity and knowledge** about SIBs at both the board and executive level.
- Trustees tend to be **risk averse** and may not be willing to commit to the extra work that a SIB requires. Some boards are also opposed to social investment in principle or have concerns that SIBs will distract the organisation from its mission.
- Outcome measurement in charities is improving but **rigorous evaluation remains rare**.

Some commentators would like to encourage more provider-driven arrangements which enable them to use their expertise to make public service markets more rational.

The development of charity-led SIBs would require charities to take the lead and bring together investors and commissioners. Charities need to feel more comfortable taking on risk and would have to have high levels of confidence in their outcome data. However, as shown by the Adoption Bond amongst others, this is realistic where the services are ones that the provider understands well, with known risks which they can manage. NPC believes that charities in this position should be developing their own SIB proposals, and driving the agenda based on their expertise in understanding beneficiaries' needs and delivering effective interventions.

Charities can potentially leverage their experience of delivery within a SIB, and work with other commissioners, such as Action for Children whose most recent SIB will find specialist foster placements for young people currently living in residential care homes in Manchester. There is a similar potential for rolling out proven interventions in other areas. Theoretically the returns to investors would be lower to compensate for the lower level of risk involved.

Other models

Since the initial opening of the Peterborough Prisons bond in 2010, there have been numerous developments. The commissioner-origination element has been joined by third sector-origination, with the Adoption Bond as the first. Increasing innovation from providers is producing more complex, multi-streamed delivery models which may lead to more sustainable outcomes for beneficiaries.

- SIBs are well placed **to fund innovation in service delivery** because they can share risk—delivery and financial—in different ways between stakeholders. Arguably, innovation is more risky for investors than funding proven interventions and the social and/or financial returns should reflect this.
- **'Spot purchase' and 'networked' models** between multiple buyers and multiple sellers (as seen in the Adoption Bond) have been developed from traditional, single procurement markets which require commissioner leadership and can disincentives the development of new delivery.
  Spot purchase models can create services and a delivery and funding mechanism which allow commissioners or other purchasers, such as individuals, or social sector parties, such as housing associations, to buy services for individuals or smaller groups as the need arises. These have the advantage of greater flexibility in the face of changing social needs and purchaser behaviours, but need careful planning to avoid setting up services with insufficient volumes to be viable.

  Networked delivery models, on the other hand, create centrally managed networks of independently-operating providers all working to a single or similar service delivery definition or model. These have the advantage of maintaining purchaser choice, and may in some circumstances offer a greater spread of risk than fixed-provider SIBs. Analysis of public service markets which are suitable for this style of SIB should be prioritised.
- There are opportunities for SIBs to **fill in funding and service gaps** in areas with high costs but where there is market failure, as well as in areas where need is known but services need to be tested and funding found.
- New players, such as **corporate funders, philanthropists and investor groupings**, are coming on board. Current SIB structures are too complex for this but more standard structures could encourage corporates funders, possibly through their CSR departments, and philanthropists to get involved. These groups are well placed to invest in innovation and bear risk and to identify opportunities that align with their mission and interests.

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Conclusion

SIBs are still in their infancy and it is too early to establish their effectiveness in reshaping public services. They have developed rapidly since their inception, and we can expect to see further innovation over the next few years.

Overall, the providers at our roundtable were positive about their experience of delivering services within a SIB, and about their potential for delivering outcomes for beneficiaries. However, most agreed that these services need to focus on delivering additional outcomes that would not otherwise happen, rather than be used to refinance basic public services.

Participants feel that there is potential for more charity-led SIBs to be developed as charities become more experienced in measuring their outcomes and are therefore more prepared to take on some delivery risk. In turn, as more charities deliver successfully under SIBs, confidence will increase and lead to more products being developed. The creation of spot-purchase and networked models offer opportunities here. Similarly, as commissioners become more knowledgeable, are able to price outcomes more confidently and can see a delivery track record, they will become more inclined to use the SIB model when commissioning.

Simple templates and standard contracts for SIBs are currently being developed and these will, in due course, reduce the complexity and costs of developing SIBs. Any temptation to narrow the application of the model by locking in narrow structures should be avoided, however. The opportunity to use SIB-type structures financed by the providers themselves, or delivered more substantially by private sector providers, should not be missed either.

SIB development has lagged behind in certain sectors, most notably health and social care where there are significant gaps in provision. It is hoped that, with support and encouragement from social investors and as the SIBs market continues to evolve, service delivery charities will consider creating SIBs and other social investment vehicles to address these needs.

'The SIB is here to stay but it needs to evolve and develop to meet new social needs and new market opportunities. I look forward with interest to seeing how we use it over the next decade, and how it evolves, as one of the more creative tools in the social outcomes toolbox.'

Jim Clifford OBE

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P3
PACT
Rand Europe
Roger Bullen Consultancy
Social Finance
Teens & Toddlers
Thames Reach
The BEST Network
The Early Intervention Foundation
Tomorrow's People
Women’s Breakout

TRANSFORMING THE CHARITY SECTOR

NPC is a charity think tank and consultancy which occupies a unique position at the nexus between charities and funders, helping them achieve the greatest impact. We are driven by the values and mission of the charity sector, to which we bring the rigour, clarity and analysis needed to better achieve the outcomes we all seek. We also share the motivations and passion of funders, to which we bring our expertise, experience and track record of success.

Increasing the impact of charities: NPC exists to make charities and social enterprises more successful in achieving their missions. Through rigorous analysis, practical advice and innovative thinking, we make charities' money and energy go further, and help them to achieve the greatest impact.

Increasing the impact of funders: NPC's role is to make funders more successful too. We share the passion funders have for helping charities and changing people's lives. We understand their motivations and their objectives, and we know that giving is more rewarding if it achieves the greatest impact it can.

Strengthening the partnership between charities and funders: NPC's mission is also to bring the two sides of the funding equation together, improving understanding and enhancing their combined impact. We can help funders and those they fund to connect and transform the way they work together to achieve their vision.

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