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A background image showing a close-up of a business meeting. A person in a dark suit and white shirt is gesturing with their hands while speaking. Another person's hands are visible in the foreground, one holding a pen over a document. The scene is lit with natural light from a window, creating a professional and collaborative atmosphere. A large, semi-transparent blue diagonal shape is overlaid on the left side of the image, framing the text.

**A study into the challenges and benefits of commissioning Social Impact Bonds in the UK, and the potential for replication and scaling: Final report**

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# Executive summary

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## Introduction and methodology

In January 2019, the Department for Digital, Culture, Media and Sport (DCMS) commissioned Ecorys, in partnership with ATQ Consultants, to undertake a study into the challenges and benefits of the process of commissioning Social Impact Bonds (SIBs) in the UK, and the potential for replication and scaling.

SIBs are a form of outcomes-based commissioning (OBC), and have been developed as a way of improving outcomes in a range of social policy areas in the last decade, since the first SIB was launched in Peterborough in 2010. As of April 2019, 68 SIBs had been launched in the UK<sup>1</sup>, with a comparable number worldwide. Due to current national funding, it is reasonable to expect between 10 and 20 further SIBs to start in the next 6-12 months.

The study had two key objectives:

- To understand the challenges and benefits commissioners have faced in commissioning SIBs, by investigating what the challenges have been, how they have been/could be overcome, how external support and tools have facilitated this process, and how this external support could be improved further.
- To understand the potential for replicating and/or scaling SIBs, by speaking to commissioners who have replicated and/or scaled SIB models, exploring the barriers and enablers to replication and/or scaling and discussing how external tools/support could facilitate the further replication and scaling of SIBs.

To address the study's objectives, Ecorys and ATQ undertook several research tasks, running from January-April 2019. These included:

- a Rapid Evidence Assessment (REA), to synthesise existing research and evaluation literature to build a narrative around the challenges, barriers and benefits that commissioner experience when developing a SIB;
- 10 case studies, focusing on SIBs that have been replicated or scaled (either successfully or unsuccessfully);
- interviews with 17 key sector experts; and
- a workshop with 25 stakeholders (including local commissioners, central government commissioners, sector experts, and policy makers) to discuss the findings and 'road test' the possible solutions and recommendations.

<sup>1</sup> See: <https://golab.bsg.ox.ac.uk/knowledge/project-database/>

## The challenges of the SIB commissioning process and how to overcome them

The research found commissioners were most likely to experience barriers when engaging with stakeholders. Without the buy-in of key decision-makers, some SIB deals were ended. Usually this was fuelled by ideological concerns or suspicions about SIBs, which were often heightened by a misunderstanding of them. Key to success appears to be ensuring that a partnership approach is taken from the outset, for example by involving relevant stakeholders, who are internal to the commissioning organisation, in working groups.

The technical aspects of developing a business case for SIBs (such as financial modelling) can be difficult, taking many commissioners out of their comfort zones. However, commissioners have overcome these challenges by bringing in specialist advisors to provide expertise. To date most commissioners have been able to pay for advisors through using central programme development funding, rather than from their own budgets.

Some challenges relate to wider structural and cultural factors. Commissioners, often bound by inflexible commissioning structures and risk averse cultures, were concerned specifically about conflicts of interest with procuring providers that had been engaged in dialogue, and had sometimes used procedures that were not well suited to an outcomes-based approach to procure providers and investors. However, these concerns have more to do with nervousness about complex commissioning and unfamiliar procurement procedures, than with SIBs specifically. Approaches like Voluntary Ex-Ante Transparency Notices (when procuring from a lead provider) and 'competitive dialogue' (to build the necessary flexibility into procurement) are used in other contracting contexts. While some procedures can be resource-intensive, evidence from some of the case studies, as well as other SIB evaluations<sup>2</sup> indicates that they ensure a higher quality and appropriately flexible procurement process, and ultimately a better contract. Having an understanding of potential procurement routes early on helps commissioners to mitigate against any issues later down the line. Similarly, where commissioners have not had a strong performance management approach in the past (due to it not being needed for contracts that do not measure outcomes), they found it challenging to develop a sufficiently robust approach for a SIB. Investors have been able to plug this gap in knowledge, however, and have used their expertise to inform approaches.

The extent of challenges and barriers varies depending on different factors. The primary purpose of the SIB appears to shape which challenges are more prominent. SIBs that mainly aim to improve on the outcomes of an existing service are more likely to encounter scrutiny regarding outcomes, management of risk and demonstrating the need for the service. This is because key decision-makers need to be convinced of the additional benefits of running an intervention through a SIB compared with a traditional fee-for-service contract. SIBs with more of a focus on innovating or testing a model will likely have more challenges around engaging cross-sector commissioners (because they are often trying to influence change in a geographic area, with multiple commissioners) and providers, as well as developing evaluation approaches that provide evidence on the added value of a SIB. The policy context also appears to impact on which challenges commissioners face, with health SIBs experiencing more barriers relating to procurement in rigid commissioning structures, and children's services more likely to experience scrutiny about risk, and face ideological opposition from key decision-makers.

<sup>2</sup> See for example [https://www.tnlcommunityfund.org.uk/media/research-documents/social-investment/CBO\\_Indepth\\_reviews\\_HCT\\_independent\\_travel.pdf?mtime=20190320122439](https://www.tnlcommunityfund.org.uk/media/research-documents/social-investment/CBO_Indepth_reviews_HCT_independent_travel.pdf?mtime=20190320122439)

## The benefits of the SIB commissioning process

The commonly-reported benefits for commissioners emerged across a range of activities, through all stages of the SIB commissioning process. When developing the business case, the learning curve required to understand SIBs has often helped commissioners to develop new skills, which have often spilled over into other teams. Even when the business case was not compelling enough to proceed with a SIB, the tasks undertaken at this stage helped some commissioners to develop a high quality service that they would not have developed otherwise, and run it through a more traditional contracting mechanism.

Although the most challenging aspect of developing a SIB is managing stakeholders, the substantial stakeholder engagement through the SIB process has helped many commissioners to foster partnerships, which has in turn supported better local collaboration.

The flexible nature of the SIB commissioning process (particularly for SIBs that are commissioner-led) has enabled some commissioners to be more innovative in their approach to commissioning, especially around the procurement practices and the design of the service. Taking a 'black box' approach, where commissioners specify parameters and then encourage providers to design services, has been credited by some commissioners as supporting the development of higher quality and more innovative approaches to delivery.

In addition, due to the need for strong performance management in SIBs, several commissioners reported that they had improved data collection and management processes. Again, this was not just in relation to the SIB; these practices had spilled into other (non-SIB) contracts too.

Finally, although not a benefit of any specific SIB task, a key benefit of commissioning SIBs for some commissioners is that it allowed them to commission a service that otherwise would not have been commissioned, because the SIB provided external investment for an intervention that the commissioner would otherwise not have been able to fund. This was usually because the service was innovative, and potentially quite risky to fund, so the SIB enabled them to only pay for success.

## Existing resources and tools

A range of resources are available to commissioners, such as various online repositories (containing tools and technical guidance, and research and evaluation examples), as well as support from advisors. The face-to-face provision appears to be more effective for commissioners; many commented on the usefulness of having advisors or, failing that, being able to learn from others through peer-learning networks. Building on and developing current tools, guidance and peer networks could help commissioners new into the SIB market with the SIB commissioning process.

## Enablers of – and barriers to – replicating and scaling SIBs

The study identified a range of enabling factors for replicating and scaling SIBs. An obvious way to replicate a SIB is through the use of proven methodologies and programme interventions, especially when the cohort is relatively homogenous and/or the problem and solution(s) are broadly similar. Learning from previous commissioning processes is beneficial, either in terms of learning from similar SIBs or from applying interventions in similar policy areas. Such sources of information include learning from previous research, from evaluation, from specialist advisors or from commissioners themselves.

While it is not always possible to replicate whole methodologies or programme intervention, there is still scope for replicating specific aspects of the SIB commissioning process. Particularly replicable aspects include outcomes metrics, governance structures, interventions, payment mechanisms, and process aspects like data protocols, the procurement approaches and the contract.

The wider context is important too. Naturally, an increased awareness of SIBs over time (where familiarity breeds acceptance), and capitalising on central government policy pushes, has supported the replication and scaling of some SIBs.

Although there are a number of enablers to replicating and scaling SIBs, it is also important to discuss the barriers. As identified earlier, there are difficulties associated with stakeholder engagement and misunderstanding. In particular, the language and narrative around SIBs is problematic because it causes unnecessary confusion and takes the focus away from the social problem and the intervention, and towards the financial mechanism.

While whole interventions or at least different aspects of SIBs can be replicated, commissioners' desire and/or need for local adaptation can still be a barrier. The local context and need for the intervention appears to shape commissioners' views more than the perceived innovation of using the SIB mechanism.

Another significant barrier to replicating and scaling SIBs relates to commissioner churn, which leads to a constant loss of knowledge in organisations; both technical, but also about the SIB process and how to frame the narrative around the SIB to ensure buy-in from key people. Capacity also poses an issue; even when there is a willingness to develop a SIB, commissioners struggle to find the time or resource to dedicate to it. Stakeholders also pointed towards a lack of data transparency and accessibility. Although there is data about many SIBs already available in the public domain, the data is not only limited in scope, but finding it and interrogating it is a challenge.

Finally, a broader issue around the scaling of the SIB market relates to smaller providers' potential lack of capability to engage with the SIB market. The aforementioned confusing SIB language and narrative, as well as investors often having a preferred provider, can prevent some providers from wanting or being able to engage in the SIB market.

## Possible solutions

The enablers and barriers identified through the research highlight where there are opportunities for possible solutions to replicate SIBs or scale the SIB market. Solutions largely fall under four key themes: the presentation of SIBs and their framing, transparency, commissioner capacity, and tools and guidance. A summary of the possible solutions are in the table below.

<b>Presentation and framing</b>
<ul style="list-style-type: none"><li>• Develop common terms to help people communicate about SIBs more clearly</li><li>• Change the terminology around SIBs so they are no longer referred to as social impact bonds, as the word ‘bond’ causes confusion and creates a perception that the main objectives of change are financial and investment-led. ‘</li><li>• Support with guidance reframing outcomes contracts, and explaining how they can be used as one approach, amongst many, for addressing complex social problems</li></ul>
<b>Transparency</b>
<ul style="list-style-type: none"><li>• Encourage all projects to (or make it a requirement that they) share full details of data on outcome success and rate cards, as well as the projected and actual returns</li><li>• Government should identify a number of key policy areas which are amenable to an outcomes-based approach, and publish relevant cost data, to support business case development</li></ul>
<b>Tools and guidance</b>
<ul style="list-style-type: none"><li>• Commission off-the-shelf tools and documents to help accelerate business case development, such as financial models</li><li>• Publish clear policy guidance, backed by central government, on the context in which SIBs can be used to improve performance or value for money</li><li>• Ensure that guidance in specific areas is backed by and issued through the appropriate professional body – e.g. CIPFA for financial guidance, Crown Commercial Service for procurement</li></ul>
<b>Commissioner capacity building</b>
<ul style="list-style-type: none"><li>• Encourage commissioners to share learning around the benefits and pitfalls of commissioning SIBs</li><li>• Encourage learning networks between commissioners implementing SIBs in similar policy areas</li><li>• Provide carefully designed development funding to help commissioners address capacity and knowledge transfer issues through targeted support from advisors, or secondments of experienced practitioners</li></ul>
<b>Other</b>
<ul style="list-style-type: none"><li>• Appoint and possibly fund sector experts to spearhead development of outcomes-based contracts</li><li>• Government could commission larger outcomes contracts in key areas to influence scaling</li></ul>

## Recommendations

Our view is that it would be sensible to prioritise changing the branding and framing of SIBs, to a greater focus on an alternative term that better describes SIBs as contracts for outcomes with a social purpose. SIB projects sometimes fail even to get proper consideration, and often fall over during development, because of the misunderstanding or suspicion about 'SIBs'. So reframing the narrative may help commissioners to more easily engage, and gain buy-in from other local stakeholders, thus facilitating more outcomes-based contracts to get off the ground. This would not require much additional funding but should lead to impactful change, and consequently would frame the way in which the other recommended actions could be implemented. This research also suggests that it would be supported by most stakeholders in the market (some of which have already moved away from the term SIBs). Consequently, the wider sector should be amenable to changes in terminology and framing, although we recognise that the term 'SIBs' has some traction and brand recognition, and that it will take time for changes in both terminology and perception to become embedded.

Arguably of equal priority would be for DCMS and other policy makers to lend their weight to the efforts of GO Lab and possibly others to build a database of SIB projects that is sufficiently rich in information to be useful to other commissioners, and support the dissemination of best practice both to and between commissioners. This is also likely to be an action capable of implementation without much additional funding, but one that our research suggests will need central government support and direction to overcome instinctive resistance to sharing data and tools freely.

# 1.0 Introduction

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In January 2019, the Department for Digital, Culture, Media and Sport (DCMS) commissioned Ecorys, in partnership with ATQ Consultants, to undertake a study into the challenges and benefits of the process of commissioning Social Impact Bonds (SIBs) in the UK, and the potential for replication and scaling. This chapter sets out the current context of SIBs in the UK and provides an overview of the study and the methodology. It finishes by outlining the structure of the report.

## 1.1 Social Impact Bonds in the UK

SIBs are a form of outcomes-based commissioning<sup>3</sup> (OBC) and have developed as a way of improving outcomes in a range of social policy areas in the last decade, since the first SIB was launched to improve outcomes for short-sentence prisoners in Peterborough in 2010.

There is no universally accepted definition of a SIB. The Government Outcomes Lab<sup>4</sup> (GO Lab, which is a centre for academic research and practice for outcomes-based contracting and social impact bonds) defines a SIB as:

*“A type of outcome based contract that incorporates the use of private funding from social investors to cover the upfront capital required for a provider to set up and deliver a service. The service is set out to achieve measurable outcomes established by the commissioning authority and the investor is repaid only if these outcomes are achieved.”*

The issues around definition, and continuing development of new SIBs mean that overall SIB numbers are hard to estimate. According to the GO Lab SIB database<sup>5</sup>, as of April 2019, 68 SIBs had been launched in the UK with a comparable number worldwide. Due to funding from both the Life Chances Fund<sup>6</sup> (LCF) and the Ministry of Housing, Communities, Local Government (MHCLG) to fund SIBs aimed at reducing Rough Sleeping, it is reasonable to expect between 10 and 20 further SIBs to start in the next 12-18 months.

The commissioning of SIBs and subsequent procurement of providers and investors has been led by a number of parties but it is important to note that a significant proportion of SIBs have been commissioned and funded by central government – notably SIBs commissioned by the Department for Work and Pensions (DWP) under its Innovation Fund, by the Department for Communities and Local Government through the Fair Chance Fund, by DWP with co-funding from other Departments under the Youth Engagement Fund and by the Department for Education (DfE) through the Innovation Programme. Remaining SIBs (and an increasing proportion of the total) have been commissioned and procured locally – mainly by local authorities (LAs) and Clinical Commissioning Groups (CCGs).

<sup>3</sup> Please note: all definitions and their sources are stated in the Glossary section. Outcomes-based commissioning describes a way to deliver services where all or part of the payment is contingent on achieving specified outcomes. The nature of the payment mechanism in an outcome based contract can vary, and many schemes include a proportion of upfront payment that is not contingent on the achievement of a specified outcome.

<sup>4</sup> See: <https://golab.bsg.ox.ac.uk/knowledge/glossary/>

<sup>5</sup> See: <https://golab.bsg.ox.ac.uk/knowledge/project-database/>

<sup>6</sup> The Life Chances Fund is a £80m fund to provide payment-by-results contracts for locally developed projects by socially minded investors. See: <https://www.gov.uk/government/publications/life-chances-fund>

## 1.2 The study

The study had two key objectives:

- To understand the challenges and benefits commissioners have faced in commissioning SIBs, by investigating what the challenges have been, how they have been/could be overcome, how external support and tools have facilitated this process, and how this external support could be improved further.
- To understand the potential for replicating and/or scaling SIBs, by speaking to commissioners who have replicated and/or scaled SIB models, exploring the barriers and enablers to replication and/or scaling and discussing how external tools/support could facilitate the further replication and scaling of SIBs.

## 1.3 Methodology

To address the study's objectives, Ecorys and ATQ undertook several research tasks running from January-April 2019. These included:

- a Rapid Evidence Assessment (REA), to synthesise existing research and evaluation literature to build a narrative around the challenges, barriers and benefits that commissioner experience when developing a SIB;
- 10 case studies, focusing on SIBs that have been replicated or scaled (either successfully or unsuccessfully);
- interviews with 17 key sector experts; and
- a workshop with 25 stakeholders (including local commissioners, central government commissioners, sector experts, and policy makers) to discuss the findings and 'road test' the possible solutions and recommendations.

A more detailed overview of the research tasks is below.

### 1.3.1 Rapid evidence assessment

The REA involved a multi-stage process. The full REA strategy is in Annex 1, but an overview of the approach is provided below:

- **Identification of literature:** Research and evidence was identified by searching through academic databases (including Google Scholar), relevant organisations' publication pages, using key search terms on Google, and through a 'call for evidence'. Evidence from all sources was subject to the same inclusion/exclusion criteria, based on: date of publication; relevance to UK; whether it could be accessed; and relevance to the research sub-questions. The review included a wide range of evidence types, from academic research papers and independent evaluations, to blog posts and newspaper articles. 96 pieces of literature were identified, of which 16 were excluded, leaving 80 pieces of literature being reviewed.
- **Appraising the evidence:** To ensure that the most relevant and robust evidence was prioritised in our review, four evidence appraisal metrics were applied to each piece of evidence (level of rigour for publication, extent that the literature was grounded in evidence, age of literature and focus of study). A score out of '4' was given to each measure, to provide an overall score out of 16 for each piece of literature. Literature was ranked by this score, so that literature with a higher score was prioritised.
- **Reviewing the evidence:** The evidence was reviewed in relation to the research sub-questions. The sub-questions related to: the activities/tasks in the commissioning process that are the most challenging,

the stages at which commissioners face barriers, how commissioners overcome these challenges, the extent to which barriers and challenges are unique to the SIB commissioning process, the tasks that are beneficial to commissioners' wider objectives, and what tools/resources are available and whether they are meeting commissioners' needs.

### 1.3.2 Case study research

The case study research involved consultations with 32 stakeholders across 10 SIBs. Most consultees were from commissioning organisations, although some were providers and advisors<sup>7</sup>. Gathering views from a range of people allowed the findings to be triangulated.

As part of the study was to identify learning around the potential for scaling, the case studies were sampled based on their primary routes to scaling and/or replication. Six routes to replication and/or scaling were identified, with the intention that two SIBs from each route would be chosen (including both successful and unsuccessful SIBs). Table 1.2 below provides an overview of the six routes to replication and scaling. More detail on the specific routes can be found in Chapter 5. As denoted in Table 1.2 it was not possible to conduct case studies at centrally commissioned SIBs based on a standard rate card<sup>8</sup>, as stakeholders from these SIBs were unable to participate within the study timescales.

**Table 1.2: Sampling approach**

Route to replication and scaling	Case study 1	Case study 2
Multiple SIBs developed by one commissioner simultaneously	x	x
Multiple SIBs developed sequentially by one commissioner	x	x
SIBs commissioned singly in similar policy areas based on other commissioners' example	x	x
Provider- or intermediary-led <sup>9</sup> SIBs commissioned sequentially or simultaneously by different agencies on a common platform <sup>10</sup>	x	x
SIBs locally commissioned based on a standard/previous rate card	x	x
Centrally commissioned SIBs based on a standard rate card		

<sup>7</sup> In this report advisor means any party that supports or advises on the development or implementation of a SIB that is not a commissioner, service provider or investor. Services provided by advisors include assessing the feasibility of a contract, supporting detailed development at all stages, and supporting stakeholder engagement and management. Advisors can be business and management consultants, service practitioners, or legal and finance professionals. An advisor can also be an intermediary, whose services include raising investor capital, establishing a special purpose vehicle to deliver and manage the contract, and managing provider performance.

<sup>8</sup> In the context of payment-by-results, a rate card is a schedule of payments for specific outcomes a commissioner is willing to make for each beneficiary/service user that verifiably achieves each outcome/

<sup>9</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.

<sup>10</sup> In the SIB context, a common platform means a set of processes and contract elements that have been pre-designed and put in place as a structure that can be offered to commissioners with appropriate local adaptation. The elements that are common can vary widely and include any or all of the intervention to be deployed, the provider and/or delivery infrastructure, the outcome metrics and payment mechanism to be used to reward success, and associated processes and components such as common development tools, governance and performance management structures, data protocols, and pre-arranged investment facilities.

### 1.3.3 Sector expert interviews

Alongside the case studies, the research was informed by telephone and face-to-face consultations with 17 sector experts from nine organisations. These sector experts included investors, advisors, policy makers, researchers and other stakeholders. The main aim of the sector expert interviews was to draw out learning relating to replication and scaling, and to identify potential solutions on how the sector could be better supported.

### 1.3.4 Workshop

Following the case study research and the sector expert research, interviewees were invited to take part in a workshop. 25 people participated in the workshop, which involved local commissioners, central government commissioners, investors, advisors, researchers and policy makers. The workshop provided an overview of the key findings from the research, which were 'sense-checked' by the attendees. The workshop also provided the opportunity to discuss the possible solutions that were identified through the primary research activities.

## 1.4 Report structure

The remainder of the report is structured as follows:

- **Chapter 2** explores in detail the challenges that commissioners have faced in the SIB development process, and provides examples of how commissioners in the case study research overcame these challenges
- **Chapter 3** discusses the benefits of the SIB commissioning process for commissioners, as identified by stakeholders
- **Chapter 4** highlights the existing tools and resources available to support commissioners and discusses whether these tools suit commissioners' needs
- **Chapter 5** explores the enablers of, and barriers to, replicating and scaling SIBs
- **Chapter 6** provides details of possible solutions to further support replication and/or scaling of SIBs
- **Chapter 7** concludes the report and provides recommendations.

## 2.0 The Challenges of the SIB Commissioning Process and how to Overcome Them

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### *Chapter summary*

#### **The main challenges and how they have been overcome**

- When establishing the rationale for a SIB, there was often a lack of understanding about SIBs (including what a SIB is, how it works, and what the language means) and ideological opposition to SIBs. To overcome this challenge commissioners engaged with decision-makers early on, and encouraged collaboration between key stakeholders internal to the commissioning organisation to increase knowledge and understanding.
- Commissioners often struggled with the technical aspects (such as defining outcomes, pricing outcomes and financial modelling). This was usually overcome through being supported by specialist advisors.
- Commissioners often needed to juggle competing interests of different parties, both within their commissioning organisation, but also across other commissioning organisations. Commissioners overcame these issues by instilling a partnership approach from the outset.
- Commissioners found procurement difficult because procuring SIBs usually involved new or innovative approaches, which did not fit neatly into commissioners' existing processes. Commissioners overcame these challenges by involving procurement teams early on.
- Developing data collection and performance management approaches was difficult for some commissioners because it required a shift in commissioners' traditional approaches to contract management. Commissioners benefitted from the insights of investors, who used their expertise in ensuring the development of robust performance management approaches.

#### **Variations in challenges**

- The study found that while some challenges are unique to the SIB context (such as issues around lack of understanding, language and terminology), most of the issues are common in all complex commissioning projects. Issues relating to procurement often stem from a risk averseness among commissioners, and the framing of SIBs as 'innovative' perpetuates the notion that they are more difficult than other types of complex commissioning.
- There are some variations in the challenges of SIBs depending on their primary purpose and on the policy context in which they operate (particularly relating to health, children's services and homelessness).

This chapter summarises the evidence base on the challenges and benefits of the SIB commissioning process. It firstly examines the challenges relating to specific activities and tasks in the commissioning process and discusses how these barriers have been overcome. It then explores the extent to which these challenges are unique to SIBs and how challenges vary in relation to the primary purpose, and policy area, of the SIB. The chapter is based on the findings of the REA, case studies, sector expert consultations and the workshop.

## 2.1 The challenges that commissioners face and how they have overcome them

The findings of this section are structured around the four stages of the [SIB Readiness Framework](#). The GO Lab established the SIB Readiness Framework to highlight the considerations that stakeholders should make at each stage of developing a SIB. The SIB Readiness framework currently identifies four stages of the SIB development process, which are:

- 1) **Developing the business case** - which includes outlining the rationale for a SIB, identifying the target cohort<sup>11</sup>, defining and pricing outcomes, establishing a financial model, and identifying how much investment is required.
- 2) **Managing relationships** – which includes establishing the lead commissioners’ role, collaborating with the provider market, engagement with investors, and developing a procurement strategy
- 3) **Designing the service** – which involves establishing a referral or identification process, finding an intervention model, mapping out the client journey, setting out plans for evaluation and ensuring the SIB meets legal and regulatory requirements.
- 4) **Planning for delivery** – which includes signing the contract, raising awareness of the SIB amongst stakeholders, establishing processes and ensuring all resources are in place, articulating a governance and management structure, ensuring all data reporting and performance management processes are in place, and establishing plans for ongoing learning and review.

It should be noted that these stages are not intended to be sequential; the case study research found that many of the tasks and activities from different stages are usually undertaken in parallel. In addition, not all of the stages and steps in the SIB Readiness Framework are mentioned in this chapter. This is because the REA and primary research did not identify any challenges at these stages.

As this chapter will go on to explore, the most challenging stage of the commissioning process for commissioners appears to be managing relationships, both internally to the organisation (such as decision-makers and key stakeholders from other teams) and externally (in terms of engaging other commissioning organisations, investors and providers). Arguably, this area needs most focus in the commissioning process, because without buy-in from key stakeholders, a SIB may not progress. However, there were also a number of challenges for commissioner when developing the business case. These challenges were typically more technical, and not insurmountable, with the right support in place.

Overall, 54 of the documents reviewed in the REA provided insights into the tasks and activities that commissioners find challenging (or are thought to find challenging, in evidence that does not report on empirical findings). The average quality of evidence was 11 out of a possible 16, indicating that a significant amount of the evidence is well-substantiated and relevant (the average publication date was 2016).

<sup>11</sup> The cohort is a group of people identified to receive intervention

There was less evidence (25 of the 80 documents reviewed) providing commentary on how the challenges or barriers have been or can be overcome, and not all were from the perspectives of commissioners. The average score for the quality of evidence was 11 out of 16, which again suggests a relative balance in the extent to which sources were well-substantiated. The higher quality pieces of evidence had the views of commissioners, but more general commentary tended to be from the perspectives of other stakeholders (such as advisors). The case study research and stakeholder interviews aimed to explore these challenges in more detail, and identify practical approaches for overcoming them.

## 2.1.1 Stage 1: Developing the business case

### 2.1.1.1 Why a SIB?

The main challenges for commissioners during this step of the process are:

- Facing ideological opposition or suspicion about SIBs from key decision-makers, due to wariness of perceived 'privatisation' or 'monetisation' of public services
- Lack of understanding about SIBs, including limited skills and knowledge, and lack of time and resource to gain the skills and knowledge needed. This makes it difficult for commissioners to communicate the rationale for developing a SIB to other stakeholders
- Concerns about the potential risks involved

The research highlighted that there is substantial overlap in terms of the challenges faced in deciding to proceed with a SIB, and managing key stakeholders (see Section 2.1.2). The focus of this section is on the nature of the issues that commissioners face at this stage, whereas the section relating to managing key stakeholders discusses the impact of these challenges on how different stakeholders engage in the SIB development process.

#### Concerns about SIBs

The REA found that there was some evidence to suggest that a barrier in deciding to proceed with a SIB relates to moral or ideological opposition to SIBs amongst key decision-makers within commissioning organisations. The recent report from the evaluation of the Life Chances Fund (LCF) observed that there are sometimes ideological barriers to SIBs; some commissioners commented that there was a 'political narrative' which makes SIBs less appetising for certain groups. (Loveless, forthcoming). The evaluation of SIBs in Health and Social Care highlighted that some commissioners were "*wary of being complicit in the fragmentation and outsourcing of public services.*" (Tan, et al., 2015). However, from the REA evidence reviewed, it was not clear whether this suspicion about SIBs stemmed from a lack of understanding about SIBs, or a genuine concern about their use.

The case study research delved into this issue in further detail and found that often, key decision-makers displayed a genuine concern about the use of a SIB, because they lacked understanding of the longer-term benefits, such as only paying for achieved outcomes and not paying for non-performance (see Box 2.1). Across many of the case study SIBs, interviewees reported that decision-makers were sceptical of the use of private investment. Usually, elected members had strong views about SIBs and sector experts highlighted that some SIBs had been 'shut down' before at the will of a key decision-maker.

*"There were ideological barriers. [Stakeholders] often saw SIBs as part of austerity measures."* – Commissioner

In other cases, key stakeholders were suspicious of SIBs because they brought private investment into public sector provision, and in one area, there were concerns around investors 'making money from vulnerable people within society'. This view was usually down to a lack of understanding about the longer-term benefits of SIBs, and was overcome by SIB leads reframing the narrative to emphasise these benefits. Box 2.1 provides an example of where this happened.

#### **Box 2.1: Overcoming suspicion of SIBs**

In one SIB, key decision-makers at the council were suspicious about the use of private investment to fund a service that they would usually fund themselves. However, the SIB lead highlighted that, due to current budgetary pressures, this was provision that they would not be able to afford to deliver. They stressed that although through the SIB would cost slightly more, the council would only pay for success. In the longer term, the success (or otherwise) of the SIB would provide an evidence base that would inform future procurement decision-making.

*"The main misunderstanding at council level was really, 'Why would we pay interest to a third party to fund something? If it's a good thing to fund, we should be doing it with our money.' Which is absolutely a sound argument, but I did manage to convince them that if it was a good thing to fund, this will demonstrate it was, and we'll put our own money into it at that point. But actually this is something which has not been done before, we don't know it's going to work, and [the investor] is going to put the risk capital up, basically." – Commissioner*

By reframing the narrative to focus on the longer-term benefits of the SIB, the commissioner was able to convince the council leaders to proceed with the SIB.

Overcoming suspicion about SIBs within a council can take some time and the case study research highlighted approaches that SIB leads can take to better manage this approach. These approaches are covered later on in Section 2.1.2, in relation to 'managing stakeholders'.

#### **SIB terminology**

Another challenge that can breed suspicion among key stakeholders was the lack of understanding of, and confusion about, SIB terminology. The case study research highlighted that often there were misunderstandings about SIBs. Amongst finance staff it was confusing because the use of 'bond' in 'social impact bond' does not equate to the usual financial understanding of a 'bond' as a fixed income instrument. Several commissioners described how it took some time to get their heads around the SIB language and concepts. A particular problem was being able to translate the SIB language in a way that would be understandable for key decision-makers

*"I must say, when people ask me now, I still struggle to explain the whole situation succinctly and clearly in a way that people understand." – Commissioner*

The research did not highlight how commissioners overcame this issue; it just revealed that it took them time to explain the terms in a way that was understandable. This issue could be addressed by changes to the wider narrative around SIBs. This is discussed further in Chapter 6.

## Concerns about risks

As alluded to in the boxed example above, linked to ideological opposition or suspicion is a concern about risk. The REA found that barriers to commissioning SIBs, and indeed OBC more generally, could stem from organisational culture. Following a review of evidence and interviews with 29 stakeholders, Harwich et al (2017:11) argued that “*commissioners remain risk-averse, [and they] fail to learn from previous approaches.*” The concerns about the potential risk discourage some commissioners from considering them as a viable commissioning option (Rotheroe, 2014). Key decision-makers’ financial risk-averseness was an initial barrier highlighted in some of the case studies (as Box 2.1 exemplifies), but it was overcome by demonstrating the potential long-term benefits.

The REA found that commissioners may also question the potential reputational risk if they commission a SIB that does not succeed. Several pieces of evidence argued that while in theory there is a transfer of risk from commissioners to investors in SIB models, in reality, if a SIB fails, commissioners still have to provide services, particularly where they have a statutory duty (such as in local authority’s Children’s Services). This risk can manifest in several ways, including reputational risk or political risk, and commissioners have to be willing to accept this risk in order to proceed with the SIB (Ramsden, Noya, & Galitopoulou, 2016) (Griffiths & Meinicke, 2014) (Dear, et al., 2016) (Archer, 2018) (Ecorys UK, 2018).

The case study research highlighted that managing risk was a “*complicated step*”. Interviewees confirmed the findings of the REA in stating that risk does manifest in several ways, but it can be managed partly through agreeing the roles and responsibilities of different stakeholders (that is, providers, investors and the commissioners) and writing it into the contract. This is discussed more in Section 2.1.4.3, but overall the case study SIBs progressed into development because the SIB leads were able to demonstrate that the benefits of commissioning the SIB outweighed the potential reputational risk.

Recent research on the LCF provides evidence on what commissioners found useful for managing concerns about risk. Commissioners emphasised the importance of having the opportunity to ask questions anonymously and learn from the experiences of others. However, the study also acknowledges that the ‘top up’ funding through LCF had been integral to giving commissioners the space to think and question things (Loveless, forthcoming). For SIBs designed and commissioned locally, this will not always be a viable option, as unless they were supported through a centralised fund, the commissioners would have to fund this additional resource themselves.

## Lack of understanding about the technical aspects of developing SIBs

The evidence identified through the REA suggests that some commissioners struggle with the initial rationale for developing a SIB, for a number of reasons. In particular, there is a general lack of understanding about SIBs amongst commissioners (Mason, Lloyd, & Nash, 2017), and while some individuals within commissioning organisations have the necessary knowledge about SIBs, there are varied levels of understanding about them across commissioning organisations more widely (Tsukamoto, Hoong Sin, & Nishimura, 2018) (Ronicle, Stanworth, Hickman, & Fox, 2014). The case study research largely confirmed this finding. Some commissioning organisations had a transformation agenda, where there was an organisation- (or in some cases service-) wide push towards transforming commissioning approaches. In these case studies, there was evidence of a wider range of stakeholders (including elected members, chief executives, and heads of departments or services) being more knowledgeable about SIBs, or at least being more open to learning about them. In contrast, in case studies where the commissioning organisation did not have a transformation agenda or strategy, stakeholders tended to be less knowledgeable about SIBs.

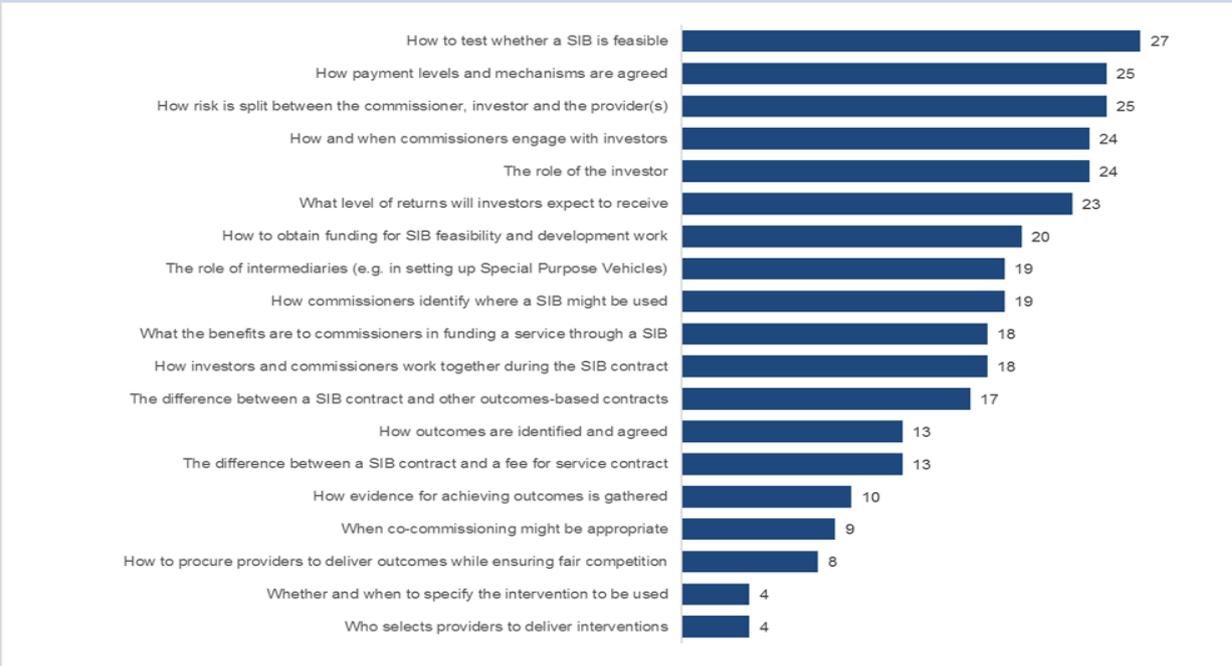
Research identified in the REA highlights some of the key areas of SIB development that commissioners do not understand. Tsukamoto et al (2018) conducted a survey with LAs in England about their views on SIBs. While the sample size was small (n=21), commissioners reflected that where SIB contracts did not work, it was because they were relatively unknown and were difficult to communicate to stakeholders. Other research, which involved interviews and a survey with commissioners, found that the 'learning curve' required to design and develop a SIB was high (Ronicle, Fox, & Stanworth, 2016). Recent evidence from the Commissioning Better Outcomes (CBO) Fund evaluation (Ronicle, Fox, Stanworth, & Smith, 2019) highlighted that the elements of SIBs most commonly not understood by commissioners included:

- how to test whether a SIB is feasible;
- how payment levels and mechanisms are agreed;
- how risk is split between different parties; and
- how and when commissioners engage with investors.

Box 2.2 provides more details on the elements of SIBs that commissioners do not understand.

**Box 2.2: Case study: elements of SIBs that are not understood by commissioners**

As part of the CBO evaluation, Ronicle, Fox, Stanworth and Smith (2019), conducted a survey with 91 commissioners. The chart below highlights the key elements of SIBs that 61 commissioners reported not understanding. As the chart highlights, there were a range of different elements of SIBs that commissioners did not understand, particularly around the role of the investor.



Source: Ronicle, J., Fox, T., Stanworth, N., & Smith, K. (Forthcoming). Commissioning Better Outcomes Fund Evaluation. Commissioner survey. Base: Respondents with an understanding level reported as fair, poor or very poor (n=61). Multiple responses possible. Not shown in chart: 14 respondents reported 'all aspects', one reported 'don't know', four reported 'other responses':

Commissioners involved in the case study research highlighted that lack of understanding about SIBs amongst some staff was not necessarily a barrier to progressing; the key aspect that needed to be understood across the organisation was around the feasibility of the SIB and whether the SIB mechanism was appropriate for the service. However, most of the SIB development stage can be undertaken by SIB leads (who require an understanding of the whole process) and specific teams (engaged at various points) within the commissioning organisation, such as legal or finance, who just need to know about a specific aspect. Although the specific challenges are discussed throughout this chapter, it should be noted that one of the barriers to maintaining knowledge about SIBs in commissioning organisations is staff churn. To help address the issue, one sector expert commented on the importance of commissioners documenting the SIB development process.

*“[Make] sure that there is a succession policy in terms of staff, because often there is a leaking of knowledge from the SIB when a team member actually leaves. Making sure that stuff is properly documented and that there is not just one individual working on that SIB.” – Sector expert*

The REA findings indicated that a barrier to increasing understanding of SIBs was commissioners lacking the time and resource to learn about – and develop the skills for – SIBs (Ramsden, Noya, & Galitopoulou, 2016) (Hunter, 2017). The consultations underlined that commissioner capacity is a barrier; in many of the case study SIBs, commissioners were able to develop their understanding because they could draw on development funding (for example through the CBO Fund or LCF) to bring in advisory support. Section 3.1 highlights how advisory support was beneficial for commissioners, especially in relation to building up skills and knowledge.

There is currently limited evidence on how inexperienced commissioners (in relation to SIBs) can develop the understanding needed where there is no additional development funding available. However, this does not appear to be a problem that is specific to SIBs. The literature suggests that this is a wider issue in OBC, particularly in relation to more complex commissioning environments that cut across different sectors (Harwich, Hitchcock, & Fischer, 2017) (Crowe, Gash, & Kippin, 2014). As part of their study exploring how the commissioning landscape is changing, Crowe et al (2014) conducted a survey that received responses from 40 commissioners. They found that while the majority felt they had well-developed skills in relation to their understanding of the commissioning cycle and developing specifications, 12 reported that they were still developing their understanding of commissioning for complex, multiple outcomes and four had not developed their understanding at all.

One report, which provided ‘top tips’ based on learning from implementing a SIB, recommended that commissioners commit to building up their organisation’s internal capacity to plan for and set up an OBC approach, which could allow for a SIB to develop (Office for Public Management, 2016). Although the current research did not provide any examples of how commissioners have overcome this issue, possible solutions to this issue (discussed during the stakeholder workshop) are highlighted in Chapter 6.

**2.1.1.2 Putting forward a robust case**

The main challenges for commissioners during this step of the process are:

- Having limited access to – or resources to interrogate – relevant data
- Difficulties making the financial case, in terms of demonstrating cashable savings for the commissioning organisation
- Demonstrating the added value of a SIB, and justifying the cost of running an intervention through a SIB

## Accessing and interrogating data

Even if commissioners have the necessary knowledge, skills and motivation to be able to propose a SIB as a commissioning approach, it can be challenging for them to justify it for two key reasons. Firstly, there was some evidence to suggest that commissioners need to have access to – and resources to interrogate – the relevant data to provide evidence of the need for the service (Ronicle, Fraser, Tan, & Erskine, 2017). The case study research highlighted that this could be a lengthy process. In one area, it took several years to fully establish the problem and use data to understand its scale and complexity. A stakeholder from another area commented on the difficulty of securing staff members with the necessary skills to analyse the data. Particular barriers included an inability to offer permanent contracts to such staff, as well as matching salaries to those of other industries that require similar skill sets. To some extent, this issue had been addressed by bringing in an advisor (paid for through development funding) or other external consultants (ad-hoc), but both approaches were expensive (either for the funder of development funding, or for the commissioner if buying in support privately) and so raise questions of sustainability.

The second barrier identified through the REA was knowing what data to interrogate. Case study SIBs were supported by advisors to overcome this issue. A report by Social Finance states that often this data needs to be related to the local context of the service, rather than based on national proxies (Social Finance, 2017). Box 2.3 highlights the key relevant data needed in developing a SIB.

### Box 2.3: Case study: the data needed to build a SIB business case

The LOUD SIB model report describes the key factors necessary in launching a SIB (Ronicle, Fraser, Tan, & Erskine, 2017) and one of the key factors is data. The key types of data needed to develop a SIB are:

**The eligible cohort** – Data is needed on the size of the cohort, the outcomes that they are currently achieving, and the current cost of supporting them.

**Outcomes data** – Data is needed on the outcomes that the intervention is likely to achieve, including when the outcomes would take place and for how long they are likely to be sustained

## Making the financial case and demonstrating added value

Another key aspect of making the financial case is being able to demonstrate the added value of a SIB. The REA found that several commentators (not including commissioners) have highlighted that there needs to be a strong case for the 'added value' of a SIB. Some argue that there is no point in running a project through a SIB if it does not produce cashable or even nominal savings that are significantly greater than the costs of developing and delivering one (Rotheroe, 2014) (Thomas & Cheeseman, 2017) (Gray, 2015). Some commissioners involved in the case study research commented that this was a challenge. For example, one commissioner stated that other stakeholders in their organisation were interested in running an intervention through a SIB, but did not feel they could justify it in terms of the costs of setting it up.

However, the research found that many stakeholders have struggled to make the initial financial case for proceeding with a SIB. One of the challenges mentioned in several case studies (mainly in children’s services and in health) was the requirement from financial teams to demonstrate how the SIB would lead to cashable savings for the main commissioner who would be paying for outcomes. For example, in a health-related SIB, the SIB lead was able to demonstrate that the SIB would lead to cashable savings, just not to the commissioner itself, but rather to the wider NHS. The lead of the SIB found it difficult to convince the finance team of the financial benefits for the commissioning organisation, but was able to progress on the grounds of other key factors, like the opportunity to test an innovative approach.

Several stakeholders interviewed – including sector experts and commissioners – spoke of the challenges related to the focus of SIBs being seen as mechanisms that lead to cashable savings, when this is usually quite difficult to demonstrate. Some found the prevailing argument made in the literature – that there is no point running a project through a SIB if it does not produce cashable savings – unhelpful. Stakeholders pointed out that for preventative interventions it may be more helpful to think about cost avoidance, where the outcomes from the intervention would avoid the commissioner having to incur costs in the future. For example, in children’s services this could be conceptualised in terms of a family support intervention contributing to the avoidance of putting children into care (which would mean avoiding increased spend on residential placements). A criticism of the cost-avoidance approach is that it is difficult to demonstrate the deadweight (or what would have happened in the absence of the intervention). In the case of the previous example, a child might not have needed to go into care anyway. Stakeholders commented this could be overcome to an extent by tightly defining referral criteria to a specific cohort, where there is evidence that the cohort would most likely end up costing the commissioner more without intervention. Overall, sector experts commented that the narrative that has developed around UK SIBs as being solely or mainly about driving cashable savings is potentially unhelpful, as it steers commissioners down a particular path and potentially limits the value of SIBs.

Other stakeholders were of the view that impact bonds bring other benefits that mean they do not necessarily need to create savings (such as greater accountability and focus on outcomes); for example impact bonds are being introduced in middle income and developing countries, where there are no savings to the state because of low levels of state expenditure on social services. Indeed, sector experts highlighted that in the UK context, some SIBs are seen as more ‘experimental’ (that is, testing whether an approach works), rather than contributing to cost-savings.

**2.1.1.3 Outcomes definition**

The main challenges for commissioners during this step of the process are:

- Commissioners find it difficult to strike the balance between easily measurable outcomes, and outcomes that are sufficiently personalised to the beneficiaries
- It can be time consuming to agree on outcomes

If commissioners do have a robust case, and they proceed with refining the business case, the next challenge – which was commonly identified across the evidence base and in the case study research – relates to defining the outcomes.

**Striking the right balance**

Several studies identified through the REA (including some involving primary research with commissioners) highlighted that commissioners have found great difficulty in setting outcomes that can be measured easily and externally validated, whilst offering the flexibility to enable personalised service delivery over a long

period of time (Tsukamoto, Hoong Sin, & Nishimura, 2018) (Office for Public Management, 2016) (Griffiths & Meinicke, 2014) (Social Finance, 2013) (Dear, et al., 2016) (Hunter, 2017). The case study research highlighted that the extent of difficulty in defining outcomes depends on the policy context. For example, stakeholders in one SIB, in the area of physical health, felt that it was straightforward to define outcomes, because they could be measured quantitatively (for example, by a blood test). The ease of defining outcomes in this SIB added further credence to running the intervention through a SIB mechanism.

*“It looked like an easy win and a no-brainer, if you like, because [the] measures were really, really clear.”* - Commissioner

Commissioners commented that to overcome some of the issues relating to defining outcomes, it is helpful to keep them simple, opting for a few key outcomes rather than having many outcomes. Having fewer outcomes to define means that commissioners can really focus their efforts. In addition, this approach can also reduce the amount of administrative work that frontline staff have to do later down the line, because they will not be needing to collect a vast amount of information to evidence the achievement of many outcomes.

*“Be very clear on your metrics, make them as simple and easy to measure as possible.”* – Provider

However, they should only be simple if they *can* be simple. The Youth Engagement Fund (YEF) evaluation (forthcoming) found that SIBs can focus attention on outcomes that have payments attached to them, at the expense of outcomes that do not have payments attached to them. There is a risk, therefore, that in simplifying outcome metrics important outcomes are excluded and are not achieved, affecting the sustainability of the impact.

### **Agreeing outcomes**

In their review of the literature, Dear et al (2016:57) argue that setting and defining outcomes is *“one of the most time consuming stages in the development process.”* In addition, findings from commissioners involved in the CBO Fund highlighted that the process of agreeing outcomes metrics was particularly challenging when there are a range of stakeholders involved, who all *“have different needs from these metrics”* (Ronicle, Fox, & Stanworth, 2016). A report based on a roundtable of stakeholders involved in outcomes measurement argued that *“practicality was more important to funders than trying to establish the ‘perfect’ metric. Funders wanted to encourage practices that were both doable and helpful, and refine the data collected over time, rather than try to get it absolutely right from the start”* (Clifford, Markey, & Malpani, 2013, p. 32). While this study related to outcomes measurement more generally (rather than in a SIB context) it provides a useful insight into how some commissioners might desire a flexibility in setting outcomes that the SIB approach might not necessarily accommodate.

Commissioners involved in the case study research did not indicate that the length of time in agreeing outcomes was a significant barrier. Instead, commissioners appeared more concerned about being able to find outcomes that would be fit-for-purpose for the duration of the contract, and which could withstand changes in the wider context of provision. This was the case particularly for SIBs that ran over several years.

*“[With SIBs you] feel like you’re signing up to something which is still going to be in place in 5-7 years and the world may have changed around you. It feels risky and you have to give it careful thought.”* – Commissioner

A stakeholder in one commissioning organisation argued that this is an issue that can be addressed by ensuring contractual arrangements are built in to allow a certain degree of flexibility in defining outcomes over time.

#### 2.1.1.4 *Pricing of outcomes*

The main challenges for commissioners during this step of the process are:

- The lack of transparency about pricing outcomes
- Justifying the prices when there are no identifiable or cashable savings

#### **Calculating values**

The REA found evidence relating to concerns around pricing outcomes. Evidence from Nishimura et al (2018) suggests that commissioners lack confidence around pricing outcomes appropriately, and that this lack of confidence and knowledge on pricing outcomes can actually be a barrier to proceeding with a SIB. The case study research highlighted some of the difficulties that commissioners faced in putting values on outcomes because they had not needed to do it before. In addition, evidence from the REA highlighted that this was a challenge where outcomes did not lead to any identifiable or cashable savings because it was difficult to justify prices (Office for Public Management, 2016). Most of the case study SIBs engaged advisors to support them on pricing the outcomes. In some cases, commissioners were able to draw on previous rate cards to inform their pricing (either from their own prior experience or from central programme rate cards), which facilitated the process. More information on how replication is facilitated by rates cards is covered in Chapter 5.

#### **Lack of transparency**

Although not based on primary research, some other commentators have highlighted this tension, saying that there is not enough transparency about the process of pricing outcomes (Rotheroe, 2014) (Government Outcomes Lab, 2018). In particular, a blog on the Government Outcomes Lab's website highlights that it is currently difficult to learn from where other SIBs have gone wrong in relation to setting outcomes prices, and to overcome this there needs to be more transparency. The blog post suggests the sector could benefit from 'open book accounting' to provide more clarity on how outcomes are priced. There are some limitations to this, particularly where some of the outcomes information may be considered commercially sensitive. This issue is further compounded by the fact that there is currently no agreed definition of what constitutes commercial sensitivity, although there are some guidance resources available.<sup>12</sup> However, Central Government is pushing towards increasing transparency more broadly in public sector contracting, and DCMS is working in collaboration with key partners to align with these transparency principles and increase transparency in the SIB market through the Life Chances Fund Programme.

From the current research, sector experts were more likely to comment on the lack of transparency in the sector than the commissioners themselves. This may have been because many of the commissioners worked with advisors to price their outcomes and were thus able to rely on the advisors' expertise to navigate the system and identify data to inform the calculations. For commissioners new into the SIB market, who may not be able to engage advisors (due to cost and the ending of development funding), the transparency issue may be more of a concern. Indeed, returning to Box 2.2, several of the key elements of SIBs that commissioners did not understand, including how payment levels and mechanisms are agreed,

<sup>12</sup> <https://ico.org.uk/media/for-organisations/documents/1178/commercial-interests-section-43-foia-guidance.pdf>

and how risk is split, cannot be addressed unless there is greater transparency about the deals that have already happened. Chapter 6 provides potential solutions for increasing transparency in the sector.

### 2.1.1.5 *Developing a financial model*

The main challenges for commissioners during this step of the process are:

- Not knowing how to undertake financial modelling
- Agreeing a financial model that satisfies all stakeholders involved

The evidence suggests that a final common challenge that commissioners can face when developing the business case is undertaking financial modelling and agreeing a financial model that satisfies all stakeholders involved. A financial model can be used for a number of purposes including supporting cost benefit analysis (including cashable savings) and calculating payment levels. One author described the financial model as a way to estimate the costs of interventions, the overheads and the other fixed costs, which help to determine what level of investment is required (Social Finance, 2011).

#### **Undertaking the modelling**

Like many of the elements of 'developing the business case', commissioners in most of the case study SIBs had received advisory support for doing the financial modelling. Several commissioners highlighted that their council's finance team was small and did not have the necessary 'commercial' skills to undertake the financial modelling.

*"They wouldn't have known how to do the commercial work that [the advisor] was able to do."* – Commissioner

*"[The advisor was] hugely influential... they were key to developing the business cases... they were brought in to help with financial modelling, which we had no idea to do really at that point."* - Commissioner

Echoing the point made earlier in relation to knowledge and understanding, the evidence indicated that where commissioning organisations had a broader strategic push for a transformation agenda, the financial teams were more equipped, and had more capacity, to undertake commercial tasks like financial modelling.

The case study research found there were variations in the ease of financial modelling, depending on the policy context and the extent to which SIBs had been developed in these contexts. For example, one interviewee described how it was possible to develop a financial model in children's services because of the availability of average LA cost data on children in care (such as the cost of placements). Local LA data, such as the number of children going into care, care starts and ceases, and average stay, could be inputted into the model, to provide early indications of the financial viability of the SIB. Depending on the ease of accessing it, local cost data could then be used to refine the financial model. However, in the health context, one commissioner struggled with the financial modelling because there was limited evidence for them to draw on to make estimations about cohort size, the complexity of needs, and the expected achievement of different outcomes. The interviewee stated that they *"had to take a bit of a punt about cohort size"*, and it took some time to arrive at a model that was financially viable. Box 2.4 provides an example of where a commissioner undertook the financial modelling first, which enabled them to refine decisions about outcomes definitions and pricing early on, before engaging other key stakeholders, like investors.

#### **Box 2.4: Starting with financial modelling**

In one case study SIB, the commissioners undertook the financial modelling as the first stage of 'developing the business case', as a way to calculate which outcomes would be viable. This was a somewhat lengthy process, requiring rethinking some of the outcomes and their prices.

*"The financial modelling is where we started... We started with what outcome are we looking for, and threw out about 90% of the outcomes as they were not financially viable" – Commissioner*

However, this approach was effective because it meant that many of the decisions around the outcomes were made before the commissioner needed to engage with other stakeholders including potential providers and investors.

### **Agreeing on a financial model**

The REA found that part of agreeing on a financial model relates to how commissioners manage different stakeholders (see Section 2.1.2). However, the REA also identified primary research with commissioners that suggested that settling on a financial model also relates to commissioners' general lack of understanding about investors' expectations on rates of return (Ecorys UK, ATQ Consultants, 2017) (Ronicle, Fox, & Stanworth, 2016). In a blog post reflecting on SIBs in health and social care, Fraser et al (2017: no pagination) argue that it is particularly challenging for commissioners to navigate this process when there is no central guidance *"setting out how intermediaries and the other parties should operate at particular stages of the SIB development process. This is of crucial importance for policymakers as SIBs currently develop in a space that lacks agreed rules and processes."* (Fraser, Tan, & Mays, Social Impact Bonds offer challenges and opportunities in health and social care, 2017).

Some of the sector experts interviewed as part of this study commented on there being a lack of understanding about investment and commissioners' options around it. For example, experts commented on the confusion caused by the different way rates of return are expressed, especially through Internal Rate of Return (IRR) or through Money Multiple. Essentially these are very different ways of trying to express the amount an investor may get by way of return in addition to the amount they originally invested, and appear to reflect wider misunderstanding about the way the majority of SIBs are financed, and that most SIBs are not funded through a simple loan paying a fixed rate of interest. Box 2.5 explains why this is an issue and why it can cause confusion.

Sector experts also highlighted how different aspects of spend on the SIB are factored in, such as the money spent on performance management. The evidence from the REA highlighted this. For example, reflecting on their experience of developing a SIB in a blog post, a commissioner highlighted that they did not factor in wider costs that would be borne by the local authority, when developing their financial model (Gillet, 2018).

### Box 2.5: Explaining and enumerating investor returns

Several sector experts commented that the way investor returns are described in SIBs is confusing and inconsistent. This happens because returns on a SIB investment cannot easily be described as a simple percentage rate of return, like the Annual Percentage Rate of interest that applies to a personal loan.

Returns on some SIBs can be described like this because they are funded by a straight loan, usually to the service provider. However, in most SIBs the financing is more complex. The investor provides some or all of the investment needed in advance, and expects/hopes to get this back plus a bit more by way of their return. However, they will not get this back as a fixed rate of interest – it will be rolled into the outcome payments, and so the return will vary according to when and how many outcome payments are received.

This means that 'returns' are usually expressed as either an Internal Rate of Return (IRR) or Money on Money Multiple (MoM). IRR is essentially a way of converting the total returns on an investment (for example profits made by a business, or in this case total outcome payments) into a percentage rate, calculated over the length of the investment and varying according to cash flow – i.e. how quickly and soon payments are made. IRR calculations are complicated, but in simple terms the earlier you get the money back the higher the IRR, because IRR takes account of the 'cost of money'. MoM is simpler - it expresses the total yield as a simple multiple of the amount initially invested. Unlike IRR, MoM does not vary according to when payments are received.

For example, suppose an investor puts in £1m and wants to make a return of £200k on this over 5 years:

To take a simplified example, suppose an investor puts £1m into a SIB and wants to make a return of £200k on this over 5 years:

- If they provide a straight loan, they would need to charge a fixed interest rate of just under 7% per year
- If they wrap returns into outcome payments so that they total £1.2m, the IRR would vary depending on when the payments were made. At the extreme, if all the outcome payments were made in the first three years the IRR could be as high as 30%; but if they all came in the last three years the IRR could be only 10%. Moreover if outcome payments were only £1m in total, the IRR would be 0% irrespective of timing; and if they were less than the £1m originally invested, IRR would be negative: If they received total payments of £1.2m, irrespective of timing, the MoM would always be 1.2. And if payments were only £1m in total, the MoM would be 1.0.

What this shows is that it is difficult to compare the interest rate on a simple loan with an IRR calculation, since the IRR will vary with contract performance and cannot be accurately predicted in advance. The MoM is a simpler measure but also hard to predict in advance, and cannot easily be compared with other SIBs where the forecast or actual returns are expressed as IRR.

It appears from the case study research that there is no single agreed approach on what is included in a financial model for a SIB. Some experts highlighted the need for more transparency, with a common framework to communicate what stakeholders need to include. Chapter 6 discusses this in more detail.

## 2.1.2 Stage 2: Managing Stakeholders

A key finding from the REA was that the SIB development process not only introduces new stakeholders into the commissioning process (that is, social investors), but it also requires a shift in the way that stakeholders may have traditionally worked together. The case study and sector expert research confirmed this finding, with ‘managing stakeholders’ in the SIB development process being the most complex and challenging stage for commissioners. The REA found that several evaluations, involving interviews with commissioners, have highlighted already that SIB contracts do introduce new actors into the development process (Fraser, et al., 2018) (Tan, et al., 2015) (Ronicle, Fraser, Tan, & Erskine, 2017). These include “*many new actors, such as intermediaries, lawyers, specialists in social investing and external investors (private or socially motivated)*” (Tan, et al., 2015, p. 60). While this requires practical changes in the way commissioners work with different stakeholders, some research argues that it also requires a psychological shift, as requiring the input of advisors and other stakeholders can lessen commissioners’ influence over the development process (Ronicle, Fox, & Stanworth, 2016) (Collaborate, Newcastle University, 2017).

This study explored these challenges in more detail and provided insights on practical approaches to managing stakeholders. It found that different considerations are needed depending on whether SIBs are commissioner-led (that is, where the commissioning organisation has developed the SIB), or provider-led (that is, where providers have developed a SIB model which they then take to commissioners to fund through outcome payments). We provide more information on this below.

### 2.1.2.1 Engaging commissioners

The main challenges during this step of the process are:

- Engaging commissioners to be involved in a provider-led SIB, who may not immediately see the need for the SIB or might have ideological opposition to SIBs
- Commissioning across sectors can be difficult when there are fragmented funding pots and complex negotiations
- Some commissioners face difficulty in forging relationships with new actors because the process takes time and is resource intensive.

#### **Engaging commissioners for provider-led SIBs**

Although the primary focus of this study was to explore the challenges that commissioners face in the SIB development process, some of the case studies were with provider-led SIBs, which provided useful insights into the challenges of engaging commissioners, and how providers overcame them. These challenges are highlighted here because the lessons are transferable to the issues commissioners might face in engaging other commissioners from other geographical areas, or from different sectors.

Arguably the biggest barriers that providers faced when trying to engage commissioners were demonstrating commissioners’ need for the service and overcoming ideological opposition or suspicion of SIBs (see Section 2.1.1.1 for more detail on the causes of this suspicion). The first challenge stems from provider-led SIBs’ disruption of commissioners’ usual commissioning practices, particularly in terms of how it implies that commissioners have less ownership of the SIB model. Interviewees said that in the context of this new dynamic, providers need to have a good knowledge of what is important to the commissioner, and what organisational and political factors might be at play, that could either lessen or increase commissioners’ appetite for a SIB. One interviewee stated that it was important to go to commissioners and

listen to what their needs are, keeping the conversation focused on what commissioners want to achieve, rather than trying to sell a SIB model.

*“You need to start by really speaking [commissioners’] language, play on their interests... Get the [commissioner] to feel it is in the driving seat.”* – Sector stakeholder

Interviewees commented that it was important to understand the political context, so that the SIB can be framed in the right way. Several interviewees highlighted the problem of language (first discussed in Section 2.1.1.1), and how discussion of ‘bonds’, and of private investment, often clouded conversations relating to the actual intervention or outcomes being sought. In some cases, interviewees thought it was important to understand commissioners’ historical engagement with the world of SIBs, and whether generally the area is amenable to the SIB mechanism or again if it is looked upon with suspicion.

*“The SIB is a very tarnished brand and it’s seen as something that is imposed on [commissioners]”*  
– Sector stakeholder

*“[It’s about] explaining it in language that stakeholders will understand. So clearly a Conservative authority is going to have different expectations to a Labour authority... and different personalities will have different perspectives on stuff and their past experiences will be a factor in terms of their decision-making process.”* – Sector expert

Box 2.5 provides an example of how one provider successfully engaged with a commissioner.

#### **Box 2.5: Engaging commissioners for a provider-led model**

One provider initially struggled to engage a local authority to proceed with a SIB. Interviewees described that the local authority showed some nervousness about engaging with the model.

*“The nervousness about going down this route and commissioning like this is so different. But also politically... [Some] groups aren’t going to be automatically interested in social investment and OK social investors want a social return as well as financial but a lot of it is still private money... so you have to get through the politics of it.”* - Provider

The provider overcame this issue through persevering with contacting the local authority and having meetings with various different stakeholders. Eventually they were able to convince some key, enthusiastic individuals within the local authority who championed it within the organisation. One interviewee said it was necessary to tackle the ‘nervousness’ problem early on, by being bold about the funding climate and the need for LAs to think differently about how preventative services can be funded. The interviewee said it was important to be honest about the potential risks of the SIB model, but also about its benefits.

#### **Cross-sector commissioning**

Along with provider-led models, some commissioner-led SIBs have necessitated cross-sector collaboration. The REA found that there is some evidence highlighting the challenges that commissioners faced in relation to working with other commissioners. The evidence for this was limited, and based on commentary rather than specific primary research, but the research suggested that fragmented funding across different departments and authorities can strain negotiations, magnifying any difficulties engaging and working with other commissioners (Keohane, Mulheirn, & Shorthouse, 2013). The case study research highlighted that one of the challenges for local authority commissioners in several SIBs was engaging health commissioners (such as Clinical Commissioning Groups (CCGs)). In one case, the discussions were strained because the local authority’s footprint was not coterminous with the CCG’s, which added

complexity to decisions about cohorts and referral routes. Several sector experts highlighted that problems can emerge between collaborating commissioners regarding apportioning costs for the share of a SIB. This could happen, for example, if one organisation has traditionally funded activity in a certain area, but another organisation (or organisations) reap(s) most of the benefits and/or the savings from the SIB.

The Office for Public Management (2016) reflect that in contexts of multiple commissioners, different actors have different expectations of evidence, so it is important that commissioners are knowledgeable about how to 'pitch' the SIB development process. In one case study SIB, stakeholders emphasised the importance of taking a partnership approach from the beginning. In this example the lead commissioner set up a tri-party working group with key commissioning partners to ensure that this approach was embedded throughout.

However, this challenge is not necessarily unique to SIBs. The REA identified a study on the topic of commissioning in complex environments, which suggested that this challenge is more due to an engrained culture of different commissioning organisations not working together (Collaborate, Newcastle University, 2017). Following consultations with commissioners, the author commented that *"funders and public sector commissioners described the challenge of seeking to develop complexity-friendly approaches within larger contexts that do not work in this way. They mentioned problems with siloed funding at national government level."* (Collaborate, Newcastle University, 2017, p. 17). The case study research confirmed this, with stakeholders arguing that effective cross-sector commissioning needs to be facilitated by a wider public service commissioning transformation strategy.

*"What's beginning to work well is an understanding that isn't just a council problem and that this is a whole system problem."* – Commissioner

The case study research highlighted that local area transformation strategies can facilitate the process of cross-sector collaboration, although stakeholders noted that the changing culture of working can take time. For example, in one area, the development of a SIB between two commissioning organisations was facilitated by broader changes to the local area's commissioning approaches.

*"We were able to make good progress with this SIB because we already have joint commissioning in place with our [strategic partners]. This meant it meant there was a general acceptance that we both pay for the intervention and we equally share the outcomes. It took some of the challenging negotiations out of the equation."* - Commissioner

The challenges of cross-sector collaboration in the SIB development process identified through the case study research were largely context-specific and no transferable approaches to overcoming these challenges emerged. However, the findings do indicate that further thought is needed regarding whole-system change in commissioning. Chapter 6 discusses some of the possible approaches that could address this problem.

### 2.1.2.2 Engaging internal stakeholders

The main challenge for commissioners during this step of the process is:

- Securing internal buy-in can be difficult when there is misunderstanding from colleagues about what a SIB is
- Churn within the commissioning organisation

By far the most common challenge mentioned in the case study and sector expert research was engaging stakeholders internal to the commissioning organisation. As discussed already in Section 2.1.1.1, some of the barriers for proceeding with a SIB relate to internal stakeholders' lack of understanding about SIBs (including the SIB language), and their ideological opposition to, or suspicion of, SIBs. Building on the findings of the REA, this section explores how these challenges have manifested in relation to keeping people engaged, and highlights the approaches taken by SIB leads to overcome these challenges.

### **Gaining and maintaining key stakeholders' engagement**

The REA found that gaining and maintaining key decision-makers' engagement during the SIB development process was challenging for commissioners. In their survey of commissioners, Tsukamoto et al (2018) found that one of the key causes of SIBs not proceeding was that commissioners had failed to secure internal buy-in. The REA found that securing buy-in is particularly challenging in contexts where SIBs take a long time to develop and commissioning organisations experience churn or key contacts move into new roles (Stanworth, 2018) (Ecorys, ATQ Consultants, Forthcoming) (Ronicle, Fox, & Stanworth, 2016). For example, during the course of the development process for one SIB, there was a major restructuring within the local authority, meaning that commissioners had to try and engage a new and different group of people in the organisation.

However, the case study research highlighted that structural changes in a commissioning organisation can also present opportunities for SIB leads, so it is important for them to keep abreast of how commissioning organisations' strategies and interests may change, and how they can capitalise on such changes.

*"The change in senior leadership... and the transformation agenda raised this up the priority list... there has been a real shift in perception of SIBs as a potential solution to some of those transformation and savings challenges." - Commissioner*

Most interviewees, including stakeholders from case study SIBs and sector experts, argued that it is important to engage key decision-makers very early on in the SIB commissioning process. One stakeholder recalled having lots of meetings with politicians and senior stakeholders to dispel myths about SIBs. Another stakeholder reflected on the importance of knowing who the senior stakeholders are and what interests they have. For example, in one area the CEO of the commissioning organisation was interested in innovation and new ideas, so the SIB leads engaged them early on to get senior backing for the SIB.

Alongside getting political and senior executive buy-in, the case study research emphasised the importance of getting buy-in from key staff in different teams within the commissioning organisation. These included individuals from the finance department, legal team, and procurement team, as well as service leads. Box 2.7 highlights an example of good practice, in terms of keeping key stakeholders engaged.

### Box 2.7: Engaging internal stakeholders

SIB leaders in one of the case study SIBs established a working group of staff from different teams within the council to be involved in the design and development of the SIB. There were representatives from the service leads, business development teams, legal, procurement, and finance. The working group met on a regular basis and were engaged throughout the design phase to procurement. Although not all meetings were relevant to all members of the working group, interviewees highlighted that it was beneficial because they were abreast of all the developments, which meant that any issues could be addressed promptly.

*“If everybody’s hearing everything then you just get that consistency, everyone keeps up with things and is kept on board.” - Commissioner*

#### 2.1.2.3 Engaging investors

The main challenge for commissioners during this step of the process is:

- The limited supply of investors willing to invest in the SIB market, and the variations in the extent to which investors are involved in shaping the SIB

The REA found limited evidence regarding the challenges that commissioners face when engaging investors. The case study research explored this further and found that commissioners faced limited challenges in engaging investors because usually they asked providers to come with the investor. This meant that working relationships had already been forged between providers and investors prior to any significant engagement with commissioners. Several SIB leads stated that this process worked well because it meant that they could focus on engaging internal stakeholders during SIB commissioning process, rather than having to manage external stakeholders (like investors) as well.

However, several commissioners did highlight that there were not many investors to choose from, and the investors that were available varied in terms of the extent to which they were involved in shaping the model. While this did not necessarily cause challenges when developing their SIB, some commissioners questioned the lack of diversity and choice within the investor market and whether a limited supply of investors could limit the potential for scaling the SIB market. This is explored further in Chapter 5.

#### 2.1.2.4 Engaging providers

The main challenge for commissioners during this step of the process is:

- Explaining the SIB mechanism to providers and explaining the rationale for running the intervention through the SIB mechanism

Like the evidence base on engaging investors, the REA also found limited evidence on how commissioners involved in commissioner-led SIBs should best engage with providers. Several sector experts highlighted that smaller providers have been less involved in the SIB market than originally expected (since SIBs were claimed to encourage smaller providers because investors would cover their up-front delivery costs). Commissioners involved in the case study research also recognised that for many providers, SIBs are a new concept. Therefore, providers need to be engaged early on to ensure that they have a better understanding of the SIB mechanism and understand commissioners’ rationale for running an intervention through a SIB. Such engagement should increase the number of providers who will submit a bid.

*“Engage with your market. Providers need to understand what the SIB is about and how it might affect the contracting arrangements.” – Provider*

However, the research also found that engaging with providers and building the local market had been complicated by some investors' requirements. To lessen their financial risk, some investors might pass some risk onto the providers (for example, a provider might be paid on the number of referrals made rather than simply receiving a monthly fee irrespective of performance). One commissioner agreed that this set up in their SIB reduced the likelihood of smaller providers being engaged. While this could cause issues for commissioners in terms of getting the best possible provider to deliver the service (as the best provider might be 'priced out'), in general this is more of a challenge for scaling the wider market. This is therefore explored more in Chapter 5.

### 2.1.2.5 *Balancing different stakeholders' needs*

The main challenge for commissioners during this step of the process is:

- Some commissioners face difficulty in forging relationships with new actors because the process takes time and is resource intensive.

Given that the SIB development process requires the engagement of new actors, such as investors and advisors, there have been some 'lessons learned' identified in both the literature and the case study research. The REA found that evidence based on primary research with commissioners highlighted that these new relationships were sometimes difficult to forge and that they would have benefitted from engaging in relationships early on in the SIB development process (Ecorys UK, ATQ Consultants, 2017). Without developing these effective relationships early on, commissioners are at risk of making incorrect assumptions about a number of areas, including expected rates of return (as mentioned in Section 2.1.1).

Some sources, including a review of evidence, noted that advisors are key to successfully managing the range of different 'new actors' involved (Fox & O'Leary, 2017) (Social Finance, 2014), so commissioners would need to factor in the costs of an advisor to help them navigate this new role. Other commentators emphasise that commissioners should prioritise collaborative working to resolve issues (Jefford, 2018). As Archer (2018: no pagination) states in a blog post, *"the foundation to making progress is an acceptance that when a potential existential risk becomes material, no single party – contractor, commissioner, operator or service user is likely to have all the knowledge necessary to manage the consequences on their own. It becomes a dance of interdependencies."* Box 2.8 highlights some practical ways that stakeholders worked collaboratively in North Somerset's 'Turning the Tide' SIB.

**Box 2.8: Case study: ensuring effective collaboration across stakeholders**

The evaluation of the Turning the Tide SIB (Ecorys UK and The Hadley Centre, 2018) identified that one of the critical 'success factors' during the process of commissioning the SIB was that stakeholders collaborated effectively. Effective collaboration was achieved through:

- Using an advisor to connect the council to the investors and service providers
- The commissioner holding market-testing days to formally propose ideas to potential service providers and social investors
- Running a competitive dialogue process to procure the service.

Overall, the case study research was not conclusive on which stage investors and advisors should be involved. Some interviewees argued that it was not necessary to involve these stakeholders in the early conversations, as they would add another layer of complexity. Conversely, some argued that it was important to have advisors on board early on, to ensure that tasks undertaken during the development of

the business case were done correctly, and that potential pitfalls were spotted quickly, and where possible avoided. Overall it would seem that it depends more on commissioning organisations' own capabilities in – and capacity for - developing the business case as to when they should engage advisors.

### 2.1.2.6 Approach to procurement

The main challenges for commissioners during this step of the process are:

- Overcoming potential conflicts of interest in the design and commissioning process, particularly in provider-led SIBs
- Operating in often rigid structures of their organisations' standard procurement practices

The issue of potential conflicts of interest has been explored in the literature. The REA found that conflicts of interest are of concern in all SIBs, but particularly for provider-led SIBs, where providers have inputted significant time and resource into developing a contract with a presumption, or at least expectation, that the contract should be awarded to them without open competition. Reflecting on the difficulties faced by one SIB, Fraser et al (Forthcoming, p23) summarised: *“the dilemma faced by the network, was how to reconcile the collaborative nature of SIB redesign processes and the knowledge disparities this generates between different organisations, with the competitive service tender traditions that most actors felt guaranteed a ‘fair’ process”*. Another review of literature highlighted that public procurement rules added to the complexity and uncertainty that commissioners faced, especially when there are many contractual obligations being made between various stakeholders (Fox & O'Leary, 2017).

Recent evidence from the CBO Fund evaluation found that LA and other commissioners were cautious about proceeding with a procurement approach that favours the lead provider (such as the use of Prior Information Notices<sup>13</sup> and/or a Voluntary Ex Ante Transparency (VEAT) notice<sup>14</sup>), particularly when they believed there is a prospect of genuine competition, or the potential to achieve better value for money with other providers and/or investors. This can cause tensions, especially when commissioners are pressurised to use a light-touch process without being fully inclined to do so, or if they use a light-touch process and are subsequently challenged by another bidder, which can cause additional delay and expense (Ronicle, Fox, Stanworth, & Smith, 2019).

Such concerns were also reflected in the case study research. Regarding one provider-led SIB, an interviewee commented on how there was a “general nervousness” from LAs regarding any sort of procurement that was not run-of-the-mill. In another case study, a provider explained that the commissioners were engaging with potential providers to talk about the design and development of the SIB, but were worried about being accused of favouring potential providers or giving away information that might give providers an unfair advantage. This can cause commissioners to feel uneasy about the process.

*“You want to do something that is really innovative and iterative and about having conversations with each other and sharing and developing together and in the mean time you are judging people and giving them points of out 10... it feels uncomfortable really.” – Commissioner*

<sup>13</sup> A Prior Information Notice (PIN) is a method for providing the market place with early notification of intent to award a contract/framework. It allows a narrow window for potential bidders to express an interest and then to submit a proposal in a period as short as 10 days.

<sup>14</sup> A VEAT provides retrospective notice of decision to award a contract to a provider without competition. It is only used when there is a reason to believe that a single, named organisation is in a unique position to deliver a service to the requirements of the commissioner

In addition there can be further challenges in procuring both provider-lead and commissioner-led SIBs if they are undertaken in a context of rigid commissioning and procurement structures. Stakeholders from several of the case study SIBs commented on how their organisations' procurement approach was well-established and inflexible. Sometimes procurement teams were risk averse and did not want to procure in a different way, but at other times they were restricted by processes.

*"I guess we have a process where there's a procurement team in the council, who are used to procuring in a certain way. So everything's done on a template, or there's a set process... and this [SIB] process involved doing things slightly differently. But there's maybe a reluctance if you've got someone who isn't willing to change... and sometimes their hands are tied by the processes that are there." - Commissioner*

The case study research highlighted that although procurement can cause consternation amongst commissioners, these issues are not necessarily specific to SIBs, and are challenges to all complex commissioning. The challenges were more acute for commissioners whose procurement teams were small and/or inexperienced. One sector stakeholder described how in some LAs, commissioning was seen as a back-office function, when complex commissioning should necessitate an active engagement of procurement teams throughout.

*"Some LAs were really quite ill-equipped to develop these kind of complex commissioning projects."*  
– Sector expert

One way to overcome this – as highlighted in Section 2.1.2.6 – is to involve the procurement team (and legal team if needed) in the SIB development process from an early stage, as part of a cross-organisational working group. This would allow procurement teams to advise on the process of provider market dialogue and collaboration. This occurred in several case study examples and appeared to function well. For example, commissioners in one provider-led SIB excluded any discussions with the provider when they were setting out the specification for the bid. They also held a market engagement event to engage other providers and give them the opportunity to input their views. Commissioners stated that it was important to be aware of potential procurement challenges early on, and to be aware of potential ways to mitigate such issues, through utilising resources such as [GO Lab's Procurement Guide](#). Section 3.3 provides an overview of the benefits of taking more innovative approaches to procurement.

### 2.1.3 Stage 3: Designing the service

The findings from the REA did not provide a strong understanding of the challenges faced by commissioners when designing the service. The case study research aimed to explore the steps in this stage of SIB development in more detail, and it found more evidence on the challenges commissioners face in relation to choosing an intervention model, developing referral pathways, mapping out the expected client journey, and developing an evaluation approach. The research also provided more practical examples of how commissioners have overcome these issues.

### 2.1.3.1 *Choosing an intervention model*

The main challenges for commissioners during this step of the process are:

- Choosing to have an evidence-based intervention (and subsequently obtaining appropriate licenses)
- Giving up control over the design of the intervention to providers

The REA found limited evidence on the challenges that commissioners face in choosing an intervention model. The case study research explored why this was and found that very few commissioners involved in the case study research were involved in choosing or designing an intervention model. This was because most of the commissioners took the ‘black box’ approach to commissioning a service, where they would specify the cohort size, length of contract and outcomes, and let providers design a service that is most suitable for them. However, commissioners will have to take a view on the likely cost of an intervention in order to develop a business case and associated financial model.

#### **Evidence-based interventions**

Two studies referenced the potential challenges for commissioners in finding a suitable intervention model. The evaluation of the Turning the Tide SIB in North Somerset highlighted how there was some discussion in choosing whether an evidence-based intervention was appropriate. The Council decided that, based on the local needs of the children in their care, it was not necessary to have an evidence-based intervention (Ecorys UK and The Hadley Centre, 2018). However, if commissioners decide to proceed with an evidence-based model, potential barriers could include obtaining the appropriate licences for the model (Rotherham Metropolitan Borough Council, 2018). A recent blog post about the Pan-London edge of care SIB highlighted the benefits of a cross-local authority partnership in enabling a licensed and evidence-based service to be commissioned. The author of the blog said that LAs often struggle to commission evidence-based services because of small potential cohorts and the minimum scale per team that is required (Clark, 2019). However, one sector expert commented that designing a service is easier when there is just one commissioner. When working with multiple commissioners, there are challenges relating to deciding on a design that fits all parties’ needs and interests (see Section 2.1.2.1)

As most case study SIBs used a ‘black box’ approach, there was limited evidence from the case studies on the challenges of using evidence-based interventions. However, one SIB, which used an accredited model, found that there were some tensions between the recommendations of the accrediting body and those of the SIB lead. In particular, the accrediting body had lower recommended target numbers than those of the SIB lead, which caused some initial confusion for providers about which targets they needed to aim for. To overcome such an issue, the SIB lead needed to be clear about the requirements up front and communicate why there were differences between their target numbers and the accrediting body’s recommended target numbers.

## **'Black box' models**

Most of the case study stakeholders did not report having issues specifically with designing an intervention model, because they took a 'black box' approach to commissioning it. However, the challenge for commissioners lay in the change to their standard practice (where most were used to being prescriptive about the design of a project). As one stakeholder highlighted:

*"This was very different to our usual approach. We crunched all the numbers and worked out what we could spend, how many people we wanted to support and what we could pay on that basis, factoring in some savings and contingency. And then we just specified the outcomes and let the providers design the model. ... It's not exactly what I had in mind, but I think this is the freedom of the SIB."* - Commissioner

Outlining the specifications for the bid appeared to be more of a challenge in some sectors than in others. For example, during the development of one SIB that was in the health sector, the commissioner struggled to find any prior examples of specifications for such a contract. This suggests that existing resources and templates could be tailored in relation to different policy contexts.

*"I searched, and I asked around the networks that [the council] had built up in developing the SIB, to find any specifications for an outcomes-based contract in health, and I couldn't find any good examples."* - Commissioner

One commissioner commented that more often than not, providers know more than commissioners about what intervention works best for the target cohort, and that part of the SIB approach is about being able to give up the control of the design process. Rather than this being a challenge that commissioners can 'overcome', commissioners said it was more about being able to trust providers to design an effective service. The competitive dialogue process during procurement helps commissioners and providers refine the parameters of the intervention, so it is important commissioners focus their efforts on getting this stage right to ensure they are offered the right service design. As one commissioner stated:

*"Don't prescribe unless you're absolutely clear about what you want."* - Commissioner

Section 3.4 details some of the benefits of using the 'black box' approach for commissioners.

### **2.1.3.2 Developing referral pathways**

The main challenge for commissioners during this step of the process is:

- Developing referral pathways that prevent the 'cherry picking'<sup>15</sup> of people from whom outcomes might be easier to achieve.

In the REA, there was limited evidence of any challenges for commissioners relating to developing referral pathways. The case study research unpicked this stage of the SIB development process in more detail, and found some examples of minor challenges.

<sup>15</sup> Cherry picking is a perverse incentive whereby providers, investors or intermediaries select beneficiaries that are more likely to achieve the expected outcomes and leave outside the cohort the most challenging cases

Some of the challenges were context-specific; for example one SIB was being procured at the same time as a similar intervention was being procured through a fee-for-service mechanism. As the SIB cohort could be eligible for the other intervention, the commissioners had to design the referral pathways to ensure that there was no overlap.

Commissioners also reported that they had to define referral pathways to ensure that providers would target the people who were most in need, rather than those for whom it would be easier to claim an outcome. Box 2.9 provides a case study example of how some commissioners overcame this challenge.

**Box 2.9: Preventing cherry picking**

In one of the case studies the SIB had a large population from which they could potentially choose whom to support. This increased the risk of providers supporting only people for whom they could more easily achieve an outcome. To overcome this, they established one ‘front door’ for all referrals to come through, with a specific mechanism built in to identify people with more entrenched needs. This meant that the commissioner had more oversight of the referrals coming in and could ensure that those with more complex needs were being supported through the SIB.

*“Because our cohort is so big... we needed to be really careful that providers couldn’t cherry pick those they would get an outcome for... so that’s why we have got a different mechanism for those really chaotic people.” – Commissioner*

### 2.1.3.3 Developing an evaluation approach

The main challenges for commissioners during this step of the process are:

- Agreeing what should be measured, by whom and how often
- Designing an evaluation approach that will test the impact of the SIB mechanism (in comparison to another contracting mechanism such as fee-for-service).

The REA found some evidence to indicate commissioners faced some challenges in agreeing on, and designing, an appropriate monitoring and evaluation approach. One academic study commented on the difficulty faced by stakeholders in agreeing what should be measured in the contracts, by whom and how often, although it was not clear if this was an issue that was particularly pertinent to commissioners (Fraser, Tan, Lagarde, & Mays, 2018). Another study commented that rigorous evaluation *“might be perceived by commissioners as an additional expense”* (Carter, FitzGerald, Dixon, Hameed, & Airoidi, 2018, p. 12).

Challenges relating to developing an evaluation approach were mentioned in just one of the case studies. In this case study, the commissioners were unable to develop an evaluation approach that would allow them to ascertain the impact of the SIB mechanism on the intervention. In this case, difficulties arose because they were unable to set up a comparison group that would have enabled them to compare the intervention if it were run through a fee-for-service approach, with the SIB intervention. In the future, the interviewees stated that they would put this in place early in the commissioning process.

## 2.1.4 Planning for delivery

The REA found limited evidence on the challenges that commissioners faced in planning for delivery, and the evidence tended to focus on issues in developing a contract and in developing robust performance management systems. The case study and sector expert research uncovered more challenges and ‘lessons learned’ from commissioners in relation to these aspects, as well as other aspects of the ‘planning for delivery’ stage, including raising awareness of the SIB to other stakeholders.

### 2.1.4.1 Data collection or performance management systems developed

The main challenges for commissioners during this step of the process are:

- Having strong performance management processes in place
- Designing or utilising data collection tools that are fit-for-purpose

Across the literature reviewed, a key challenge for commissioners was developing robust systems of performance or outcomes-based management (Social Finance, 2017). In particular, the research suggested that there seemed to be a tension with designing a robust system without overburdening stakeholders’ time and resource. For example, one evaluation report commented that *“some commissioners were concerned that the additional contract management, and associated time demands, did not justify the benefits from the SIB approach”* (Ronicle, Fox, & Stanworth, 2016, p. 20).

The case study research confirmed these findings but also highlighted differences in the varying policy contexts. For example, several stakeholders in the health context highlighted that health commissioners tend to be more hands-off in terms of their contract management approaches, so the SIB process required them to think about the approach to contract management in a different way. Another commissioner involved in the children’s services context felt that commissioners and investors have different views on contract management, with investors usually having stricter requirements because of the financial risk.

*“Councils aren’t very good at contract management and holding people accountable to performance and the private sector is much better at this because they’ve got their own money invested.”* – Commissioner

Several commissioners – who were already at the point of service delivery during the case study – reflected that they should have paid more attention to establishing better performance management systems during the SIB development process. Examples of how this could have been improved included having more discussions earlier on with investors to identify the best approach, and scoping out service providers’ ability to implement performance management systems. For example, in one SIB, the provider outsourced the performance management to ensure that it could be completed at the level of quality needed to meet the investor’s requirements. Section 3.2 highlights how such tasks have been beneficial for commissioners.

There was less evidence relating to challenges in data collection. However, an interviewee in one LA-led SIB reflected on the importance of involving service leads in the discussions on data collection approaches. For example, the SIB leads decided on a data collection tool for the SIB without consulting the service lead (who knew there would be difficulties implementing it). When the tool was used in practice, it did not work well and they had to rethink their approach. Therefore, involving service leads in data collection planning can help reduce the risk of approaches not working.

### 2.1.4.2 Raising awareness of the SIB to other stakeholders

The main challenge for commissioners during this step of the process is:

- Gaining buy-in from other members of staff within the commissioning organisation like service managers and frontline staff

Although, as highlighted in Section 2.1.2, balancing the needs of various stakeholders is a key part of the early SIB development process, once a service has been procured it is also important for commissioners to engage with members of staff, including service managers and frontline staff, to get their buy-in to the SIB. The case study research highlighted that some commissioners struggled to communicate what the SIB was and how it would affect others' roles. This was the case particularly in relation to SIBs in children's services, where staff were sometimes concerned about how the SIB intervention would affect their provision. Stakeholders in various SIBs reported overcoming this issue through the use of workshops, or by setting up implementation groups (where staff could advise on how a certain aspect of the SIB intervention could work). Box 2.10 provides an example of how commissioners overcame challenges in relation to securing buy-in from staff.

#### Box 2.10: Securing buy-in from other stakeholders

Stakeholders in one case study SIB (operating in children's services) commented on how there was some reticence from their social workers about the new intervention that would be delivered through the SIB, because social workers thought that it overlapped with what they were providing. Recognising this, the SIB leads conducted several workshops with staff to allow them to raise any questions or concerns they had about the SIB. Through the workshops they were able to 'myth-bust' and explain the service in detail.

*"It allowed them to ask some of those questions like 'will this mean I'll lose my job, what does it mean?', the opportunity was then to have the discussions and clear the air a bit." - Commissioner*

### 2.1.4.3 Signing the contract

The main challenges for commissioners during this step of the process are:

- Drafting an appropriate contract
- Aligning key stakeholders' (commissioners, investors and providers) interests so all parties are satisfied with the contract

#### Drafting the contract

In the recent CBO evaluation report, investors stated that getting the details of the contract right was the single most important issue in determining whether a deal would go through (Ronicle, Fox, Stanworth, & Smith, 2019). The evaluation found that commissioners had generally thought the template contract from [Centre for SIBs](#) was helpful, although there had been some specific challenges. In particular, the evaluation found that commissioners' awareness of the contract template was generally quite low, some commissioners had to use internal forms of contracts, and others had found it too detailed for their needs (Ronicle, Fox, Stanworth, & Smith, 2019). For example, primary research into one SIB highlighted how, although the commissioners utilised a template contract from the Centre for SIBs – and it provided a good starting point - it did not take into account the range of operational obligations and requirements of the contracted services. As a result, the contract went through a lot of iterations in order to appease all of the relevant stakeholders (Ecorys, ATQ Consultants, Forthcoming).

Other commentary (not based on direct research with commissioners) highlighted that there are several contractual terms that pose a challenge when commissioning SIBs. These are typically standard government service contract terms that are unsuitable in a SIB context; exemplified in the difference between contracts where a commissioner is the direct purchaser of a service, and where the commissioner becomes a purchaser of outcomes from the same service, where the risk of underperformance is transferred from the commissioner to investors (Kuznetzova & Palumbo, 2014).

The case study research highlighted several ways that commissioners had overcome the challenges of drafting the contract. Some had used contract templates, including the Crown Commercial Services standard model, although these were not specific to SIBs. Most commissioners reported engaging their legal teams early on in the procurement process, to advise and support on the drafting of the contract. Several commissioners stated that sharing the draft contract during the procurement stage helped to speed up the contracting process.

*“The crucial thing we did was get providers to sign up [to the contract] during the procurement process.” – Commissioner*

Box 2.11 provides a case study example of how one commissioner was able to speed up the post-award contract agreement stage.

#### **Box 2.11: Speeding up the contracting process**

Commissioners in one of the SIB case studies put out the contract at the same time as the invitation to tender (ITT). This was not an unusual practice, but something that the commissioning organisation does with all of its ITTs. Although this required quite a lot of work for the commissioner up front (because they had to finalise the contract before they went out to ITT), it ensured that providers had sight of the contract and could suggest any amendments during the procurement process. This helped to reduce the time spent post-award, so that they could focus on getting the service up and running.

*“There’s always a bit of to-ing and fro-ing with providers at the contract award stage... but no more than it is for a normal contracting approach.” – Commissioner*

#### **Aligning stakeholders’ interests**

Recent evidence from the CBO evaluation indicates that a particular challenge in the commissioning process is aligning the different interests of multiple stakeholders so that all parties find the contract acceptable. Many commissioners reported that they did not know how they could achieve the right balance of risk between different parties to the contract. Findings from the case study research echoed this. For example, one commissioner commented on the long and protracted discussions that were held to ensure all stakeholders were happy with the approach.

*“It’s taken a really long time to get there. And we had to iron out a few issues related to conflicts of interest and make sure everyone was happy with the arrangement.” – Commissioner*

Aside from sharing the draft contract at the ITT stage (as described in Box 2.11), the case study research did not highlight any ways to overcome this issue. Similar to other approaches to managing stakeholders, the evidence would suggest it is important to have regular communications with all parties so that everyone is kept abreast of any emerging issues.

## 2.2 The uniqueness of challenges to the SIB context

The case study and sector expert research, along with the REA, provided evidence on the extent to which the barriers and challenges identified in Section 2.1 are unique to the SIB mechanism, or if instead they are common to all complex commissioning.

The evidence that had a higher quality of evidence score tended to suggest that it is quite difficult to tell the extent to which the barriers and challenges are unique to the SIB mechanism, because there is little rigorous counterfactual comparison of SIBs versus alternative methods (Fraser, Tan, Mays, & Boaz, Forthcoming) (Tsukamoto, Hoong Sin, & Nishimura, 2018) (Tan, et al., 2015). Floyd (2017) also comments that because SIBs are a fairly new contract type and there are no set processes for developing them, it is difficult to compare them with other contract types.

However, a lack of rigorous counterfactual has not meant that this issue has not been explored in the wider literature. Evaluation evidence indicates that the challenges in managing the range of actors is different to SIB contracts, especially because SIB contracts distribute risk amongst actors in new ways (Fraser, et al., 2018) and they require new ways of doing things (Ronicle, Fraser, Tan, & Erskine, 2017). Box 2.12 provides an overview of one study that looked at differences in governance and accountability mechanisms between SIBs and PbR. Survey research with LAs involved in developing SIBs suggested that where commissioners said that they would not be involved in SIBs again, it was due to their bureaucratic nature, the additional costs, and concerns about specific risks (Tsukamoto, Hoong Sin, & Nishimura, 2018).

### **Box 2.12: Case study – accountability mechanisms in SIBs and Payment by Results (PbR)<sup>16</sup> approaches**

Recent research exploring the governance and accountability mechanisms that operate within SIBs provides an insightful perspective on a difference between the SIB and PbR mechanism. Through a comparative documentary analysis of a conventional PbR scheme (the Work Programme), and a SIB scheme (the Innovation Fund), Carter (2019) finds that while in theory, both approaches should facilitate collaboration, in practice this has not occurred. The study finds that although the intention for Work Programme providers to work collaboratively with other local agencies and their supply chains was written into the invitation-to-tender document, in practice this did not occur, with the author concluding that “*this has been a toothless recommendation... Prime providers have starved small sub-prime organisations of referrals and of income flows.*” (Carter, 2019, p. no pagination). In contrast, the author finds that while service provider experiences of SIBs have not been universally positive, the involvement of investors came as a ‘culture shock’, particularly by investors’ commitment to secure good social returns. Although only based on the experiences of two programmes, this study indicates that accountabilities in SIBs projects are viewed as a shared project, where there are co-dependencies between stakeholders in the pursuit of social outcomes.

There were some examples in the case study research of where the challenges faced during the commissioning process were seen as unique to SIBs. As alluded to in Section 2.1, the case study research highlighted that some challenges in procurement were unique to SIBs, but this was because commissioners were trying to be innovative in a system that was inflexible. Another challenge that was common amongst commissioners was understanding the SIB terminology and getting up to speed with the SIB approach.

<sup>16</sup> Payment by results is the practice of paying providers for delivering public services wholly or partly on the basis of results achieved

However, some of the research identified through the REA points towards there being similarities in the challenges that commissioners faced between SIBs and OBC more generally. A review of evidence suggested that similar issues were identified in a PbR context, such as high complexity, insufficient time to develop and commission programmes, and the high cost of procurement (Fox & O'Leary, 2017). Other research indicates that developing relationships early on, co-production, and unrestricted long-term funding are also challenges in the context of OBC (Collaborate, Newcastle University, 2017).

The evidence indicates that some challenges are common in all complex commissioning. A report based on the evaluation of the CBO Fund suggests that commissioners should not see a SIB as 'unique' compared to other types of commissioning. The apparent complexity of SIBs should not be a deterrent because the process requires *"more or less the same underlying management and procurement processes as any other"* (Ecorys UK, ATQ Consultants, 2017, p. 12). Kuznetsova and Palumbo (2014) comment that the issues for commissioners are common in procurement, but they are exacerbated because SIB contracts are untested and rigorous, and deal with a range of sensitive issues. Some of the sector experts interviewed commented that the framing of SIBs as being a new and innovative approach can contribute to the perception that they are more different to other approaches to contracting than they are in practice. Some interviewees commented that the SIB mechanism – and its perceived novelty - was used sometimes as a scapegoat for broader challenges around stakeholder engagement, procurement and contracting. One sector expert with wider experience of public sector reform highlighted that some of these challenges are common to all innovation and reflect a fear of the unknown, or risk aversion amongst commissioners.

This sentiment was echoed by a commissioner. Speaking about procurement (specifically around the use of competitive dialogue), one commissioner commented that it is challenging because it is a resource-intensive approach to commissioning, rather than it being difficult because it is a SIB:

*"It's not really about SIBs, it's more about the wider philosophy behind procurement process."* –  
Commissioner

## 2.3 Variations in the challenges and barriers faced by commissioners

The REA and the case study research provided insights into the variations in the challenges faced by commissioners during the SIB commissioning process, in two main areas: in relation to the primary purpose of the SIB, and in relation to the policy context in which the SIB was operating.

### Primary purpose of the SIB

Part of the aim of the study was to understand how challenges in the commissioning process varied by the primary purpose of the SIB. The REA provided very little insight into the primary purpose of SIBs (and less so into the variations in challenges), so the case study research aimed to understand more about both aspects. Interviewees were asked about the 'primary purpose' of their SIB. Each case study was categorised by the most commonly stated 'primary purpose' (by all stakeholders interviewed), which allowed a comparison of the different challenges. Table 2.1 below provides a summary of the primary purpose and the common challenges faced by the corresponding SIBs. The four primary purposes identified were:

- Improve outcomes for clients/beneficiaries
- Innovate with commissioning approaches/testing the SIB model
- Provide a preventative programme that could not be funded otherwise
- Strengthening existing services.

Although there are some overlaps with challenges (particularly around ideological opposition/suspicion and managing stakeholders), the table shows that commissioners did face different challenges depending on the primary purpose of the SIB.

**Table 2.1: Challenges by primary purpose of the SIB**

Primary purpose	Common challenges	Commentary
<p>Improve outcomes for clients/beneficiaries</p>	<p><b>Developing the business case</b></p> <ul style="list-style-type: none"> <li>• Demonstrating the need for the service</li> <li>• Overcoming ideological opposition/suspicion</li> <li>• Balancing risk (especially reputational risk for commissioner)</li> <li>• Defining simple and easily measureable outcomes</li> <li>• Demonstrating the financial case</li> <li>• Interrogating data</li> </ul> <p><b>Managing Stakeholders</b></p> <ul style="list-style-type: none"> <li>• Engaging other commissioners (e.g. other LAs)</li> <li>• Getting buy-in from key decision-makers (e.g. service leads)</li> <li>• Procurement and using competitive dialogue</li> </ul> <p><b>Designing the service</b></p> <ul style="list-style-type: none"> <li>• Choosing an intervention model (deciding on evidence-based vs. 'black box' approach)</li> </ul> <p><b>Planning for delivery</b></p> <ul style="list-style-type: none"> <li>• Agreeing a contract all parties were satisfied with</li> <li>• Developing data collection approaches</li> <li>• Securing buy-in from other staff (e.g. service managers and frontline staff)</li> </ul>	<p>For SIBs where the main aim was to improve outcomes for beneficiaries, commissioners faced challenges across all stages. Within these SIBs, commissioners struggled in getting buy-in from key stakeholders within their organisation (particularly service leads) and were faced with some ideological opposition.</p> <p>To build a convincing case that the SIB would indeed improve outcomes, commissioners received quite a lot of scrutiny around demonstrating the (social and financial) need for the service, defining appropriate outcomes and balancing risk. Reputational risk was a concern for commissioning organisations because of the risk that the SIB would not improve outcomes.</p> <p>Commissioners found it challenging to choose the most appropriate intervention model that would lead to improved outcomes, as well as establishing data collection approaches that would evidence the impact of the service on beneficiaries.</p> <p>Finally, within these SIBs, commissioners also needed to work closely with service leads and staff working on the ground, to ensure that people understood what the new service would be and how it linked in with their existing provision.</p>
<p>Innovate with commissioning approaches / testing the SIB model</p>	<p><b>Developing the business case</b></p> <ul style="list-style-type: none"> <li>• Defining the outcomes</li> <li>• Lengthy development process</li> <li>• Interrogating the data</li> </ul> <p><b>Managing Stakeholders</b></p> <ul style="list-style-type: none"> <li>• Engaging with senior decision-makers (e.g. politicians)</li> <li>• Engaging investors</li> <li>• Engaging with other commissioners (cross-sector)</li> <li>• Potential conflict of interest concerns with procurement</li> <li>• Provider engagement</li> </ul> <p><b>Designing the service</b></p>	<p>Where the SIB mechanism was being tested or used as part of a wider approach to innovate, the challenges were mainly during developing the business case and managing stakeholders. In particular, commissioners in these SIBs needed to gain buy-in from key stakeholders, not just within commissioning organisations (e.g. in LAs, elected members) but also with other commissioner types (as part of a wider push to transform commissioning).</p> <p>These SIBs also needed to focus efforts on raising awareness of the SIB approach to providers, as part of local market-building efforts.</p>

	<ul style="list-style-type: none"> <li>• Choosing an intervention model (deciding on evidence-based vs. 'black box' approach)</li> <li>• Developing an evaluation approach</li> </ul> <p><b>Planning for delivery</b></p> <ul style="list-style-type: none"> <li>• Developing performance management systems</li> </ul>	
Provide a preventative programme that could not be funded otherwise	<p><b>Developing the business case</b></p> <ul style="list-style-type: none"> <li>• Overcoming ideological opposition/suspicion</li> <li>• Demonstrating the financial case</li> <li>• Undertaking the financial modelling</li> </ul> <p><b>Managing Stakeholders</b></p> <ul style="list-style-type: none"> <li>• Engaging key decision-makers in the commissioning organisation</li> <li>• Engaging providers</li> <li>• Inflexible procurement structures</li> <li>• Setting procurement specifications</li> </ul> <p><b>Designing the service</b></p> <ul style="list-style-type: none"> <li>• Defining the referral pathways</li> </ul> <p><b>Planning for delivery</b></p> <ul style="list-style-type: none"> <li>• Developing performance management systems</li> </ul>	<p>The main challenges for commissioners who used the SIB mechanism to provide a preventative approach, were demonstrating the need for the service and the potential cost-savings. Commissioners in these SIBs had to work hard to engage key decision-makers within the organisation, and they were often faced with scepticism about whether the SIB would be the right mechanism. As the preventative approaches were new or innovative, there was limited evidence for some commissioners to draw on, when undertaking financial modelling or developing procurement specifications.</p>
Strengthening existing services	<p><b>Developing the business case</b></p> <ul style="list-style-type: none"> <li>• Lack of understanding about SIBs in commissioning organisations</li> <li>• Overcoming ideological opposition/suspicion</li> <li>• Demonstrating the need for the service</li> </ul> <p><b>Managing Stakeholders</b></p> <ul style="list-style-type: none"> <li>• Engaging senior stakeholders/key decision-makers</li> <li>• Inflexible procurement structures and risk-averseness</li> </ul> <p><b>Designing the service</b></p> <ul style="list-style-type: none"> <li>• Loss of commissioner control over process</li> </ul>	<p>The key challenges for commissioners involved in SIBs where the primary purpose was to strength services, was demonstrating the need for the SIB (in terms of the value it would add to existing services, both financially and socially). This often involved engaging senior stakeholders and key decision-makers, who were often sceptical of the extent to which the SIB model would actually strengthen services.</p>

**Policy area**

The REA provided more evidence (albeit a small amount) on the variations in the challenges faced by commissioners in developing SIBs in different policy areas.

Evaluation evidence indicated that the cross-sector commissioning of SIBs can be particularly challenging when engaging health partners because negotiations are complex, subject to delays and there is an ‘interoperability of information systems’ across healthcare, making it difficult to develop frameworks for data measurement and collection (Tan, et al., 2015) (Ronicle, Fox, & Stanworth, 2016) (Dear, et al., 2016) (Fraser, Tan, & Mays, 2017). This is because different commissioning organisations in the health context (e.g. LA Public Health teams and CCGs) are not coterminous, and have different levels of governance. The case study research found that there were some challenges particular to the health context, such as commissioning organisations have historically differing procurement approaches or strategic priorities.

In the context of local authority children’s services, the challenges relating to managing stakeholders could be amplified because commissioning in this context sometimes requires greater collaboration with different agencies, such as health, the police and schools (Clifford, Markey, & Malpani, 2013) (Social Finance, 2017).

While not discussing SIBs specifically, Clifford et al (2013) identify that in the context of offender management, commissioning complexity is relatively low, because there is usually just one commissioner that has simple objectives and low levels of change in the commissioning environment. However, findings from a recent review of the Ministry of Justice’s Transforming Rehabilitation reforms found that outcomes-based commissioning had not worked well in the context of offender management. In particular, many of the steps needed to reduce re-offending were not within Community Rehabilitation Companies’ control and outcomes could not be attributed to the intervention. In addition, the report commented that the Ministry of Justice had a low risk appetite for service failure (National Audit Office, 2019).

Table 2.2 provides an overview of the challenges faced by commissioners in the case study SIBs, by different policy area. As some case studies examined where SIBs had been commissioning sequentially or simultaneously, some areas had multiple SIBs, across different policy contexts. Therefore, it is difficult to unpick exactly which challenges relate to which policy area. Nonetheless, the table below provides a high-level overview of the differences.

**Table 2.2: Challenges by SIB policy areas**

Policy area	Common challenges	Commentary
Health	<p><b>Developing the business case</b></p> <ul style="list-style-type: none"> <li>• Lack of understanding about SIBs</li> <li>• Suspicion about the SIBs</li> <li>• Demonstrating the financial case (cost savings)</li> </ul> <p><b>Managing Stakeholders</b></p> <ul style="list-style-type: none"> <li>• Difficulty engaging commissioners (from other health commissioning organisations e.g. CCGs)</li> <li>• Engaging key decision-makers</li> <li>• Setting out the procurement specifications</li> <li>• Working in inflexible commissioning structures</li> <li>• Engaging providers</li> </ul>	<p>The key challenges faced by commissioners in the health context related to managing stakeholders. Commissioners struggled to engage other health commissioning organisations (such as CCGs) due to historically differing procurement approaches or differing strategic priorities. In addition, there was less of an evidence base for complex commissioning in health or health SIBs, so commissioners were not able to draw on evidence when developing their SIBs.</p>

	<p><b>Designing the service</b></p> <ul style="list-style-type: none"> <li>• Developing referral pathways (and how they differ from other services)</li> <li>• Choosing an intervention model (evidence based vs. black box)</li> </ul> <p><b>Planning for delivery</b></p> <ul style="list-style-type: none"> <li>• Establishing performance management approaches</li> <li>• Competing interests for contracting</li> </ul>	<p>Challenges also occurred at the design stage of the SIB, particularly in relation to designing an intervention model, and deciding whether to proceed with an evidence-based model or giving providers the ability to design the approach.</p> <p>Establishing performance management approaches was a key challenge for these SIBs, as health commissioning traditionally had had more of a 'hands off' approach to contract management than in other sectors.</p>
Children's services	<p><b>Developing the business case</b></p> <ul style="list-style-type: none"> <li>• Setting out the need for the service</li> <li>• Lack of knowledge and understanding of SIBs (in context of high staff churn)</li> <li>• Ideological opposition/suspicion of SIBs</li> <li>• Pricing outcomes</li> <li>• Undertaking the financial modelling</li> <li>• Interrogating the data</li> <li>• Managing risk (especially in relation to reputational risk)</li> </ul> <p><b>Managing Stakeholders</b></p> <ul style="list-style-type: none"> <li>• Engaging stakeholders internal to the commissioning organisation</li> <li>• Working in inflexible commissioning structures (and risk averseness to procurement)</li> <li>• Planning for delivery</li> <li>• Establishing data collection processes</li> </ul>	<p>Within the context of Children's Services, the main challenges were at the earlier stages of SIB development, in terms of developing the business case and managing stakeholders.</p> <p>A key challenge for commissioners was engaging decision-makers within the commissioning organisation, who often had concerns about the use of private investment in relation to children's provision, and managing the potential reputational risk if a service did not work as intended.</p> <p>There was a high level of staff churn in the children's service context, meaning that it was difficult to maintain knowledge and understanding about SIBs in the organisation.</p> <p>A final key challenge faced in the context of children's services was establishing data collection processes that would be effective for capturing the outcomes relating to vulnerable children and families.</p>
Homelessness	<p><b>Developing the business case</b></p> <ul style="list-style-type: none"> <li>• Ideological opposition/suspicion of SIBs</li> <li>• Data interrogation</li> </ul> <p><b>Managing Stakeholders</b></p> <ul style="list-style-type: none"> <li>• Engaging key decision-makers</li> <li>• Engaging providers</li> </ul> <p><b>Designing the service</b></p> <ul style="list-style-type: none"> <li>• Establishing referral pathways</li> </ul> <p><b>Planning for delivery</b></p> <ul style="list-style-type: none"> <li>• Establishing performance management systems</li> </ul>	<p>Commissioners of SIBs aiming to support people experiencing homelessness had challenges at different points throughout the SIB development process.</p> <p>Similar to the other SIBs, commissioners in this policy context sometimes found it challenging to engage key decision-makers within their organisations, particularly in the finance teams.</p>

	<ul style="list-style-type: none"> <li>• Engaging with other stakeholders</li> </ul>	<p>Another key challenge for commissioners was establishing referral pathways for the service to avoid providers from cherry picking individuals who were more likely to achieve outcomes. Finally, stakeholders involved in homelessness SIBs also commented on difficulties raising awareness of the SIB to other stakeholders (such as housing associations).</p>
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## 2.4 'Top Tips' for commissioners when developing a SIB

While there are challenges in the SIB commissioning process, this chapter has shown that the potential challenges can be overcome should not be a reason for not proceeding with a SIB. Indeed, as the next chapter highlights, there are a number of key benefits for commissioners that emerge through the SIB commissioning process. Building on some of the examples of how commissioners involved in this study have overcome challenges, Box 2.13 provides a summary of some practical tips for commissioners to consider when developing a SIB.

### Box 2.13: 'Top Tips' for commissioners when developing a SIB

- Build in sufficient time and resource to the process to ensure SIB leads are knowledgeable about – and confident to – communicate the feasibility and appropriateness of the SIB to key decision-makers
- Engage key decision-makers early on
- Reframe the narrative to focus on the longer-term benefits of SIBs
- Establish a working group of staff from different teams within the council to be involved in the design and development of the SIB
- Spend time to review how previous SIBs have priced outcomes, exploring existing sources of evidence, or by speaking to other commissioners to get the data
- Undertake the financial modelling as the first stage as a way to calculate which outcomes will be viable
- Make sure to factor in a range of potential costs, including wider costs that might be borne by the commissioners (such as performance costs)
- Keep written documentation of progress and decisions made throughout the SIB process, so that any new stakeholders can get acquainted with the development process quickly
- Hold 'market testing' days with prospective providers, inviting them to learn about the SIB mechanism, the rationale for running the intervention through a SIB, and to discuss how best to set the procurement specifications
- Put out the contract at the same time as the invitation to tender, as this allows providers to have sight of the contract and suggest any amendments during the procurement process
- Gain buy-in from other members of staff in the commissioning organisation (e.g. frontline staff) through holding Q&A workshops or having 'implementation groups' (where staff advise on a particular aspect of the intervention)
- Work with investors to identify the best approach to developing performance management systems

## 2.5 Conclusion

The challenges can broadly be split in two – those that are relational and those that are technical. Whilst both have equal length here really the underlying challenge is relational – that SIBs are still new and so there is still a lot of suspicion and misunderstanding. The commissioning seems best when there is a focus on solutions to problems, rather than too much of the mechanics of the model, and also when SIBs are framed within the wider agenda of transformation.

While there are a range of challenges for commissioners during the SIB commissioning process, overcoming these challenges can be highly beneficial. Chapter 3 explores the benefits of the SIB commissioning process in more detail.

## 3.0 The Benefits of the SIB Commissioning Process

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### *Chapter summary*

- The learning curve required to undertake SIB development has helped commissioners to develop new skills. This knowledge often spilled over into other teams.
- Due to a need for strong performance management in SIBs, commissioners reported that they had improved data collection and management processes, not just within their SIB contracts, but in other contracts too.
- The substantial stakeholder engagement required through the SIB process has helped foster partnerships and support better local collaboration.
- The flexibility of the SIB commissioning process enabled some commissioners to be more innovative in their approach to commissioning, especially in relation to employing a 'black box' approach to service design.
- Even when the SIB commissioning process did not lead to a SIB materialising, the tasks undertaken helped commissioners to develop a high quality service that they would not have developed otherwise, and run it through a more traditional contracting mechanism.
- Although not a benefit of any specific SIB tasks, a key benefit of commissioning SIBs for commissioners is that it allowed them to commission a service that otherwise would have not been commissioned. This is because the SIB model allowed them to get capital to fund more innovative or experimental services, which they could test before scaling up, without bearing the financial risk.

Commissioners highlighted a range of different benefits to emerge from the commissioning process, but some were specific to the local context and not all commissioners experienced all of the benefits. In addition, some commissioners also highlighted the benefits of commissioning SIBs in general, rather the specific benefits of activities in the SIB commissioning process. While these are highlighted somewhat in this chapter, the main focus is on the most commonly reported benefits of the commissioning process, from both the existing literature and the primary research. Furthermore, many of the benefits stemming from SIBs relate more to delivery than commissioning, which do not feature here due to the focus of the study on the commissioning process.

Across both sources of evidence, the key benefits identified were: improved skills and capacity; better data collection and management processes; better local collaboration; increased ability to innovate; improved quality of intervention and having the opportunity to commission something that they otherwise could not have commissioned.

Each of these areas is discussed further in the remainder of this chapter.

### 3.1 Improved skills and capacity

As highlighted in the previous chapter, for many commissioners the SIB development process required a steep learning curve. While this can be challenging, commissioners stated that it was incredibly useful, not just for those involved in the day-to-day development of the SIB, but also for those involved in specific tasks (such as finance, legal and procurement teams).

*“Another thing has been the skills developed within finance. When we started off [we] didn’t really know about financial modelling. [The advisor] was absolutely key to all that modelling.” – Commissioner*

The research highlighted that the upskilling that some commissioners had experienced had increased their willingness to consider ‘innovative’ forms of commissioning in the future.

*“I came into it knowing nothing about it, so understanding the funding side of things and the expertise it can bring and how it can be modelled. I wasn’t aware of how much flexibility there can be with this kind of set-up.” – Commissioner*

For the case study areas where multiple SIBs had been developed either simultaneously or sequentially, there were clear benefits to upskilling. In one area, the upskilling of staff in different teams was beginning to support new, and more collaborative ways-of-working between teams.

*“All of the commissioners that went into [previous SIB] were like... ‘oh SIBs no’, and they all came out saying ‘the processes were actually really useful to us, taking people out of silos, data knowledge, finance knowledge, [it’s] bringing that all together.’” – Commissioner*

### **3.2 Better data collection and management processes**

While research has documented the challenges that some commissioners faced in working with new actors, there was evidence from both the REA and the case study research to indicate that the involvement of these different stakeholders can strengthen data collection and management processes (Ronicle, Fox, & Stanworth, 2016) (Crowe, Gash, & Kippin, 2014) (Rotheroe, 2014) (Thomas & Cheeseman, 2017) (Hunter, 2017). For example, Ecorys UK (2018), in their evaluation of the Turning the Tide SIB, found that the involvement of a social investor during the design process helped to add a level of rigour (in terms of greater attention to detail), in ways that was not present in other forms of contracting, such as traditional payment by results. The report stated that *“this attention to detail was again seen as a positive, as it focused the discussions around achieving the outcomes for families, whilst also allowing flexibility in the details of operations to be about responding to the families’ needs.”* (Ecorys UK and The Hadley Centre, 2018, p. 23).

Commissioners involved in the case study research also reported the additional benefits of having social investors on board. Several commissioners (from across different policy contexts) highlighted that investors brought a fresh perspective to the design and management of an intervention. Several interviewees welcomed investors’ focus on ensuring strong contract performance and monitoring.

*“It’s provided a different view of how you would want to manage the designing and procuring and implementation of a programme, and the resource that having the social investor involved in, around contract performance and monitoring, and the different view of the social investor, is really beneficial.” – Commissioner*

Alongside better performance and data management, commissioners also welcomed investors' and advisors' views on data collection. Stakeholders in several case study areas highlighted how learning from the design and development of robust data systems for the SIBs had spilled over into how they approached data collection on their other contracts (such as fee-for-service).

*"It's been a really interesting process and it's really made us think differently about what and how we commission. We can't push everything through a SIB, but we can be more analytical and more demanding of evidence of impact, and I think that's going to have a longer-term impact."* – Commissioner

### 3.3 Better local collaboration

A key benefit of the SIB commissioning process was that it supported better collaboration between partners, whether that was within commissioning organisations (for example with different teams), or across different commissioning organisations (in cases of cross-sector commissioning) (Tan, et al., 2015) (Ronicle, Fox, & Stanworth, 2016) (Ronicle & Smith, 2018). Primary research with commissioners highlighted that developing strong networks and relationships during the design stage had helped to increase local collaboration (Fraser, Tan, & Mays, Forthcoming). Other research found that suspending traditional contracting arrangements enabled stakeholders the space to work collaboratively with potential providers, which strengthened their relationships (Dayson, Fraser, & Lowe, 2018). Box 3.1 provides more detail on how better local collaboration can emerge from the SIB commissioning process.

#### Box 3.1: Better local collaboration

Fraser et al (Forthcoming) recently conducted qualitative case studies at two SIB 'sites'. Based on qualitative interviews with a range of informants including commissioners, advisors, providers, legal and management consultants, the authors found differences in the two sites in relation to local collaboration. In one of the sites, narratives from informants were based around tensions between local actors, particularly in relation to procurement and potential 'conflicts of interest'. In contrast, in the other site, the narratives highlighted collaboration, risk-taking, innovation and enduring commitment to flexibility to overcome potential issues. This study provides an interesting insight into how the success of commissioning a SIB can come down to stakeholders' motivations to work together, coupled with commissioners' approaches to risk.

Commissioners involved in the case study research spoke of how good working relationships were forming due to the SIB commissioning process requiring continual discussions between different partners.

*"We have tended to sit in our silos a little bit and it's opened that up."* – Commissioner

Beyond local partnerships, some interviewees spoke of how they had been involved in more discussions at the national level, in relation to innovative commissioning and collaboration.

*"It does bring unexpected value, it brings different people. An unintended consequence is building relationships... it's about collaboration... [with] other big charities, social investors."* - Provider

### 3.4 Increased ability to innovate

The REA found some – albeit limited - evidence to indicate that the process of developing SIBs can help to create a wider receptiveness in commissioning organisations to be more innovative in how they commission

services (Tsukamoto, Hoong Sin, & Nishimura, 2018) (Thomas & Cheeseman, 2017) (Griffiths & Meinicke, 2014). For example, primary research with LAs highlighted that a key rationale for introducing a SIB was to try innovative commissioning approaches (Tsukamoto, Hoong Sin, & Nishimura, 2018).

Several commissioners involved in the case study research commented on how the SIB development process had been quite flexible and had allowed them to be more innovative in their approach. A key example was through the procurement of services using the 'black box' approach. In several case studies, commissioners specified aspects like outcomes and timescales, but left the design up to providers. This often resulted in a range of different interventions being suggested, beyond what commissioners would have usually considered.

*"It did attract a different variety of people or companies bidding, and there were quite a variety of different ways of delivering."* - Commissioner

### 3.5 Improved quality of intervention

Commissioners and sector experts commented that, even in examples where SIBs did not materialise, the development process facilitated commissioners to really think through the design of an intervention carefully. Several sector experts provided examples of where commissioners undertook feasibility studies for a SIB, and found that while the SIB was not feasible, the studies enabled them to develop a better quality of intervention that was subsequently run through a fee-for-service model. As the case study research focused mainly on SIBs that were developed successfully, it is not possible to provide practical examples. However, further research could explore how the SIB feasibility study approach has benefitted the development of other, non-SIB interventions.

### 3.6 Enabling services to be commissioned

Although not a benefit of any particular tasks in the SIB commissioning process, literature identified in the REA and the case study research highlighted that a benefit of commissioning a SIB was that it enabled services to be commissioned that would not have been commissioned otherwise. Evaluation research indicates that SIBs allow commissioners to *"pilot new service models, or defer taking financial responsibility for innovative or risky projects that require testing before scaling up"* (Tan, et al., 2015, p. 73). The transfer of financial risk from commissioners to investors meant that commissioners were able to develop early intervention or preventative services, that they might not have been able to justify otherwise (Ronicle, Fox, Stanworth, & Smith, 2019). One commissioner reflected in a blog post that the funding model enables commissioners to unlock future savings by enabling upfront investment in these preventative services (Clark, 2019).

As highlighted in the previous chapter, one of the common purposes for developing a SIB was to provide a preventative programme that could not be funded otherwise. Not only have SIBs brought in additional investment, but they have also – at least to some extent – allowed the transfer of risk. As one commissioner commented:

*"If you can define your cohorts and define your outcomes easily, it's almost saying: 'Why wouldn't you do it to get some external investments and transfer of risks into the system?'. Why aren't we doing this anyway? And you come to the crux of it all... the funding for preventative services isn't there and it is a way of expanding and doing that now."* – Commissioner

### 3.7 Conclusion

While there are challenges for commissioners when developing SIBs, the process of overcoming these challenges is beneficial in the long run. Reflecting the finding in Chapter 2 that the challenges are generally either relational or technical, the benefits also broadly fall into these categories. By overcoming the technical challenges, commissioners – both SIB leads and their wider teams – have been upskilled. Likewise, increased stakeholder management has helped to foster stronger partnerships within, as well as across, commissioning organisations. Overall, the commissioning process benefits commissioners because it enables them to commission something they otherwise would not have had the budget for. Therefore, the short-term challenges should not negate the case for a SIB, because the potential benefits will accrue over the longer-term.

# 4.0 Existing Resources and Tools

*Chapter summary*

- There are a wide range of tools and resources available, but commissioners were not necessarily aware of them.
- Commissioners had found the face-to-face support provided by advisors more beneficial than tools and resources, to develop the more technical aspects of developing the business case.
- While commissioners have referred to the research and evaluations when designing their SIBs, the overly academic focus, lack of practical solutions and time lag between impact being achieved and it being reported has limited their effectiveness
- Commissioners seemed to value peer support, both in relation to the SIB mechanism, but also peer support on developing similar interventions.

Drawing on the findings of the REA, the case study research and the sector expert research, this section provides an overview of the tools and resources that already exist to support commissioners, as well as commentary on the extent which the tools and resources meet commissioners’ needs.

## 4.1 What tools/resources already exist to support commissioners?

The table below provides a summary of the tools identified through the REA, as well as through the case study and sector expert consultations.

**Table 4.1: Tools and resources for commissioners**

Title	Summary	Author(s)
<a href="#">SIB Readiness Framework</a>	A tool that explores the considerations that need to be made at each stage of developing a SIB, including best practice and when there is more work to do.	Government Outcomes Lab
<a href="#">Good Finance</a>	A collaborative project to help improve access to information on social investment for charities and social enterprises. It includes an outcomes matrix.	Good Finance is a collaborative project built by a range of representatives from social enterprises, charity and social investment sectors
<a href="#">A technical guide to developing social impact bonds</a>	This is a guide for practitioners on developing a SIB. It explains the SIB development process; provides guidance on defining the social issue, outcome metric(s) and intervention(s); assessing value-for-money, designing the programme; procurement; and contracting.	Social Finance
<a href="#">Project Database</a>	A database of all SIBs that have been launched in the UK. It provides details on the location, launch date, duration, policy area, commissioner, providers, advisors, target population, cohort size and	Government Outcomes Lab

	evaluation method. The database can be downloaded into a .csv file.	
<a href="#">Unit Cost Database</a>	The unit cost database brings together more than 600 cost estimates in a single place, covering crime, education and skills, employment and economy, fire, health, housing and social services. It has been used by stakeholders to estimate potential savings from SIBs and develop the financial case.	New Economy
<a href="#">Social Impact Bond template contract and guidance</a>	A template and guidance for public sector commissioners for developing a SIB contract.	Centre for SIBs
<a href="#">How to guide: setting and measuring outcomes</a>	A guide that explains what outcomes, measures and metrics are, the different types of outcomes, individual versus cohort measurement, how to develop an outcomes framework, and how to involve providers and investors.	Government Outcomes Lab/ Neil Stanworth
<a href="#">Designing effective outcome metrics and measurement systems</a>	A guide that looks at the creation of effective outcome metrics and measurement systems. It provides an overview of how commissioning by outcomes works, how to select outcomes, and outcome measurement and attribution <sup>17</sup> .	Social Finance
<a href="#">The Knowledge Box</a>	The Knowledge Box provides detailed guidance on developing a SIB. It discusses the steps needed to develop a SIB - carrying out pre-feasibility and feasibility assessments, defining measurable intended outcomes for the project, and identifying a cohort and the counterfactual. It provides an overview of evaluation of SIBs (including impact, process, and economic evaluation), guidance on procurement and procurement regulations, and guidance on identifying and working with potential investors.	Cabinet Office
<a href="#">Choosing Social Impact Bonds: A practitioner's guide</a>	This guide provides an overview of the design features that are required to deliver the intended benefits of SIBs.	Bridges Fund Management
<a href="#">Social Impact Bonds: a data gathering how-to guide for commissioners</a>	This is a guidance document for commissioners on developing a SIB. It aims to help commissioners: <ul style="list-style-type: none"> <li>- Identify what outcomes they wish to deliver and/or base payments upon</li> <li>- Estimate the savings that might be generated as a result</li> </ul>	Cabinet Office

<sup>17</sup> Attribution refers to the ability to link a specified intervention with the achievement of a specified outcome.

	<ul style="list-style-type: none"> <li>- Demonstrate benefits that accrue to other public sector organisations</li> <li>- Budget for expected savings and additional funding that may be required</li> <li>- set appropriate payment for outcomes</li> <li>- Compare the savings that might be achieved for different cohorts or intervention points</li> <li>- Move towards cross-cutting and sustainable service re-design</li> </ul>	
<a href="#">GO Lab Webinar Series</a>	A series of webinars on various aspects like outcomes, procurement, and impact measurement.	Government Outcomes Lab
<a href="#">Procurement guide: a guide to procurement for social impact bonds</a>	Guidance on the legal/procurement implications of a new approach (especially OBC or SIBs)	Government Outcomes Lab
<a href="#">An introduction to evaluation: a guide to evaluating programmes implementing outcome-based commissioning approaches</a>	Guidance on evaluating outcomes-based contracts, with particular insights on evaluations of social impact bonds	Government Outcomes Lab
<a href="#">GO Lab case studies</a>	A collection of in-depth case studies of SIBs and other outcomes-based approaches	Government Outcomes Lab
<a href="#">Commissioning Better Outcomes Fund evaluation in-depth review reports</a>	A collection of 'in-depth reviews of SIBs funded through the CBO Fund	Ecorys UK and ATQ Consultants

## 4.2 Commissioners' awareness of tools and resources

Of the evidence reviewed through the REA, there was very limited commentary on the extent to which commissioners were aware of and have used the tools available. Following interviews and a survey with commissioners, Ronicle et al (2016:34) concluded that *"there seems to be a good level of awareness, usage and opinion of support available for commissioners."* The research highlighted that support from an external consultant, and resources from the Centre for SIBs were most helpful to commissioners (though this research was undertaken before GO Lab was launched) (Ronicle, Fox, & Stanworth, 2016).

The case study research found substantial variation in commissioners' awareness of tools and resources. Some commissioners were aware of, and reported using, resources on GO Lab's website. The resources used were typically research and evaluation pieces, which shed light on other commissioners' experiences of using SIBs.

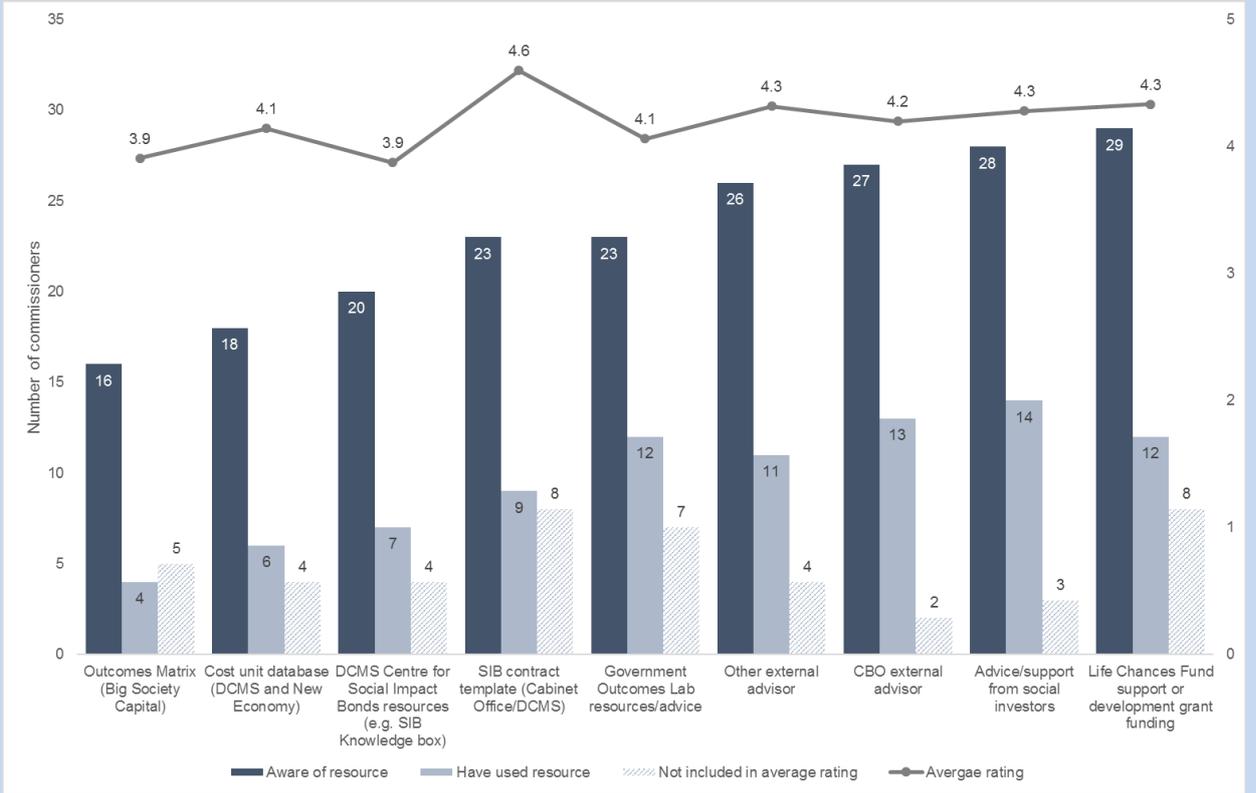
Commissioners mostly reported benefitting from the support provided by advisors. Commissioners in most of the SIBs involved in the case studies were able to draw on development funding from central programmes like the CBO Fund or LCF to pay for advisory support. None of the commissioners reported paying for advisory support privately (although this does not necessarily mean that they did not do so). As the SIB market matures, future research could explore how commissioners have fared in the context of limited or no development funding.

### 4.3 Do the existing provisions meet the needs of commissioners identified during the research?

Consistent with the limited evidence on commissioners’ awareness of the tools, there was limited evidence from the REA on whether existing provisions meet commissioners’ needs. In 2016 the CBO Fund evaluation found, in a survey of commissioners, that resources from the Centre for SIBs and external consultations were generally viewed as being ‘very helpful’ and ‘somewhat helpful’. In addition, the unit cost database was viewed as being ‘somewhat helpful’, as well as SIB contract templates (Ronicle, Fox, & Stanworth, 2016). Box 4.1 highlights more recent findings from the evaluation. However, as highlighted earlier in Section 2.1, existing provisions are insufficient for explaining to commissioners the likely payments to investors, as well as expected prices for outcomes.

**Box 4.1: Commissioners’ views on tools and resources**

As part of the CBO Fund evaluation, Ecorys and ATQ Consultants (Forthcoming) undertook a survey of commissioners. The evaluators asked the 41 commissioners who had been involved in a SIB to rate their awareness – and the usefulness – of different tools and resources. The chart below provides an overview of the findings – it highlights that the Centre for SIBs contract template was most useful for commissioners, as well as using external advisors, accessing support from social investors and Life Chances Fund support or development grant funding.



Source: Commissioner Survey. Base: Commissioners involved in SIBs (n=41). Average rating based on five-point Likert rating of helpfulness (1,= Very unhelpful, 5 = Very helpful). Rating completed by commissioners who were at least aware of resources. Not included in average rating: Commissioners who reported ‘don’t know’ or ‘prefer not to say’. Not shown in chart: Five commissioners did not answer the question.

The case study research explored in more detail commissioners' views on the usefulness of different resources and tools. It found that commissioners were most likely to value advisory support, but also benefited from peer support. These findings are discussed more below.

### **Central programme-funded development support**

As mentioned in Section 4.1.2, the most common form of support commissioners in the case study research drew on was central programme-funded development support (notably through CBO or LCF). Commissioners generally found the advisory support very helpful, as advisors were able to support commissioners to navigate the more technical aspects of developing the business case, such as defining and pricing outcomes, and undertaking the financial modelling. As highlighted in Chapter 3, this support was beneficial because it upskilled commissioners; in some cases, commissioners felt confident in their abilities to develop another SIB without needing advisory support.

Several sector experts shared their concerns about the use of the central programme-funded support. In particular, some felt that a lot of development grant money was 'wasted' in early years, focusing on projects that never had a commissioner, and/or on advisors who provided no or limited added value to the design of the SIB. This learning can help inform if and how future funding could be used more effectively. Chapter 6 discusses this in more detail.

### **Research and evaluation evidence**

Several commissioners reported the use of other research and evaluation evidence to help inform their approach. The views on the availability and applicability of the research was varied. Some commented that research in the UK context had often been quite academically-focused and not provided enough practical support and advice. Some commissioners also highlighted there was more focus on process, rather than impact, evaluations. While some of this is by virtue of the fact that, until recently, most SIBs have not been mature enough to start showing meaningful impact data, there were some concerns around the time lag between the impact being achieved on the ground and it being reported in published outputs. In addition, commissioners commented that while process evaluations were useful for providing insights into the SIB development process, the lack of focus on impact so far had not been helpful for commissioners who had wanted to use impact data to justify their use of a SIB mechanism to key decision-makers.

### **Peer support**

Several commissioners highlighted that they had built up networks with other commissioners working in the SIB context, to gain practical learning around the SIB commissioning process. Some of these networks had been more formal, facilitated through central programmes (such as through the Fair Chance Fund), whereas others had been more informal. Peer-to-peer learning had not just been amongst those already working in the SIB context. For example, one commissioner highlighted how it was more useful to draw on learning from local authorities (LAs) that had designed and developed a similar intervention, rather than those who had run a SIB. Their rationale was that it was important to get the service design right, and *"then the SIB will follow."*

## 4.4 Conclusion

There are a wide range of tools and resources available, but commissioners are not necessarily aware of them. To date, commissioners have found the face-to-face support provided by advisors more beneficial than tools and resources, to develop the more technical aspects of the business case. While commissioners do refer to the research and evaluations when designing their SIBs, the overly academic focus, lack of practical solutions and time lag between impact being achieved and it being reported, have limited their effectiveness. A more effective approach appears to be peer support, both in relation to the SIB mechanism, but also peer support on developing effective interventions. Chapter 6 explores how this learning could be used to inform how the sector can continue to be supported in a more sustainable way.

## 5.0 Enablers of – and Barriers to – Replicating and Scaling SIBs

### *Chapter summary*

The enablers to replicating and scaling SIBs are:

- The use of proven methodologies and programme interventions. This is an obvious way to more easily replicate a SIB that has funded the same intervention, especially when the cohort is relatively homogenous and/or the problem and solution(s) are broadly similar.
- Learning from previous commissioning approaches (either similar SIBs or similar policy areas) through learning from research, evaluation and from specialist advisors;
- Replicating specific aspects of the SIB commissioning process (such as outcome metrics, governance structures, interventions, payment mechanisms and process aspects like data protocols, the procurement approaches and the contract);
- Increased awareness of SIBs over time (where familiarity breeds acceptance); and capitalising on central government policy pushes.

There are also a number of barriers to replicating and scaling SIBs that need to be considered. These include:

- Difficulties associated with stakeholder engagement and misunderstanding of SIBs, especially in the context of common platform SIBs. In particular, the language and narrative around SIBs is particularly problematic because it causes unnecessary confusion and takes the focus away from the social problem and the intervention and towards the financial mechanism and its accompanying complexities such as Special Purpose Vehicles and debt and equity structures. While the financial mechanism may be a key rationale for the project, for example funding a preventative or innovative programme that would otherwise not be funded, the initial focus should be on the 'commissioning' problem i.e. what is wrong at a system, delivery or market level that means a new approach to commissioning might be useful.
- Commissioners' desire and/or need for local adaptation even though many aspects of a SIB can be replicated. The local context and need for the intervention appears to shape commissioners' views more than the perceived innovation of using the SIB mechanism.
- Commissioner churn which leads to a constant loss of knowledge in organisations; both technical but also about the SIB process and how to frame the narrative around the SIB to ensure buy-in from key decision-makers. However, even where churn is not a problem, commissioners' capacity to develop SIBs is a challenge; with many commissioners not having the time or resource to dedicate to the commissioning and development process.
- A lack of data transparency. Although there is data about many SIBs already available in the public domain, finding this data and interrogating it is challenging, and commissioners possibly require further support from advisors to help them navigate the available data and resources.
- A broader issue is around smaller providers' potential lack of capability to engage with the SIB market, due to confusing SIB language and narrative and investors already having a preferred provider. This can be a particular barrier to scaling and replication that is led by commissioners (under Routes 1-3 below) if the provider market is dominated by smaller suppliers and they do not adopt an approach to procurement which enables smaller providers to engage successfully.

This section describes the findings relating specifically to what enables the scaling or replication of SIBs, and what are barriers to such scaling and replication. It should be read alongside previous sections since there is considerable overlap between wider challenges to SIB commissioning and how they might be overcome, and enablers and barriers in the specific context of scaling and replication. Some particular enablers and barriers that are especially relevant in both contexts are noted below.

The analysis in this section draws on the case study research with commissioners, additional research with key stakeholders and sector experts, the stakeholder workshop, and, where relevant, evidence identified through the REA.

## 5.1 Specific routes to scaling and/or replication

As already explained in the methodology (see Section 1.3), the research team identified a number of primary routes to scaling and/or replication that might be adopted by commissioners either on their own initiative or with encouragement from other parties. These routes were used to help identify appropriate case studies.

These six routes frame the analysis in this section and the solutions proposed in Chapter 6, identifying where and how routes are inhibited by current issues and potentially supported by specific solutions.

The next section describes these six routes and their key characteristics in more detail below. It should be noted that they:

- are not intended to be comprehensive, since there are potentially numerous variants on them. However, these appear to be the routes most widely adopted to date and all such variants will have broadly similar characteristics to one of these routes, and will therefore be susceptible to similar enablers and barriers; and
- are not mutually exclusive, since there are overlaps between them in many cases. The descriptions below refer to some of the more obvious overlaps and intersections between different routes.

This section also provides examples of SIBs, to illustrate how the routes work in practice. It should be noted that the examples provided draw on the wider published evidence, and are not necessarily the SIBs that were involved in the case study research.

### 5.1.1 Route 1 – a commissioner develops and implements a number of SIBs simultaneously

This route is sometimes referred to as a ‘multi-SIB’. It involves a commissioning organisation initiating more than one SIB at the same time, thus achieving greater scale than would be achieved by a single SIB. It also enables the commissioner to explore potential economies of scale within its own organisation, for example by developing business cases in a common format or running a single process to identify and procure potential providers or a single investor. The SIB contracts thus developed can be in related social policy areas (thereby offering further potential economies in operational management) or in different areas.

### **Box 5.1: Example of a commissioner that is developing and implementing a number of SIBs simultaneously**

**Norfolk County Council** has already implemented a SIB, with funding from the Life Chances Fund, that aims to reduce the time young people spend in care.<sup>18</sup> It was also an early adopter of the HCT Travel Training SIB (See Box 5.4 below). Norfolk has now received in-principle funding from the Life Chances Fund to move forward with up to four SIB-type contracts simultaneously under a multi-strand project that forms part of a broad vision to promote independence among vulnerable young people. Individual project strands focus on improving health and wellbeing outcomes through social prescribing; reducing school exclusions, reducing escalation to Child and Adolescent Mental Health services and addressing health barriers to work.<sup>19</sup>

**This route is referred to subsequently in this report as Route 1 or the ‘Locally commissioned multi-SIB’.**

#### **5.1.2 Route 2 – a commissioner develops a second or further SIBs sequentially**

This route involves a commissioning organisation choosing to develop and implement one or further SIBs, in a different social policy area to a SIB they have previously implemented successfully. The commissioner will thus be achieving further scale in a different way and will also be replicating some aspects of a process that it has applied before. There are therefore potential benefits to the commissioning organisation in learning from the earlier implementation, and being familiar with the principles of a SIB.

A variant on this approach is where the commissioner implements a contract in the same policy area as a previous SIB, but at larger scale by targeting a larger cohort. This is in theory one of the most obvious routes to greater scale, but there have not been many examples of it to date.

There is considerable overlap between routes 1 and 2, since commissioners who have initiated a multi-SIB are likely to have previously been involved in a stand-alone SIB implementation.

### **Box 5.2: Example of a commissioner that has developed a second or further SIBs sequentially**

**North Somerset Council** implemented the ‘Turning the Tide’ Social Impact Bond in 2017 to improve outcomes for children in or at risk of entering care through a family preservation service.<sup>20</sup> North Somerset is now a partner in the Bristol Care Leavers SIB<sup>21</sup>, launched in 2018 and offering support for care leavers into education, employment or training.

**This route is referred to subsequently in this report as route 2 or ‘Sequential stand-alone SIB development’.**

<sup>18</sup> See: <https://golab.bsg.ox.ac.uk/knowledge/project-database/vulnerable-child-project/>

<sup>19</sup> See: [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/738902/ROUND\\_3\\_LCF\\_-\\_Overview\\_of\\_successful\\_projects\\_with\\_in-principle\\_funding\\_3\\_.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/738902/ROUND_3_LCF_-_Overview_of_successful_projects_with_in-principle_funding_3_.pdf)

<sup>20</sup> See: <https://golab.bsg.ox.ac.uk/knowledge/project-database/north-somerset-turning-tide-family-therapy/>

<sup>21</sup> See: <https://golab.bsg.ox.ac.uk/knowledge/project-database/care-leavers-social-impact-bond-bristol/>

### 5.1.3 Route 3 – A commissioner emulates a SIB that another commissioner has previously implemented

This route involves a commissioner emulating another commissioner in implementing a SIB that addresses a similar or identical social problem. It is likely that such a commissioner will inform itself about the approach taken by one or more previous commissioners, and use resources that will help them learn from previous experience – such as evaluation reports, sharing of information through formal or informal networks, or engaging the same advisor. They might also consult investors or providers involved in previous SIBs. This route to replication has been most evident in the emulation by LAs of previous SIB contracts that address the social and financial costs of children and young people being in care or at risk of entering care. Another example is CCGs implementing SIBs that fund social prescription and which build on, and learn from, the experience of predecessors.

The successor commissioner may seek to emulate closely the model adopted by a previous commissioner (for example addressing a very similar cohort with a similar or identical intervention) or simply aim to learn from and emulate some aspects such as the use of a specific outcome metric.

This approach may be seen alongside both routes 1 and 2, with both parts of a multi-SIB and a sequential SIB being based on the approach adopted by another commissioning organisation.

#### **Box 5.3: Example of a commissioner that emulates a SIB that another commissioner has previously implemented**

**Suffolk County Council** launched an outcomes-based contract in 2018 that aims to prevent young people entering care or reunify young people already in care with their families. The approach is similar to a number of other contracts and the advisor used by the Council, social investor and provider had all been involved previously in a number of similar projects.<sup>22</sup>

**This route is referred to subsequently in this report as route 3 or ‘Local emulation of previous SIB’.**

### 5.1.4 Route 4 – a provider or other third party develops a SIB which is then promoted to other commissioners

This route involves a provider, intermediary or investor developing a SIB with one or more commissioning organisations and then actively engaging further commissioners with a view to them taking out similar contracts. This model is in some respects a development of route 3 in that it seeks to emulate characteristics of a SIB model that has already been proven with previous commissioners. The main differences are that:

- the successful SIB model is actively promoted by the provider or another party, rather than the commissioner themselves choosing to emulate a previous SIB independently; and
- part of the benefit to the subsequent commissioners is that the structure of the SIB and some of its key elements – such as outcome metrics, payment structure, or investment arrangements is already in place.

There is likely to be a much higher degree of replication of the characteristics of previous contracts under route 3, although there will still need to be local adaptation. The high degree of replication means that this model is sometimes referred to using terms borrowed from other sectors and markets – for example as an

<sup>22</sup> See: <https://golab.bsg.ox.ac.uk/knowledge/project-database/?query=Suffolk>

‘off the shelf’ or ‘plug and play’ model. The term ‘common platform’ has been used specifically in the SIB context.

The main benefits of this model are that it achieves both economies of scale for the provider/intermediary and enables successor commissioners to implement a SIB without having to do all the development work from scratch. A feature of the approach may be that the promoting party itself does some of the development and adaptation work required – thus further increasing the attractiveness of the approach to successor commissioners who may lack capacity and resources for SIB development work.

While this route has so far been promoted by providers or intermediaries there is no reason why commissioners could not adopt a similar extendable model, with the aim that further commissioners can engage later. Indeed, the Positive Families Partnership<sup>23</sup> (which supports families across a number of London Boroughs providing therapeutic programmes designed to help address a young person’s behavioural issues and improve family functioning) is arguably an example of a variant on this model that is part commissioner-led. This SIB was initiated and procured by a number of Councils and is now being extended to further commissioners with support from the provider and investor. Other Councils are currently exploring similar extendable SIB models and there are existing commissioning and procurement alliances that could collaborate to initiate and implement outcomes-based contracts across a number of authorities.

**Box 5.4: Examples of providers or other third parties developing a SIB, which is then promoted to other commissioners**

The **HCT Travel Training** SIBs have been led since the start by the HCT Group. Under each contract a similar operational and contract structure, supported by the same investor, is deployed to fund the provision by HCT of training that enables young people with special educational needs and disabilities to use public transport independently, reducing their reliance on specialist door-to-door transport and leading to greater social inclusion. The first contract was with the London Borough of Lambeth<sup>24</sup> and subsequent contracts have so far been launched with Norfolk County Council<sup>25</sup> and Surrey County Council.<sup>26</sup>

The **Mental Health & Employment Partnership (MHEP)** offers similar scope for replication but uses a somewhat different approach and is led by the intermediary Social Finance, rather than by a provider. Contracts have so far been made with three LA commissioners, Haringey, Staffordshire and Tower Hamlets.<sup>27</sup> MHEP employs the Individual Placement Support (IPS) approach, which embeds employment specialists within mental health teams to support users to search for and secure employment tailored to their individual aspirations and skills.

**This route is referred to subsequently in this report as route 4 or a ‘Common Platform SIB’.**

### 5.1.5 Route 5 – A local commissioner adopts a central government SIB model

This route involves a local commissioning organisation adopting – and where appropriate adapting – a SIB model that has been used previously for SIBs commissioned by central government. This route thus has some of the features of route 3 but the commissioner is emulating a model applied by central government

<sup>23</sup> See: <https://golab.bsg.ox.ac.uk/knowledge/project-database/positive-families-partnership/>

<sup>24</sup> See: <https://golab.bsg.ox.ac.uk/knowledge/project-database/travel-training-hct-group/>

<sup>25</sup> See: <https://golab.bsg.ox.ac.uk/knowledge/project-database/travel-and-training-sib-norfolk/>

<sup>26</sup> See: <https://golab.bsg.ox.ac.uk/knowledge/project-database/hct-surrey-travel-training-sib/>

<sup>27</sup> See: <https://golab.bsg.ox.ac.uk/knowledge/project-database/mental-health-employment-partnership-haringey-staffordshire-tower-hamlets/>

for a number of concurrent SIBs (as described further in route 6 below) rather than one or more locally-commissioned SIBs. The main other difference between this route and route 3 is that the commissioner will copy most of the outcomes specification and payments structure applied to the previous SIBs – typically in the form of a standard Rate Card which defines the amount to be paid for each of a number of specified outcomes. This route has been used successfully to replicate some of the features of SIBs originally commissioned under the Fair Chance Fund (FCF).

#### Box 5.5: Example of a local commissioner adopting a central government SIB model

The Mayday 'Be the Change' project uses a SIB framework to deliver outcomes for people in Northamptonshire experiencing homelessness using the Personal Transitions Service (PTS) approach. The SIB addresses similar issues as the FCF (see route 6 below) and its development drew heavily on the Rate Card developed for the FCF, including outcome metrics and payment levels.<sup>28</sup>

**This route is referred to subsequently in this report as route 5 or 'Local emulation of central-government funded SIB'.**

#### 5.1.6 Route 6 – Centrally funded SIBs based on a standard rate card

This route involves one or more central government departments funding a number of SIBs at the same time using a standard rate card. It has already been used to commission a number of SIBs under the Innovation Fund (IF) Rounds 1 and 2, the FCF and the Youth Engagement Fund (YEF). In all these cases the funding department directly procured the providers and investors and was a direct party to the contract. A variant on this model is the Rough Sleeping SIB Fund under which central government (Ministry for Housing, Communities and Local Government (MHCLG)) provided funding and agreed to pay for specified outcomes based on a standard rate card, but LAs receiving funding and procured providers and investors locally.

#### Box 5.5: Examples of centrally funded SIBs based on a standard rate card

There are numerous projects developed under the funds mentioned above. Examples from each Fund include **Tomorrow's People** (IF Round 1)<sup>29</sup>, **Teens and Toddlers** (IF Round 2)<sup>30</sup>, **Aspire Gloucester** (FCF)<sup>31</sup>, **Prevista** (YEF)<sup>32</sup> and **Street Impact Bristol** (MHCLG Rough Sleeping SIB Fund)<sup>33</sup>

**This route is referred to subsequently in this report as Route 6 or 'Central-government funded SIB'.**

## 5.2 Enablers of replication and scaling

This section describes what the case study and sector expert research revealed about enablers of replication and scaling, and the core elements in the design of a SIB model which facilitate replication and or scaling. The enablers are grouped into broad themes.

<sup>28</sup> See: <https://golab.bsg.ox.ac.uk/knowledge/project-database/mayday-be-change-homelessness-support-llp/>

<sup>29</sup> See: <https://golab.bsg.ox.ac.uk/knowledge/project-database/dwp-innovation-fund-round-i-east-london-tomorrows-people/>

<sup>30</sup> See: <https://golab.bsg.ox.ac.uk/knowledge/project-database/dwp-innovation-fund-round-ii-greater-manchester-teens-and-toddlers/>

<sup>31</sup> See: <https://golab.bsg.ox.ac.uk/knowledge/project-database/fair-chance-fund-gloucestershire-aspire-gloucester/>

<sup>32</sup> See: <https://golab.bsg.ox.ac.uk/knowledge/project-database/youth-engagement-fund-london-prevista/>

<sup>33</sup> See: <https://golab.bsg.ox.ac.uk/knowledge/project-database/street-impact-bristol/>

### 5.2.1 Replicating a defined programme or methodology

Both commissioners involved in the case study research and sector experts identified the use of proven methodologies and programmes of intervention and delivery as one of the more obvious ways in which a SIB could be replicated. At the simplest level there is the opportunity to use the same defined intervention as a previous SIB, enabling access to previous research and evidence of effectiveness. In one of the case studies the commissioner explained that the use of a licensed intervention model was helpful because it specified clear outcomes and evidence of the outcomes that can be achieved. This was positive for developing a SIB because it ensured programme fidelity and consistency from the outset. Using a specified intervention model as a starting point can also help to accelerate the commissioning process, because it provides commissioners with an understanding of what the approach could look like. Though it can lead to some challenges, as alluded to in Chapter 2.

The use of a defined intervention can thus support route 3 to replication (local emulation of previous SIB), but sector experts observed that further aspects of a specific approach can be transferred where the cohort is relatively homogeneous and/or the problem and potential solution(s) are broadly similar. Several commissioners and sector experts pointed to the children’s edge of care services area as one where, as already mentioned above, a number of characteristics can and have been replicated such as outcome metrics and cohort referral pathways.

The replication of specific aspects of a SIB is discussed further in section 5.2.3 below and Table 5.1 summarises the characteristics of a SIB that existing literature or this research have shown to have been replicated in one or more subsequent SIBs. It should be noted that many of the characteristics set out in the table below were not clearly defined elsewhere, or were not defined specifically in relation to SIBs. This is noteworthy because it further emphasises the points made in Chapter 2, in relation to the SIB language being confusing to people new to the approach. For the purpose of this report, the definitions below have been developed from the authors’ own knowledge and experience of SIBs, but it highlights that potentially more work is needed to develop definitions of these characteristics, so there is a common understanding among commissioners, investors, advisors, policymakers and other relevant stakeholders. This is explored further in Chapter 6.

In addition, this table broadly indicates where replication has happened to date, rather than what could in theory be replicated if, as discussed elsewhere in this report, there were better tools available, more transparency around previous contracts and more collaboration between commissioners. In particular, there would in such circumstances be less dependence on common providers and investors across contracts to enable replication.

**Table 5.1: Characteristics of a SIB that have been replicated**

SIB characteristic	Broad description	Main benefits of replication	Replication has happened if:
Business case	Document setting out the justification for the SIB, and evaluating both social and financial benefits and risks compared to other options	Saves commissioner time and cost if they can adopt/adapt existing structure and possibly content from a previous case	Business case support is offered by provider/intermediary for a Common Platform SIB or commissioner uses an advisor who brings existing material from another SIB with similar social context, outcomes sought, and cohort characteristics

Financial model	Spreadsheet or other tool enabling the calculation of the financial effect of different scenarios for the volume of participants, their success at achieving payment milestones, and the resultant impact on costs and value	Saves commissioner time and cost if they or a third party can plug new data into an existing and proven model.	Model and modelling support is offered by provider/ intermediary in a Common Platform SIB, or an advisor has 'plug and play' tools available from other local SIBs with sufficiently similar characteristics
Licensed intervention or evidence-based programme	Intervention or programme developed by a third party and licensed for use by others with detailed processes and training requirements to ensure high fidelity (e.g. Multi-systemic Therapy)	Saves commissioner time and cost of researching interventions and their impact. Likely to be providers ready and able to deliver intervention	Intervention is appropriate to commissioner's needs and restrictions on and cost of using intervention (e.g. licensing costs) are acceptable to all parties
Provider-designed intervention	Bespoke intervention designed by a provider e.g. HCT travel training.	As for licensed intervention above but commissioner may still need or want to research alternative interventions	Intervention is appropriate for commissioners' needs and no viable alternatives are available
Cohort referral pathway	Processes for identifying, referring and approving beneficiaries to/for an intervention	Saves commissioner (and possibly provider) time and cost of developing new processes and criteria	Social problem/outcomes sought, and cohort characteristics, are sufficiently similar to previous contract to make replication or adaptation worthwhile
Outcome measure	Broad measure of outcome achievement – e.g. child no longer at risk of care	Saves commissioner time and cost of reviewing options including some that might be unworkable	Social problem and outcomes sought are similar to previous contract. Cohort is not so different as to make use of same outcomes difficult
Outcome achievement criteria	Detailed specification of when a payment will be made e.g. responsible social worker agrees child is safe at home	Same as for outcome metrics – saves time and cost for commissioners and possibly also providers and investors	Commissioner is ready and able to use same outcome measure and metric as previous contract
Payment mechanism	Detail of when and how payment will be made e.g. payment quarterly based on defined payment per day of care avoided per child	Same as for outcome metrics – saves time and cost for commissioners and possibly also providers and investors	As for outcome measure/metric above and provided commissioner is comfortable to pay on similar basis to previous contract
Payment level/rate	Specific payment amounts e.g. £25 per day of care avoided or 55% of total cost of care avoided per day	Saves commissioner time and cost of new modelling to calculate appropriate levels of payment	Overall financial case service costs and/or budget available are sufficiently similar to previous contract to

			enable previous payment level to be replicated
Contract terms and conditions	Template contract including terms specific to outcomes contract and potentially other characteristics e.g. the intervention	Saves all parties to the contract time and cost of drafting new terms though commissioner may wish to review and amend	Provider and investor are the same as previous contract (especially in Common Platform SIB) and commissioner is prepared to adopt and adapt template contract. If provider or investor are different a previous contract in a similar context might be adaptable
Procurement approach	Procedure used to procure the provider and/or investor (e.g. Voluntary Ex-Ante Transparency Notice or competitive dialogue), and sometimes the wider procurement approach	Saves the time and cost of evaluating alternative procedures afresh, and sometimes of developing detailed processes and plans	Commissioner and procurement team are prepared to adopt and adapt a previous procedure used previously in a similar context
Operating structure	Overall structure of contract including delivery organisations, form of Special Purpose Vehicle etc.	Saves all parties time and costs of developing bespoke structure for each contract	Provider(s) (or intermediary) and investor are the same as previous contract (or if different are prepared to adapt structure from a previous contract in a similar context)
Financial structure	Terms under which investment will be provided and outcome payments made	Saves investor and provider time and cost of agreeing terms, though detailed negotiation of terms may still be needed in each case	Investor is the same as previous contract and provider is the same or, if different, prepared to accept similar terms
Governance structure	Composition and roles of Board managing delivery and performance (esp. if a Special Purpose Vehicle is in place)	Saves all parties time and costs of developing bespoke structure and processes for each contract	Provider (or intermediary) and investor are the same as previous contract or if different, prepared to adapt a structure used previously in a similar context
Data Collection and Sharing Agreements	Defined processes and sometimes contractual terms for collecting and managing data required to manage performance	Saves all commissioners and providers time and cost of designing new processes. Ensures common data standards and legislative compliance	Provider (or intermediary) is the same as previous contract and outcomes, intervention and cohort are sufficiently similar to enable common data management

Data collection / management systems	Systems required to collect and manage data in order to monitor and report on outcome performance	Saves all commissioners and providers time and cost of designing new systems. Ensures common reporting formats and standards	Provider (or intermediary) is the same as previous contract and outcomes, intervention and cohort are sufficiently similar to enable common data management
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There is no single specific aspect of a SIB that facilitates replication, but consultees observed that the more characteristics of a SIB that can be replicated the greater the attraction to a commissioner, because of the saving in time and cost that ensues. As mentioned above a high degree of replication is a defining feature of SIBs which follow route 4 (Common Platform SIB), and which are actively promoted by providers or others using a common platform. A large part of the attraction of this approach is thus that it significantly reduces the cost and time burden on successor commissioners and also reduces the cost of further development and implementation for providers and investors. Such an approach could also be attractive to existing alliances of commissioners who are already collaborating across conventional contracts. Several sector experts pointed out that a large number of the characteristics of this sort of SIB can be replicated wholesale, including outcome metrics, governance structure, interventions, payment mechanisms, and even process aspects such as Data Sharing Agreements.

In some such models, the entire delivery model is now being replicated. One stakeholder involved in a Common Platform SIB commented that:

*“Contracts, metrics, total value of outcome payments, success rates have all been replicated or adapted throughout the various commissioning cycles. We have developed the contracts to be much more specific. Initially they focused purely on outcomes. However, we have developed these to include staffing levels, caseloads etc. to ensure providers deliver at sufficient volumes and pace to secure the outcomes required.”* – Sector expert

Another sector expert, a provider with strong experience of implementing evidence-based, high fidelity therapeutic programmes, observed that such programmes are particularly amenable to replication because the programme and its delivery model come ‘pre-packaged’. However a high degree of replication can also be achieved with programmes that are not licensed or high-fidelity and have been designed bespoke by providers – for example the HCT Travel Training SIB referred to above which has, to date, been successfully replicated with three different local authority commissioners (Stanworth, 2018).

However, it should be added that a Common Platform approach is no guarantee of success, since, as pointed out in section 5.3.2 below, there will always be a legitimate expectation on the part of commissioners that a solution is tailored to their local needs and circumstances. This means that not all commissioners will accept a pre-defined approach, which could result in a Common Platform SIB failing entirely (or failing to be extended beyond its original commissioner).

## 5.2.2 Learning from previous SIB commissioning

The evidence suggests that commissioners have valued the opportunity to learn from other commissioners that have gone through the SIB process. As highlighted in Chapter 4, in one case study stakeholders commented that it was useful to learn from other commissioners who had run a similar intervention (regardless of whether or not it was run through a SIB mechanism).

While replicating specific elements of a previous SIB might be possible and useful, several stakeholders also highlighted the value of getting practical guidance from others on how to manage and run the development and commissioning process. In particular, some saw value in learning how to avoid pitfalls in the process (for example, having simple outcomes and outcome measures, or having manageable and realistic eligibility criteria). As one commissioner put it, *“We don’t know what we don’t know”*. Another said that, with hindsight, they could have learnt a lot from other commissioners, but they did it too late. Had they done it earlier it would have helped inform their approach to developing the intervention, and probably speeded up the SIB development process.

Learning from other organisations is most obviously relevant to route 3 (local emulation of previous SIB), but it also applies to route 2 (sequential stand-alone SIB development), when a commissioner is developing a second or further SIBs having done a first, and can learn from its own previous experience and knowledge of the process. However, commissioners also commented that such internal replication has challenges, due to the degree of staff churn within organisations and the capacity and specialist knowledge required – see sections 5.3.3 and 5.3.4.

Several commissioners and sector experts had views on the best way to access practical guidance on what others have achieved. One commissioner commented that there is “very little” practical guidance available, while others observed that there was useful written guidance available but that there was much value in being able to speak informally and face to face with those who have been through the process.

*“It’s always better in person to chat things through. So yes I think if I was doing another one...If it was something we were doing again [It] would be great to find out what is going on in other areas”.*  
- Commissioner

*“Maybe [it would add value] working with other LAs who are doing a similar sort of project... working in a similar area. So that we can compare what is going on.”* - Commissioner

*“[There is a] need for more face to face, less formal opportunities to peer network.”* – Commissioner

Others observed that there was value in having support and guidance from specialist advisors who had worked with other organisations and could accelerate the learning process. One sector expert pointed out that small amounts of advice could be very useful, especially in anticipating and avoiding pitfalls that a new commissioner would not be aware of. A number of commissioners said that they had valued the advice that they had received from advisors and the extent to which it had enabled them to avoid unnecessary reinvention of the wheel, because their advisor was already aware of both good practice and potential pitfalls from previous projects.

### 5.2.3 Replicating specific aspects of the SIB process

One of the specific research questions this study aimed to answer is which aspects of the SIB process can be replicated and which cannot. As already noted in section 5.2.1 above, when SIBs are being sequentially developed with external leadership on a common platform there is frequently a high degree of replication of many facets of the SIB, its underlying processes and structures and its contractual terms.

More generally, those we consulted observed that:

- There is scope to replicate many aspects of the SIB development process, thus supporting routes 2 (sequential stand-alone SIB development) and 3 (local emulation of previous SIB) in particular. An example is the financial modelling that lies behind most SIBs, based on calculations of cohort size, intervention and other costs and the impact of the intervention on outcomes and associated costs. Both commissioners and sector experts said that such models could be easily replicable, with specific local details being ‘plugged in’ to models previously developed to suit specific areas. One sector expert pointed out that they had already developed such a model for Edge of Care SIBs, into which local variables could be entered. Other specific aspects that might be replicated in this way are templates for the SIB business case and a modelling tool to calculate outcome payments: two of the case study areas told us that they are already developing different approaches to the latter.
- There is scope to go further and replicate entire rate cards, as some LAs have already done in following replication route 5 (local emulation of central-government funded SIB). One sector expert observed that this could be facilitated if all rate cards and their associated detail (notably payment levels for each outcome, and the detailed criteria for measuring achievement of each outcome) were published and freely available. This is not the case for all rate cards at present (see Chapter 6 for some solutions to this problem).

One commissioner who was replicating an earlier SIB in a similar policy area had been able to replicate many aspects of the process including:

- the outcomes – they used much the same outcomes as before, but with minor modification because the focus of the new SIB was on people with more entrenched needs. Pricing the outcomes was relatively straightforward because they were able to draw on work with an intermediary from the previous SIB
- the procurement process – they used a similar approach to their previous procurement (competitive dialogue) and were able to adapt the specification from the previous SIB; and.
- The contract – they used the same contract as before with minor modification as needed

#### 5.2.4 Familiarity breeds acceptance

Sector experts highlighted that as more SIBs are developed in the same or similar areas, it becomes easier to engage stakeholders and obtain their commitment because more and more will have heard about, or been involved in, similar SIBs elsewhere. However, sector experts also argued that the positive impact of this is limited by the lack of the ready availability of data on previous SIBs to which those seeking to engage stakeholders can point. As one expert commented:

*“As more SIBs are developed in the same or similar areas it becomes easier to get stakeholders on side... But there is still limited evidence that SIBs achieve much additional impact in exchange for the hassle and cost – so familiarity does not guarantee commitment.” – Sector expert*

We suggest solutions to the challenge of data availability in Chapter 6.

In addition, familiarity can be undermined by the impact of churn, as discussed further in Section 5.3.3 below.

## 5.2.5 Policy impetus can be a key driver

Several sector experts observed that replication is happening in some policy areas because there is a policy push for it and there are overarching, central government policies that are driving replication. There is also a separate policy driver to encourage the use of social investment and outcomes-based commissioning that is naturally driving replication of SIBs and outcome-based contracts in general. Virtually all SIBs that have been directly funded by central government in specific policy areas (comprising route 6 (Central-government funded SIB)) meet one or both of these criteria, including the IF rounds 1 and 2, FCF, YEF and more recent programmes including the Rough Sleepers SIBs and DfE-funded SIBs aimed at improving outcomes for care leavers.

Provided that central government departments are willing and able to commit funds to such policy-specific SIBs, they provide an obvious, direct and relatively easy route to replication. Our case studies also indicate that these programmes can speed up the development process because local stakeholders have to work within specific timelines set by each programme.

There are however drawbacks to such centrally-driven and funded programmes which were mentioned by a number of sector experts, including that:

- The replication effect is somewhat artificial and it is arguable that the SIBs would not exist without the targeted funding – therefore, they are less likely to establish SIBs and OBC as a tool of public sector reform in the longer term than SIBs developed by local commissioners of their own volition;
- In similar vein, the additional costs of a SIB approach may not be justified if the case for intervention in a specific social area is clear-cut. One sector expert with direct experience of centrally-funded SIB programmes argued that such interventions might be better funded directly as grant programmes or fee for service<sup>34</sup> contracts;
- If SIBs in a particular policy area are centrally funded and procured, the procurement and subsequent contract management arrangements can be excessively rigid and potentially stifle innovation and flexibility. Both are potential benefits of using an outcomes-based approach in the first place.

Sector experts also observed that SIB replication in specific policy areas could be encouraged by other means than direct funding, including:

- Central government setting out the (likely high) costs of adverse outcomes in key areas, such as homelessness, child protection etc. – thus endorsing the financial, as well as social case for intervention in these areas. This would build on but go further than existing sources, such as the New Economy Unit Cost Database<sup>35</sup>, and provide comprehensive and validated data on costs and benefits that is easy to understand and access in each policy area; and
- Having in place key individuals who are able to work across different geographies, ‘spearheading’ SIB development in particular policy areas.

We revisit both these points in Chapter 6.

<sup>34</sup> Fee for service is where payment is based on service levels or outputs delivered, rather than outcomes

<sup>35</sup> See: <http://www.neweconomymanchester.com/our-work/research-evaluation-cost-benefit-analysis/cost-benefit-analysis/unit-cost-database>

## 5.3 Barriers to replication and scaling

This section similarly describes what the research revealed about barriers to replication and scaling, again grouped into broad themes.

### 5.3.1 Stakeholder engagement/misunderstanding of SIBs

As already explained in Section 2.1.2, evidence suggests that managing stakeholders is arguably the most challenging aspect of the SIB commissioning process, largely because of ideological or ethical opposition to SIBs and/or a lack of understanding of SIBs and their objectives. Our research indicates that this is equally true where commissioners or other parties are aiming to replicate previous SIBs, and that there is no route to replication that can entirely mitigate or avoid this challenge. Even where the SIB is being offered on a well-developed common platform (route 4 to replication) with many elements pre-packaged, local commissioners and other stakeholders still need to engage positively and do not always do so. Evidence from previous evaluation confirms this, for example in relation to both the HCT Travel Training (Stanworth, 2018) and MHEP Common Platform SIBs (Hickman, 2017). In both these SIBs, those promoting the common SIB model have had successes and failures, with some stakeholders declining to engage for a variety of reasons.

Discussion with commissioners and sector experts through this research confirm this. One sector expert who has a leading role in promoting a Common Platform SIB explained that some 'new' commissioners had engaged very quickly, leading to rapid implementation, while others had not engaged at all and had shown the type of suspicion and misunderstanding that has already been documented in Section 2.1.2 above. Another who had been involved in the promotion of a Common Platform SIB had similar experiences, and echoed the views of other sector experts on the need to avoid SIB terminology and the narrative around SIBs when talking to commissioners. We again revisit this in Chapter 6.

In some cases, replication can be easier if a commissioner is replicating an earlier SIB in a similar policy area. One of the commissioners involved in the case study research had done this, and commented that some stakeholder engagement was still needed, but at a lower level. Most importantly, they were able to speed up the process because investor-provider relationships had already been built from the previous SIB, and did not need to be established afresh.

It is arguable that the route to replication that is least affected by the need for fresh stakeholder engagement is route 6 (central-government funded SIB), since if local stakeholders apply for policy-specific funding that is explicitly restricted to a SIB model, they can be presumed to have already understood the prescribed delivery mechanism and engaged positively in it. However, some stakeholder engagement will still be needed if local decision-makers or other key parties change roles during the process (see section 5.3.3 below) or if the SIB is centrally funded but locally procured.

### 5.3.2 Need for local adaptation

As discussed above there are many aspects of the SIB process that can be replicated, and in some Common Platform SIB models the explicit aim is to 'pre-package' many elements of the SIB and its surrounding process, so making it easier and quicker for each new commissioner to implement.

However, sector experts who are directly involved in the promotion of Common Platform SIBs (or generally advising local commissioners on what they can learn and emulate from predecessors elsewhere) all made clear that there were limits to what can be replicated. In particular, they stressed that there were likely to be variations in cohort demographics and characteristics in different areas, even if the outcomes sought and the intervention applied to achieving those outcomes were identical. Other factors which are likely to

vary include the actual payment level set for the achievement of a defined outcome, since although the payment mechanism may be similar or identical, the payment level can vary and might be influenced by a number of factors such as the contract structure, the costs of service delivery and associated performance management, investor 'return' expectations, local budget available and the level of savings (if any) that the commissioner expects to be able to achieve and use to fund outcome payments.

It is thus likely that even highly pre-packaged SIB models will need significant changes in these different areas, which could add to the length and complexity of the development process, and in itself act as a barrier to wanting to proceed with the SIB.

A further issue is that the SIB has to be appropriate to local needs, and be perceived as such to get commissioner buy-in. Several commissioners highlighted that they would consider replicating or scaling a SIB but it would have to be the right intervention at the right time – in other words they would not replicate a SIB solely because it is an innovative or different approach to commissioning. Another commissioner who has replicated a SIB in a similar policy area was able to replicate several aspects of the previous SIB but had to change the intervention model because they were addressing a different cohort with more entrenched needs. In consequence they used much the same outcomes structure but their procurement approach was 'black box'.

There is also evidence that a 'one size fits all' approach might not work because many commissioners want to feel ownership of the process. One sector expert observed that local authorities dislike and may resist pre-packaged solutions in any context (e.g. IT or business process outsourcing), and always expect solutions to be tailored to their local circumstances. As highlighted above, another expert highlighted that it is important to approach commissioners in a solution-focused way, rather than trying to 'sell' the SIB model.

Finally, sector experts stressed that the option of taking a central government Rate Card and reusing it for a local SIB (route 5) also needs to involve appropriate local adaptation, especially regarding local cohort characteristics. One consultee stressed that it is simplistic to assume that a Rate Card can be 'lifted and dropped' unless the cohort faces very similar challenges. For example, the FCF rate card pays for a wide range of outcomes and includes substantial payments for moving young people into sustained accommodation. It is therefore not entirely appropriate if applied to a cohort that has similar vulnerabilities but is wholly or partly already in settled housing. If the Rate Card is used without adjustment in these circumstances there will be a lot of 'deadweight' and poor additionality, and the likelihood that providers and investors will be overpaid.

### 5.3.3 Commissioner churn

As highlighted in Chapter 2, there is significant churn within commissioning organisations, with managers and staff that have acquired valuable knowledge and understanding of SIBs and how to implement them, frequently moving to new roles within the organisation or leaving the organisation entirely. The process of setting up this research project itself demonstrated this: interviewees included several key people who had been involved in SIBs but no longer worked at the organisation, or had moved to a different department.

Such churn can have positive effects if it spreads awareness of SIBs and their benefits to more organisations, or someone is employed by a new organisation specifically to apply their SIB expertise. Such benefits are rare, however, and more often it has a number of negative effects on the scope for replication of SIBs. In particular:

- It reduces the scope for replication via route 2, where a commissioner implements a further SIB in a different service area. Some commissioners were sceptical that they could replicate or scale a previous

SIB because key staff with knowledge of the SIB development and commissioning process would have moved on. In consequence they thought they would probably need further advisor support;

- It adds to the challenge of stakeholder engagement, because a change of personnel, especially at senior level, can mean that momentum and commitment is lost and re-engagement is required. One sector expert who is heavily involved in the implementation of a Common Platform SIB across several LAs, observed that existing commissioners can disengage (or at any rate reduce their level of commitment) as fast as new commissioners come on board. Another who formerly had a similar role explained how in one site, all of the personnel changed during the process – and a key advocate of the SIB project had been replaced by a SIB sceptic. At best this means that those advocating the SIB must start over, at worst the project can be completely derailed.

*“You can be talking to someone, and within a few months they won’t be there anymore. The churn in local authorities is frightening.” - Sector stakeholder*

### 5.3.4 Commissioner capacity and transfer of knowledge

Even where there is little or no churn and staff who have learnt about and experienced the SIB process remain in post, there can be challenges in transferring existing knowledge and having sufficient capacity to implement a further SIB in a different policy area. With regard to capacity, one area stated that a SIB needs to have at least one person working on it full-time to co-ordinate all of the different aspects; it cannot be something that people do on top of their day job because this is unsustainable. As one commissioner who had successfully led the development and implementation of a SIB commented:

*“The knowledge is different from the capacity. I still don’t think we have the capacity to easily do another SIB. I’d like to do another one, and I think it’d be less work than the previous one, but it’s still hard to prioritise it amongst other pressing projects and work.” - Commissioner*

This problem may be compounded if the lead on the first SIB needs to remain involved in that SIB’s implementation and operation – thus reducing their capacity to work on another. In addition there may be capacity issues in particular support areas – one consultee made the point that cuts in the back offices of LAs have impacted on areas that are very important to SIB development such as data analysis. A direct comment about LAs from one sector expert was that *“their analytical capacity is shot.”*

There are also questions about the extent to which SIB knowledge can be readily transferred if the successor SIB is in a different policy area. In one case study area that had commissioned multiple SIBs, commissioners felt that many aspects of the process had not got any easier, because they were developing SIB models in different contexts. However, a key benefit of prior experience was that they knew how the process went, and how to manage certain aspects (like different stakeholders).

In addition, even if knowledge and capacity is available to transfer, other factors may be different. One commissioner observed that they would not be able to replicate as easily in a different policy area not only because new people would need to be upskilled in the SIB development process, but also because the right data might not be available.

### 5.3.5 Lack of data transparency

Several commissioners highlighted that there is a lack of transparency around the impact of SIBs. They argued that providers often hold a lot of the data on impact but have no incentive to share it beyond the stakeholders directly involved in their SIB contract. The lack of available data on the impact – or added value – of SIBs is a barrier to replication because it makes it challenging to build the business case and convince those who might want to consider a SIB in a specific policy area that a similar approach has been useful elsewhere. Sector experts also pointed out that the converse was true in relation to Common

Platform SIBs: those leading such SIBs and promoting them to further commissioners can, over time, use data from earlier implementations to help make the case for the model.

Some sector experts expressed surprise about this finding during the workshop, and argued that there was much data about many SIBs already in the public domain. This has some validity but there are possibly two barriers to the wider use of administrative data by commissioners considering a SIB:

- The amount and form of data available is not consistent. It is freely available on some SIBs but not available to the same extent, or at all on some others. In addition the way data is presented is largely at the discretion of those who own the data and those who are reporting it – often an evaluator; and
- Commissioners needing to find such data to help them make the case for a SIB cannot easily find it – in part because they may lack the skills or capacity to do so, and in part because it may not be as easily accessible as is supposed by sector experts – who are more familiar with the data and used to looking for it.

Some of those spoken to as part of the research – both commissioners and sector experts – thought that there was a continuing role for advisors here, since they are likely to be more familiar with the data and/or will know where to find it and can thus help navigate commissioners and others to it. In addition others pointed out that GO Lab has now launched a database of live projects that aims to address these issues. Both these questions are revisited in Chapter 6.

It is also worth noting that commissioners and other stakeholders are pushing for greater transparency with regard to impact data around SIBs than is generally available for other types of contract – or indeed for many in-house services. However there is some justification for greater data sharing both because these types of contract are much less familiar to those who might want to adopt them than other types of contract (and also tend as noted elsewhere to encounter greater resistance and misunderstanding); and because nearly all SIBs have been developed with central government support – both in development grants and top-up funding. Where such funding has been provided, in some cases it has come with the condition that the grant recipients are prepared to share learning freely.

### 5.3.6 Market development and capacity

Another potential barrier alluded to in the case study and sector expert research is that smaller providers might not have the capability to engage in the SIB market. This can be a barrier to the local development of SIBs, especially under routes 1,2,3 and 5, because there may not be a local provider market with the capacity and appetite to take on a contract that might have been successful somewhere else, or in a different policy area. Local decision-makers will naturally want to encourage and in some cases give precedence to local providers, but may not be able to do so.

Several people commented that there is limited evidence of small providers being engaged in the SIB market, and suggested different reasons for this, including that:

- The ‘SIB’ language and narrative deters smaller providers and leads them to think that they do not have the capacity to respond, and/or that a SIB would be high risk for them;
- investors already have a preferred provider (or vice-versa), with whom they have an established relationship and have gone through the ‘due diligence’<sup>36</sup> process. This naturally leads to established partnerships being at a competitive advantage compared to new entrants;

<sup>36</sup> Due diligence is the process whereby an organisation or company’s strengths and weaknesses are assessed in detail by a potential investor with a view to investment

- commissioners are not strong at developing the provider market and structuring their contract in a way that encourages and enables smaller providers to respond – for example by appointing a single investor or intermediary who can then procure and sub-contract local providers to deliver the service. This may reflect a general reluctance on the part of commissioners and their procurement teams to skew the market towards particular delivery structures, but might also show a misunderstanding of how different SIB operational and contractual models can be used to achieve different results.

## 5.4 Conclusion

The research has shown that some routes to replication and/or scaling are more effective in the UK context than others. Key enablers such as replicating a defined programme or methodology and learning from previous SIB commissioning are common particularly in Common Platform SIBs, as well where commissioners emulate SIBs that other commissioners have implemented. Policy impetus does appear to be an effective route to scaling, but the replication effect is somewhat artificial and scaling might not be sustainable. However, commissioner churn and lack of commissioner capacity are barriers that need to be addressed because they can preclude commissioners even considering to proceed with a SIB. Echoing the findings in Chapter 2, stakeholder engagement cannot be replicated easily in any context, so possible solutions need to facilitate commissioners to more easily overcome some of the barriers relating to engaging stakeholders (such as suspicion or misunderstanding). Chapter 6 provides a number of possible solutions to break down some of these barriers.

## 6.0 Possible Solutions

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### *Chapter summary*

Possible solutions largely fall under four key themes: the presentation of SIBs and their framing, transparency, commissioner capacity, and tools and guidance.

- The presentation of SIBs and their framing have produced challenges for commissioners, and they are barriers to replication and scaling. There are issues around both the SIB 'brand' itself and the way the concept tends to be presented in the UK. Renaming and reframing SIBs would likely have minor cost implications and is relatively easy to set in motion, since many of the leading players in the market agree that both the term SIB and its framing are unhelpful and causes confusion. However it would take some time for change to be accepted given the brand recognition that surrounds SIBs. It would thus require a clear steer and lead from central government, which would need to think about how to achieve consensus on what would be included in guidance and on such issues as what alternative terminology might be used.
- To increase transparency there is a role for government in making clear the benefits of data sharing, co-operating with GO Lab efforts to build a comprehensive and useful database of projects. If there is resistance, there is also an opportunity for central funders being more robust in requiring data sharing.
- There could be merit in making more targeted, funded development support available to increase commissioner capacity. There are a range of options of how this could manifest, ranging from secondments from one commissioning organisation to another, having a formal contractual framework for advisors (to ensure quality and value for money), or setting up development funding in a form similar to other funds like the Investment and Contracts Readiness Fund, the Big Potential Fund and the Reach Fund.
- Although there is a range of tools and guidance already available, some additional tools – such as 'plug and play' financial models - could be useful. In addition, there is a case for better signposting to available guidance which those developing contracts appear unwilling to use, or unaware of its existence and usefulness. One way to do this would be to ensure that guidance in specific professional areas is backed by and issued through the appropriate professional body – e.g. the Chartered Institute for Public Finance and Accountancy (CIPFA) for guidance on financial issues, or the Crown Commercial Service for procurement etc.
- Other possible solutions, that do not fall under a particular thematic area, include appointing experts to spearhead developments in sectors and commissioning larger outcomes contracts in key areas (to support a shift in perception about the possibility of scaling).

This section sets out possible solutions to the challenges identified through this research – both to commissioning of SIBs in general and specifically to replicating and scaling SIBs.

This section groups solutions into five broad themes that have emerged from the research. These solutions have been tested with sector experts both during the research, and at the workshop that was held following the completion of the research. It divides them into two main types:

- Solutions that build on existing work or exploit existing processes and infrastructure, and therefore require little or no additional funding (though they will have an opportunity cost for organisations that might be tasked with taking them forward). These are termed as 'Procedural' solutions; and
- Solutions that require more radical action by government or other parties, and usually (though not always) require additional expenditure. These are termed as 'Policy' solutions.

For the most part it is expected that Procedural solutions would mainly help commissioners and others who are already engaged in SIB development and are facing technical or other challenges such as limited capacity; but will have less impact on those who have yet to consider a SIB. Policy solutions are more likely to 'move the dial' on the number and scale of SIBs in the UK, and encourage those who have not yet considered the SIB or OBC concept (or may have considered and rejected it) to embrace the approach.

For each theme, the report describes the barriers identified through the research and then both Procedural and Policy solutions, followed by a commentary on implementation issues and questions. Some solutions will address more than one barrier; they have been repeated where this is the case. Please note that although this section comments on implementation challenges, based on both the research findings and previous experience, no firm recommendations on how solutions should be *implemented* are made. This is because it was outside the scope of this research to consider such issues in detail, and routes to implementation are dependent on a number of factors that require further investigation, including stakeholder willingness to take on tasks, government appetite to be more directive and interventionist, and, crucially, potential funding available.

The five themes are:

- Presentation and framing of SIBs;
- Transparency;
- Commissioner capacity building and peer support;
- Guidance and tools; and
- Other enablers of scaling and replication.

## 6.1 Presentation, naming and framing

### 6.1.1 The barriers

As described in Chapter 2, there is some reticence amongst key senior people within commissioning organisations (e.g. elected representatives, Chief Executives and Finance Directors, service leads) to embrace SIBs due to:

- Suspicion or scepticism about SIBs and the motivation of those involved in them – especially but not only investors; and/or
- A lack of or poor understanding about SIBs and how they work.

Some commissioners and nearly all sector experts thought that the way SIBs are branded (i.e. the name 'Social Impact Bond; itself) and also the way that they have sometimes been positioned and promoted in the UK was itself a significant barrier both to overcoming such scepticism and suspicion, and to increasing understanding. This is a major inhibitor both to increasing the number of organisations considering SIB contracts, and to replication within and outside organisations.

As explained in detail in Chapter 2, there is particular concern that:

- The terminology associated with SIBs is confusing (for example they are not bonds);
- The way SIBs have developed in the UK means that they are sometimes promoted and positioned as, and frequently understood to be, primarily a financial instrument rather than a way of developing an outcomes-based contract to address social issues. This is mainly about the order in which issues are discussed and addressed. The availability and use of social investment is an essential feature of SIBs, and needs to be discussed in due course. However, there was a strong view from many of those we interviewed that the initial conversations with commissioners need to focus on the reasons why an outcomes based commissioning approach is useful, rather than on how the investment might work. The use of the term Social Impact Bond sometimes encourages a ‘finance first’ conversation; and
- The history of SIBs in the UK means that they are often associated with the pursuit of cashable savings when in practice cashable savings are only one of a number of potential benefits commissioners might seek through the use of a SIB. Others might include future costs avoided or increased service efficiency of effectiveness.

6.1.2 Solutions

**Table 6.1: Terminology and framing solutions**

Procedural solutions	Policy solutions
Develop a common language framework to help people communicate about SIBs more clearly, with agreement (ascertained through research) on terms that are confusing to non-specialists and how they are used.	Rename, reframe and reposition SIBs so that they are no longer referred to as Social Impact Bonds – or possibly are only referred to as such when they are narrowly focused on achieving cashable savings. Develop alternative terminology that more clearly and accurately describes what we call SIBs as e.g. social outcomes contracts
	Support this with clear guidance on: <ul style="list-style-type: none"> <li>• the ways in which social outcomes contracts can be used to achieve a range of objectives, such as repurposing existing expenditure so that it pays for outcomes rather than inputs, as well as contracts being self-funded through cashable savings,</li> <li>• how social outcomes contracts should be properly considered as one of a range of ways of addressing complex social problems, each of which have benefits and disadvantages</li> </ul>

6.1.3 Implementation issues and questions

Although the rebranding and reframing of SIBs is a relatively radical suggestion, it does not have major cost implications the process of change can be initiated relatively quickly. In addition it is clear from our research that many in the market have already moved in this direction and therefore that attempts to make these changes will be widely accepted. One leading investor is deliberately repositioning projects as social outcomes contracts, and similar terminology is used widely across Europe. Several sector experts explained how they engaged commissioners and other stakeholders by deliberately avoiding SIBs and the narrative around them, and instead focusing on the benefits of commissioning for outcomes, or of finding new solutions to complex social problems, or of partnering with social investors to achieve wider public sector reform.

What is needed to support and drive this change is a clear steer from central government (specifically DCMS), which is supported by other key influencers such as GO Lab and, to a lesser extent, TNLCF. It is worth noting that these bodies have themselves been active in challenging the SIB terminology and the barriers it creates, especially GO Lab whose designation as the Government Outcomes Lab consciously avoids narrow association with SIBs alone, and which has deliberately widened the debate about when and how outcomes contracts (whether or not supported by social investment) can be successfully deployed. However all parties are forced to continue to refer to SIBs so long as others do so, and thus there is a cycle of reinforcement which means that the term has a degree of traction and ‘brand recognition’.

If these policy leaders and influencers fully embrace an alternative narrative and messaging, then the reinforcement effect should in time reverse, and we believe that this should happen quite quickly given the support for change expressed to us by the vast majority of stakeholders. Indeed although the term ‘SIB’ has brand recognition, it was described by some as a ‘tainted’ brand, and only has wide recognition among those who support changing it.

In order to change the narrative there needs to be agreement among these key policy makers and influencers on:

- **What the alternative ‘branding’ should be.** The main point of any umbrella term should be to avoid the ‘investment first’ or ‘finance first’ connotations of the term Social Impact Bond, and reinforce the fact that so-called SIBs are essentially contracts for outcomes backed by social investment. It is not for this research to make firm recommendations on what this term should be, and we think it needs to be agreed by key stakeholders themselves through further consultation. As mentioned above, both ‘outcomes-based contracts’ and ‘social outcomes contracts’ have been advocated as alternatives, but it is arguable that neither is entirely satisfactory - since the former is a generic term and the latter is not unique to contracts supported by social investment, which is arguably the prime difference between a SIB and other forms of OBC. Other terms should therefore be considered, but it might also be concluded that the term ‘social outcomes contract’ is sufficient as a catch-all term that is then qualified and explained, but in the right context – i.e. the social problem being addressed and the need to consider new contracting arrangements in the first instance, rather than the financing arrangements. In addition, as suggested by one leading stakeholder and sector expert, there is an option to retain the term ‘SIB’ when applied more narrowly to contracts that expressly aim to achieve and recycle cashable savings. However, it might be better to initiate a ‘clean break’ with the SIB terminology, to reinforce and encourage change.
- **How the objectives of such contracts should be described.** There needs to be some clear and simple guidance on the types of contract that might be put in place and their objectives – especially when there is no expectation or assumption of cashable savings. This should help break perceptions such as that outcomes contracts are ‘a means for investors to make money out of social problems’ and the impression that their focus is narrowly financial. Again, some effort will be needed to put in place this sort of guidance and to achieve consensus on its contents, since much literature already exists on the purposes of such contracts. One issue highlighted by the research is that while most stakeholders agree that SIBs are hard to explain and often misunderstood, they do not fully agree what such contracts are best used for, just as there is no agreement on what they should be called instead of SIBs.

## 6.2 Transparency

### 6.2.1 The barriers

When designing and implementing SIBs, commissioners said there is a lack of easily available and accessible data which they can access both to help them develop their SIB and build the business case,

and persuade other stakeholders within their organisation of the merits of a SIB approach. Commissioners said that in particular they find it difficult to access data and information on:

- The impact of SIBs – i.e. the outcomes that have achieved;
- The rationale for a SIB compared to other ways of funding a service or intervention;
- The price that might be attached to outcomes; and
- The cost of investment – often described, somewhat simplistically, as ‘returns’.

Sector experts also argued that all central government rate cards and associated detail should be published.

### 6.2.2 The solutions

**Table 6.2: Transparency solutions**

Procedural solutions	Policy solutions
Encourage all project commissioners to share full details of administrative data on outcome success and rate cards including metrics, achievement criteria, and payment levels.	Make it a requirement of any project that is in receipt of central government funding that pre-defined data should be made publicly available, within the bounds of commercial sensitivity. This requirement should apply to all parties to the project (commissioners, providers, investors and advisors/intermediaries), It should apply to both policy-specific funds (such as the FCF or Rough Sleepers SIB Fund) and to any successor to the CBO Fund and LCF that might provide support to locally-commissioned SIBs.
Encourage projects also to publish data on the business case that underpinned a SIB approach, including the range of returns (positive and negative) projected to accrue to investors depending on outcome success.	Government should identify a number of key policy areas (perhaps ten) where poor outcomes are both costly and amenable to an outcomes-based approach. Once identified, they should publish authoritative data on the costs of current adverse outcomes in these areas as a spur to action for local commissioners, and a way to inform and accelerate business case development.
Encourage investors to publish more information on expected and actual returns across investment funds and for individual projects, with caveats where necessary on the accuracy of estimated returns	

### 6.2.3 Implementation issues and questions

#### Better data sharing, including compulsion

With regard to data sharing there are three key questions:

- **Who should house and curate data, and in what form?** Although there is some data already in the public domain, arguably there is a clear case for it being brought together so that it is both standardised and more accessible. GO Lab has already initiated a database of existing projects, and intend to collect data in a standard form, so it clearly makes sense for them to take the lead in this area. We understand that The National Lottery Community Fund (NLCF) is also taking steps to collect more and better data on projects funded through the CBO Fund. This could and should feed into the GO Lab database.
- **How are stakeholders persuaded to share data?** This research and previous SIB evaluation experience have highlighted numerous examples of all parties to SIBs being reluctant to share data that would help others developing and commissioning SIBs. One sector expert observed that the amount of data available on UK SIBs contrasts unfavourably with that which is available on [‘Pay for Success’ contracts in the United States](#). This indicates that the issue is largely cultural. The US has a different attitude – and legislative framework – relating to Freedom of Information and much very sensitive contractual information is freely available. In the UK, parties are much more naturally reticent to share data and information freely, citing a number of reasons including commercial confidentiality, protection of intellectual property, and Data Protection law. However at least some of these claims appear to be overplayed, and do not explain wide variations in practice: there is for example no obvious reason why data, including Rate Cards, on some central government funded SIBs is freely available, while data from others is not, other than the preference and inclination of those who own the data. It also does not explain why parties sometimes seem to argue that other stakeholders could and should share data freely but they cannot – specifically commissioners often seem keen to argue for more transparency from investors about investment structures and returns, and providers about outcomes achieved; while investors and providers argue for more transparency from commissioners about outcomes and pricing.
- **Should data sharing be compelled where it is possible to do so?** The issue of persuasion links to when and if data sharing should be compelled and the circumstances where it can be (i.e. within the bounds of commercial sensitivity) – specifically when a project has been funded by government. It would be unreasonable to require SIB projects to adhere to a higher standard of data sharing than other projects. However, where they have received often generous government subsidy, it is reasonable that they do so and indeed it is already a requirement in some programmes that specific data and information should be shared. Grant agreements under both the CBO Fund and LCF already require the submission of administrative data, cooperation with evaluators, and positive efforts to share learning. It is also worth noting that DCMS is currently taking steps to ensure that greater data transparency is a feature of contracts funded through the LCF. However, existing provisions do not appear to have prevented stakeholders arguing that much data should be kept private on commercial or other grounds as outlined above. Fund administrators have sometimes pushed for more data sharing, but have also been reluctant on occasions to enforce grant agreements and so risk alienating key stakeholders whose goodwill and cooperation is important.

In our view, actions that encourage (rather than compel) data sharing should be relied on in the short to medium term. However, government (possibly DCMS itself) should make clear the benefits of better data sharing and that it would like to see greater openness and transparency, and promote cooperation with GO Lab’s efforts to build a comprehensive database of projects. It could also point out the mutual benefit and potential ‘quid pro quo’ of greater sharing, leveraging the tendency of each party to lobby for greater transparency from other parties as outlined above.

If, however, there continues to be resistance, government and TNCLF should arguably be more robust in enforcing grant agreements and requiring data sharing, with very few exceptions that would need to be clearly defined.

In addition, data sharing requirements could and should be more explicit from the outset, and more rigidly enforced thereafter, if and when any further support funds are introduced.

### **Analysis of outcomes by government**

A number of sector experts favoured central government being more directive and taking the lead in setting out social policy areas in which outcomes-based contracting could be most beneficial. The suggestion (discussed further in Section 6.5 below) that government should invest directly and at scale in such outcomes is a more radical and costly solution to this challenge. Separately, some sector experts thought that there would be merit in government simply identifying and setting out the cost of poor outcomes in key areas, and possibly setting expectations that commissioners should have a clear strategy for addressing the areas identified through outcomes-based contracts or commissioning.

This is a lower cost but not free option since it will require action by the relevant policy departments to identify the right outcomes, and analysis in a consistent way of the costs of current outcomes and potential benefits of intervention. However, in some areas there is already much information available – for example on the impact of therapeutic interventions on children at risk of entering care. What is needed is some work to pull such existing evidence together, supplement it with further analysis where needed and give it a clearer central government endorsement. It is also possible this could be done in partnership with the What Works Network<sup>37</sup>, who are already tasked with pulling existing evidence together.

In our view each department should take lead responsibility for relevant outcomes that are within its policy remit, but there may be a need for some central coordination from DCMS, to ensure consistency of approach and output.

## **6.3 Commissioner capacity building and peer support**

### **6.3.1 The barriers**

Some commissioners commented that there is a lack of capacity within their organisations to:

- Upskill staff in the technical aspects of SIB development
- Lead the development and commissioning a SIB - which requires dedicated time and resource and cannot be done as part of the 'day job'.

These capacity issues can be exacerbated by 'churn' within commissioning organisations, and limits to the transferability of knowledge acquired between different policy contexts.

<sup>37</sup> <https://www.gov.uk/guidance/what-works-network>

6.3.2 The solutions

**Table 6.3: Commissioner capacity building and peer support solutions**

Procedural solutions	Policy solutions
Encourage commissioners actively to share learning around the benefits and pitfalls of commissioning SIBs (e.g. through case studies, webinars)	As in the Transparency area, strongly encourage all projects in receipt of government funding to: <ul style="list-style-type: none"> <li>• share both good practice and pitfalls to be avoided</li> <li>• participate in learning networks with other funding recipients</li> </ul>
Encourage learning networks between those implementing SIBs in similar policy areas	Provide carefully designed development funding to help commissioners address capacity and knowledge transfer issues directly through either or both: <ul style="list-style-type: none"> <li>• Targeted and experienced support from advisors; and/or</li> <li>• Secondments of experienced practitioners into commissioning organisations.</li> </ul>

6.3.3 Implementation issues and questions

**Encouraging learning networks**

The issues in relation to better learning between projects are similar to those that apply to better data sharing, namely who should be responsible for leading and encouraging such networks, and what more can be done to encourage people to participate in them.

With regard to who should lead, there is already an existing peer-to-peer network (of regional SIB Knowledge Clubs) which aims to encourage learning across and between projects. This is a partnership between GO Lab, DCMS, The National Lottery Community Fund and Ecorys that grew originally out of the latter’s role in promoting learning between projects as an objective of the CBO Fund. It is now open to all SIB projects. The obvious way forward is to build on this and make GO Lab’s role more explicit in:

- acting as an independent convenor of peer networks, either generally or across specific subject matter areas;
- encouraging projects to share experience; and
- building and sharing the evidence base of good practice, which is already a key part of GO Lab’s role

The alternative to GO Lab would be to place responsibility for best practice curation and dissemination with a commissioner, for example, a local authority. However, the cost and operational implications of this approach and appetite of commissioners to take it on are unclear.

Demand for such networks tends to peak when stakeholders are implementing programmes, as there is a real incentive to learn from others and address tangible problems. Therefore, there is merit in running peer-to-peer networks for specific SIB funds, such as the Care Leavers SIBs (which does exist), in addition to a broader learning network.

Irrespective of who leads in this area, our experience of previous learning networks is that they are always harder to make work than is assumed, chiefly because they require managers with limited capacity (as

confirmed by this research) to give up valuable time. In addition, those wanting to learn from others have more incentive to participate than those expected to provide the learning – who are likely to get numerous requests to share their experience. For the most part stakeholders have been happy to share experience, but a key part of GO Lab's (or another party's) role as convenor of such networks should be to help manage such demands and ensure that the expectations put on individuals with experience to share are not unrealistic.

As part of all peer learning we do think it is very important to encourage all stakeholders to share bad experiences as well as good practice. As highlighted in Section 5.2 above, several commissioners and sector experts stressed the importance of learning from pitfalls, and there is an understandable reluctance for all stakeholders to share mistakes as readily as successes.

### **Funded development support**

There has been much debate, identified in this study (see Chapter 4) and through other evaluations, about the value of external support, and whether funding of such support has been well spent. Several commissioners that were consulted stressed the value of the external support they received, and explained why they would need further funded support in the future – both to address internal capacity and knowledge issues, and to help them navigate and supplement technical guidance, which commissioners do not think is sufficient on its own (see Section 6.3 below). Existing evidence confirms this (see Chapter 4). A particular challenge to reducing reliance on external support is churn within organisations, which tends to dissipate knowledge and experience as officers change roles, unlike external advisors whose knowledge and experience is constantly reinforced by each new project.

At the same time, there is recognition that SIB development cannot become self-sustaining if it continues to rely on substantial amounts of external support, and that the need for support can be reduced through better sharing of experience, and making more tools available as described in Section 6.3 below. In particular, it ought to be possible to reduce the use of external support for relatively technical and low level tasks such as financial modelling.

This is why the consensus view is that support is most likely to be useful in one or both of the two areas described above – short, fixed term placements of experienced practitioners (through secondment or interim contracts), or smaller packages of strategic support and guidance from experienced advisors.

The major challenge in funding targeted, strategic advice from external advisors is in ensuring that those funded have appropriate expertise and qualifications. This would require a process to specify requirements and select advisors, with a focus on quality and experience. This process needs to take account of the fact that the SIB advisory market is unusual and contains fewer advisors from the larger consultancy firms. The market thus needs to be shaped so as not to exclude proven current advisors, many of whom are micro SMEs or sole practitioners.

There are essentially three broad options for achieving this, which are to:

- procure providers onto a formal contractual framework or Dynamic Purchasing System. This would require government or another funder to run a competition to select providers, maintain the list of prequalified providers, and monitor performance;
- set up development funding similar to previous Funds that have supported capacity building and investment raising by the VCSE sector, such as the Investment and Contract Readiness Fund (ICRF), the Big Potential Fund and the Reach Fund. Each of these Funds has different benefits and drawbacks,

and there is evaluation and other learning<sup>38</sup> available as to their strengths and weaknesses. A key benefit is that such Funds have been externally administered, and would impose a lower administrative burden on government than a contractual framework. However they have tended to impose a lower quality and experience threshold than would be needed here;

- to set up one or more consortia of providers from which those requiring support could choose, with consortia covering a range of organisations offering different skills and experience. This is the model adopted for the Mutual Support Programme 2, under which the DCMS selected two consortia, through open competition, from which those needing support could choose.

In our view, and subject to further and more detailed consideration of the options, the best route to procuring the sort of targeted and experienced support that is likely to be needed might be a specific Fund similar to the ICRF, Big Potential or Reach Fund, but designed bespoke for this purpose and with a selection process that ensures advisors have the requisite experience and capability.

## 6.4 Guidance and Tools

### 6.4.1 The barriers

Some commissioners struggled with the technical aspects of designing SIBs, such as financial modelling, defining outcomes, pricing outcomes and using appropriate procurement procedures. There appeared to be particular challenges around procurement, which if handled inappropriately can potentially derail the entire project.

Commissioners told us that there is a lack of practical guidance available and both commissioners and sector experts thought that technical guidance can only take a commissioner so far.

Commissioners identified a need for both face to face contact with peers who had faced similar challenges and for support from advisors to address gaps in knowledge as well as capacity issues – points that have both been covered above.

### 6.4.2 The solutions

**Table 6.4: Guidance and tools solutions**

Procedural solutions	Policy solutions
Publish off-the-shelf tools and documents that support local replication and accelerate business case development, including ‘plug and play’ financial models to calculate the costs and benefits of a SIB approach, similar models for setting payments for outcomes, and template business cases.	Publish clear policy guidance, backed by central government, on the context in which SIBs can be used to improve performance or value for money
.Enhance existing guidance where needed – e.g. specific guidance for the health sector on procurement	Provide carefully designed funding to help commissioners navigate guidance and avoid pitfalls through either or both: <ul style="list-style-type: none"> <li>• Targeted and experienced support from advisors; and/or</li> </ul>

<sup>38</sup> See for example:

[https://www.sibgroup.org.uk/sites/default/files/files/Big\\_Potential\\_Evaluation\\_Report\\_YEAR\\_3\\_FINAL\\_ONLINE\\_0.pdf](https://www.sibgroup.org.uk/sites/default/files/files/Big_Potential_Evaluation_Report_YEAR_3_FINAL_ONLINE_0.pdf) and <https://www.sibgroup.org.uk/sites/default/files/files/ICRF%20Evaluation.pdf>

	<ul style="list-style-type: none"> <li>• Secondments of experienced practitioners into commissioning organisations.</li> </ul>
	<p>Ensure that guidance in specific areas is backed by and issued through the appropriate professional body – e.g. CIPFA for financial guidance</p> <p>Improve the promotion of guidance through professional and sector-based networks</p>

### 6.4.3 Implementation issues and questions

#### Provision and dissemination of guidance

The criticism of the quality and availability of guidance from commissioners and others that emerged from this research is interesting, and somewhat surprising, since there is a significant body of guidance available and the technical guides produced by GO Lab appear to have been well received, and to have had considerable input from practitioners. As highlighted in Chapter 4, commissioner awareness of tools and resources is variable, and we think it likely that this is another example of commissioners not being aware of what is available, or not having the time to find and digest it, rather than the guidance itself needing significant enhancement. One sector expert, a leading advisor, observed that some of their clients have not found the time to read guidance even when the advisor has pointed them specifically to it and stressed its usefulness. In some cases, it may also reflect a view that guidance is not sufficiently detailed, or specific to the local context, or simply that some people’s learning preference is talking to those with prior experience, rather than reading guidance documents. Indeed, GO Lab have aimed in part to address this, by providing webinars and other interactive events that supplement their guidance documents.

The criticism of guidance on procurement and contracting is especially surprising since GO Lab’s guidance on procurement has been available for some time (although its second iteration was published in April 2019, after fieldwork for this report was completed). In addition there is more detailed guidance available from other sources – for example on the use of specified procurement procedures such as competitive dialogue. This finding appears in part to reflect particular challenges to SIB procurement in some sectors, notably health where procurement practice differs somewhat from local government.

While there will always be opportunities to update and enhance existing guidance, therefore, we see no need to change current arrangements or the assumption that GO Lab is the best repository of technical guidance, Rather we believe that the primary issue is in raising awareness of the existence and usefulness of guidance, and encouraging practitioners to use it. This could be supported by:

- Better signposting of guidance by DCMS and other government departments – especially the latter in relation to specific policy areas;
- Improving the promotion and dissemination of guidance through sector-specific professional networks e.g. Directors of Children’s Services;
- Ensuring that guidance in key functional areas such as procurement has explicit backing from appropriate professional bodies, and ideally the relevant body should issue a supporting policy note, Thus guidance on procurement could be routed through the Crown Commercial Service, financial guidance could come from CIPFA, etc. This an option suggested to us by one commissioner and we believe that it would add professional weight to guidance, and ensure its wider dissemination from authoritative sources that are more likely to be heeded by practitioners.

**Development of financial modelling and other tools**

The selection and dissemination of tools such as financial models raises different questions. One suggestion made was that existing tools developed by advisors and intermediaries (or possibly commissioners and providers) could be made available to others who wished to use them. There are in our view risks in making such tools available without support, and a strong possibility that those who have developed tools will be reluctant to share them – either because they have Intellectual Property (IP) value, or because the developer risks being asked to support them or advise on their use.

One option, which would avoid some of these issues, might be for DCMS to work with partners to develop or externally commission tools that are explicitly designed for generic use and in which the IP explicitly rests with the commissioner. The commissioning could equally be lead by another party outside of DCMS. Such tools could be built with accompanying guidance and appropriate disclaimers as to their use. This targeted investment could improve value for money by enabling commissioners to reduce their dependency on advisors developing very similar models and tools for each local SIB. However, this would not fully resolve the capacity issue – commissioners would still need to have time and resource to learn and apply the tools developed.

**6.5 Other enablers of scaling and replication**

**6.5.1 The barriers**

Stakeholders told us that there were other steps that could be taken to address some of the barriers to replication and help achieve a ‘step change’ in the adoption of outcomes-based contracts.

Sector experts argued that replication could be rapidly accelerated if there was direct action ‘top down’ to commit to change in key areas where known and often proven interventions could directly impact on poor outcomes.

Some sector experts also argued that contracts could be larger than they have been, and they tend to be small because the earliest SIB-type contracts were of necessity small (because they were pilots of untried approaches, or commissioners who were early adopters were understandably cautious). These early contracts have set a precedent and set of assumptions about the size of SIBs that is arguably no longer appropriate, especially in policy areas where SIBs have become more established. When interventions, and the provider market are better established – as in employment – previous PbR programmes have shown that they can be developed at much greater scale.

**6.5.2 Solutions**

**Table 6.5: Other solutions**

Procedural solutions	Policy solutions
None	Central government could appoint and possibly fund sector experts to spearhead development of outcomes-based contracts in specific policy areas.
	Central government could itself commission larger outcomes contracts in key areas (to support a shift in perception of where such contracts are valuable, and their optimum size).

### 6.5.3 Implementation issues and questions

#### **Appointment of service sector experts**

The view that service sector experts might be appointed reflects a finding from this research that those who understand well particular sectors or social problems – such as children’s services or homelessness – have been able to use their expertise and knowledge to support replication – effectively taking their experience from one geographical area and spearheading a similar approach in another. The role of such sector experts would mainly be to win hearts and minds, and support high-level engagement in, and conversion to, the merits of an outcomes-based approach.

It follows that this role would best fall to professionals with current or previous experience in the sector and who have been in the position of those they are trying to influence – most obviously senior commissioners in the relevant sector. It seems likely that they would be volunteers, and therefore distinct from paid advisors as discussed above, although they might be paid a retainer if funding were available.

#### **Central government commissioning of larger contracts**

We have included this recommendation because it was put to us as a possible option by some SIB sector experts who believe that it would give a significant boost to outcomes - based commissioning. However, its implementation is outside scope of this research which is focused on local commissioning of SIBs and OBC and we have not therefore considered its implementation further.

## **6.6 How solutions enable specific routes to replication**

As highlighted in section 5 we have identified six key routes to replication that cover the vast majority of current outcomes-based contracts that aim to replicate or build on the experience of others. The solutions we have outlined above will contribute in different ways to enabling these routes. While all solutions will impact on the different routes, Table 6.7 below shows which solutions will likely have most impact on each route.

**Table 6.7: How solutions enable specific routes to replication**

Possible solution	Route 1: Multiple-SIB developed by one commissioner simultaneously	Route 2: Multiple SIBs developed sequentially by one commissioner	Route 3: SIBs commissioned singly in similar policy areas based on other commissioners' example	Route 4: Provider- or intermediary-led SIBs commissioned sequentially or simultaneously by different agencies on a common platform	Route 5: SIBs locally commissioned based on a standard/previous rate card	Route 6: Centrally commissioned SIBs based on a standard rate card
<b>Presentation and framing</b>						
Develop a common language framework to help people communicate about SIBs more clearly, with agreement on terms that are confusing to non-specialists and how they are used	X	X	X	X	X	X
Rename, reframe and reposition SIBs so that they are no longer referred to as Social Impact Bonds – or possibly are only referred to as such when they are narrowly focused on achieving cashable savings. Support with clear guidance on how social outcomes contracts can be used to achieve a range of outcomes, and how they should be considered as one of a range of ways of addressing complex issues	X	X	X	X	X	
<b>Transparency</b>						
Encourage or make a requirement that all projects/ project commissioners share full administrative data on outcome success and rate cards including metrics, achievement criteria, and payment levels	X	X	X		X	
Government should identify and publish data on key policy areas where poor outcomes are both costly and amenable to an outcomes-based approach	X	X	X	X		
<b>Commissioner capacity building and peer support</b>						

Possible solution	Route 1: Multiple-SIB developed by one commissioner simultaneously	Route 2: Multiple SIBs developed sequentially by one commissioner	Route 3: SIBs commissioned singly in similar policy areas based on other commissioners' example	Route 4: Provider- or intermediary-led SIBs commissioned sequentially or simultaneously by different agencies on a common platform	Route 5: SIBs locally commissioned based on a standard/previous rate card	Route 6: Centrally commissione d SIBs based on a standard rate card
Encourage commissioners to share learning around the benefits and pitfalls of commissioning SIBs (e.g. through case studies, webinars) Encourage learning networks between those implementing SIBs in similar policy areas	X	X	X	X	X	
Provide carefully designed development funding through either or both: <ul style="list-style-type: none"> <li>• Targeted and experienced support from advisors; and/or</li> <li>• Secondments of experienced practitioners into commissioning organisations.</li> </ul>	X	X	X	X	X	
<b>Guidance and tools</b>						
Publish off-the-shelf tools and documents that support local replication and accelerate business case development	X	X	X			
Publish clear policy guidance, backed by central government, on the context in which SIBs can be used to improve performance or value for money. Ensure that guidance is backed by appropriate professional bodies	X	X	X			
<b>Other</b>						
Appoint and possibly fund sector experts to spearhead development of outcomes-based contracts in specific policy areas		X	X	X		

Possible solution	Route 1: Multiple-SIB developed by one commissioner simultaneously	Route 2: Multiple SIBs developed sequentially by one commissioner	Route 3: SIBs commissioned singly in similar policy areas based on other commissioners' example	Route 4: Provider- or intermediary-led SIBs commissioned sequentially or simultaneously by different agencies on a common platform	Route 5: SIBs locally commissioned based on a standard/previous rate card	Route 6: Centrally commissioned SIBs based on a standard rate card
Central government itself commission larger outcomes contracts in key areas (to support a shift in perception of where such contracts are valuable, and their optimum size)						X

## 6.7 Conclusion

There are a number of procedural and policy solutions that could be implemented in order to address some of the key barriers that are currently slowing the replication and scaling of SIBs in the UK. The solutions reflect the systemic changes that are arguably needed, such as the reframing and repositioning of SIBs to a focus on the outcomes aspect, rather than the financial mechanism, and improved transparency across the sector. Other solutions are focused on more directly supporting commissioners. These include improving the accessibility, availability and relevance of tools, and increasing commissioners' capacity to take on the development of SIBs. How changes should be prioritised is discussed in the next chapter.

## 7.0 Conclusion and Recommendations

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This chapter pulls together the findings of the study to address the two key objectives, which were: to understand the challenges and benefits of the SIB commissioning process; and to understand the potential for replicating and/or scaling SIBs in the UK. It also summarises our recommendations and suggests how policy makers should prioritise them.

### 7.1 Objective 1: What are the challenges and benefits of the SIB commissioning process?

Commissioners experience a range of challenges during the SIB commissioning process, but the research has highlighted that there are many practical steps that commissioners can take to prepare for and then overcome them.

The research found commissioners were most likely to experience barriers when engaging with stakeholders; without the buy-in of key decision-makers SIB deals could be ended. Usually this was caused by a lack of understanding about SIBs or misunderstandings about terminology, which fuelled decision-makers' suspicion about SIBs. Key to success appears to be ensuring a solution focused approach (identifying what problem the SIB is seeking to address and why the SIB helps) and ensuring that a partnership approach is taken from the outset, for example by involving relevant stakeholders in working groups. Taking such actions can benefit commissioning organisations; there was evidence of the SIB development process fostering partnerships and strengthening local collaboration in some cases.

The technical aspects of developing a business case for SIBs (such as financial modelling) can be difficult, taking many commissioners out of their comfort zones. However, commissioners have overcome some of these challenges by bringing in specialist advisors to provide expertise. Challenges still remain, especially relating to difficulties in accessing data and navigating tools and guidance. To date most commissioners have been able to pay for advisors through using central programme development funding, rather than from their own budgets, but the approach has paid dividends; many SIB leads reported being upskilled, and have noticed an upskilling of teams within their commissioning organisation.

Some challenges relate to wider structural and cultural factors. Commissioners, often bound by inflexible commissioning structures and risk-averse organisational cultures, were concerned specifically about conflicts of interest with procuring providers that had been engaged in dialogue, and had sometimes used procedures to procure providers and investors that are not well suited to an outcomes-based approach. However, these concerns have more to do with nervousness about complex commissioning and unfamiliar procurement procedures, rather than SIBs specifically. While some procedures can be resource-intensive, evidence suggests that they do ensure a higher quality and appropriately flexible procurement process, and ultimately a better contract. Having an understanding of potential procurement routes early on helps commissioners to mitigate against any issues later down the line. Similarly, where commissioners lacked the historical need for strong contract management, they found it challenging to develop an appropriate approach for a SIB. Investors have been able to plug this gap in knowledge, however, and have used their expertise to inform approaches. This has been beneficial in many case studies, as it has improved commissioners' wider approaches to collecting and managing data.

The extent of challenges and barriers vary depending on different factors. The primary purpose of the SIB appears to shape which challenges are more prominent. SIBs that mainly aim to improve outcomes are more likely to encounter scrutiny regarding outcomes, management of risk and demonstrating the need for

the service. SIBs with more of a focus on innovating or testing a model will likely have more challenges around engaging cross-sector commissioners and providers and developing evaluation approaches. The policy context also appears to impact on which challenges commissioners face, with health SIBs experiencing more barriers relating to procurement in rigid commissioning structures, and children's services more likely to experience scrutiny about risk, and face ideological opposition from key decision-makers.

A range of resources are available to commissioners, such as various online repositories (containing tools and technical guidance, and research and evaluation examples), as well as support from advisors. The face-to-face provision appears to be more effective for commissioners; many commented on the usefulness of having advisors, or failing that, being able to learn from others through peer-sharing networks. Building on and developing current tools, guidance and peer networks could help commissioners new into the SIB market with the SIB commissioning process.

## **7.2 Objective 2: What is the potential for replicating and/or scaling SIBs in the UK?**

The study has shown that there is potential for replicating and/or scaling SIBs in the UK. This is already happening to a large extent, through different routes to replication and scaling. Most routes are commissioner-led, where commissioners have developed SIBs simultaneously or sequentially, emulated a SIB another commissioner has implemented, or adopted central government SIB models. One route to replication has been provider- or third-party led, where a SIB is developed and actively promoted to commissioners on a common platform. Finally, many SIBs have been centrally funded by one or more government departments, based on a standard rate card. While SIBs do not always fall neatly into these categories, the research has shown that conceptualising the routes in this way has been helpful for identifying different enablers and barriers to replication and/or scaling.

There is a fine balance between replicating programme interventions and other features, and tailoring SIBs to the local context. Where replication has not worked it has often been because interventions or other features of a previous contract have not been sufficiently bespoke for local commissioners' needs, and there has been a lack of key stakeholder buy-in. While it is sometimes possible to replicate whole interventions, especially high fidelity evidence-based programmes, there is arguably as much or more scope for replicating specific aspects of the SIB commissioning process (such as outcome metrics, governance structures, payment mechanisms, data protocols and contracts) and this is already happening through both centrally- and locally- commissioned SIBs. High levels of commissioner churn, lack of commissioner capacity and a lack of data transparency and accessibility are wider, systemic issues that are stifling the replication and scaling of SIBs.

There are merits in all the routes but route 4 – replication on a Common Platform – does appear to make things easier for commissioners and to enable replication much more quickly, though it does not guarantee successful stakeholder engagement, and some attempts to create and promote Common Platform SIBs have foundered because of this. So this approach is not by any means a silver bullet. Where this approach has been successful, it appears to be because it enables replication of many more of the elements of each SIB, including processes and operating structures as well as specific features such as outcome metrics. Such SIBs have tended to be led by providers and intermediaries, but there is scope to extend them so that they are led by commissioners (including some who collaborate already to commission jointly) or are jointly led by commissioners and other parties. For similar reasons route 6 (centrally funded SIBs on a standard rate card) can also achieve replication and scale quickly but has the significant drawback – observed by several commentators – that it is creating SIBs somewhat artificially rather than driving 'bottom-up'

commissioner acceptance of social investment and/or the outcomes-based model. It is clear, therefore, that no one route is a 'silver bullet' in the current context. Addressing the issues should not only ease the process of developing SIBs for commissioners, but should also support their further replication and scaling.

## 7.3 Recommendations

### 7.3.1 Navigating the SIB commissioning process

There are several key steps commissioners can take to facilitate an easier SIB commissioning process:

- **Identify and engage key decision-makers early on in the commissioning process.** Understand what appeals to them. If the focus is more on improving outcomes for beneficiaries, focus on demonstrating how outcomes-based commissioning can facilitate that. If the focus is more on transforming commissioning, focus on demonstrating the benefits of SIBs in terms of fostering local partnerships.
- **Don't over-complicate things in the early stages.** Investors and providers do not usually need to be involved early on. Focus instead on gaining buy-in and consensus from stakeholders within the commissioning organisation (and other commissioners, where working across sectors).
- **Take a partnership approach from the outset.** Involve finance teams, service leads and legal representatives, to ensure that common issues around procurement, data collection, performance management, and contracting can be mitigated against.
- **Factor in time and resource for key individuals to be upskilled.** Having the time to read and digest the tools and guidance available is important and could mean less time is needed for advisory support. If finding additional capacity is challenging, consider engaging an advisor; the evidence suggests that this is beneficial not only for the SIB commissioning process, but also for upskilling staff more generally.
- **Reach out to other commissioners who have either developed a SIB or a similar intervention.** Even if aspects of the process cannot be replicated, learning about the potential pitfalls from other commissioners can be highly valuable.

### 7.3.2 Supporting the replication and/or scaling of SIBs in the UK

The findings from the research suggest that there are a number of actions that could be taken at both the procedural level and the policy level, to improve transparency, commissioner capacity, the use of the tools and guidance and the presentation of SIBs. These actions are likely to support the further replication and scaling of SIBs in the UK.

- To overcome the systemic issues stemming from the **presentation and narrative** of SIBs, we recommend rebranding SIBs to ensure more of a focus on outcomes, and moving away entirely from a term that strongly associates such contracts with their underlying financial structures, and with funding outcome payments from cashable savings.
- To improve **transparency** there is a role for government in making clear the benefits of data sharing, co-operating with GO Lab efforts to build a comprehensive and useful database of projects. If there is resistance, there is also an opportunity for central funders being more robust in enforcing grant agreements and requiring data sharing. The sector may benefit from central government being more directive in setting out social policy areas in which OBC could be more beneficial.
- As part of **improving commissioner capacity**, there is merit in making more targeted, funded development support available. Ways of doing this could include: secondments from one commissioning

organisation to another; having a formal contractual framework for advisors (to ensure quality); and/or setting up development funding in a form similar to other funds like the Investment and Contract Readiness Fund, the Big Potential Fund and the Reach Fund (to balance quality with choice and market dynamics) .

- There are **tools and guidance** available but commissioners do not always know where to look and current tools are not always sufficient for commissioners' needs. Specific tools should be commissioned (perhaps from advisors with requisite modelling expertise) which could be designed for generic use.
- It would also be worth considering the feasibility of **appointing experts to spearhead developments** in sectors and **commissioning larger outcomes contracts** in key areas (to support a shift in perception about the possibility of scaling).

Of these recommendations, it is in our view sensible to prioritise changing the branding of SIBs, to an alternative term that better describes SIBs as contracts for outcomes with a social purpose. SIB projects sometimes fail even to get proper consideration, and often fall over during development because of the misunderstanding or suspicion about 'SIBs'. This would help to reframe the narrative towards innovative commissioning and away from financial structures. This in turn may help commissioners more easily engage, and gain buy-in from other local stakeholders, facilitating more outcomes-based contracts to get off the ground. This would likely not require additional funding but should lead to impactful change, and consequently would frame the way in which the other recommended actions could be implemented. This research also suggests that these changes would be supported by most stakeholders in the market, making them easier to implement.

Arguably of equal priority would be for DCMS and other policy makers to lend their weight to the efforts of GO Lab and possibly others to build a database of SIB projects that is sufficiently rich in information to be useful to other commissioners, and support the dissemination of best practice both to and between commissioners. This is also likely to be an action capable of implementation without additional funding, but one that our research suggests will need central government support and direction to overcome instinctive resistance to sharing data and tools freely.

Other recommendations must necessarily have lower priority, in part because they raise more complex implementation questions and in part because they are likely to require funding. Among these the most urgent (and likely least expensive) are possibly to consider whether it is worth commissioning some generic tools such as financial models (because these would address some of the barriers to commissioning quite quickly, and reduce the reliance of commissioners on external advisors); and whether and how funded development support could and should be provided in the future to complement these tools.



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## **Annex One: Glossary**

# Glossary

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Below are list of definitions of terms used within the report. These definitions have several sources, and the source is listed at the end of each definition:

- National Audit Office (NAO) report: Outcome-based payment schemes: government's use of payment by results<sup>1</sup>.
- Centre for SIBs<sup>2</sup>
- GO Lab<sup>3</sup>
- Our own definition

**Advisor:** In this report advisor means any party that supports or advises on the development or implementation of a SIB that is not a commissioner, service provider or investor. Services provided by advisors include assessing the feasibility of a contract, supporting detailed development at all stages, and supporting stakeholder engagement and management. Advisors can be business and management consultants, service practitioners, or legal and finance professionals. An advisor can also be an intermediary, whose services include raising investor capital, establishing a special purpose vehicle to deliver and manage the contract, and managing provider performance. (Own definition)

**Attribution:** Ability to link a specified intervention with the achievement of a specified outcome. (NAO definition)

**Cherry picking:** This is a perverse incentive whereby providers, investors or intermediaries select beneficiaries that are more likely to achieve the expected outcomes and leave outside the cohort the most challenging cases. (GO Lab definition)

**Cohort:** Group of people identified to receive intervention. (NAO definition)

**Commissioner:** Organisation which funds or contracts for delivery of a service. (NAO definition) *NB. The use of 'Commissioner' in this report refers to individuals interviewed as part of the commissioning organisation.*

**Common platform:** In the SIB context, a common platform means a set of processes and contract elements that have been pre-designed and put in place as a structure that can be offered to commissioners with appropriate local adaptation., The elements that are common can vary widely and include any or all of the intervention to be deployed, the provider and/or delivery infrastructure, the outcome metrics and payment mechanism to be used to reward success, and associated processes and components such as common development tools, governance and performance management structures, data protocols, and pre-arranged investment facilities. (Own definition)

**Deadweight:** Outcomes which would have occurred without a policy, programme or intervention (GO Lab definition)

<sup>1</sup> NAO, 2015. *Outcome-based payment schemes: government's use of payment by results*. See: <https://www.nao.org.uk/wp-content/uploads/2015/06/Outcome-based-payment-schemes-governments-use-of-payment-by-results.pdf>

<sup>2</sup> See: [https://data.gov.uk/sib\\_knowledge\\_box/home](https://data.gov.uk/sib_knowledge_box/home)

<sup>3</sup> See: <https://golab.bsg.ox.ac.uk/basics/glossary/>. The PIN and VEAT definitions are taken from GO Lab's 'How to Guide@ Procurement, 2<sup>nd</sup> Edition. See: <https://golab.bsg.ox.ac.uk/knowledge/resources/how-guide-procurement/>

**Due diligence:** The process whereby an organisation or company's strengths and weaknesses are assessed in detail by a potential investor with a view to investment (GO Lab definition)

**Fee for service:** Payment based on service levels or outputs delivered, rather than outcomes. (NAO definition)

**Impact:** In the context of impact evaluations, an impact is a change in outcomes that is directly attributable to a programme; also known as causal effect.

**Intermediary:** 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.

(Centre for SIBs definition)

**Intervention:** Activities undertaken with the intention of producing the desired outcome. (NAO definition)

**Outcome:** A result or change experienced by a person, family or community, for example improved parenting. (NAO definition)

**Outcome based commissioning:** This describes a way to deliver services where all or part of the payment is contingent on achieving specified outcomes. The nature of the payment mechanism in an outcome based contract can vary, and many schemes include a proportion of upfront payment that is not contingent on the achievement of a specified outcome (GO Lab definition)

**Payment by results (PbR):** Practice of paying providers for delivering public services wholly or partly on the basis of results achieved. (NAO definition)

**Prior Information Notice (PIN):** A Prior Information Notice (PIN) is a method for providing the market place with early notification of intent to award a contract/framework. It allows a narrow window for potential bidders to express an interest and then to submit a proposal in a period as short as 10 days. (GO Lab definition)

**Procurement:** The acquisition of goods and services from third party suppliers under legally binding contractual terms. Such acquisitions are for the direct benefit of the contracting authority, necessary for the delivery of the services it provides or the running of its own business. Public sector procurement is normally achieved through competition, and is conducted in line with the government's policy of value for money and in line with the Public Contracts Regulations 2006. (GO Lab definition)

**Rate card:** In the context of payment-by-results, a rate card is a schedule of payments for specific outcomes a commissioner is willing to make for each beneficiary/service user that verifiably achieves each outcome. (GO Lab definition)

**Rate of return:** The profit on an investment, normally expressed as an annual percentage. This is typically the ratio of the income from the investment over the cost of investment. (GO Lab definition)

**Social investor:** An investor seeking social impact in addition to financial return. Social investors can be individuals, institutional investors, dedicated social investment funds and philanthropic foundations, who invest through their endowment. (GO Lab definition)

**Service provider:** Organisation which is contracted or funded to deliver the service (this is defined as a 'provider' in the NAO report).

**Social investment:** The provision of capital for the purpose of generating social as well as financial returns. (NAO definition)

**Voluntary Ex Ante Transparency (VEAT) notice:** A VEAT provides retrospective notice of decision to award a contract to a provider without competition. It is only used when there is a reason to believe that a single, named organisation is in a unique position to deliver a service to the requirements of the commissioner. (GO Lab definition)

# Annex Two: REA Strategy

# REA Strategy

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## 1.1 Introduction

This document presents our approach to the Rapid Evidence Assessment (REA) for the *study into the challenges and benefits of commissioning Social Impact Bonds in the UK, and the potential for replication and scaling*.

### 1.1.1 The study

The study has two phases. The aim of Phase 1 is to provide an overview of the challenges and benefits of the Social Impact Bond (SIB) commissioning process. Phase 1 comprises an REA, followed by consultations with key stakeholders. The aim of Phase 2 is to gather learning from commissioners<sup>1</sup> who have replicated and/or scaled SIB models. Phase 2 will largely be informed by stakeholder consultations, although there may be some relevant findings from the REA.

### 1.1.2 The Rapid Evidence Assessment

The purpose of the REA is to synthesise existing evaluation literature to build a narrative around the challenges, barriers and benefits that commissioners experience when developing and delivering a SIB.

The key relevant research questions we intend to explore through the REA are:

#### *The challenges and benefits for commissioners*

- Which activities/tasks in the commissioning process are the most challenging for commissioners and why?
- At which stages do commissioners encounter barriers and what is the cause of these?
- How are these challenges/barriers being addressed by commissioners?
- To what extent are the barriers and challenges unique to the SIB mechanism, or common to all complex commissioning?
- Are there variations in the challenges/barriers encountered by commissioners depending on the primary purpose of the SIB (for example to drive efficiencies in a defined service area, or to help deliver wider public service reform objectives)?
- Which activities/tasks are beneficial to commissioners' wider commissioning strategies or the organisations' objectives around service delivery and/or reform (such as building local relationships, fostering better data collection and sharing, stronger performance)?

#### *Identifying how to support commissioners*

- What tools/resources already exist to support commissioners through the activities and tasks commissioners identify as challenging when designing and delivering a SIB?
- To what extent are commissioners aware of these tools?
- Do the existing provisions meet the needs of commissioners identified during the research?

<sup>1</sup> A commissioner is an organisation which funds or contracts for delivery of a service. (NAO definition) NB. The use of 'Commissioner' in this report refers to individuals interviewed as part of the commissioning organisation.

As highlighted above, while the focus of the REA is predominantly on exploring the challenges and benefits commissioners have faced in commissioning SIBs, there may be some useful insights from the literature relating to Phase 2. Therefore, the relevant research questions for Phase 2 are:

- Where have approaches to replication and scaling been tested? Which of these were driven by commissioners? Which of these were driven by investors, intermediaries or providers?
- Are there examples where replication and scaling has not been possible? Why was it unsuccessful? (This may include investigating where commissioners, investors or providers had hoped to replicate/scale but were unable to)
- Are there core elements in the design of a SIB model which facilitate replication and/or scaling? What are these?
- What else could be done to facilitate further replication and scaling, including external support and tools?

## 1.2 Our approach

### 1.2.1 Stage 1: Searching for literature

The first step of the REA will be to identify research and evidence, both from academic journals and from the grey literature. We have allotted three days of time for searching for literature.

#### Academic research

As SIBs are a relatively recent phenomenon, to date there are no academic journals targeted specifically at them. Therefore, rather than search through specific journals, we will instead utilise academic search engines (such as Google Scholar, Bielefeld Academic Search Engine (BASE), Microsoft Academic, Research Gate) to uncover academic journal articles and e-books.

#### Grey literature

We anticipate that most of the evidence for this REA will be grey literature<sup>1</sup>, including non-academic evaluation reports, technical documents, policy papers, and opinion pieces (including blogs and newspaper articles). As highlighted in our proposal, we believe that current SIB research provides a partial picture of the challenges and solutions to commissioning SIBs, and there is an imbalance in current research in terms of the focus on the experiences of commissioners. Therefore, we will include less traditional forms of evidence in this review (such as blogs and newspaper articles) because they may provide important insights directly from commissioners.

We will take three approaches to identifying relevant literature:

1. Explore our existing bibliography of literature on SIBs, from our previous and existing research on the subject, and bibliographies held by members of the steering group (e.g. GO Lab)
2. Search the publications and blogs of organisations that work within the world of SIBs, as well as relevant newspapers (including: GO Lab, Social Finance, Knowledge Hub, Big Lottery Fund, Centre for SIBs, Institute for Government, Guardian, Panahpur, Brookings, Big Society Capital,

<sup>1</sup> We define 'grey' literature as per the Cochrane definition, that it is literature that is not formally published in sources such as books or journal articles (see [http://handbook-5-1.cochrane.org/chapter\\_6/6\\_2\\_1\\_8\\_grey\\_literature\\_databases.htm](http://handbook-5-1.cochrane.org/chapter_6/6_2_1_8_grey_literature_databases.htm))

Bridges Fund Management the MJ, Financial Times, Huffington Post Impact Blog and Pioneers Post)

3. Search on Google for grey literature, using key search terms and applying specific search parameters (e.g. time, geography) to focus the search.

We are taking a range of approaches to identifying the literature to ensure a good coverage of the evidence base. We will not just rely on a search engine to identify the grey literature, as research has shown that search engine results can be subject to bias (for example, results can depend on searcher location and search history) and the variations in how organisations catalogue content on their websites differ, which could make it difficult to retrieve relevant content.<sup>1</sup>

### Search terms

Our searches will include terms such as (on their own and followed by 'blog', 'article', 'research' and 'evaluation'):

"social impact bonds" "commission-" (ers)(ing)<sup>2</sup>

"social impact bonds" "commission-" "challenge"

"social impact bonds" "commission-" "issue"

"social impact bonds" "commission-" "problem"

"social impact bonds" "commission-" "disadvantage"

"social impact bonds" "commission-" "benefit"

"social impact bonds" "commission-" "advantage"

"social impact bonds" "commission-" "strength"

"social impact bonds" "commission-" "resources"

"social impact bonds" "commission-" "replication"

"social impact bonds" "commission-" "scaling"

"social impact bonds" "commission-" "tools"

"social impact bonds" "commission-" "support"

"social impact bonds" "commission-" "experience"

"social impact bonds" "commission-" "failure"

<sup>1</sup> Alajajian, S, and Ho, T. 2018. *Optimizing the identification of grey literature: a rapid review*. Available from: <https://www.peelregion.ca/health/library/pdf/rapid-reviews/optimizing-indentification-grey-literature.pdf>

<sup>2</sup> We will search for both 'commissioners' and 'commissioning'

“social impact bonds” “commission-“ “success”

### Call for evidence

In addition to our own search for evidence, we will also launch a Call for Evidence. The Call for Evidence will invite relevant stakeholders to submit written evidence, relating to the challenges commissioners experience in commissioning SIBs, the role that supporting organisations can play in easing the experience for commissioners, and how SIBs can be replicated and/or scaled, and how external tools or support could facilitate this.

We have produced a one-page Call for Evidence document that will be put on Ecorys’ own website, and we will share the hyperlink via:

- Our social media
- DCMS’ social media
- DCMS’ Centre for SIBs mailing list (if available)
- GO Lab mailing list
- GO Lab social media

We will also send a personal email to people we want to encourage responses from.

### Inclusion/exclusion criteria

All evidence sourced through our own search and through the Call for Evidence will be subject to the same inclusion/exclusion criteria and appraisal process. Given the short timescales of the project, we will make the judgement of whether or not to include or exclude literature identified at the point of identifying it (rather than recording every piece of literature identified and then reviewing whether it should be included or excluded). Our inclusion/criteria is stated below:

**Table 1: Inclusion/exclusion criteria**

Inclusion criteria	Exclusion criteria
Published during or after 2012	Published before 2012
Published in, or is content about, the UK	Not published in, or is not content about, the UK
No paywall	Paywall
Answers any of the research questions	Does not answer any of the research questions

We will record all of the evidence that meets the ‘inclusion criteria’ stated in Table 1, in an Excel spreadsheet.

### 1.2.2 Stage 2: appraising the evidence

Once we have developed a longlist of evidence, we will then go through a process of appraising and ranking the evidence. As the REA has a relatively short time-frame, the process of ranking evidence will enable us to prioritise the most relevant and robust literature to review in Stage 3 of the REA.

As we will be reviewing a diverse range of evidence (from robust evaluations to opinion pieces and blogs), we have developed a metric for the ‘strength of evidence’, which is shown in Table 2.

**Table 2: ‘Strength of Evidence’ metric**

Weighting
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Score	1	2	3	4
Level of rigour for publication	None (e.g. personal blog, letter)	Low (organisational blog, newspaper article or other opinion piece)	Medium (annual report, internal report, policy paper, internal evaluation)	High (independent evaluation, book, academic journal, other independent report)
Extent that it is grounded in evidence	No evidence referenced	Some evidence referenced but no methodology	Research with a methodology supplied but weaknesses in the methodology	Research with a strong methodology
Age of literature	5+ years	3-5 years old	1-2 years old	In the last year
Focus	National/centralised commissioning of SIB not in children's services, homelessness or health.	National/centralised commissioning of SIB in children's services, homelessness and health.	Local commissioning of SIB not in children's services, homelessness or health	Local commissioning of SIB in children's services, homelessness or health

There are four criterion for the Strength of Evidence metric. For each criterion, the evidence will receive a score out of 4. The scores will be totalled to provide an overall score of 16. The criterion are as follows:

- **Level of rigour for publication:** Drawing on the approach of other literature reviews that have included a combination of grey and academic literature, we have included a measure that relates to the level of rigour that the evidence has undergone in order to be published.<sup>1</sup> 'None' (or '1') refers to self-published pieces of evidence, including personal blogs or letters. 'Low' (or '2') relates to evidence that is a personal opinion but published through an organisation or media outlet. 'Medium' (or '3') refers to evidence that may have gone through internal, organisational checks before being published and that represents the views of an organisation (rather than an individual). 'High' (or '4') relates to any evidence that has been independently published, having gone through several rounds of checks from external organisations or peer reviewers.
- **Extent that the output is grounded in evidence:** While we want to include a range of literature, we want to prioritise outputs that are grounded in evidence, and well substantiated. The least amount of weighting will be given to those outputs where no evidence is referenced. Outputs will be scored with '2' if the author provides references, but there is no methodology (this could include blogs or newspaper articles). A score of '3' will be given to evidence that is based on research which has a methodology but has weaknesses and a score of '4' will be based on research with a strong methodology.
- **Age of literature:** This measure is to ensure that more weight is given to research published more recently.
- **Focus:** As the steering group is more interested in capturing the experiences of commissioners in a local context, rather than in the national, centralised context, we have given more weight to this. We will also give more weight to commissioning experiences relating to the key policy areas of interest: children's services (specifically children's social care), homelessness or health.

Alongside the overall 'Strength of Evidence' score, we will also have columns in the spreadsheet that note:

<sup>1</sup> For example, see Garousi, V, Felderer, M, Mantya, M (2017) Guidelines for including the grey literature and conducting multivocal literature reviews in software engineering. Available from: <https://arxiv.org/ftp/arxiv/papers/1707/1707.02553.pdf>

- Which research questions it provides evidence for
- Policy area

We will then sort the evidence based on the 'Strength of Evidence' score, prioritising the studies that have the highest scores.

### 1.2.3 Stage 3: Reviewing the evidence

For Stage 3, we will work down through the ordered list from Stage 2. We have allotted 7.5 days of time to reviewing the literature, so we will review as much literature as possible within this time. We will fill in information on the following:

#### 1. Background details

- Title
- Author
- Year
- URL
- Source
- Type of literature

#### 2. Detailed review of how the evidence answers the research questions

The main focus of Stage 3 will be to review the evidence and state how it answers the research questions. There will be a column in the spreadsheet for each question, and the researcher will just fill in the columns where the research question is addressed in the evidence.

#### 3. Summary and categorisation

For each piece of evidence reviewed we will summarise its key characteristics. As mentioned in the proposal, we will use Process Mapping to map the commissioner journey and identify challenges, benefits and solutions. By categorising the evidence in relation to the [GO Lab SIB Readiness Framework](#), we will be able to triangulate the findings from the REA with the findings from the stakeholder consultations at each stage in the commissioner journey. In addition, by categorising the evidence in relation to the stages, we will be able to identify early on in which stages of the Readiness Framework there is more or less evidence. We can then tailor the Phase 1 consultation topic guides so that they enable us to plug gaps in the evidence base.

- Score from Stage 2
- Policy area
- Whether relates to centralised SIB commissioning or local SIB commissioning
- Which stage(s) of the GO Lab SIB Readiness Framework it relates to:
- Developing the business case
- Managing relationships
- Designing the service
- Planning for delivery

#### 1.2.4 Output

We will produce two outputs through the REA. The first output is the excel spreadsheet where the evidence is reviewed. The second output will be a summary report of the key findings from the REA.



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