SOCIAL IMPACT BONDS: AN OVERVIEW

A briefing note for senior management in local authorities

This briefing has been developed to provide senior managers in local government with a high-level overview of social impact bonds and address some of the most frequently asked questions in relation to this approach to commissioning public services.

Included in this briefing:

Overview

The term "outcome based commissioning" refers to a way of commissioning public services which allows government to pay only when specific outcomes are achieved by a service. The focus on outcomes can help public authorities enhance service quality and the productivity of public spending by clearly defining the expected outcomes, monitoring them and paying only when they are achieved.

A social impact bond (SIB) is one form of outcome based commissioning. What differentiates SIBs from other forms of outcome based commissioning is the involvement of 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, for example a Local Authority or a central government department, and the investor is repaid only if these outcomes are achieved.

The UK has been playing a pioneering role in this area, launching the world's first SIB in 2010 in the criminal justice sector. There are 36 such projects across the UK as of January 2018, with many more in the pipeline. To date SIBs have been used to address a broad range of issues, including reoffending, homelessness, mental health, youth unemployment and children's social care.

Why use social impact bonds?

Government is increasingly looking to test innovative approaches to managing demand, improving value for money and tapping into new sources of funding, such as social investment.

The social impact bond model has emerged in response to these challenges, and it builds on the government's commitment to foster more cross-sector collaboration with the voluntary and the private sectors to tackle complex social problems. In this context, SIBs can be seen as a funding mechanism that allows VCSE organisations to deliver a payment by results contract without shouldering financial risks, whilst also unlocking private capital, as well as the expertise of social investors.

Unlike other public service commissioning models, the measurement of social outcomes is a necessary component for a SIB, since this functions as the trigger for payments by the commissioning authorities and is the basis on which investors are repaid. As such, SIBs are seen as an innovative tool for delivering better social outcomes whilst ensuring value for money for public spending.

Value for Money

Well-designed SIBs ensure value for money through a number of mechanisms:

- The payment by results element ensures commissioners only pay for outcomes that are achieved rather than provision of services
- Given the requirement for evidence on outcomes achieved, SIBs contain a natural evaluation element. Applied adeptly in the longer term, this allows organisations to build evidence around 'what works' and ensures future interventions can achieve greater value for money
- The development of a SIB includes elements of cost-benefit analysis, ensuring interventions are supported by a robust business case

Outcome based commissioning and SIBs as tools of public sector reform

Outcome based commissioning and SIBs have the potential to improve outcomes by addressing three key public service challenges:

- Structural impediments (fragmentation of services)
- Temporal restrictions (reactive public services, rather than investment in prevention)
- Cultural inertia (a risk-averse culture)

Collaboration

- Outcome based commissioning and SIBs facilitate collaboration across multiple commissioners and within provider networks. Pooled outcome budgets can enable collaboration across organisational boundaries.

- Service activities can 'wrap around' service users, responding flexibly to their needs by integrating a range of relevant support services.

Prevention

- Well-designed SIBs could enable an invest-to-save approach by channelling investment into interventions that prevent future problems and can potentially generate savings
- Social investment potentially facilitates the dual-running of services so that 'upstream' interventions can be introduced

Innovation

- Well-designed SIBs can enable risk transfer from commissioners and providers, which may enable the adoption of new interventions, enhance performance management capabilities, and build the evidence base upon which to make future commissioning decisions.

What level of political support is there for social impact bonds?

SIBs started as a Labour project under Gordon Brown, grew under the coalition government and continue to have political support. SIBs seem to enjoy cross party support, as the potential benefits of SIBs appeal to politicians across the political spectrum. A timeline mapping the key government strategies and activities in relation to supporting the development of social impact bonds is available here.

What is the evidence around the impact of SIBs as a tool for improving social outcomes?

The social impact bond landscape has evolved significantly over the past seven years, and evidence is starting to emerge around the use and impact of social impact bonds. A number of qualitative evaluation studies have been conducted so far, but only a few SIB projects have been subject to a robust impact evaluation. Encouragingly, the final evaluation of the Peterborough One Service SIB, published in July 2017, showed that the project reduced reoffending of short-sentenced offenders by 9%, leading to the investors being repaid in full. Importantly, these evaluative results show that the One Service was indeed a successful intervention, but do not provide conclusive insight on the unique contribution of the SIB approach.

Due to the limited evidence, at present, the approach can be seen as promising, but unproven.

The Government Outcomes (GO) Lab at the University of Oxford has been set up to critically assess the emerging evidence.

To access existing evaluation reports and get updates on the GO Lab's work on evaluating the impact of SIBs, please visit the GO Lab website.

Social investment

What is social investment and who are the investors?

Social investment is the use of repayable finance to achieve a social, as well as financial, return. The UK is widely recognised as one of the most advanced social investment markets in the world. In 2016 the Government published its strategy on supporting the social investment sector in the UK, committing to use social investment as a way to transform public services.

Social investors can be individuals, institutional investors, dedicated social investment funds and philanthropic foundations, who invest through their endowment. More information about social investment in the UK can be found on the Good Finance website.

Why is the term "social impact bond" still being used, if SIBs are not technically bonds?

The term "social impact bond" has been used in the UK for the past seven years, and changing the terminology now will likely lead to confusion among stakeholders. A glossary of other key words often used in this field is available on the GO Lab website.

Why should local authorities provide payment for outcomes through SIBs and not grants?

Unlike grants, as a funding mechanism, SIBs ensure that government only pays for desired outcomes achieved by a service. As mentioned above, SIBs have the potential to improve collaboration across different sectors, foster innovation and channel investment into preventive services. There is a growing appetite for socially-motivated investors to use their capital as a driver of sustainable growth, directed towards investments that have a positive impact on society. SIBs enable government at both central and local level to access this growing impact investing market.

However, social impact bonds are not suitable for all social policy areas and services. A mixture of grants and social investment will likely continue to play a key role in government funding.

Why would local authorities use a SIB in place of a payment by results (PbR) contract?

Public authorities interested in commissioning SIBs should always start by undertaking an evidence-based options appraisal of all available funding models. Depending on the local context, the problem that is being addressed and the provider market, a commissioner may well decide that it is more appropriate to use other commissioning mechanisms such as a grant, a fee-for-service contract, or PbR.

Reasons for using a SIB over standard PbR contracts are as follows:

1. In a conventional PbR contract, service providers are only paid when they achieve the outcomes: it is the service provider that carries the financial risk if outcomes are not achieved. Consequently, it can be a challenge for service providers to find or cover the up-front capital to deliver a project at scale. With SIBs, the social investor bears the financial risk and provides up-front funding to service providers to set up the project.
2. Depending on the type of investor and their way of working, the involvement of investors can bring additional capacity and expertise in project management and data analysis that local VCSE organisations might lack. Some of the VCSE organisations that have worked with social investors have reported that they valued this input from social investors and that it contributed to building their expertise in house.
3. The combined expertise of commissioners, providers and investors creates partnerships that actively work together to find solutions to social problems.

Instead of using a social investor, could the Government (or the service provider) not borrow money at a cheaper rate?

For many authorities, a lack of funding or resource capacity is a significant inhibitor of developing new approaches to services. Authorities might not be able or willing to invest in the first instance due to limited access to finance or the difficulty of accepting the project's risks.

Only paying when outcomes have been achieved means that the working capital required to set up and run the services sits outside the public purse in the first instance and it is paid back only in case of success. This makes SIBs a more attractive funding mechanism than obtaining loans from mainstream banks and other conventional lenders. Moreover, some social investors work closely with investees, providing management support and specialist expertise, as well as financial resources.

The costs of developing and implementing a SIB should be carefully considered against the value that the proposed service will create. Commissioners should consider the overall costs and benefits, seeking guidance from resources offered by the GO Lab and the Centre for Social Impact Bonds in order to do so.

How much return on investment does a commissioning authority have to pay?

Social investors seek blended social and financial returns, and the potential to make a profit on the initial investment is intended to compensate investors for the performance risks they take on under a SIB model. SIB commissioners can put a cap on the maximum amount of outcome payments they are willing to make. Rates of return vary widely, and the government is committed to encouraging more transparency in the system around the rates of return.

Developing a social impact bond

As a new form of commissioning, developing social impact bonds can place additional demands on commissioners and can be technically challenging at first. At the same time, the potential benefits of this approach have prompted a growing number of local authorities to explore and engage with the model, providing examples of how to adopt new practices and share learning.

The Government seeks to catalyse the development of scalable and replicable SIBs, by making available to local authorities outcome funds such as the Life Chances Fund. The Life Chances Fund provides detailed policy guidance about setting up SIBs in specific policy areas, including examples of models that may be replicated by local authorities.

The GO Lab offers advice and support to local authorities interested in exploring social impact bonds models of service provision. The GO Lab team provide a wide range of support activities and resources, specifically tailored to the needs of local commissioners. You can access information materials, read more about the GO Lab's work with commissioners, or book an advice session with the team by visiting their website.

Further information

Centre for Social Impact Bonds

The Centre for SIBs aims to catalyse the development of SIBs at scale. As part of the Office for Civil Society at the Department for Digital, Culture, Media and Sport, the Centre for SIBs provides expert guidance on developing SIBs, shares information on outcome based commissioning and supports the growth of the social investment sector.

https://www.gov.uk/guidance/social-impact-bonds

Government Outcomes Lab

The Government Outcomes Lab (GO Lab) is a partnership between the Centre for Social Impact Bonds and the Blavatnik School of Government at the University of Oxford. Launched in July 2016, the GO Lab conducts academic research that seeks to deepen the understanding of outcome based commissioning and provides advice to local commissioners who are developing outcome oriented models of public service provision, such as social impact bonds.

http://golab.bsg.ox.ac.uk

Life Chances Fund

The Life Chances Fund is an £80 million fund set up by Government to contribute to outcome payments for locally commissioned SIB projects that aim to tackle complex social problems.

https://www.gov.uk/government/publications/life-chances-fund

Good Finance

Good Finance provides information on social investment for charities and social enterprises.

https://www.goodfinance.org.uk

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