



# GOVERNMENT OUTCOMES LAB

Research

Advise

Connect

## How Social Investment makes a SIB a SIB (and why commissioners should care)

31<sup>st</sup> January 2018



@ukgolab  
#SIBsSocInv

# Agenda for the day



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**10.00 Welcome**

**10.15 Defining SIBs: what are they and what do we think their benefits might be?**

*Nigel Ball, Deputy Director and Head of Commissioning Support, GO Lab*

*Andreea Anastasiu, Associate, GO Lab*

*Mark Lovell, Principal at The Social Assistance Partnership.*

**11.00 Investor case study 1: Bridges Fund Management.** *Andrew Levitt, Partner, Bridges Fund Management*

**11.30 Coffee break**

**11.45 Investor case study 2: Big Issue Invest.** *Katy Pillai, Investment Director, Big Issue Invest*

**12.15 The cost and risks of social investment.** *Neil Stanworth, ATQ*

**12.45 Lunch**

**13.45 Evaluation of Step Down – from residential to foster care.** *Judy Sebba, Rees Centre, Oxford University;*

**14.15 How to procure a social investor (and how not to).** *Panel: Katy Pillai, Andrew Levitt, Ben Jupp (Social Finance), GO Lab*

**15.00 Investor and advisor advice sessions.** *Various.*

# Mini advice sessions (30 mins x2)



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- Social investment: Bridges Fund Management
- Social investment: Big Issue Invest
- Ways to avoid gaming & perverse incentives
- Calculating risk and return in SIBs
- The Social Finance approach to SIBs
- Life Chances Fund



# GOVERNMENT OUTCOMES LAB





# GOVERNMENT OUTCOMES LAB

About the GO Lab



# About us

Joint partnership  
between UK  
Government &  
Oxford University

Established in 2016

Based at the  
Blavatnik School of  
Government, in  
Oxford

Centre of academic research and practice with a mission to improve the provision of public services to tackle complex social issues, with a focus on outcome based models

# Problem statement

There is room to improve the way government commissions public services in order to deliver greater social impact and value.

*(focusing on those that tackle complex and social issues across health, social care, criminal justice, employment and education)*

# Impact

Commissioning is more efficient and effective,  
delivering additional social impact and value.



# Strategy

## Research

Generating, synthesising and communicating knowledge for practitioners and academics

## Advise

Developing commissioners' skills through learning opportunities and advice, and through connecting people and nurturing peer-to-peer network.

## Connect

Raising awareness and debate by convening academics and practitioners, celebrating good practice and via public communications

## Support available from GO Lab

Enhance knowledge amongst commissioners & related professionals

Facilitate peer learning between commissioners

Reduce technical complexity of new commissioning approaches

# Support available from GO Lab

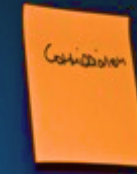
Knowledge Hub  
[golab.bsg.ox.ac.uk](http://golab.bsg.ox.ac.uk)

Communities of  
practice  
(peer learning)

How to  
guides



Commissioners'  
journey tool



Webinars

HOW TO  
GUIDE  
CONTRACTING  
AND GOVERNANCE

Advice  
surgeries



Events &  
workshops



SIB  
projects  
database



Executive  
education



Fellows of  
Practice

# The GO Lab is a centre of academic research and practice for outcome based commissioning & social impact bonds

This is our digital hub for resources and insights from across this emerging field

**Blog**



To learn, to serve, to lead: the vision for the GO Lab >

**Event**



Social Impact Bonds: from Myth to Reality - East of England regional event >

**Event**



How Social Investment makes a SIB a SIB (and why commissioners should care) >


# 'How to' guides

- Feasibility assessment
- Procurement
- Setting & measuring outcomes
- Contracting and governance
- Evaluation

All available online at:  
[golab.bsg.ox.ac.uk/technical-guides](http://golab.bsg.ox.ac.uk/technical-guides)



# Procurement masterclass – 6<sup>th</sup> March



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Home > Events > Webinar: Procurement for Social Impact Bonds

## Webinar: Procurement for Social Impact Bonds

 **Date** 6 Mar 2018

 **Time** 10 a.m. - 11:30 a.m.



### Overview

Social Impact Bonds (SIBs) present a number of challenges to traditional contracting processes. SIBs often focus on complex social issues, involve multiple stakeholders, and involve a high degree of innovation. This has prompted many in commissioning authorities to raise questions about how to procure within a SIB structure without falling foul of the law.



HOW TO  
GUIDE  
PROCUREMENT

A technical guide to  
good procurement  
practice in outcome  
based commissioning

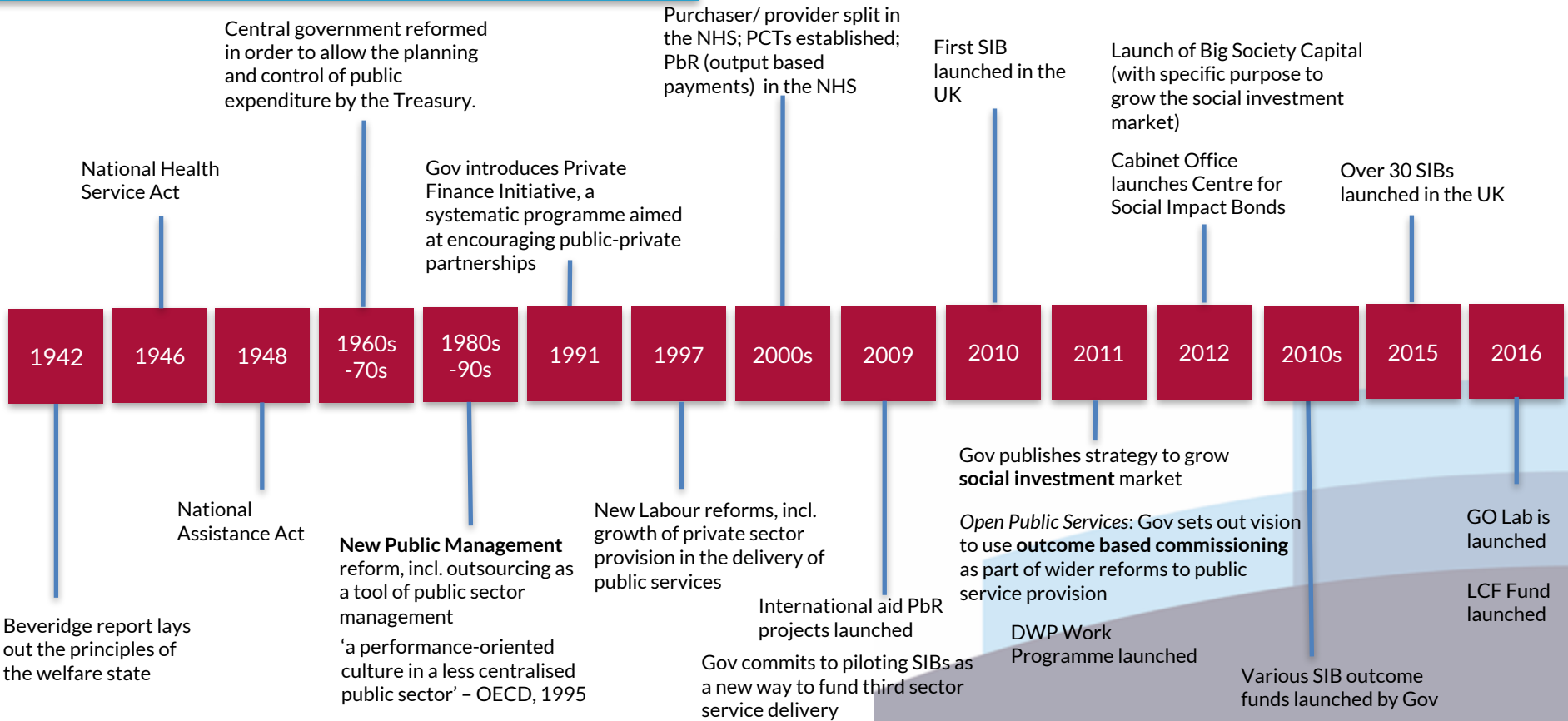


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The context of SIBs

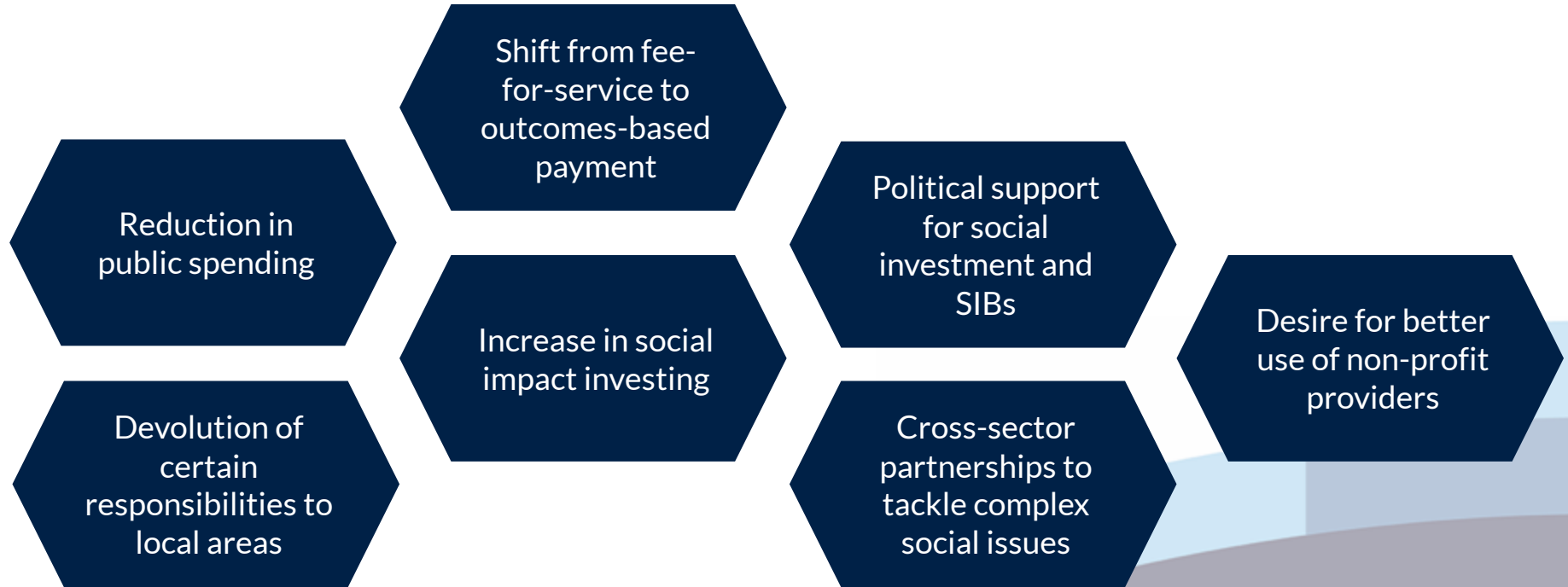


# How did we get here?



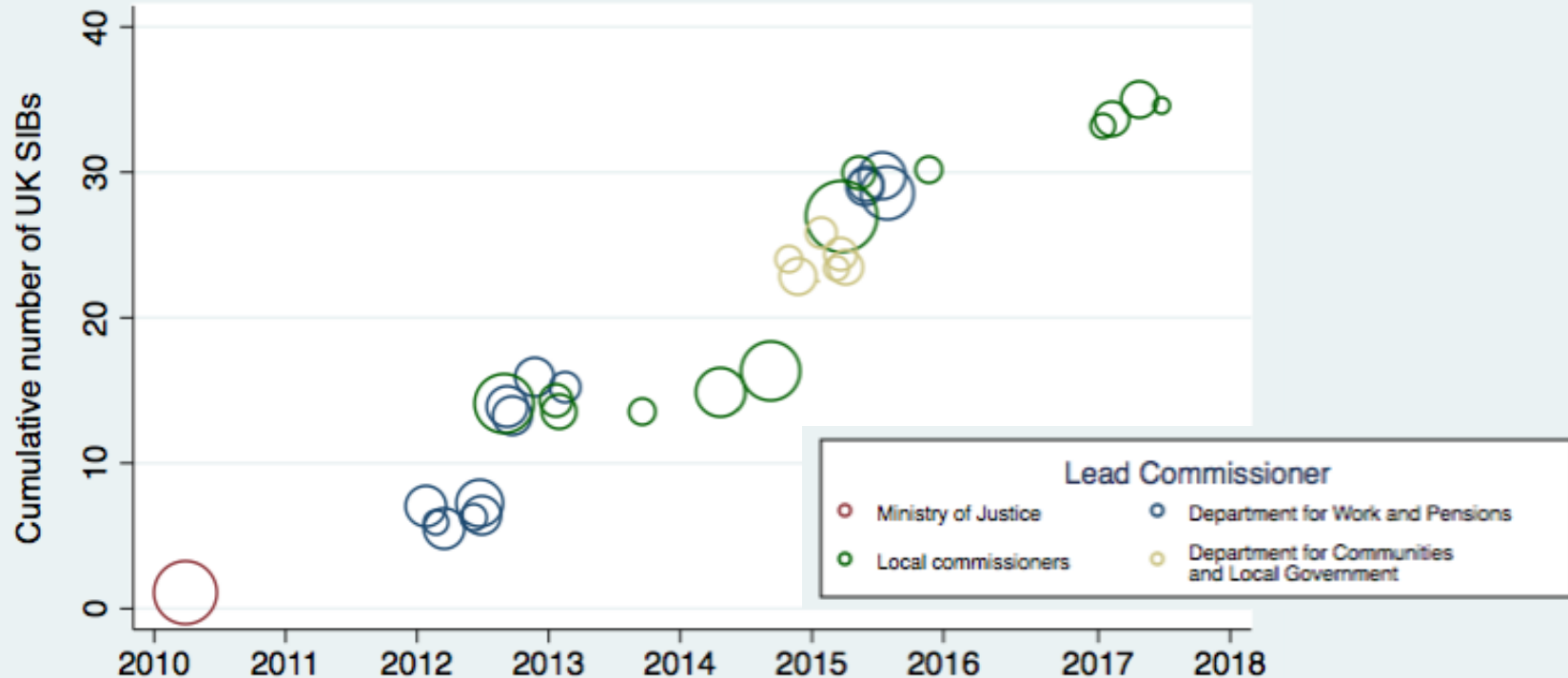


# Commissioning landscape



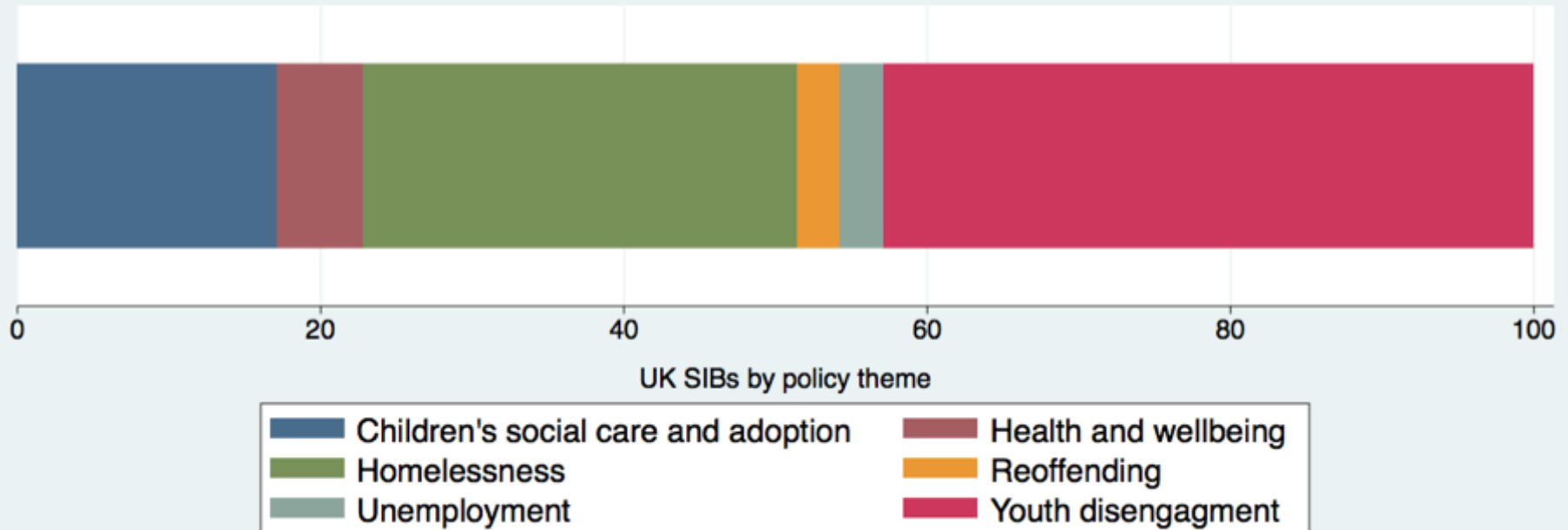
# SIBs in the UK

Figure 1: Number of UK SIBs over time, by lead commissioner and scaled according to contract value (£)



# SIBs in the UK

Figure 2: Proportion of UK SIBs by policy theme



# UK Government outcomes funds for SIBs



DWP Innovation Fund 2012-15	Rough Sleepers 2012-15	Youth Engagement Fund 2014-18	Fair Chance Fund 2014-18	DfE Innovation Programme 2016-	Rough Sleepers 2016-	Social Outcomes Fund/ Commissioning Better Outcomes 2013-	Life Chances Fund 2016-
DWP	GLA	DWP	DCLG	DfE	DCLG	Cabinet Office/ Big Lottery Fund	DCMS
NEETS	Homeless	NEETS	Homeless young people	Care leavers	Homelessness	Complex needs	Complex needs
Attendance Behaviour Qualifications; Employment	Stable accommodation Volunteering and training Employment	Volunteering and training Employment	Stable accommodation Education Employment	Qualification and training Accommodation Employment Stability and wellbeing	Stable accommodation Employment Mental and physical wellbeing	Project defined	Project defined

Rate Card

Bespoke outcomes framework



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# Why use SIBs?

Public Service  
Challenge

**Silo budgets**

**Short-term focus  
(political & financial)**

**Difficulty creating  
change**

Implications  
for services

Fragmented public  
services: duplications,  
gaps, inadequate  
communication

Reactive public services  
responding to crises

Poor performing services  
go unchanged

Implications  
for citizens

Fragmented, reactive, stagnant services which fail to respond to the needs of vulnerable individuals.

**COLLABORATION**

Enable collaboration  
across multiple  
commissioners & within  
provider networks.  
Service activities 'wrap  
around' service users.

**PREVENTION**

Enable 'invest-to-save'.  
Dual-running of services  
with (social) investors  
funding 'upstream'  
interventions.

**ROOM TO INNOVATE**

Risk transfer enables  
innovation.  
New interventions.  
Enhanced performance  
management.  
Systematic learning.

SIBs' potential  
for public  
service reform



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Defining SIBs  
Nigel Ball & Mark Lovell

# Two key mechanisms: outcomes payment & risk transfer





# SIBs vs PbR

- What are the different ways for providers to fund work up-front, prior to receiving payment from commissioners?
- Where do SIBs fit into this picture, as distinct from raising funding through a straightforward bank loan, or delivery organisations self-financing?
- What are the benefits and pitfalls of the different approaches?

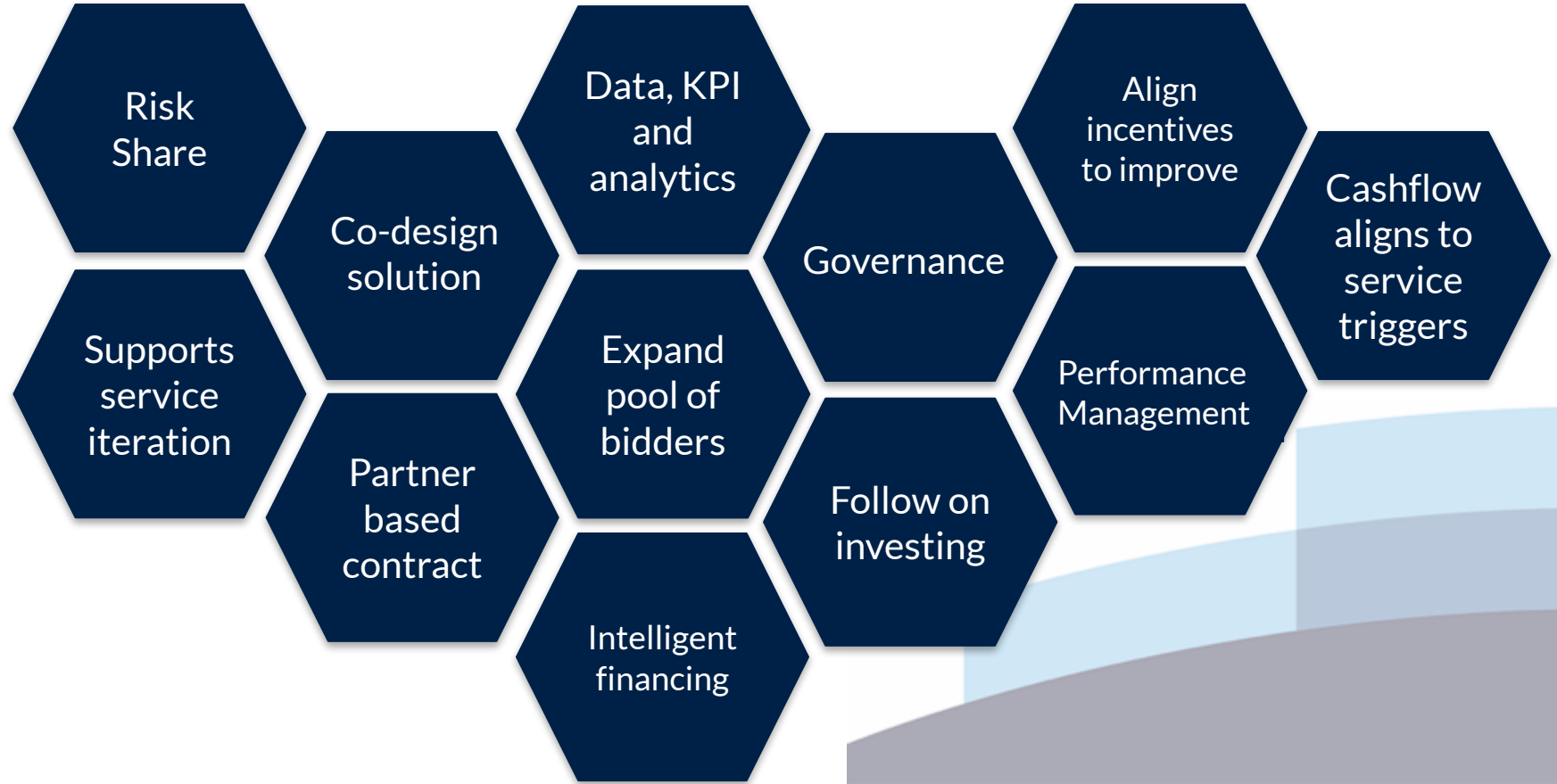
## PbR can work well when..

- Service model well understood by commissioner and provider
- Both parties have a strong grasp of pricing and costs of service
- Better 'performance' is required from existing services
- Providers have capability to adapt to this contract model (human and financial capacity)
- Strong systems are in place to audit quality of service and key metrics

## SIBs tend to offer more when..

- New and innovative services are needed to deliver results/impact
- Financial model not well understood and needs to be developed
- Services will need to be adjusted and changed over the term of the contract
- New data sets need to be established to support the interventions
- New sources of finance are needed *in addition to* new approaches

# Some potential benefits of a SIB approach



# Impact of 'wrong' type of finance/contract?

PbR contracts have a number of inherent challenges when used on innovative new services for customer groups with complex challenges – can drive perverse responses

Sales Led – contract & finance  
Under invest in set up  
Referral pathways often poor

Performance lags profile  
Punitive contract management

Bank pressures finance terms  
Cut costs – workload increase  
Squeeze supply chain

Spiral decline  
Plateau



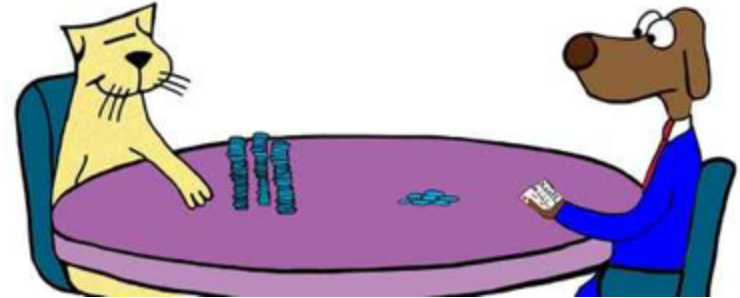
Mainstream financiers consider a number of factors:

- New service, innovation and scaling
- New form of PbR contract
- Cash reserves from provider (often low)
- Experience of provider in similar projects

For each item, often:

- Amount willing to lend decrease
- Cost of finance (e.g. interest) increases
- Terms of offer get tighter

Often leading to 'gaming' to secure funds...



# Alternative scenario under SIBs

Well designed SIB models can drive different behaviours in the event of performance challenges

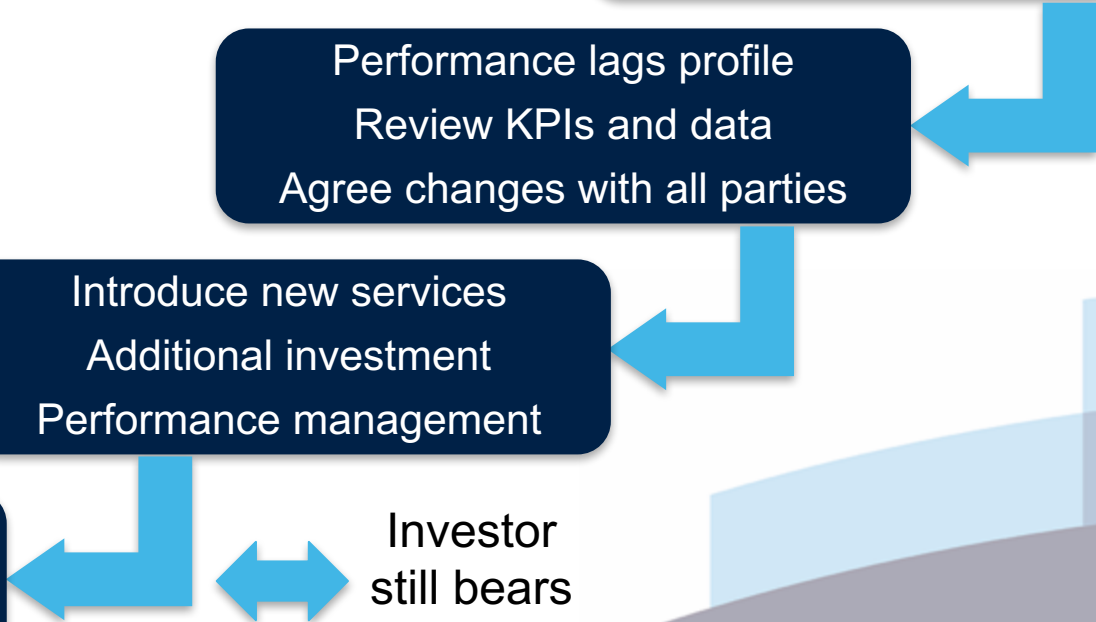
Design Led – contract & finance  
Agreed investment in set up  
Referral pathways better aligned

Performance lags profile  
Review KPIs and data  
Agree changes with all parties

Introduce new services  
Additional investment  
Performance management

Improvement Plateau?

Investor still bears risk!



# Social investor role: what can they bring?



Many social investors offer much more than a supply of capital...



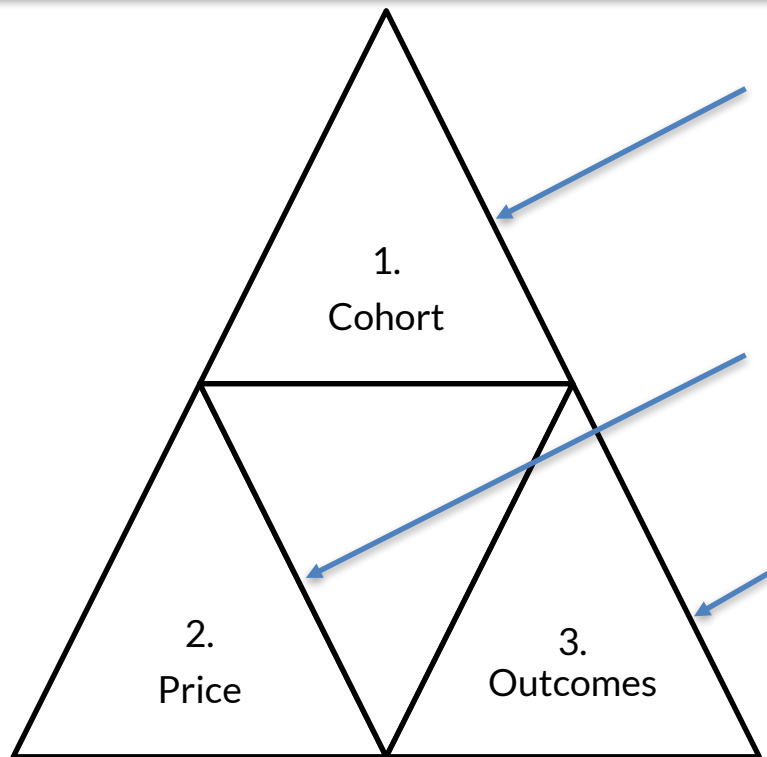
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What makes a good SIB?





# The ideal SIB design



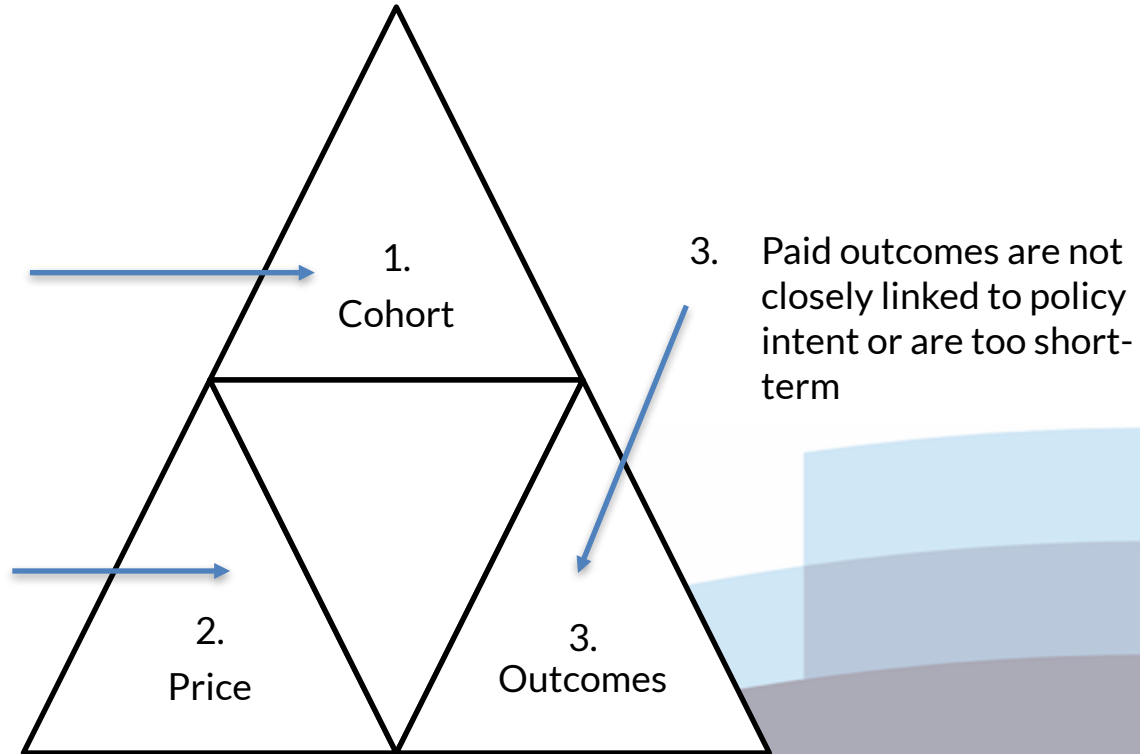
- 1. Tightly defined eligible cohort**
  - Clear, objective criteria
  - Understanding of how far participants are from the desired outcomes
  - Independent referral / identification mechanism
- 2. Accurate price-setting of outcomes**
  - Robust estimate of likely level of benefit vs what would happen anyway ("deadweight")
  - A way to get confidence that any outcomes are caused by the intervention ("attribution")
- 3. Alignment between payable outcomes and policy objectives**
  - Logical link between activity, outputs and outcomes
  - Adequate period of time for tracking
  - A way to tell if the effect has 'stuck'

Whilst it is not practical for these aspects to be perfect, commissioners should focus on them to avoid perverse incentives for providers

# What does 'bad' look like

1. Cohort specification/referral too crude or easily influenced

2. Lack of transparency in how prices were set for outcomes



# Lessons learned

## Basics

- ✓ Make sure a SIB is the best method of delivering a service
- ✓ Ensure goals are clearly expressed and shared among stakeholders
- ✓ Ensure stakeholder roles are clear

## Technical bits

- ✓ Plan early for the administrative burden of data collection, particularly for providers
- ✓ Clearly define cohort/eligibility requirements
- ✓ More emphasis should be placed on curtailing perverse incentives
- ✓ Ensure outcomes and payment mechanisms are clear

## Nature of the relationship

- ✓ Funding should be suitably flexible to aid providers and meet beneficiary need
- ✓ Cooperation and partnership building is essential to SIB success
- ✓ Shared learning is an important – but often overlooked – benefit of SIBs



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**#SIBs**



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[#SIBsMythReality](https://twitter.com/ukgolab)



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Investor Case Study 1:  
Bridges Fund Management



## UK Social Impact Bonds – Better Outcomes, Better Value

January 2018

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# Why use a social outcomes contract to deliver a project?

A 'social outcomes contract' is typically a more extreme form of 'payment by results'

Social outcomes contracts can help commissioners to:

1. Launch a new service – and only pay for what works
2. Drive better outcomes from your existing services
3. Co-ordinate with other departments (or outcomes payers) to contribute to payments for outcomes successfully achieved

## Why raise dedicated project finance (using a SIB)?

Some payment by results contracts have performed badly, if not appropriately financed




Social outcomes contracts (or PbR) can sometimes fail:

1. Some providers cannot bid – if they can't raise the working capital needed to 'pre-finance' the project delivery
2. Some providers might bid, but subsequently miss their targets, and cut back on service provision to save costs
3. Some providers might not take the risk seriously (or under-estimate the level of delivery risk in achieving the outcomes)






# Case study one

In a SIB, investors can invest more to fix the issues, and drive best impact from the project

<p>Foster care</p> 	
<p>Contracts</p>	
<p>Results</p>	<p>Contract extended</p>
<p>Learnings</p> <p>References:</p> <p><a href="http://reescentre.education.ox.ac.uk/wordpress/wp-content/uploads/2017/04/StepDownBirmingham_Prelim-Findings_ReesCentreApr2017.pdf">http://reescentre.education.ox.ac.uk/wordpress/wp-content/uploads/2017/04/StepDownBirmingham_Prelim-Findings_ReesCentreApr2017.pdf</a></p> <p><a href="https://www.theguardian.com/social-care-network/2017/oct/12/council-projects-budget-bonds-third-party-funding">https://www.theguardian.com/social-care-network/2017/oct/12/council-projects-budget-bonds-third-party-funding</a></p>	<ul style="list-style-type: none"><li>• <b>Open procurement</b>, so commissioner is confident of the best deal</li><li>• <b>Diligence previous issues, and invest in improvements:</b><ul style="list-style-type: none"><li>• Introduced a <b>3-month matching period</b> for foster carers</li><li>• Invested in <b>'care-experienced mentors'</b> to the programme</li><li>• Created centrally-managed <b>consortium of 3 fostering agencies</b></li><li>• <b>Paid for an additional social worker into Birmingham</b></li></ul></li><li>• Results:<ul style="list-style-type: none"><li>• <b>Significant improvement in children's lives</b> (Oxford Uni report)</li><li>• OFSTED highlighted it as example of <b>best practice in fostering</b></li><li>• <b>£17m cost savings</b> forecast for Birmingham</li></ul></li></ul>

# Case study two

In a SIB providers embrace flexibility, e.g. to find new ways to help people into independence

<p>Homelessness</p> 	
<p>Contracts</p>	
<p>Results</p>	<p>70% in stable accommodation, ~30% into stable employment</p>
<p>Learnings</p> <p>References: <a href="https://www.youtube.com/watch?v=sJ--OfYW0hs">https://www.youtube.com/watch?v=sJ--OfYW0hs</a></p>	<ul style="list-style-type: none"><li>• Work alongside delivery partner to <b>help them make changes</b></li><li>• Use of <b>data and flexible funding to improve outcomes</b></li><li>• Work in partnership to <b>drive continuous improvements</b></li><li>• Ensure <b>no conflicts of interest</b> in the delivery model</li><li>• <b>Results:</b><ul style="list-style-type: none"><li>• Most successful at facilitating living with friends</li><li>• Most successful at helping people into employment</li></ul></li><li>• <b>Prestigious Civil Service award</b> for the FCF contract design</li><li>• A <b>further 10 SIBs</b> were launched as a result, building on the rate card</li></ul>



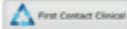








# Case study three

SIBs can enable co-ordination with other departments (or other outcomes payers)

<p>School support</p> 			
<p>Contracts</p>			
<p>Beneficiaries</p>	<p>132</p>	<p>255</p>	<p>160</p>
<p>Learnings</p> <p>References:  <a href="https://westlondonzone.org/2016-17-initial-results/">https://westlondonzone.org/2016-17-initial-results/</a></p>	<ul style="list-style-type: none"> <li>• Certain social issues require a <b>consortium of outcomes payers</b></li> <li>• This takes effort to create, but is <b>powerful once it exists</b></li> <li>• Each outcome payer contributes <b>~25% of the total cost</b></li> <li>• West London Zone coordinates delivery &amp; <b>drives performance</b></li> <li>• Results: Initial 6 month pilot <b>improved reading ages by over 2 years, and we have new schools and commissioners waiting</b></li> </ul>		

# Case study four

Commissioners (e.g. in health) are starting to copy previous SIBs which demonstrate results

<p>Health &amp; Social Care</p> 	   	<p>Healthy Lives Together</p>   	<p>Healthier Living Partnerships</p> <p>TBD</p>
<p>Contracts</p>			
<p>Results</p> <p>References:  <a href="http://waystowellness.org.uk/news/2017/03/ways-to-wellness-latest-news-march-2017/">http://waystowellness.org.uk/news/2017/03/ways-to-wellness-latest-news-march-2017/</a>  <a href="http://bmjopen.bmj.com/content/7/7/e015203">http://bmjopen.bmj.com/content/7/7/e015203</a></p>	<p>“Substantial improvement in participants’ life quality” <i>Report of the British Medical Journal</i></p> <p>Forecast <b>£11m in cost savings</b>; additional £14m benefit to other public services</p>	<p>Launching in April</p>	<p>Launching in April</p>



## Contact Us

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# Mini advice sessions (30 mins x2)



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- Social investment: Bridges Fund Management
- Social investment: Big Issue Invest
- Ways to avoid gaming & perverse incentives
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Investor Case Study 2:  
Big Issue Invest



**Big Issue Invest**  
**Investing for better outcomes**

**January 2018**

**TACKLING POVERTY**  
**CREATING OPPORTUNITY**

**Photo: London Early Years Foundation (LEYF)**



# BIG ISSUE INVEST

## PIONEERING FUNDS WITH A TRACK RECORD OF SUCCESS

- Big Issue Invest has made over 300 investments since 2005 and manages or advises over £150m of social impact investment funds in the UK.
- Corporate Social Venturing (CSV) partners with blue chip corporates to provide loan funding and wraparound support to early stage social enterprises in England and Scotland
- BII makes loans of £20k - £250k with funds from wholesale lenders
- Big Issue Invest Fund Management manages funds on behalf of individual and institutional investors:
  - *SEIF I (£9.2m) was launched in 2010 to provide growth capital loans to UK charities and social enterprises.*
  - *SEIF II (£23.8m) was launched in 2015 as a successor fund. It supports the same target market but also makes equity investments and has a specific allocation to outcomes-based investments.*
  - *The BII Outcomes Investment Fund (£10-30 million) was launched in May 2017.*
- BII is social impact advisor for the Threadneedle Social Impact Bond Fund (listed) and an equity social impact fund

# BII OUTCOMES-BASED INVESTMENTS

## DIVERSE PORTFOLIO OF INVESTMENTS



YMCA DERBYSHIRE



Strictly Confidential

# BII OUTCOMES-BASED INVESTMENTS

## FREQUENTLY ASKED QUESTIONS

- “WHERE DOES YOUR MONEY COME FROM?”

“AS LONG AS YOU GET YOUR MONEY BACK, DO YOU CARE ABOUT THE SOCIAL IMPACT?”

- “WHEN DO SIBS WORK WELL, OR NOT?”

- “DO WE NEED TO USE AN SPV?”

“HOW MUCH EVIDENCE IS NEEDED?”

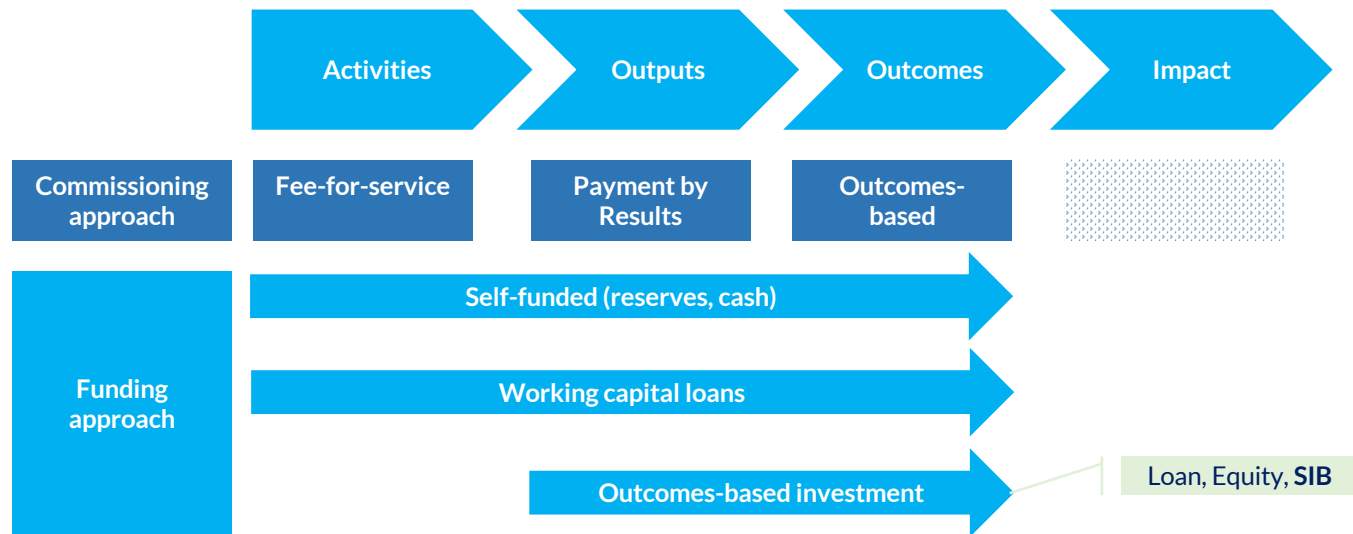
- “HOW DO WE SET THE RIGHT PAYMENT FOR OUTCOMES?”

“DO WE NEED THIRD PARTY PERFORMANCE MANAGEMENT?”

“WHEN AND HOW SHOULD PARTNERSHIPS FORM?”

# OUTCOMES-BASED APPROACHES

TOOLS THAT AIM TO SHIFT FOCUS – AND FUNDING – TO OUTCOMES



## Key Questions:

- Is there a rationale for commissioning outcomes, rather than services or outputs?
- Is there a reason to include an external investor?
- Should the investor(s) bear some, all of none of the outcomes risk?
- Does the value of risk transfer exceed the cost?

# BII OUTCOMES-BASED INVESTMENTS

## KEY INGREDIENTS FOR A SUCCESSFUL SOCIAL IMPACT BOND

- **Suitable application of the model**
- There is a clear rationale for using a SIB and the primary programme aim is improved outcomes. There is sufficient risk to justify external investment but it is not experimental.
- **Target social returns**
- The target social outcomes are well-defined, a reliable proxy for sustainable change, realistic, and supported by public policy and provider experience
- **Partnership working**
- Shared objectives and shared values between commissioner(s), delivery provider(s) and investor(s), facilitated by a suitable procurement process
- **Financial Viability**
- The investment offers an appropriate balance of risk and reward between parties (including delivery organisations). Costs are proportionate and maximise funds for delivery.
- **Scope for continuous improvement**
- Financial and non-financial incentives to become more effective, and most cost-effective, over time. Contract and procurement process support the 'discovery phase'
- **Capacity building impact**
- Delivery organisations should have the opportunity to develop capacity in areas including operational agility, data analysis, and performance management.
- **Addressing underlying challenges**
- The theory of change should highlight how BII, with the other stakeholders, will tackle the causes of the social issue as well as addressing the symptoms. This includes a robust M&E framework.
- **Post-contract legacy**
- If the programme is for a set term, a transition plan should be developed early to sustain or extend successful programmes and avoid 'cliff edge' in service provision.

# SOCIAL IMPACT BOND CASE STUDIES (1)

## FAIR CHANCE FUND

### Overview

DCLG commissioned 7 social impact bonds across the UK to support young homeless people in 2014. BII invested in 4 of the 7.

### Outcomes Framework

Rate card, with a focus on Employment, Education and Training (EET) and stable accommodation.

- Assessments (Warwick-Edinburgh)
- Accommodation (entry to 18 months)
- Education & Training (entry to NVQ L2)
- Employment (volunteering to 26 weeks)

### Delivery Providers



### Procurement Approach

Two-phase bid (price and quality)

### Results

Over 1,115 18-24 year old homeless people not in employment, education or training joined the 4 programmes (launched 2014). The FCF ends in early 2018. BII investments are at a portfolio level demonstrating outcomes at, or above, the original target.

### BII Investor Perspective

- Portfolio of investments – opportunity to share learnings and compare approaches
- Delivering returns in line with plan – but could have done more?
- Variance between delivery organisations' capacity development
- Cliff-edge funding



# SOCIAL INVESTMENT BOND CASE STUDIES (2)

## CHANGING LIVES

### Overview

DCLG committed £10 million outcomes funding to 8 local authorities to commission SIBs supporting entrenched rough sleepers. BII has funded 3, including Changing Lives to deliver the contract in Newcastle & Gateshead.

### Outcomes Framework

Rate card, building on FCF (more holistic).

- Initial assessment
- Accommodation (entry to 18 months)
- Better Managed Needs (mental health and addictions support and treatment plan)
- EET (volunteering, education, employment)

### Delivery Providers



### Procurement Approach

Two-stage bid (price and quality)

### Results

Launched November 2017

### BII Investor Perspective

- Build on GLA and FCF partnerships and learnings → seed collaboration
- Light-touch intermediation to maximise funds for service delivery and build stronger partnerships
- Focus on sustainable capacity building
- Importance of due diligence on commissioner and local context

# SOCIAL INVESTMENT BOND CASE STUDIES (3)

## MENTAL HEALTH AND EMPLOYMENT PARTNERSHIPS (MHEP)

### Overview

MHEP is the first SIB designed to support individuals with mental health issues into work as an integral part of their treatment.

### Outcomes Framework

Locally co-commissioned contracts with outcomes linked to each participant that

- Joins the IPS service
- Sustains employment for 6 weeks / 6 months

Delivery providers take some, but not all, the outcomes risk

### Delivery Providers (current)



### Results

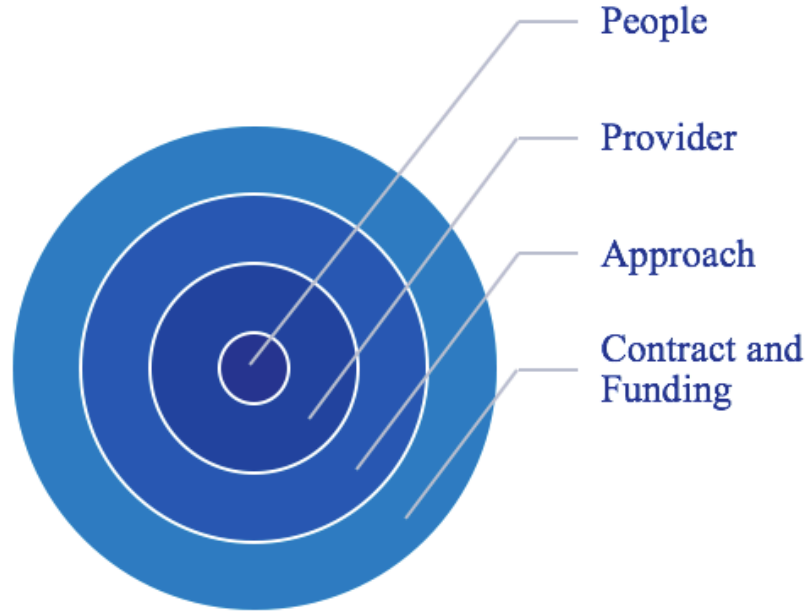
MHEP originally aimed to work with 2,624 people using the evidence-based Individual Placement & Support (IPS) model. New contracts and contract extensions have since been secured and MHEP is exploring new applications for IPS with commissioners.

### BII Investor Perspective

- Comparisons between contracts (providers / commissioners / business models)
- Quality delivery ≠ good SIB delivery without support
- Compelling blend of local variation, standardisation and scalability

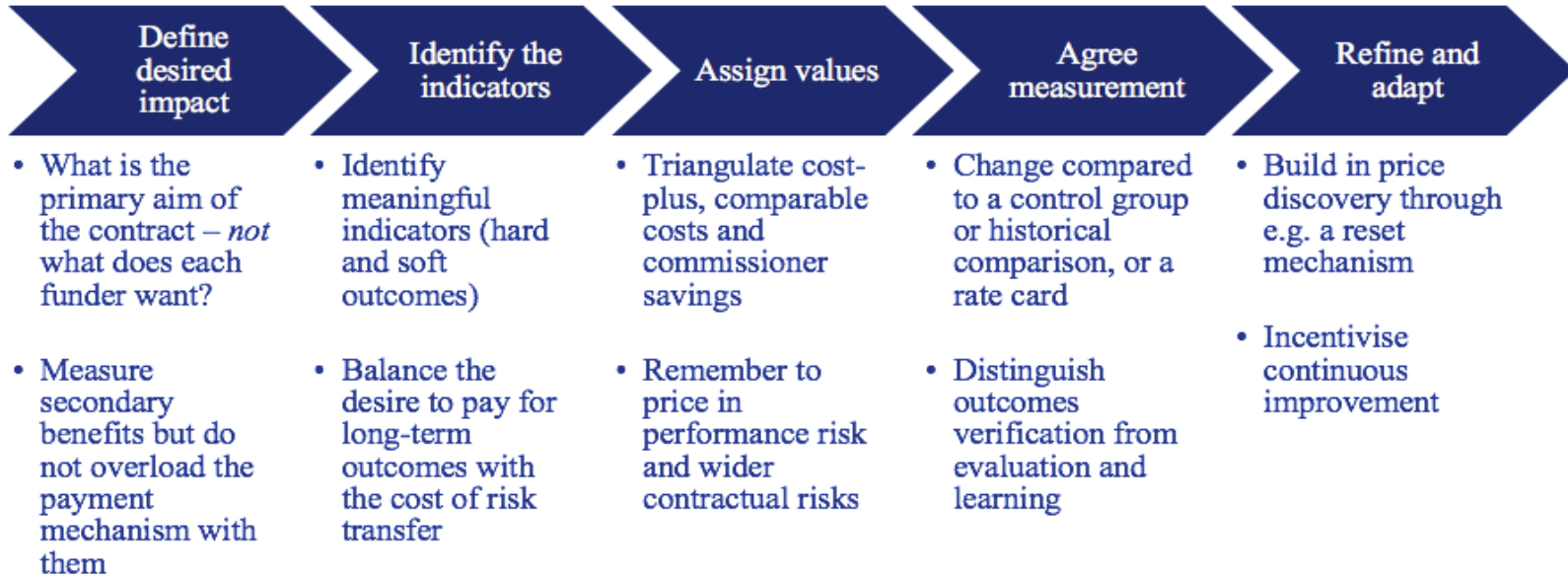
# OUTCOMES-BASED CONTRACTS LEARNINGS

FOCUS ON OUTCOMES AND THE REST WILL FOLLOW



# OUTCOMES-BASED CONTRACTS LEARNINGS

## SETTING THE OUTCOMES FRAMEWORK



# OUTCOMES-BASED INVESTMENTS LEARNINGS

## BII APPROACH TO PERFORMANCE AND CONTRACT MANAGEMENT

Performance Manager	Provider	Intermediary
<b>Benefits</b>	<ul style="list-style-type: none"> <li>• Develops internal capacity</li> <li>• Provided at cost</li> <li>• Supports wider organisation</li> <li>• Can develop commissioner relationships</li> </ul>	<ul style="list-style-type: none"> <li>• Independent representative of funder(s)</li> <li>• Economies of scale across SIBs</li> <li>• May have relevant sector / commissioner experience</li> </ul>
<b>Drawbacks</b>	<ul style="list-style-type: none"> <li>• Many do not have existing capabilities</li> <li>• Might not be impartial</li> </ul>	<ul style="list-style-type: none"> <li>• More expensive</li> <li>• Little incentive to capacity build / reduce scope</li> <li>• Holds relationships</li> </ul>
<b>Use when</b>	<ul style="list-style-type: none"> <li>• Provider has PbR contract management experience and high-quality data and MIS</li> <li>• One or small number of investors / providers</li> </ul>	<ul style="list-style-type: none"> <li>• Multiple investors, commissioners and/or providers</li> <li>• Otherwise complex structures</li> <li>• Delivery organisation(s) have limited expertise with PbR or have identified data/MIS gaps</li> </ul>
<b>Considerations</b>	<ul style="list-style-type: none"> <li>• Consider potential conflicts of interest and/or need for information barriers</li> <li>• Value for money</li> <li>• Potential for capacity-building and knowledge transfer over time (tapering support)</li> </ul>	

# OUTCOMES-BASED CONTRACTS LEARNINGS

## LAYING SOLID FOUNDATIONS THROUGH PROCUREMENT

- Seek input early, from a diverse range of stakeholders
- Don't reinvent the wheel: engage with other commissioners / seek advice
- Encourage co-design but give providers/investors constraints to work within
- Fit the procurement approach and contract specification to the context
- Recognise complexity and the imperfect information base
- Be clear on why every requirement exists
- Ensure time and flexibility for dialogue and an iterative process
- Align all commissioner parties and agree rules of engagement before going to market



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The costs and risks of social  
investment

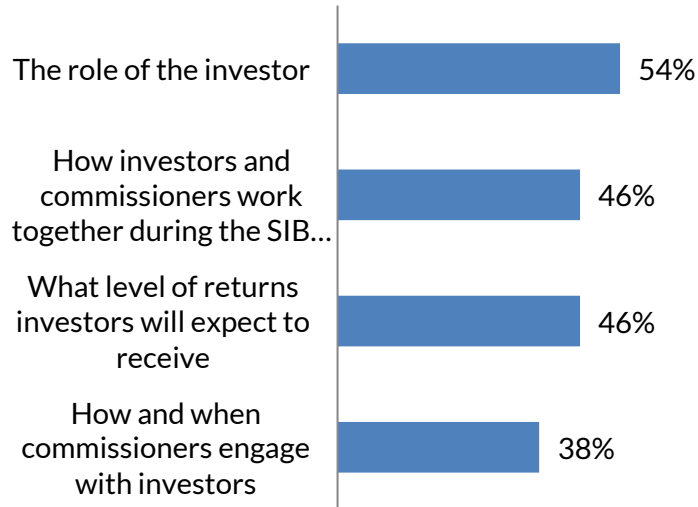
Neil Stanworth, Director ATQ



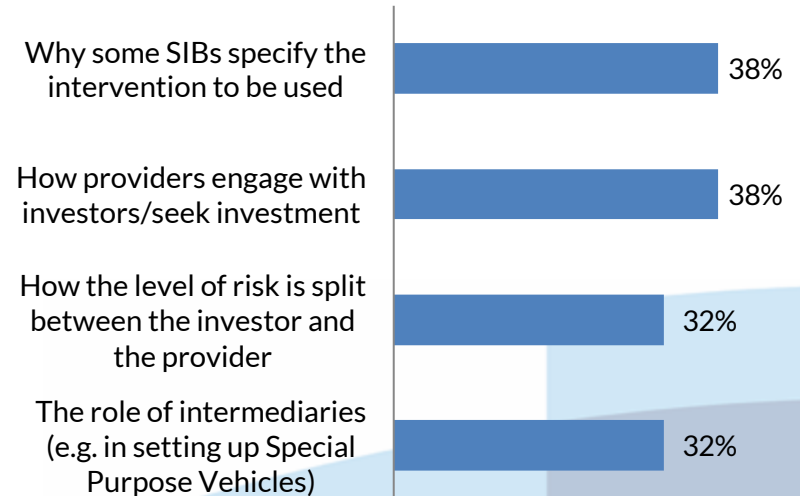
# Findings from CBO evaluation 2016

Which aspects of SIBs do you feel your organisation does not understand?

## Commissioners (n 13)



## Service providers (n 18)



# Preliminary findings – 2018



Which aspects of SIBs do you feel your organisation does not understand?

## Top six issues – commissioners (n 61)

1. How to test SIB feasibility
2. How payment levels are agreed
3. How risk is split between commissioner, investor and provider(s)
4. How and when to engage investors
5. The role of the investor
6. What returns will investors expect

## Top six issues – providers (n 28)

1. How to engage and seek investment
2. How risk is split between commissioner, investor and provider(s)
3. How providers are chosen
4. Who selects providers
5. How payment levels are agreed
6. Benefits of being involved in a SIB

Poor understanding of investors and how to work successfully with them remains a key issue for both SIB commissioners and providers

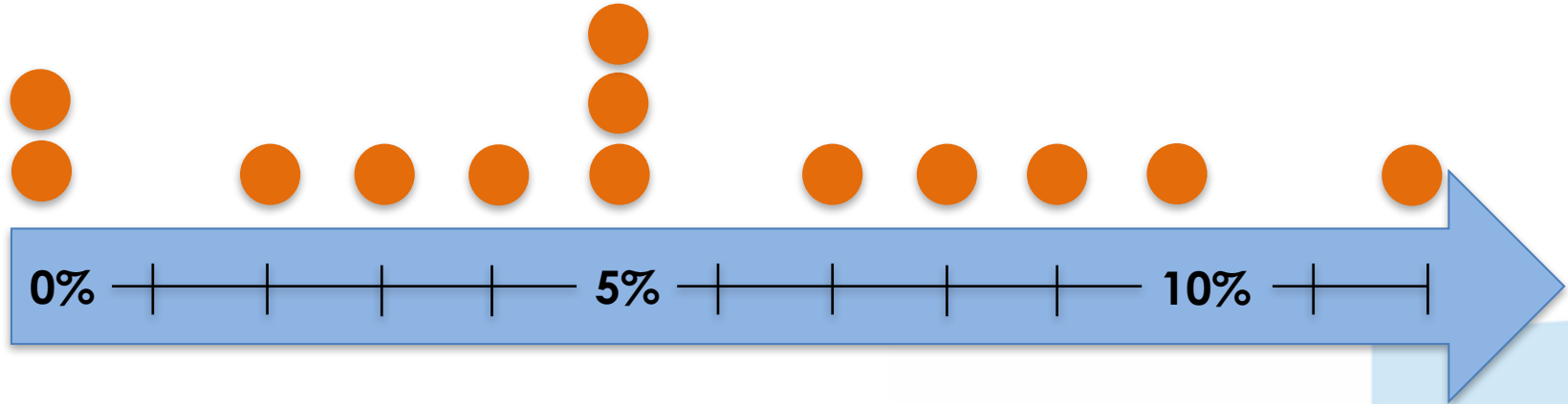
# Key questions for commissioners



1. What are the likely costs of investment?
2. What other costs might there be?
3. How can you influence and potentially reduce these costs?
4. Will it be worth it?

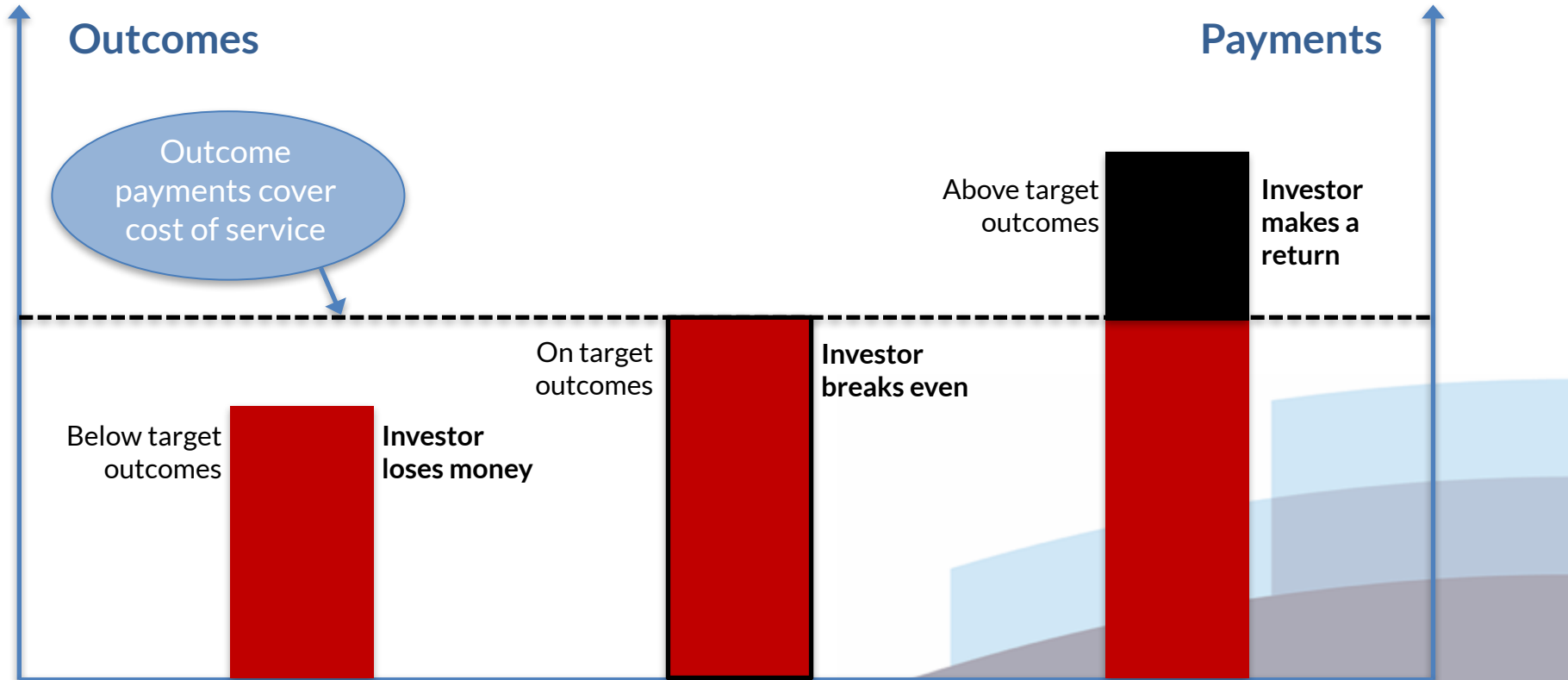
# Target investor returns

We know from our research the overall returns investors are targeting



BUT.....

# Investor returns are not fixed in a SIB!



# Comparative costs of different options

## In-house service

Initial set up cost  
Running costs  
Management and reporting  
Termination costs if service discontinued

**Total cost fixed even if service fails**

## Fee for service contract

Monthly or quarterly service fee including:

- Provider set up and running costs
- Provider performance management costs

Your contract management cost

**Total cost fixed even if service fails**

## Payment by results contract

Payments for outcomes achieved including:

- Provider set up and running costs
- Provider performance management costs
- Provider investment costs

Your contract management cost

**Total cost varies by level of success**

## SIB-type contract

Payments for outcomes achieved including:

- Set up and running costs
- Investor/3<sup>rd</sup> party perf. management costs
- Investor 'returns'

Your contract management cost

**Total cost varies by level of success**

# Balancing risk to you and the investor

Greater risk to investor

Greater risk to commissioner

No guarantee of referrals	Contracted minimum referrals
No/low early payments	High payment for early outcomes
High performance requirement at 'base case'	Relatively unchallenging base case
Too much payment for 'harder' outcomes	Too much payment for 'easy' outcomes
Low flexibility to amend contract	Flexible contract terms

- Higher costs per outcome
- Risk of 'no deal'

- Lower costs per outcome
- Fewer outcomes achieved

# Risks/issues for providers

- Competing to be a selected provider
- Increased management and scrutiny from investor or performance manager
- Payment could be linked to outputs such as:
  - Referrals
  - Successful engagement
  - Completion of intervention
- Unsuccessful providers can be replaced
- Do you want 'skin in the game'?



# Engaging with investors



## Recommended

- Consult to test assumptions during development
- Engagement with decision makers
- Look at the whole deal cost, not notional 'returns'
- Ensure flexibility and time during procurement to:
  - put a delivery structure together
  - Negotiate and change payment terms

## Optional

- Involve directly in co-design of contract terms
- Pre-procure investor and jointly select providers
- Allow investor to manage contract delivery



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# Mini advice sessions (30 mins x2)



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- Social investment: Bridges Fund Management
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- Ways to avoid gaming & perverse incentives
- Calculating risk and return in SIBs
- The Social Finance approach to SIBs
- Life Chances Fund



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LUNCH

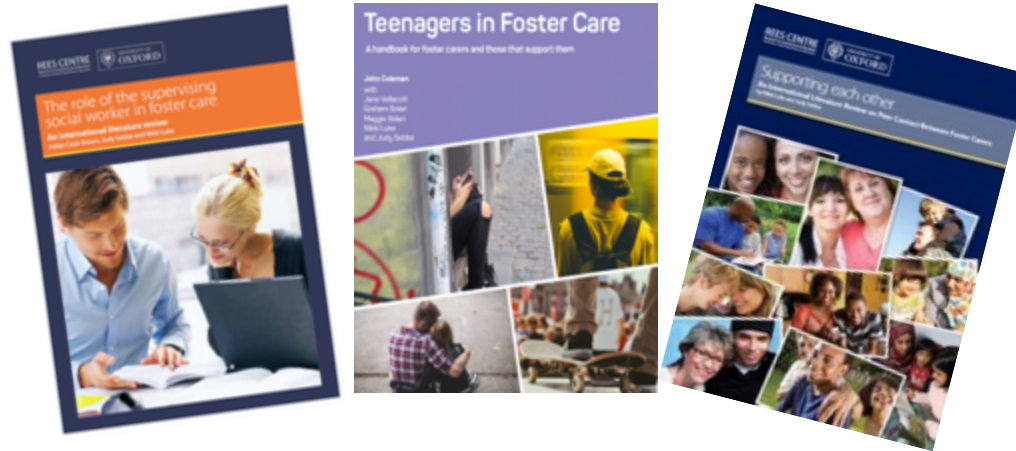




# GOVERNMENT OUTCOMES LAB

**Evaluation of Step Down – from  
residential to foster care**  
Judy Sebba, University of Oxford

## Evaluation of Birmingham City's Step Down SIB – from residential to foster care



Judy Sebba, Gill Plumridge & Sarah Meakings  
Contact: Rees Centre for Research in Fostering and Education,  
University of Oxford Department of Education

[Rees.centre@education.ox.ac.uk](mailto:Rees.centre@education.ox.ac.uk)

Twitter - @ReesCentre

## STEP DOWN: Residential care to foster care

- YP moving from residential to foster care, min 12 months, careful matching process, high levels of support - planned respite care and therapeutic support
- Core Assets Group, Birmingham City Council and Bridges Ventures Social Impact Bond. Rees Centre evaluation
- Aims to achieve
  - Placement stability over 52 weeks
  - Better outcomes for young people
  - Cost benefit of foster care compared to residential
- Programme Plan:
  1. Matching and Planning processes  
(6 weeks, pre-placement)
  2. Stabilisation (13 weeks)
  3. Settlement (13 weeks)
  4. Maintenance (26 weeks)

# Step-Down Evaluation

Evaluation includes:

- Quantitative data: e.g. duration of placement, missing from care, school attendance, school exclusions, SDQs, etc.
- Costs prior (residential), during and after the placement
- Interviews at week 14 and week 45 with:
  - Young people
  - Foster carers
  - Social workers – child and supervising
  - Mentors (who support young person)



## Placement stability for the 29 young people (Jan 2018)

Currently in placement <52 weeks one on 2 <sup>nd</sup> placement	Disrupted before 14 weeks	Disrupted weeks 14-45	Disrupted weeks 45-52	Number graduated i.e. in placement at 52 wks	Of the 12 graduates, disrupted weeks 52-104
9	6	2	1	12	5

- Age at placement 11.75 years – 15.5 years average of just under 14.2 years

# Quantitative Data 1 (April 2017)

- Missing from care – huge individual variation. More in month 12, lower than baseline, two have had 10 incidences, one six, two four, one twice, four once, nine none.
- School attendance – high across group, higher than baseline, five YP responsible for all absences
- Fixed term exclusions – generally low and lower than baseline.

Five YP responsible for all exclusions, four had 2-6 and one 42.

- Offending – three YP one offence, one committed two, most had none at baseline and none during the 12 months.

## Quantitative Data 2 (April 2017)

- Positive activities – consistently higher than baseline in residential care, slight decrease in last 3 months:

No of young people	Average no of positive activities/month
9	5
9	2-3
1	1

- Attitudes to education (PASS) – on average no change over 12 months but large individual variations – 7 improved, one significantly, 4 got worse, 2 stayed same.
- SDQs – remain high over time, some increase – YP’s ratings consistently lower than carers and school. Large individual differences and differences between home and school.

## Costs (April 2017)

- Cost savings for each YP that completes Step Down and does not return to residential care is > £40,000 per person per year
- Across the 19 YP's placements up to end of Dec 2016, cost savings of > £800,000 whilst YP in the programme
- A further nearly £600,000 cost savings for the eight YP who have graduated since graduation

## How far has the young person had ownership of the placement decisions?

- **Young people were very positive about meeting potential carers but few had been offered more than one alternative.**

*I would say [to a young person offered Step Down] “Well do go and see them, like I did with [carers], if you don’t feel too comfortable ask for that extra, maybe ask for a sleepover, and if you feel comfortable then move in, if you don’t then just tell someone” (young person)*

*Find that placement for them and then once you found it, tell them that you’re in a process. Tell them everything and just go for little respites. That’s how you move. You don’t straight away move them into a family that they don’t know. You need to give them that communication (young person)*

## What have been the most important facilitators and barriers to this transition process?

### Introduction period

- Receiving information verbally valued highly - led to placements that would not have been agreed on paper. Most common complaint about written information was that it was out of date.
- Involving the mentor early seen as valuable especially in providing continuity for the young person and reassuring them about their ownership of the planning phase but role of mentor needs more clarification.

## Professional roles and support and working together

- Placements seen as offering stability and a safe and consistent environment – YP reported feeling safe
- Newly approved carers frequently used successfully. Success linked to input by therapists
- Using progress meetings proactively was linked to positive outcomes.
- Mentor very important and often beneficial to the carer as well as the young person. Implications for placements where no mentor.
- Carers felt well supported - this allowed them to cope with placements they might not otherwise have managed.
- Involvement of consistent local authority social worker who knows the child and foster family, very helpful both in predicting problems and identifying progress - build self-esteem

## Supporting the young person

- Good relationships and feeling part of the foster family were linked to young people investing in their placements.
- Identifying people who cared about them, who wanted to see them succeed and participation in positive activities, contributed to building self-esteem and resilience.

*Say like when I was in the home I just can't be bothered. I used to be naughty every day at school. But here I do try. I try for [carers] (young person)*

*She listens to instruction and follows it and then she gets praise for that and thinks tall and she walks tall when she gets off the horse. It really does build her self-esteem....  
we're on the settlement phase (support worker)*



# Recommendations

## Planning stage

- Promote opportunities for the verbal transfer of information during the planning stage and ensure the carer has all available information before meeting the young person.
- Ensure placing social worker is aware of the potential benefits of mentor and support worker. Where request made for no mentor or support worker, review at later date.

# Recommendations

## During the placement

- When placement moves happen, ensure new carers are fully informed about the programme.
- When there are changes of children's social worker ensure the new social worker is well informed.
- Make sure the understanding of the mentor role is consistent across professionals involved, especially regarding progress meetings.
- Clear guidance needed about the involvement of young people in progress meetings, including about how their views are represented.
- More emphasis needed on how schools might become more engaged both in collecting the data and providing support.
- Teams should consider whether they can use progress meetings more proactively, especially when placements are running more smoothly.

## Following the placement

- Agree any ongoing support package well before the 52 weeks of placement is reached. Those that were supported after 52 weeks less likely to disrupt.

# Overall

- On average across the first three years, a 69% stability rate achieved across 29 young people.
- Most young people achieved greater stability than they experienced prior to the programme.
- Some evidence of improved school attendance.
- Strong evidence that the frequency of engagement in positive activities increases markedly immediately after starting but not always maintained.
- Cost savings very encouraging.



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How to procure a social investor  
(and how not to)

*Panel discussion*

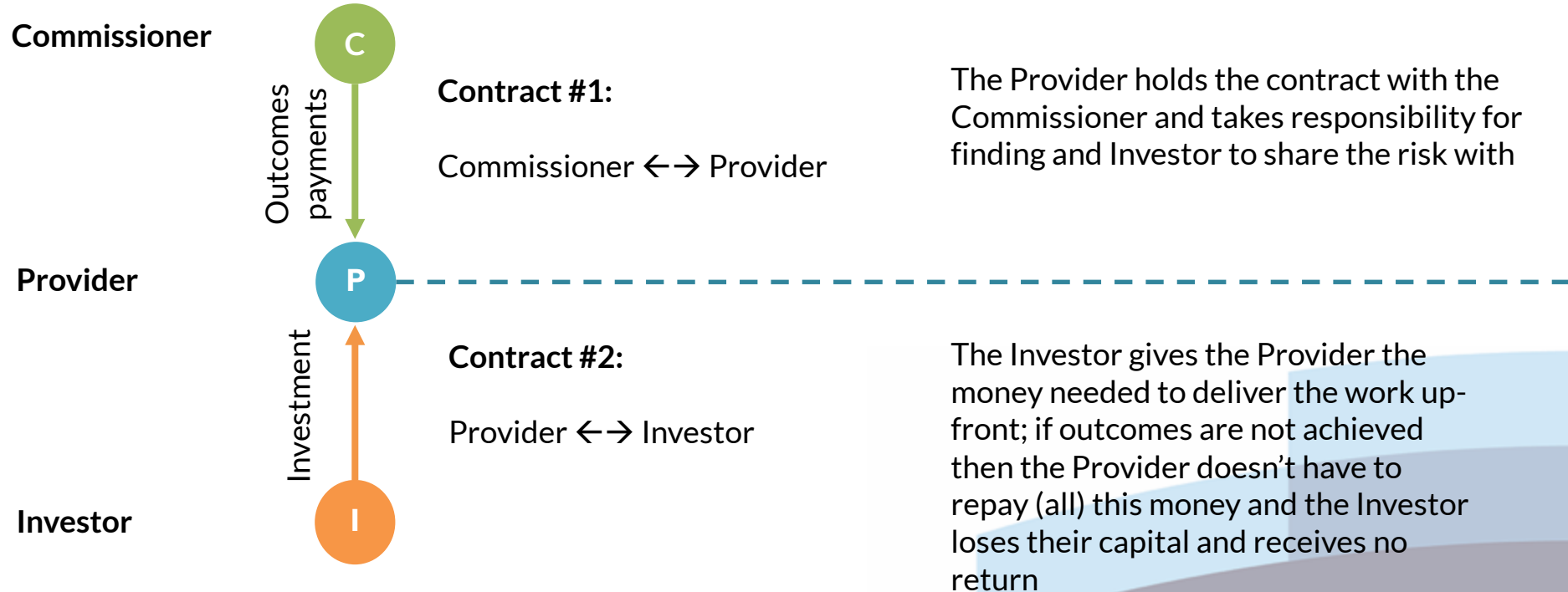
# Key procurement challenges for SIB

- The practice of consulting and collaborating prior to competition
  - Provider intellectual property
- Leadership of the development of the SIB by a provider
- A lack of real competition to deliver innovative services – how to know you have got value for money in a restricted market?
  - Considering Social Value
- Knowing how and when to engage social investors

# Two key mechanisms: outcomes payment & risk transfer



# Contract Mechanism 1



Generally best for projects with **one** Commissioner and Provider



# Contract Mechanism 2

Commissioner



Outcomes  
payments



**Contract #1:**

Commissioner  $\leftrightarrow$  Investor

If outcomes are not achieved, the Investor stands to lose their investment and no return is paid

Investor



Service  
payments



**Contract #2:**

Investor  $\leftrightarrow$  Provider

The provider operates on service fee basis, shielded from risk by the Investor

Provider(s)



Generally best for projects with **multiple** Commissioners and/or Providers



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# Panel discussion



**Andrew Levitt**  
Bridges Fund Management

**Katy Pillai**  
Big Issue Invest

**Ben Jupp**  
Social Finance

**Mara Airoidi**  
GO Lab



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## Some key take-aways

- Dialogue is extremely important and doesn't have to add a lot of time to the process
- Allowing enough time at the first stage (e.g. PQQ) is important if the commissioner wants a range of submissions, rather than just the local incumbent or a large national provider
- Delivery organisations and investors need some parameters / constraints to develop a thoughtful bid.
- Meet the investors – this can give commissioners and procurement colleagues much more confidence as to their motivations and ability
- Understand what you are asking for and why

- Using a fee-for-service contract template rather than an outcomes contract template
- Not conducting adequate soft-market testing (and therefore receiving too few bids)
- Not allowing or enabling dialogue before, during and after the process

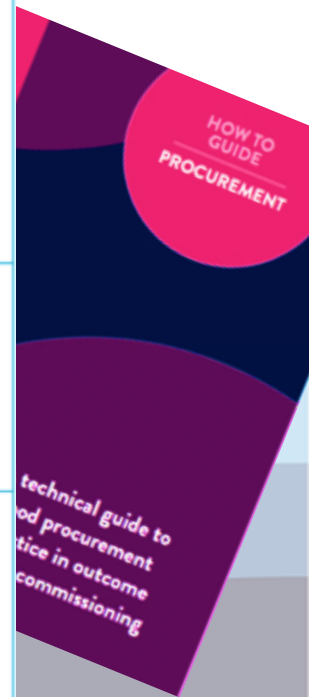
# Practical procurement support

- Practical guidance to local commissioners developing OBC/ SIBs
- Two parts:
  - General advice
  - Toolkit: procurement activities throughout the commissioning journey
  - Regularly updated to reflect emerging practice
  - Reviewed by a range of professionals with extensive expertise in outcome based commissioning
- Procurement masterclass (webinar) and developing education materials to support this session (case studies, practical examples, decision-making tools)



# A decision matrix from our How To guide

STATUS OF THE INTERVENTION	CHOICE OF DELIVERY PARTNERS	PROCUREMENT STRATEGY	PROCUREMENT PROCESS
<ul style="list-style-type: none"> <li>• Outcomes and cohort well defined</li> <li>• Best form of intervention is defined and evidenced</li> <li>• Commissioner is able to produce an outcomes framework and payment terms</li> </ul>	<ul style="list-style-type: none"> <li>• Multiple potential delivery partners offering similar services</li> </ul>	<ul style="list-style-type: none"> <li>• Use competitive approach to appoint delivery partner for a defined intervention and achieve maximum risk transfer and value through the payment mechanism</li> </ul>	<ul style="list-style-type: none"> <li>• Issue PIN Notice</li> <li>• Pre-tender bidders conference to invite interest</li> <li>• Potential pre-tender comments on draft specification</li> <li>• Invitation to tender (ITT) or open procedure</li> <li>• Options: use an accelerated procedure if time is of the essence</li> <li>• / use post-tender negotiations</li> </ul>
<ul style="list-style-type: none"> <li>• Outcomes and cohort well defined</li> <li>• Service interventions unknown</li> <li>• Commissioner unable to specify service</li> </ul>	<ul style="list-style-type: none"> <li>• No defined market, but some providers share ambition to develop new services</li> </ul>	<ul style="list-style-type: none"> <li>• Engage a service partner to develop a service under contract</li> <li>• Pay on an open book basis</li> <li>• Service to be competed once an evidence base is established and a specification can be produced</li> </ul>	<ul style="list-style-type: none"> <li>• PIN notice during development stage inviting pretender collaboration</li> <li>• Competition for Innovation Partnership based on capabilities of organisations</li> <li>• Possible award to different organisations to test different models of service</li> <li>• Develop tender as an output of the partnership(s)</li> </ul>
<ul style="list-style-type: none"> <li>• Service provider develops new service proposition</li> <li>• Commissioner is able to define target cohort and outcomes</li> <li>• Service provider can help the commissioner to specify the service</li> </ul>	<ul style="list-style-type: none"> <li>• One provider has developed a new proposition</li> </ul>	<ul style="list-style-type: none"> <li>• Award contract to a preferred provider without a competitive process</li> </ul>	<ul style="list-style-type: none"> <li>• Issue PIN Notice</li> <li>• Market test the potential interest of other providers</li> <li>• If no other capable providers come forward use regulation 32(2) (b) to issue an Ex-Ante Notice to work with a single supplier</li> <li>• Negotiate terms</li> </ul>



# Procurement masterclass – 6<sup>th</sup> March



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Home > Events > Webinar: Procurement for Social Impact Bonds

## Webinar: Procurement for Social Impact Bonds

 **Date** 6 Mar 2018

 **Time** 10 a.m. - 11:30 a.m.



### Overview

Social Impact Bonds (SIBs) present a number of challenges to traditional contracting processes. SIBs often focus on complex social issues, involve multiple stakeholders, and involve a high degree of innovation. This has prompted many in commissioning authorities to raise questions about how to procure within a SIB structure without falling foul of the law.



HOW TO  
GUIDE  
PROCUREMENT

A technical guide to  
good procurement  
practice in outcome  
based commissioning



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Advice sessions with  
investors, advisors & GO Lab



# Mini advice sessions (30 mins x2)



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- Social investment: Bridges Fund Management
- Social investment: Big Issue Invest
- Ways to avoid gaming & perverse incentives
- Calculating risk and return in SIBs
- The Social Finance approach to SIBs
- Life Chances Fund



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Support available from the  
GO Lab and others



# Support available from the GO Lab

- **Advice Surgeries**
  - The GO Lab team are available on Tuesday mornings to provide advice and support via phone or online. Book at <https://golab.bsg.ox.ac.uk/advice-surgeries>
- **Access information and resources**
  - Our website includes technical guides, introductory materials, a publications library and a projects database. <https://golab.bsg.ox.ac.uk>
- **Events & webinars**
  - We host events and training sessions for officials in commissioning authorities. <https://golab.bsg.ox.ac.uk/events/>

# Support available from GO Lab

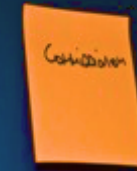
Knowledge Hub  
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Communities of  
practice  
(peer learning)

How to  
guides



Commissioners'  
journey tool



Webinars

HOW TO  
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AND GOVERNANCE

Advice  
surgeries



Events &  
workshops



SIB  
projects  
database



Executive  
education



Fellows of  
Practice



## Support available from others

- **Centre for Social Impact Bonds**
  - As part of the Office for Civil Society at DCMS, it provides expert guidance on developing SIBs, shares information on outcome based commissioning and supports the growth of the social investment sector
- **Good Finance**
  - provides information on social investment for charities and social enterprises.
- **BLF directories of SIB investment funds & advisors**
  - Both documents can be downloaded from the GO Lab Publications Library



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