

Social Impact Bonds: From Myth to Reality 25 January 2018

Conference Notes

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Welcome Remarks

Councillor Keith Kiddie, Norfolk County Council

- Decreased funding, increased demand for social services – need to change way public services are delivered
- Simply no getting away from shaping how we operate public services in the future
- Transformation begins with how we commission service delivery
- Make sure take advantage of what's already out there
- Sometimes need help in delivering social services
- SIBs helped support transformation for communities in Norfolk – not been all positive; challenges and opportunities
 - No tangible results yet
 - Many lessons learned
- Biggest lesson learned: social investment works best when want to achieve systematic and transformational change in delivery social services
 - Concentrate resources where they are best used
 - Encourage partners to innovate
 - Tool to provide preventative work where otherwise might not have
- Sometimes outside investor bringing discipline and funding is best way to bring about change
- Takes us out of silos and encourage us to work together; take today to collaborate

James Magowan, DCMS

- Potential central government sees in SIB – improve services and reduce costs
- UK world leader in SIBs
- Why are commissioners using them? Three reasons really unpin:
 - Prevent social issues – preventing things before they become an issue, or prevent more things happening
 - Encouraging collaboration
 - Innovate – new ways to think about social problems
- As more SIBs occur get better at understanding the uses
- Central gov'ts role is to help these scale and build evidence base

Nigel Ball, GO Lab

- Local government and voluntary sector in lead for attendance
- Introduction to the GO Lab
 - SIBs receive a lot of interest, criticisms, hype – need to sort through to provide best practice
 - Research, Advise, Connect
 - Type of support available: how to guides, commissioner journey tools, advice surgeries, etc.

Social Impact Bonds: State of Play and Why Use SIBs

Andreea Anastasiu, GO Lab

- How did we get here? (Timeline on slides)
 - First SIB in 2010, seen tremendous growth in SIB market
 - 43 in UK SIB market to date, new ones launched every day
 - 108 impact bonds launched globally
- Commissioning landscape
 - Reduction in public spending
 - Devolution of certain responsibilities to local areas
 - Shift from fee-for-service to outcomes-based-payment
 - Increase in social impact investing
 - Political support for social investment
 - Cross-sector partnerships to tackle complex issues
 - Desire for better use of voluntary sector
- UK outcome funds for SIBs
 - Shift from central gov't acting as commissioner to local/health authorities
 - SIBs emerge as response to challenges that public sector is facing.
- This market is so vibrant, dynamic, role of GO Lab is to investigate what works and what doesn't work. Trying to understand what a good social impact bond looks like

Mara Airoidi, GO Lab

Why use SIBs?

- Over summer looked at all literature, tried to identify when they are used and for what
- SIB is tool for contracting out services – along with service contract, PbR, grant
- Two key mechanism that characterise SIB
 - Outcome based contract
 - SIB financing contract
- Why use SIBs?
 - Public service challenge: Siloed budgets, short-term focus from political and financial stakeholders, difficulty creating change
 - Implications for services: fragmented services, duplications, gaps, inadequate communication
 - Reactive public services responding to crises
 - Poor performing services go unchanged
 - Implications for services: Fragmented, reactive stagnant services which fail to respond to needs of vulnerable individuals
 - SIBs potential for public service reform:
 - Collaboration: multiple commissioners and within provider networks
 - Service activities wrap around service users

- Prevention: enable invest to save; dual running of services with investors funding upstream interventions
- Room to innovate: risk transfer enables innovation, new interventions, enhanced performance management
- Example of Collaboration: Peterborough One Service SIB
 - Enabled collaboration across agencies that provided different types of support. Provided holistic, integrated service delivery by linking multiple providers in to a single service
- Example of Prevention: Essex MST SIB
 - Work with children at risk of transferring to residential care
 - If you create wraparound care around family and child, you may be able to keep the child with the family and prevent very expensive residential care down the line
- Example of Innovation: Ways to Wellness
 - Social prescribing intervention. One of first organizations to deliver a “hub” model of social prescribing on a large scale”

Do SIBs work?

- They are still promising, but can't pin down if what led to success was the financing mechanism
- Lessons learned
 - Basics:
 - Make sure SIB is best method of delivering service
 - Ensure goals are clearly expressed by stakeholders
 - Ensure roles are clear
 - Technical bits:
 - Plan early for administrative burden of data collection
 - Clearly define cohort/eligibility requirements
 - More emphasis should be placed on curtailing perverse incentives
 - Ensure outcomes and payment mechanisms are clear
 - Nature of relationship:
 - Funding should be suitably flexible to aid providers and meet beneficiary need
 - Cooperation and partnership building is essential
 - Shared learning is important benefit

Learning from current practice

Jock Rodger, Manchester City Council – Manchester Treatment Foster Care SIB

- Context: funding was beginning to be a real issue in time of austerity

- Heading towards situation where all going to be doing was funding statutory care – all the preventative stuff was starting to feel very difficult
- There was thinking going – how can we be innovative, what can we do differently, where are the real pressures
 - Knew what biggest social issues were, but not cost of these issues. Looking at adult social care, homelessness, children’s social care – number of areas where knew needed to do something
- Feasibility analysis and top up outcomes let us be a bit more imaginative – came up with innovative ideas in new areas, including children’s social care
- Looked at all interventions available and decided to go with Treatment Foster Care – designed to intensively support children over the year
 - Looked at cost of program – meant setting up team, procuring provider with requisite professional staff
 - Concluded something we couldn’t afford
- Developed genuinely collaborative relationship with provider and investor
 - Worked together to solve problems as they arose
 - Fact that working collaboratively meant were able to go through painful process in supportive way
- Challenges with local authority were partly political
 - Manchester is labour controlled council – concern that shouldn’t be using private money to deal with social issues
 - Came together to work towards outcomes to improve lives of children
 - Also create savings that could be reinvested other places
- Financial/legal challenges
 - Not used to contract with provider funded by someone else, and making outcome payments
 - Legal team – three working on something they had never done before (gov’t, provider, investor). Concerns about risk protection
- Procurement challenges
 - Procurement staff quite traditional, and these processes were quite different
 - Had range of events to allow providers to meet potential investors and to develop relationships and be in position to put in bid for open procurement process
 - After awarded contract, had to work through how it was actually going to work
- Put in investment in time, monthly meetings to analyze data, allows you to start saying – why is that not working, following trajectory of each child
- Learning spilled over in to more traditional contracts
 - If did another SIB now would be a lot quicker
- If invest all knowledge in one person, makes it difficult if that person moves on – need to have a number of people who understand it

- At end of day, the Council has a result of this program, has made cashable saving of 1.6 million. Children are in a better situation. Allowed council to close residential care homes in the city.

Nigel Ball, West London Zone

- New organization to take neighborhood approach to supporting children
- Working with Hammersmith and Kensington
- Focused on identifying children at risk of acute risk and negative outcomes
- Used data to identify appropriate target population, created bespoke package of support for each child and their unique needs
- Link worker assigned to each child and family
- Used data to monitor and track children – focus on performance management
- Financing model
 - Local co-commissioners for school age children
 - Public and private money
 - All commissioners pay together for each named child
 - Outcomes contract, paid on results
 - Capital from Bridges Fund Management
 - Risk sharing

What makes a good SIB?

Mara Airoidi, GO Lab

What makes a good SIB?

- Tightly defined eligible cohort
 - Clear, objective criteria
 - Understanding how far participants are from desired outcomes
 - Independent referral/identification mechanism
- 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)
- Alignment between payable outcomes and policy objectives
 - Logical link between payments made and program goals

What does bad look like?

- Cohort specification/referral too crude or easily influence
- Lack of transparency in how prices were set
- Paid outcomes are not closely linked to policy intent or too short term

Workshop Sessions

Deciding if a SIB is feasible

One representative from each group sharing interesting points:

- Homelessness prevention
 - Didn't get far agreeing on this policy area as potential for SIB
 - Potentially difficult to measure outcomes
 - Under homelessness reduction act, many people at risk of homelessness → scored to address risk
 - Could do something, but where is the benefit and who will pay?
 - If you could get partners bought in to the idea of providing a home then maybe could do it
- Delayed transfer of care – preventing need for older people to go to hospital care
 - Didn't get far down list of commissioning journey
 - Talked about data already out there
 - Regardless of SIB, quite a lot of evidence that could pull together to make case or determine SIB isn't route
 - Need to engage across sectors – Las, health, third sector
 - Always challenge to get buy in
 - Particularly in health – tension between community and acute resources
 - From evidence base, easy to come up with cost model to demonstrate lots of savings with relatively cheap intervention
 - Dutch model of integrated social care – holistic, intensive, person-centric
 - Testing it out in West Suffolk – radical/high risk model
- Accommodation and employment for discharged offenders
 - Plethora of data that could be used
 - SIB proposal: Local Authorities could use housing stock to provide for individuals coming out of prison
 - Challenges around finding cohort – individuals with mental health concerns, showed motivation, etc.
 - Get partners (community, employment training, etc.) on board
 - Outcomes around employment, not-reoffending, contributing to community, settled accommodation
- Children at high risk of going in to care
 - How does a SIB sit amongst other services? While it is created and afterwards (i.e. what is the exit strategy)
 - Risky area to fund, very expensive, very intensive
 - Do we address problem at this life stage, or do we go pre-problem?
 - Getting predictive
 - Advantages of having financial consultant as critical friend
 - Having a wider team having consequences for data access

Developing your SIB

- SIBs not about the funding – more about the process of cohort analysis, outcomes framework and payment
- Norwich CC social mobility – narrowed down to one element i.e exclusion from school
- Carers – good support for carers can reduce unplanned admissions and adult social care for the cared-for
- Mental health amongst NEETs – problematic to define the required/ relevant outcomes, or even what ‘mental health issues’ mean
- Edge of Care – how do you set outcomes payments? There is no set formula
- Name SIB is misleading
- Don’t talk about the finance up-front (to get buy-in). Talk about outcomes (first and foremost)

Social investment and the role of social investors in developing a SIB

Why choose a SIB approach? Neil Stanworth, ATQ Consultants

- Findings from survey of SIB market as a whole
 - Over half of commissioners don’t understand the role of the investor
 - How investors work with commissioners
 - Level of returns investors expect
 - How and when to engage
- Number one issue now is how to know if SIB is feasible
 - Number two is how to set payment mechanism
- Different ways to contract for social interventions:
 - Fee for service: risk stays with commissioner
 - Outcomes based FFS contract: risk stays largely with commissioner
 - PbR contract: some operation and financial risk passed to provider
 - SIB type contract: operational risk with provider and financial risk with investor
- PbR vs. SIBs
 - PbR: easier to manage, can work well if trust provider to deliver
 - Cons: limits market to larger providers, limits risk but doesn’t always drive performance
 - SIBs: allows more providers to bid, investors incentivised to drive performance
 - Cons: Likely to be more complicated, potentially higher management costs
- Why is the SIB investor more committed?
 - Investor only makes a return if outcomes are better than expected

- If don't achieve baseline level of outcomes, everyone loses – investor loses money
- Balancing risk to you and the investor
 - Greater risk to investor:
 - No guarantee of referrals
 - No/low early payments
 - High performance requirement at break-even
 - Low flexibility to change contract variables
 - Too much payment for harder outcomes
 - Greater risk to commissioner:
 - Contracted minimum referrals
 - High payment for early outcomes
 - Outcomes easy to achieve
 - Flexible contract terms
 - Too much payment for easy outcomes
- Engaging with investors
 - Recommend: consult to test assumptions during development; allow to engage with decision makers; ensure flexibility and time to engage providers during procurement; look at the who deal cost not notional returns
 - Optional: involve directly in co-design of contract
 - Pre-procure investor and jointly select providers
 - Allow investor to manage contract delivery

Andrew Levitt, Bridges Fund Management

- Why use a social outcomes contract to deliver a project?
 - Launch a new service – and only pay for what works
 - Drive better outcomes from your existing services
 - Coordinate with other departments (or outcome payers) to contribute to payments for outcomes successfully achieved
- In the US narrative about bringing market discipline to public services, but not what it's about in the UK
 - Getting upfront capital from other sources – whose primary motivation is not to maximize profits
 - Work programme (PbR) – raised money from the bank
 - When didn't reach outcomes, default on loan, and have to cut costs
→ results in cutting costs for those who are unsure of
- Social outcomes contracts can sometimes fail:
 - Some providers cannot bid – if they can't raise the working capital needed to pre-finance the project delivery
 - Some providers might bid, but subsequently miss their targets, and cut back on service provision to cut costs

- Some providers might not take the risk seriously – or underestimate the level of delivery risk in achieving outcomes
- How is social investment different from normal investment?
 - Aim to maximize impact, not financial returns
- Case Study: Birmingham (moving kids out of residential care)
 - Introduced 3 month matching period for foster carers
 - Invested in care experienced mentors
 - Created centrally managed consortium of 3 fostering agencies
 - Paid for additional social worker
- Were able to make these improvements because of focus on achieving impact and not maximizing returns

Next Steps and Closing Remarks

- Support from the GO Lab
 - Advice surgeries
 - Access information and resources
 - Events and webinars
- Support available from others
 - Centre for Social Impact Bonds
 - Good Finance
 - BLF directories of SIB investment funds and advisors
- Looking to develop a peer network – follow-up sent by Norfolk County Council