

How Social Investment makes a SIB a SIB

Summary Notes

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Welcome Remarks

Mara Airoidi, GO Lab Director

- Overview of the role and mission of the GO Lab
- Core priorities and areas of work
- Range of support available to commissioners, including numerous resources on the GO Lab website: commissioners' journey, 'how to' guides, projects database etc.
- Upcoming webinar on Procurement for SIBs on 06 March 2018 – registration on GO Lab website

Defining SIBs: what are they and what their benefits might be

Andreea Anastasiu, GO Lab Associate

High level timeline of key landmarks within the UK

- Adoption of New Public Management
- Shift toward a 'business-like' government
 - Role of state changes in service provision

Commissioning landscape

- Devolution; cross-sector partnerships; non-profit providers; shift from fee-for-service; political support for SIBs
- SIBs as sweet spot between three broad trends

Number of UK SIBs over time & main policy areas

- UK Govt Outcomes Funds
 - Rate cards vs bespoke outcomes frameworks

Slido poll

In the room, what was the primary driver for exploring a SIB?

- 29% A preventative approach that wouldn't otherwise get funded
- 21% Testing innovative programs

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

Nigel Ball, GO Lab Deputy Director & Head of Commissioning Support

Outcomes based contract transfers risk from commissioner to provider

- SIB transfers risk further from service provider to the investor
 - Typically a social investor in the UK
- Today, want to explore benefits of sharing risk further with social investor
 - As commissioner, why do we even care?

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 a bad SIB 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

Lessons learned:

- Basics: make sure SIB is best method of delivery; ensure goals are clearly expressed and shared; ensure stakeholder roles are clear
- Technical: plan early for burden of data collection; clearly define cohort/eligibility requirements; emphasis on curtailing perverse incentives; ensure outcomes and payment mechanisms are clear
- Nature of relationship: funding should be suitably flexible, cooperation and partnership essential, shared learning is important benefit

Mark Lovell, The Social Assistance Partnership, Principal

PbR can work well when:

- Service model well understood by commissioner and provider
- Both parties have strong grasp of pricing and cost of service
- Better performance is required from existing services
- Providers have capability to adapt to contract model
- Strong systems 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
- Financial model not well understood
- Services need to be adjusted over contract term
- New data sets need to be established to support intervention
- New sources of finance needed in addition to new approaches

Potential benefits of SIB approach:

- Risk share
- Supportive service iteration
- Codesign solution
- Partner based contract
- Data, KPI and analytics
- Expand pool of bidders
- Intelligent financing
- Governance
- Follow on investing
- Align incentives to improve
- Performance management
- Cash-flow aligns to service triggers

Impact of wrong type of finance?

- PbR contracts have challenges when used on innovative new services for groups with complex challenges
 - Can drive perverse responses
 - Service providers need to get bank loan
 - If performance lags → bank pressures finance terms → Costs are cut → spiral decline

Raising mainstream finance with PbR

- Mainstream financiers often consider:
 - New service, innovation and scaling
 - New form of PbR contract

- Cash reserves from provider (often low)
- Experience of provider in similar projects
- As result amount willing to lend decreases

Alternatively, well designed SIBs can drive different behaviors in event of performance challenges

- Financier is closer to performance data, can be more flexible
- Incentives to introduce new services/additional investment/performance management if performance lags

What can social investor bring?

- Expert networks, knowledge/best practice transfer, program management, service design, governance model, follow on investment

Questions from the audience

Question: How “grass-roots” are SIBs?

Answer: Struck by lack of user voice and choice in SIBs to date. Not inevitable part of the process, it can be incorporated in to design.

Question: Is a social enterprise a more attractive vehicle as SIB provider than private sector business?

Answer: Depends on how much value is placed on mission drive. If need for trust-based relationship, may be directed toward more nonprofit providers. If very tight contract, may be more agnostic

Investor case study: Bridges Fund Management

Andrew Levitt, Bridges Fund Management, Partner

Why use a social outcomes contract to deliver a project?

- Launch a new service – and only pay for what works
- Drive better outcomes form your existing services
- Coordinate with other departments (or outcome payers) to contribute to payments for outcomes successfully achieved

Why raise dedicated project financing using a SIB:

- Social outcomes contracts (PbR) 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

- When don't reach outcomes, default on loan, and have to cut costs → results in cutting costs for those who are unsure of
- 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
 - Investors in SIBs only really looking for low single digits rates of return, at best
- 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
- Case Study: Homelessness with Fusion Housing
 - Wouldn't have been able to bid for PbR run by DCLG (very small)
 - First six months harder than thought; so worked alongside delivery partner to help them make changes
 - Drove a load of improvements on how they managed the team
- Case study: West London Zone
 - Example of enabling co-ordination with other departments/outcome payers
 - WLZ is consortium of outcome payers – each one pays for about 25% of the total cost; then WLZ coordinates delivery and drives performance
- Case study: Social prescribing in Newcastle
 - Health commissioners starting to copy previous SIBs which demonstrate results
 - Forecast 11m pounds saving for NHS; two more projects launching soon

What's the cost of social investment?

- In theory, cost should be nothing
 - If investors trying to make a profit, not doing SIBs
 - Paying back with rate of inflation is cheaper than borrowing commercially
- Base case zero
 - Should be able to price a SIB so cost per outcome is always less than what paying otherwise

Questions from the audience

Question: Some of the programmes would be cost-effective for commissioners to provide themselves. Do you see SIB projects turning in to in-house after success?

Answer: In some cases, projects do stack up for commissioners on their own. Example of Birmingham. In health it's much harder. NHS savings, but individual CCG would struggle to pay from savings. Individual commissioners often need some help, because they can't afford it otherwise. In Birmingham, reason it's working is because there are powerful incentives to make it work. They recognized that if they brought it in house, performance may go back down. For Fusion Housing, still feel they have loads of improvements to do. Arguably could bring it in house, but still need to incentivize performance.

Question: *Is there any analysis done on what cost savings look like? Social value of actually getting people together is what I feel like is worth investing in.*

Answer: Often some analysis of the broader benefits, but it is harder to measure. In Ways to Wellness, tried to do broader benefit analysis. Attempting to track cohort now. Getting all of data, building it out, and getting people to pay attention to that – not yet there.

Investor case study: Big Issue Invest

Katy Pillai, Big Issue Invest, Investment Director

About Big Issue Invest

- Advises over £150m of social impact investment funds in the UK
- Social impact advisor for the Threadneedle Social Impact Bund Fund and an equity social impact fund
- Since 2005, provide different types of investments at different scales → Facilitator of social investment
- Launched Outcomes Investment Fund May 2017

Frequently asked questions

- Where does your money come from?
- When do SIBs work well, or not?
- Do we need to use an SPV?
- As long as you get your money back, do you care about the social impact?
- How much evidence is needed?
- Do we need third party performance management?

Outcomes-based funding approaches

- Choosing between fee-for-service, payment by results, outcome-based
- 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, or none of the outcomes risk?
- Does the value of risk transfer exceed the cost?

Key Ingredients for a successful SIB

- Suitable application of the model

- Target social returns
- Partnership working
- Financial viability
- Scope for continuous improvement
- Capacity building impact
- Addressing underlying challenges
- Post-contract legacy

Case Study: Fair Chance Fund

- SIBs supported by DCLG to support young homeless people; BII invested in 4 SIBs
- Having different providers working with same contract, allows you to understand how to flex the model
- Very different interventions and providers, but similar trajectories
- Takes a bit of time to get it right when switching to working for outcomes
- Make sure intermediary and investor roles are clear
- A lot of organizations need a lot of support in the start, but can move away as contract continues

Case Study: Changing Lives

- SIBs supported by DCLG to work with entrenched rough sleeps
- Local context was important – more opportunity for follow-on funding if effective
- Built on and improved previous outcome funds

Case Study: Mental Health and Employment Partnership

- Designed to support individuals with mental health issues in to work
- Locally co-commissioned contracts
- Important to distinguish between finance intermediation and organization intermediation
 - Brining in people with operational expertise made a big difference for improving performance

What is role of social investor?

- It's very flexible
- Commissioners/providers get foundations right – cohort, problem, intervention, etc. and investors wrap around that

Questions from the audience

Question: *We're in the process of developing our feasibility study in our Local Authority. Sounds like could have investor/provider/feasibility conversations in parallel. What would your advice be?*

Answer: Important to involve different stakeholder groups early. Don't have to commit to anything. Early discussions are important because they will inform feasibility. That said,

those conversations are most helpful when there are some specifics around the problem trying to address.

The cost and risk of social investment

Neil Stanworth, ATQ Consultants, Director

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

Key questions for commissioners

- What are the likely costs of investment?
- What other costs might there be?
- How can you influence and potentially reduce these costs?
- Will it be worth it?

Target investor returns

- Huge range of returns that investors are targeting, from 0-12%
- Cluster around 5% (Big Society Capital)
- Investor returns are not fixed in a SIB
 - Investor only makes a return if perform above target outcomes

Comparative costs of different options

- In-house service: total cost is fixed even if service fails
- Fee for service: total cost fixed even if service fails
- PbR contract: total cost varies by level of success
- SIB type contract: total cost varies by level of success

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

Risks/issues for providers

- Competing to be selected provider
- Increased management and scrutiny from investor or performance manager
- Payment could be linked to outputs (referrals, engagement, completion)
- Unsuccessful providers can be replaced
- Do you want skin the game?

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

Questions from the audience

Question: If all goes well it's win-win-win. What actually happens if all goes wrong?

Answer: In a SIB, because there is a lot of performance management, you can see when things are starting to go wrong. Action is taken and everyone works to improve it. There are examples of SIBs that have failed – Riker's Island in the U.S. In Birmingham, we (Bridges) invested significant amounts of money when it started to go wrong and it ended up working. But sometimes we invest money and it doesn't work. In the adoption SIB, things changed in the policy space so the number of referrals went down. Investors will probably lose around half the money that went in – but that's the risk investors take.

Evaluation of Step Down – From residential to foster care

Judy Sebba, Rees Centre, Oxford University, Director

Birmingham City's Step Down SIB

Moving from residential care to foster care

- Very difficult population to work with, would never expect 100% success rate
- Program aimed to achieve placement stability, better outcomes, and cost benefit (of foster care compared to residential)
- Planning process is absolutely crucial, can't be sped up (6 weeks, pre-placement)

Evaluation included:

- Quantitative data: 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, mentors

Results:

- On average across the first three years, 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 frequency of engagement in positive activities increases markedly immediately after starting but not always maintained
- Cost savings very encouraging

Recommendations:

- Planning state:
 - Promote opportunities for verbal transfer of information during the planning stage and ensure 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.
- During the placement
 - When placement moves happen, ensure new carers are fully informed
 - Ensure any new social workers are well informed
 - Make sure understanding of mentor role is consistent across professionals
 - Clear guidance needed about involvement of young people in progress meetings
 - More emphasis needed on how schools might be more engaged
 - Teams should consider whether they can use progress meetings more proactively
- Following the placement
 - Agree any ongoing support package well before the 52 weeks of placement is reached.

Questions from the audience

Question: *Given the evidence presented, do you think there would be opportunity for systemic change? Because that's what seems to need to happen.*

Answer: We need to identify what we mean by systemic change. Will it import to other areas? Yes. Will it continue in Birmingham? Hopefully we work towards running out of children in need. Systemic change to me involves a different approach to the whole service, and this is still specialized. Not sure how much it's influencing the wider

Birmingham service. The evidence is helping the process of getting this approach out there more nationally.

Question: Did the police have a role to play in this?

Answer: The best example of how police work with other services is in North Yorkshire, example of police engagement. More can be done for police engagement with this project, so far has been limited.

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

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

Key procurement challenges for SIBs

- 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
- Knowing how and when to engage social investors

Different contract mechanisms Contract Mechanism 1: two contracts, one between commissioner and provider, and one between provider and investor

Contract Mechanism 2: two contracts, one between commissioner and investor, and one between investor and provider

Mara Airoidi, Katy Pillai, Andrew Levitt, Ben Jupp – Panel Discussion

Andrew Levitt

- Lots of examples of different ways of doing this
- Sometimes intermediary organisation rises up to coordinate among all parties, would love to see that all over the country, but it's quite hard
- If commissioner wants a consortium and no intermediary – can work with investor to create it

Katy Pillai

- Understand what you think the service is more likely to look like and what trying to commit to it, before commit to particular route
 - Needs customization vs. service already been delivered
- All the tools are already there in legislation, in this way can stick to the basics
- What you're probably looking for is someone with accountability, willingness, etc. → don't build in artificial stringent requirements (investors themselves probably wouldn't put in a bid, for example)

Ben Jupp

- Have to procure these through dialogue, and get to stage of collaboration
- Combination of money, drive, and support are what's important for a lot of these projects
- Procurements can fail because no dialogue between the parties – reach a preferred investor/provider and then do another stage of development

Mara Airoidi

- In speaking to commissioners, engaging in a SIB has to be an opportunity to build capability and capacity
 - Investors/intermediaries bring a lot to the table – take that opportunity to learn the trade, spillover to other domains
- One of difficulties is it's counter-cultural – paying only for outcomes is v different from what Local Authorities tend to do
- Don't leave it too late to bring investor to table

Questions from the audience

Question: A lot of procurement expertise is cut/outsourced in age of austerity, which makes this process more difficult. Are there cases with large changes in personnel?

Answer: Lots of experiences with this. Advice would be to institutionalise the process – don't only have contacts with one person. Sometimes procurement officials are hesitant to be challenged, getting someone who's done it before involved could be good.

Question: What impact does the Social Value Act have on SIB discussions?

Answer: Social Value Act mandates that commissioners must take in to account most economically advantageous tender – you can't just take in to account cost, have to think about impact. We've helped commissioners draft a few questions in their procurement process that can help gauge scalability, ethos, etc.

Question: For procurements that have been legally challenged, what was the challenge around?

Answer: First, the provider got the development grant and had worked closely with the commissioner/had understood from the commissioner that they could later bid in to process. Secondly, we linked up with this same provider that had been involved in the process. Some other providers didn't feel that they had a fair chance had it. In another case, it ended up working out, but process took six extra months because commissioner had provider involved in feasibility work. Then when wanted to test market, not sure what procurement ground they were on. There was no dialogue in process, eventually it went through and ruled the bid was non-compliant. But went forward afterward more negotiations.

Closing remarks

- Support from the GO Lab
 - Advice surgeries
 - Access information and resources through the website (golab.bsg.ox.ac.uk)
 - Events and webinars
 - Procurement Webinar coming up
- Support available from others
 - Centre for Social Impact Bonds
 - Good Finance
 - BLF directories of SIB investment funds and advisors