# Social Impact Bonds: The State of Play

## Full Report

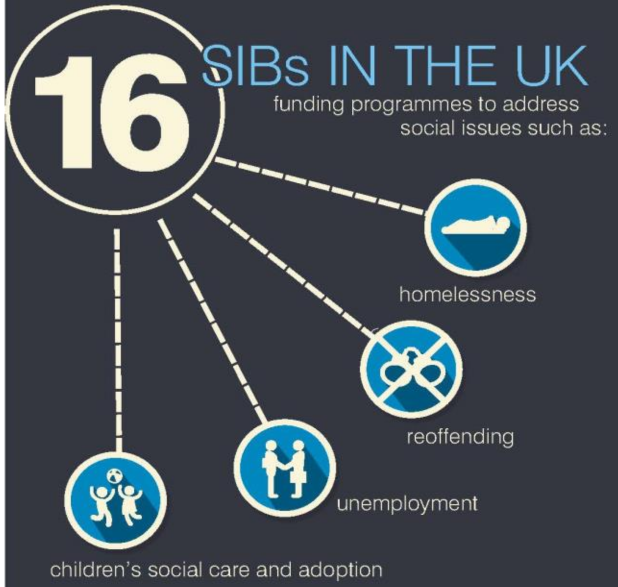
James Ronicle, Neil Stanworth, Edward Hickman and Tim Fox
**November 2014**

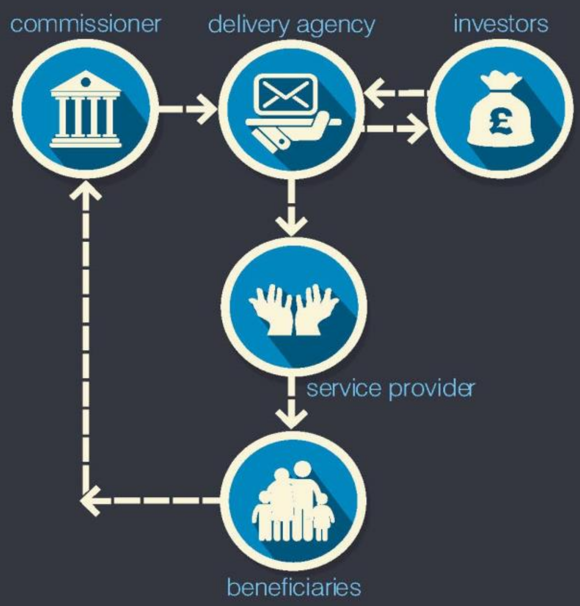
Commissioning Better Outcomes Evaluation

# SOCIAL IMPACT BONDS ...The state of play

## 1 What is a Social Impact Bond (SIB)?

A form of payment by results (PbR) contract: The commissioner pays for the outcomes achieved, not for the interventions made. The working capital needed to fund the intervention comes from external investors who receive a return on their investment if the intervention is successful.




Adapted from the Cabinet Office Centre for SIBs Knowledge Box:
http://data.gov.uk/sib_knowledge_box/sib-definition

### Peterborough Prison SIB (first in UK)

has reduced re-offending rate by

**8.4%**

compared to comparison group

### Key Tools to Help with SIB Development

| |
|---|
| BSC's Outcomes Matrix |
| HM Government/New Economy Unit Cost Database |
| Cabinet Office template SIB Contract |
| Support from external consultants |


This infographic was published on 17 November 2014 and produced by Ecorys UK and ATQ Consultants as part of the Commissioning Better Outcomes Fund Evaluation.
To read the full report from which the findings have been taken visit: http://www.biglotteryfund.org.uk/sioutcomesfunds. For more information about the evaluation contact: James.Ronicle@uk.ecorys.com
The Stakeholders' perceptions of SIBs' information was drawn from our Stakeholder Surveys, undertaken as part of the evaluation. We surveyed 19 investors, 24 commissioners and 49 service providers involved in, or interested in, SIBs.


Commissioning Better Outcomes Evaluation

# 2 Stakeholders' Perceptions of SIBs: The Benefits and Challenges

Most stakeholders involved in SIBs had a positive experience (especially service providers).

## KEY BENEFITS

- Better **contract management**
- Better alignment of **financial and social** returns
- Greater level of **impact** with beneficiaries
- More **outcomes-focused culture** in service provider
- Additional **investment**
- More **innovative** service delivery

Most stakeholders are likely to be involved in SIBs again

## MAIN CHALLENGES

- Commissioners and service providers **don't understand the role of investors or intermediaries**
- Service providers **struggle to generate evidence** that convincingly demonstrates to commissioners and investors that their interventions are successful
- £1m — **Scale** of SIB needs to be large to justify resources
- Agreeing **contracts** to suit all parties

This infographic was published on 17 November 2014 and produced by Ecorys UK and ATQ Consultants as part of the Commissioning Better Outcomes Fund Evaluation.
To read the full report from which the findings have been taken visit: http://www.biglotteryfund.org.uk/sioutcomesfunds. For more information about the evaluation contact: James.Ronicle@uk.ecorys.com
The 'Stakeholders' perceptions of SIBs' information was drawn from our Stakeholder Surveys, undertaken as part of the evaluation. We surveyed 19 investors, 24 commissioners and 49 service providers involved in, or interested in, SIBs.

Commissioning Better Outcomes Evaluation

# Contents

# Executive Summary

## 1.1 Introduction

A Social Impact Bond (SIBs) is a relatively **new concept**, but one that has caused **much interest** in the UK and overseas, especially in the US. But what is a SIB? What are the benefits and challenges of being involved, and what needs to be done to grow the market? This report answers these questions.

The report draws on a review of available literature about SIBs; a series of in-depth consultations with organisations centrally involved in the policy, strategic and/or operational development of SIBs; and surveys with the core groups involved in SIBs (commissioners, investors and service providers). This research was undertaken by Ecorys UK and ATQ Consultants as a part of the Commissioning Better Outcomes Fund evaluation for the Big Lottery Fund[1].

This report, and more information about the evaluation, can be accessed at:
http://www.biglotteryfund.org.uk/sioutcomesfunds.

## 1.2 What is a SIB?

SIBs are becoming an increasingly important way of delivering services and interventions that improve outcomes for individuals and communities in both the UK and overseas. A SIB is a **type of Payment by Results (PbR) contract**, where the **finance needed to make the contract work is provided by social investors** rather than by service providers.

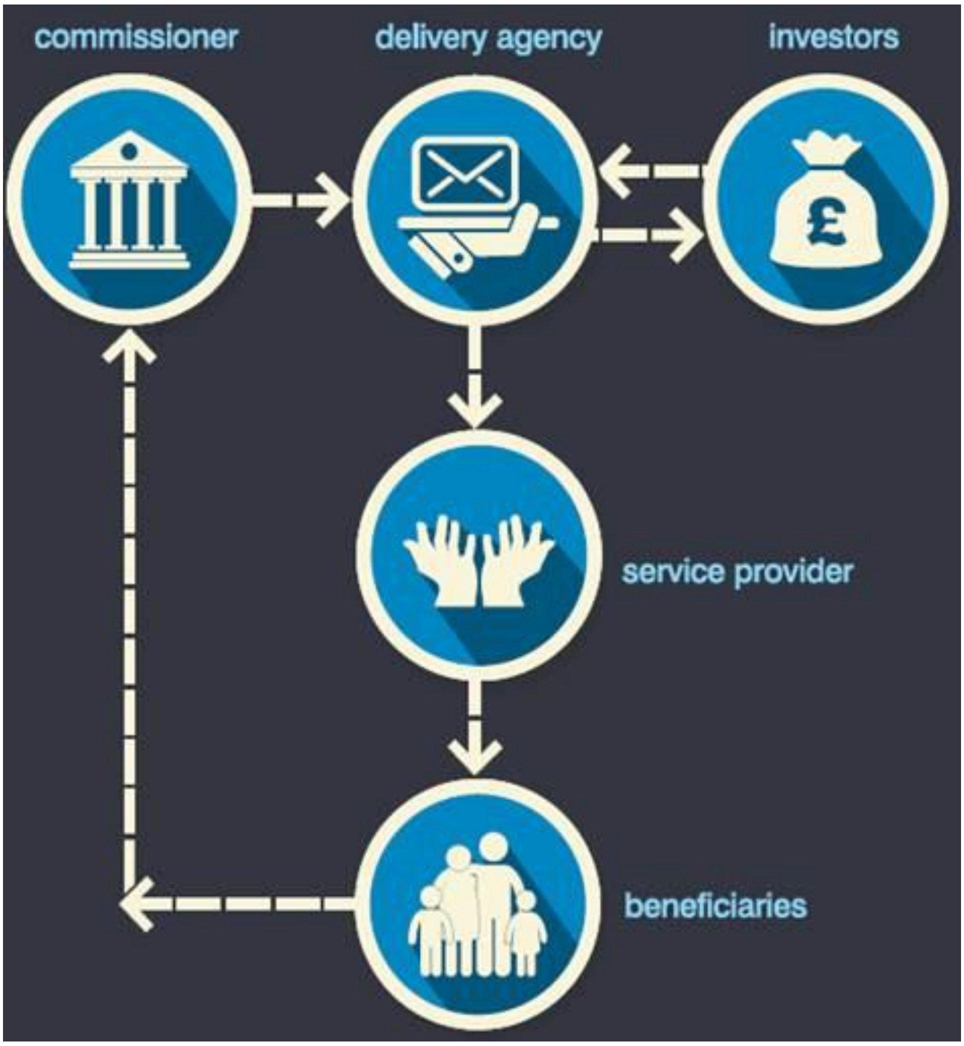
To qualify as a SIB, according to the Cabinet Office Centre for SIBs, there must be:

- A separate contract between a commissioner and a delivery agency (sometimes called a Special Purpose Vehicle (SPV);
- Payment from the commissioner for the achievement of one or more outcomes by the delivery agency;
- At least one investor legally separate from both the commissioner and the delivery agency; and
- Some or all of the financial risk of non-delivery of outcomes sitting with the investor

[1] The activities undertaken to produce the findings in this report were: Literature Review: drawing together what is already known about SIBs to fully understand both the national and international development of SIBs as well as understand the current evidence base for SIBs and extent of their impact. The review covered all literature published up to 20 June 2014. In addition, two important evaluations of SIBs published later in Summer 2014 were also included; Stakeholder Consultations: telephone and face-to-face consultations with eight organisations centrally involved in the policy development, strategic development and operational delivery of SIBs in the UK; and Stakeholder Surveys: a tele-survey with 19 investors and e-surveys with 24 commissioners and 49 service providers either involved in or very informed about the SIB agenda. For more information about the evaluation contact: James.Ronicle@uk.ecorys.com

A simplified example of one type of SIB structure is shown in Figure 1. However our research shows that **SIBs can take a number of forms** while meeting the definitions outlined above, and new structures are emerging as the SIB concept develops.

**Figure 1: Example SIB Structure**




*Adapted from the Cabinet Office*
*Centre for SIBs Knowledge Box*

## 1.3 SIBs Today: Evidence from the Literature

At the end of October 2014 there were **16 'live' SIBs** in the UK. The first SIB started in 2010 and funded interventions to **reduce reoffending by short sentence prisoners from** Peterborough prison. Both government and other bodies have contributed to the development of the SIB concept (see Box 1).

In addition to Peterborough, **10 of the 16 SIBs now in place were commissioned by the Department of Work and Pensions** (DWP) though its Innovation Fund. The others are the London Rough Sleepers Bond, bonds developed and commissioned by Essex, Manchester and Birmingham Councils aimed at children in or on the edge of local authority care, and the Adoption Bond, which has been developed by a consortium of adoption providers.

**More SIBs are known to be in development**, and will be encouraged by funding from the Commissioning Better Outcomes (CBO) Fund (see Box 2). Two new central government funds, the Youth Engagement Fund and Fair Chance Fund, will create further SIBs and SIB-like structures aimed respectively at disadvantaged young people and young people who are homeless.

These SIBs follow a range of different models, and further and different structures are likely to emerge. Most are variants on a model where the structure is developed by one or more commissioner(s) or by an intermediary who is engaged by a commissioner (either before or after a procurement process). The Adoption Bond is different to all other current SIBs, in that it was developed by service providers and the outcomes it aims to achieve, based on the faster and better adopting of children in care, can be 'spot purchased' by any commissioner.

These SIBs are being delivered by a range of service providers and are supported by a number of social investors including both Foundations and Trusts with a long history of grant giving to achieve social change, and specialist fund managers. Notable investors include Big Society Capital (BSC) which has invested in seven SIBs, and Bridges Ventures (a specialist fund manager) which has invested in seven and has established the Social Impact Bond Fund specifically to invest in SIBs.

### Box 1: Key milestones in SIB development

- **February 2011:** SIBs feature in the government's initial strategy for **Growing the Social Investment Market**
- **May 2011:** launch of first of two DWP Innovation Funds to support social investment projects for disadvantaged young people
- **November 2011:** Big Lottery Fund announces funding of up to £6m though its **Next Steps** Programme for social investment projects in England, including SIBs and SIB-like projects
- **April 2012:** Launch of Big Society Capital (BSC) with a specific mission to grow the social investment market, including by investing in SIBs
- **June 2013:** first awards of funding from the Cabinet Office **Social Outcomes Fund**
- **July 2013:** Big Lottery Fund announce the launch of the Commissioning Better Outcomes (CBO) Fund and its alignment with the Social Outcomes Fund

### Box 2: The Commissioning Better Outcomes (CBO) Fund

The CBO Fund is funded by the Big Lottery Fund, with a mission to support the development of more SIBs in England. It is operating alongside the Cabinet Office's Social Outcomes Fund. Between them these funds are making up to £60m available to pay for a proportion of outcomes payments for these types of models in complex policy areas, as well as support to develop robust proposals for the funds.

As at 30 September the CBO Fund had approved 19 EOIs and five Development Grants, to support areas in developing their full application for the CBO Fund. Applications have included SIBs relating to: youth and adult employment; adults with learning disabilities; looked after children; adults with challenging behaviours; and rehabilitation services.

There were at the end of June **nine known SIBs in place overseas**, and many more in various stages of development, especially in the United States. SIBs in the US (known as Pay for Success Bonds) and in Australia (called Social Benefit Bonds) are different in financial structure to UK SIBs, and are designed to encourage institutional investment by limiting financial risk. The processes by which SIBs overseas are developed and commissioned sometimes differ significantly from those that have so far been followed in the UK.

## 1.4 The Benefits of SIBs

There are a number of **significant benefits** to be gained from SIBs. An investor interviewed during the Investor Survey described them as ***"win, win, win"*** – a win for the investor, a win for the commissioner and a win for the service provider. Through our research we identified **eight main benefits**:

| Stakeholder | Benefit | Reason for Benefit |
|---|---|---|
| All stakeholders (commissioners, investors and service providers) | **More innovative and flexible service delivery** | SIB contracts focus on outcomes, not outputs, and so they tend to be less prescriptive about the support the service provider has to deliver. This enables service providers to be more innovative in the support they provide and adapt the support more easily. Commissioners can also test new interventions at minimum risk, as there is little or no payment unless the intervention succeeds. |
| | **Better contract management, creating more efficient delivery** | This is linked to the requirement to evidence outcomes to trigger payments. Where applicable, this was reinforced by the contract management oversight operating in the SPV. |
| | **Alignment of interests between commissioners, service providers and investors** | Linking payments to outcomes leads to an interest from all parties to improve delivery and achieve better outcomes and financial returns. The close partnership can also bring together distinct expertise and addresses knowledge gaps across the partners. |
| Commissioners | **Able to bring in additional, external investment** | The investment from the investor replaces the need for the commissioner or service provider to produce up-front working capital. |
| | **Potential savings to current budgets, both cashable and non-cashable** | It is possible that the outcomes achieved by the SIB could prevent the need for further intervention, creating a saving that can be used to fund the intervention. |
| Investors | **Better alignment of financial and social returns** | Investors are able to achieve social outcomes and receive a return on their investment. This was a key benefit for Foundations and Trusts to invest, who sometimes felt that investing in more traditional markets was at odds with their social objectives. |
| Service providers | **Enables smaller service providers to participate in PbR contracts** | Smaller service providers can be excluded from traditional PbR contracts because they do not have the working capital to fund an intervention or are unable to take the necessary financial risks. In a SIB the investor provides the up-front capital and takes on some or all the financial risk. |
| | **Embeds more outcomes-focused culture** | The focus on evidencing outcomes to trigger payments improves services providers' ability to demonstrate their impact. |

Although there were a common set of main benefits, our research highlighted how **diverse the wants and needs of those involved in SIBs** are. For example, stakeholders are motivated to become involved for different reasons: different people experience a variety of different benefits and face a range of challenges; whilst different people are willing to take on different levels of risk.

A number of tools have been developed by government and others to help support SIB development, including:

- BSC's Outcomes Matrix;
- HM Government/New Economy Unit Cost Database; and
- Cabinet Office Knowledge Box and template SIB Contract

## 1.5 The Challenges of SIBs

While, those surveyed saw more benefits from being involved in SIBs than challenges, both the literature and our surveys identified nine **key challenges that seem to be impeding SIB development**. Some of these reflect the wider challenge compared to conventional contracts of **understanding and involving the third, 'new' group to the relationship – the investor** (and, to a lesser extent, intermediaries).

| Stakeholder | Challenge | Reason for Challenge |
|---|---|---|
| All stakeholders (commissioners, investors and service providers) | **Achieving right balance of risk** | Partly because SIBs are in their infancy, there has sometimes been too much, or too little, transfer of risk to investors. Too much risk transfer deters investors; too little removes many of the benefits of SIBs compared to conventional fee for service contracts. |
| | **The complexity of SIBs and consequent time and cost of development** | The complexity of SIBs to both design and manage was identified as a key theme in the literature and among investors surveyed, though less so by commissioners and service providers surveyed. This can lead to them taking too long to put in place, or never getting past the design stage as other events intervene. It also drives arguments that SIBs must have a certain scale (typically £1m or more) to justify transaction costs; and that there should be more provider-led or spot purchase SIBs, which make it easier .for commissioners to purchase outcomes and benefit from SIBs without major development effort and cost. |
| | **Generating evidence and measuring impact** | When bidding for SIB contracts, service providers struggle to generate evidence that demonstrates the effectiveness of their interventions to investors and commissioners. When delivering SIB contracts, service providers also struggle to evidence the outcomes they are achieving and to ensure they are independently and objectively verified. |

| Stakeholder | Challenge | Reason for Challenge |
|---|---|---|
| Commissioners | **Developing the business and financial case for the SIB** | The business case depends on financial benefits to the commissioner and others, which are hard to identify and calculate. It also depends on good answers to complex questions about such issues as how interventions are prescribed, how success is measured, and how the SIB is structured and procured. |
| | **Agreeing contracts to suit all parties** | This is a challenge for all parties, but especially for commissioners who need to set outcomes and metrics that suit all stakeholders. Commissioners need metrics that reflect the benefits of change and avoid perverse incentives; investors need metrics that they can easily measure and assess for achievement risk; and service providers need metrics that they can evidence. |
| Investors | **Managing and measuring progress in achieving outcomes** | Investors need specialist help to manage their investments and ensure that providers are delivering outcomes, and are thus on track to deliver the social and financial returns expected. |
| | **Policy uncertainty** | Some investors observed that national and local policy changes (such as changes to the GCSE marking system) could affect outcome metrics, and ultimately impact on the potential to achieve outcomes and payments. |
| Service providers | **Developing the capabilities to work within a SIB model** | Operating in a SIB model requires different skills and more flexibility than conventional delivery. |
| | **Financial risk** | Perhaps surprisingly, a quarter of service providers not yet involved in a SIB cited financial risk as a challenge to getting involved. This could suggest a misunderstanding of how SIBs work, or the fact that some SIB models do leave some risk with the service provider. |

Some of these challenges (achieving the scale of SIB necessary to justify the resources, financial risk and generating evidence) are perhaps a **counter-argument to the point made in many SIB documents to date that SIBs can enable smaller Voluntary, Community and Social Enterprise organisations (VCSEs) to participate in PbR contracts**. We will explore this paradox further in our future research.

## 1.6 Are SIBs Effective?

Independent evidence on the effectiveness of SIBs is relatively **limited**, but what has been published is **encouraging**. Most notably, the first results of the independent assessment of Peterborough (relating to the first of two cohorts, and published in early August 2014) showed that the SIB had **reduced reconviction across 936 offenders by 8.4% more than a comparison group** of ten times that number of offenders in other prisons. While below the 10% reduction level needed to trigger early payments to investors, this has been welcomed as **a positive outcome**, and likely to lead to outcome payments once performance is measured across both cohorts in 2016 (when the threshold for payments is a reduction of 7.5%).

The DWP Innovation Fund Pilots are also subject to impact evaluation which will not be available for some time, but the DWP has recently published figures showing that, in total, 10,700 young people had started participation in Innovation Fund projects up to the end of October 2013. In addition, the first process evaluation, published in July 2014, also suggests that **satisfactory progress is being made and that positive outcomes are being, or are likely to be, achieved**.

The recent interim qualitative evaluation of the London Rough Sleepers Bond shows more mixed results from its first year of operation. Across the four outcomes for which data is available, performance exceeded target on one outcome (In Stable Accommodation) and part of another (Progress Towards Employment). Performance was below target on part of the employment outcome, and on Reduced Rough Sleeping and Sustained Reconnection to Home Country

More anecdotal evidence from our surveys supported the mainly positive picture from these independent assessments. Over half of commissioners (5 out of 9) and over two thirds of services providers (6 out of 16) reported that the SIB they were involved in was leading to a **greater level of impact** with beneficiaries than would have been achieved through a different delivery model.

## 1.7 Conclusion and Implications for the Market

The SIB agenda in the UK is still in its **early stages of development**. Although the number of SIBs being developed is increasing, the evidence base supporting them is still relatively limited, particularly in terms of their effectiveness. However, the **early signs are positive**: all three members of the core groups required for a SIB to work (investors, commissioners and service providers) have had a broadly positive experience of being involved, as evidenced by both our surveys and by independent process evaluations of SIBs to date. There is also **appetite from more members of each group to get involved in further SIBs**. However, our findings do suggest that their development has been **slow and relatively complex** – particularly local SIBs outside of central government-supported programmes. **Breaking down barriers and building relationships** and links between the different groups involved in a SIB seems to be crucial to growing the SIB market. Looking at the future development of SIBs, our research tells us that:

- **Support to local SIBs is helpful and should be continued:** There seems to be a good level of awareness, usage and opinion of the support available for commissioners developing SIBs. This suggests stakeholders wishing to grow the SIB market should continue to focus on providing support to commissioners;

- **Support needs to be focused on linking together the different stakeholders making up a SIB:** There is a group of investors, commissioners and service providers, who are willing to become involved in SIBs yet are being held back because of a lack of understanding of, and communication with, each other;

- **Innovation needs to be encouraged:** This is particularly in terms of expanding the different types of SIB models and structures that could be applied;

- **Over-prescription needs to be avoided:** The wants and needs of groups getting involved in SIBs are very diverse, and there is no 'one size fits all' approach to developing and implementing a SIB. Consequently, SIB programmes should avoid being overly prescriptive, and organisations should be wary of promoting only a few SIB models.

# 1.0 Introduction

This report provides a detailed account of the current state of play of Social Impact Bonds (SIBs) in the UK. It firstly describes the evidence relating to the development and impact of SIBs, drawn from a review of available literature. It then summarises the perceptions of SIBs from the core groups involved in SIBs (commissioners, investors, service providers and key stakeholders involved in the policy and strategic development and operational delivery of SIBs). Finally, we conclude on the overall development of SIBs, the challenges inhibiting their development and offer our views on the implications of these findings for the future of SIBs.

This report has been written as part of the evaluation of the Commissioning Better Outcomes Fund (CBO Fund), undertaken by Ecorys UK, in partnership with ATQ Consultants. The Big Lottery Fund launched the Commissioning Better Outcomes Fund (CBO Fund) in July 2013, with the mission to support the development of more Social Impact Bonds (SIBs) in England. In January 2014 the Big Lottery Fund commissioned Ecorys UK, in partnership with ATQ Consultants, to evaluate the CBO Fund over its nine-year life. Ecorys and ATQ have undertaken a Scoping Stage to further understand the CBO Fund and the current state of play of SIBs in the UK in order to lay the foundations for the evaluation and its method.

This introductory chapter provides a policy context in relation to SIBs and their development to date, the activities undertaken to prepare for this report, presents an overview of the CBO Fund and summarises the CBO Evaluation and Learning Contract.

## 1.1 Introduction to SIBs

SIBs are becoming an increasingly important way of delivering services and interventions that improve outcomes for individuals and communities in both the UK and overseas. A SIB is a type of payment by results (PbR) contract where the finance needed to make the contract work is provided by social investors, rather than by service providers. The commissioner pays the investor a sum for any social outcomes achieved, possibly generating a return for the investor. If outcomes do not improve, then the investor does not recover their investment.

The first SIB was announced in March 2010 and started in September 2010, and funded interventions to reduce reoffending by short sentence prisoners from Peterborough prison. Since the launch of the Peterborough SIB there have been a number of initiatives which have led to the growth of the SIB market, including the DWP Innovation Fund and the Cabinet Office Social Outcomes Fund.

At the end of June 2014 there were 15 'live' SIBs in the UK and a further nine overseas.

See Chapter 2 (Introducing SIBs: Evidence from Available Literature) for more information on the SIB policy context.

## 1.2 Activities Undertaken for this Report

The activities undertaken to produce the findings in this report were:

- **Literature Review:** Drawing together what is already known about SIBs to fully understand both the national and international development of SIBs as well as understand the current evidence base for SIBs and extent of their impact;
- **Stakeholder Consultations:** Telephone and face-to-face consultations with eight organisations centrally involved in the policy development, strategic development and operational delivery of SIBs in England. This was to understand the wider SIB context; and
- **Stakeholder Surveys:** A tele-survey with investors and e-surveys with commissioners and service providers either involved in or very informed about the SIB agenda. These surveys helped establish baseline perceptions of SIBs, including stakeholders' knowledge and experience of SIBs.

## 1.3 Commissioning Better Outcomes Evaluation and Learning Contract

### 1.3.1 Commissioning Better Outcomes Fund

The CBO Fund is funded by the Big Lottery Fund, with a mission to support the development of more Social Impact Bonds (SIBs) in England. It is operating alongside the Cabinet Office's Social Outcomes Fund. Between them these funds are making up to £60m available to pay for a proportion of outcomes payments for these types of models in complex policy areas, as well as support to develop robust proposals for the funds.

The shared overarching aim of the two funds is to grow the market in SIBs, while each fund has a specific focus that reflects the missions of the Big Lottery Fund and Cabinet Office. The mission of the Big Lottery Fund is to enable more people, particularly those most in need, to lead fulfilling lives, in enriching places and as part of successful communities. The mission of the Cabinet Office is to catalyse and test innovative approaches to tackling complex issues using outcomes-based commissioning.

As at 30 September the CBO Fund had approved 19 EOIs and five Development Grants, to support areas in developing their full application for the CBO Fund. Applications have included SIBs relating to:

- Youth and adult employment;
- Adults with learning disabilities;
- Looked after children;
- Adults with challenging behaviours; and
- Rehabilitation services.

The five Development Grants have been awarded to the following organisations:

- **Ways to Wellness:** £150,000 has been awarded to help develop an £8.4m SIB with Newcastle West Clinical Commissioning Group (CCG) to support up to 3,700 older people with long term health conditions through social prescribing. The development grant aimed to create robust metrics and Management Information (MI) systems, obtain legal advice, secure investment and develop a service specification. Ways to Wellness and its partners also provided a £75,000 in-kind contribution to developing the SIB.
- **Worcestershire County Council**: £63,000 has been awarded to help develop a £6.1m SIB for 3,000 older people affected by loneliness and isolation. Investment raised through the SIB will fund interventions to increase social connectivity and active lifestyles. The grant will fund specialist external legal, financial and accounting support, as well as obtain independent verification of how they could measure the impact of their proposed interventions over six months.
- **Social Finance:** £148,000 has been awarded to contribute to finding better ways to support those with disabilities and long-term health conditions entering employment through a £6m SIB over three years. The development grant aims to assess the needs of potential beneficiaries, undertake a cost savings analysis, develop payment-by-results measures and develop an implementation plan over six months.
- **Evidence Based Social Impact:** £145,968 to develop a scaleable SIB model initially helping around 350 young people on the edge of care in Oxfordshire and Waltham Forest. The grant covers legal support, developing interventions, procurement processes, common costs, metrics, contracts, savings and an outcomes calculator as well as engaging with stakeholders over four months.
- **Sandwell:** £147,800 to develop dedicated End of Life Care services through a £3m three year SIB. The technical support includes pre-procurement, metrics, baseline and commissioning work to launch a five year £4.476m SIB aimed at implementing a new model of care to improve the experience and quality of care to 3,000 beneficiaries approaching the end of their lives in the West Midlands.

For more information on the CBO Fund visit: http://www.biglotteryfund.org.uk/sioutcomesfunds

### 1.3.2 CBO Evaluation Aims and Objectives

The aim of the evaluation is to improve the understanding of the SIB model, by capturing learning at all stages of the development process and building an evidence base for the SIB model and its application in different contexts. In summary, the contract can be divided into two parts: delivering a robust evaluation that demonstrates the evidence of SIBs and highlights good practice; and disseminating the learning from this evaluation through a range of outputs and sharing processes. The evaluation is also being undertaken throughout the nine-year life of the CBO Fund in order to ensure that learning from the evaluation process is fed into the continuous improvement of the fund, its processes and its impact.

The evaluation includes both a process and impact evaluation:

- **Process Evaluation:** Creating an understanding of the processes relating to developing and setting up SIBs which the CBO Fund has adopted;
- **Impact Evaluation:** Tracking, evidencing and understanding the impact of the SIBs supported through the CBO Fund, including the impact on service delivery, outcomes and financial generation and savings. We will also explore how this varies between different models and approaches, including an overall cost-benefit analysis.

### 1.3.3 Key Focus for the Evaluation

The overall focus for the evaluation is summarised at high level in **Figure 1.1** and described in more detail below. As **Figure 1.1** shows, our evaluation will aim to focus on addressing key questions at both project and programme level:

At project level:

- What decisions were made and why, at each stage of the development of the SIB and, where appropriate, its subsequent implementation during the mature phase?
- What has been the impact of the SIBs under development on key stakeholders, and how has impact differed both between SIBs and between individual stakeholders?

At programme level:

- To what extent has the CBO Fund had an impact on wider perceptions and the acceptance of SIBs as an effective way of delivering public services?
- How have different approaches to SIBs, and SIBs focused on different services and outcomes, had different results and levels of impact on each stakeholder group?

All the findings from the evaluation will feed into the dissemination and learning strand, which will also take account of the differing needs and wants of key stakeholders.

As **Figure 1.1** also shows, all aspects of the evaluation will focus on four key groups of stakeholders:

- **Commissioners:** The public sector bodies that initiate, design and commission a SIB (either alone or in partnership) and are the direct recipients of support from the CBO Fund;
- **Investors:** The organisations that invest in the SIB on the basis that they will receive an agreed financial return if outcomes are achieved;
- **Service providers:** The VCSE or private sector organisations that deliver services or interventions funded by the SIB in order to achieve outcomes; and
- **Beneficiaries:** The individuals or other service recipients (for example families) who benefit from the interventions or services provided and, ultimately, from improved outcomes.

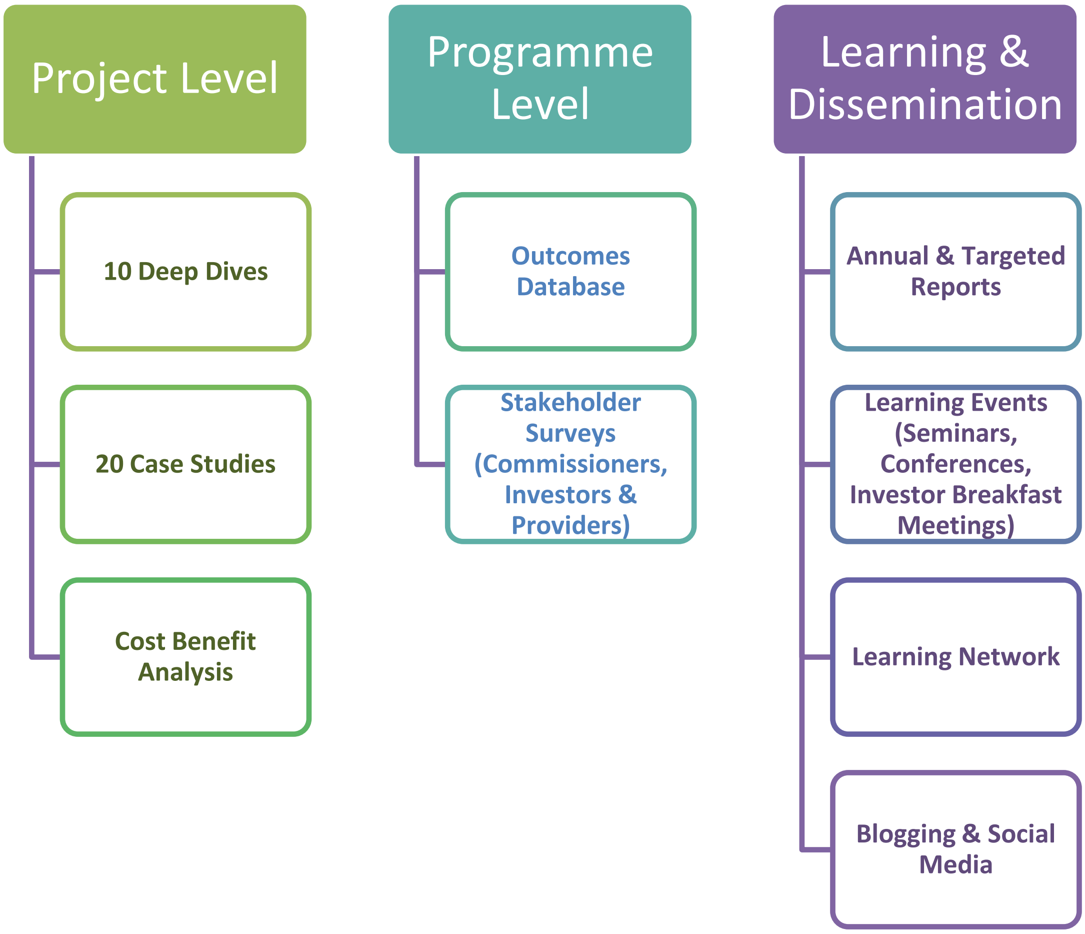
#### Figure 1.1  Key Focus of the Evaluation

| | Project level assessment | | Programme level assessment | | Learning and dissemination – examples |
|---|---|---|---|---|---|
| | Process evaluation | Impact evaluation | Impact on perception of SIBs | How impact/ effectiveness varies | |
| **Commissioners** | How was the SIB developed in terms of model, outcomes, metrics and payment? | Did the SIB deliver the outcomes and financial benefits expected? | Are there more SIBs across more services. Are SIBs widely accepted? | By choice of SIB variant , service, outcome and scale of SIB | Guidance on the optimum design of SIB for maximum effectiveness and value for money |
| **Investors** | How and when were investors engaged and was risk transfer appropriate? | Did the SIB deliver the social and financial returns forecast? | Have more investors entered the SIB market? Is a new asset class emerging | By SIB model, method of investment and source of funding | Summary evidence of effectiveness across different services and interventions |
| **Service providers** | How were service providers engaged and commissioned? | Were they able to deliver more effective and innovative services? | Are more service providers able to compete for SIBs as prime and sub-contractors? | By type of deliverer and whether in consortium or single provider | Guidance on the capacity and capability service providers need to engage in SIB delivery |
| **Beneficiaries** | What was their involvement in and experience of the process? | Was their greater impact and benefit as a result of the SIB? | Do SIBs have wider acceptance among users & practitioners? | By scale of impact sought and achieved, by single or multiple beneficiary | Information on the benefits and potential drawbacks of SIBs for service users |

### 1.3.4 Evaluation Methodology

Our methodology for evaluating the CBO Fund is summarised in **Figure 1.2** and detailed below.

**Figure 1.2 Method Overview**




At a project level, activities will be as follows:

- **10 'Deep Dives:** Providing a robust process and impact evaluation for 10 of the SIBs funded by CBO;
- **20 case studies:** Each focusing in depth on a different 'critical point' within the delivery of a SIB; and
- **Cost Benefit Analysis:** To estimate the net costs (including transaction costs[2]) and benefits incurred by society from the intervention funded by the SIB.

[2] Transaction costs are defined by the OECD (http://stats.oecd.org/glossary/detail.asp?ID=3324 ) as 'the costs involved in market exchange. These include the costs of discovering market prices and the costs of writing and enforcing contracts'. For the purposes of this report transaction costs means all the costs relating to the development and implementation of a SIB including "opportunity costs" relating to the time of those involved in the process. Transaction costs will thus include the direct costs of any paid advisors, of any charges incurred in e.g. company formation and the equivalent costs of any time incurred by commissioners etc.

At a programme level, activities will be as follows:

- **Outcomes database:** Collating the outcomes data from all SIBs funded by CBO, to provide an at-a-glance overview of all of the main outcomes attached to the CBO programme, both at the individual SIB level but also collectively at the meta level; and
- **Stakeholder surveys:** To understand the overall progress of all CBO-funded SIBs and to measure the extent to which the CBO programme has influenced stakeholders' perceptions of SIBs and their level of take-up. We will survey commissioners, investors and service providers involved in, or aware of, a wide range of SIBs.

The findings will be disseminated via:

- **Annual and targeted reports**: Annual programme-level reports, summarising the overall process and impact evaluation of CBO, documenting how this varies between SIB delivery models. Targeted Reports will be produced, tailoring the findings to the different stakeholders involved in SIB delivery (investors, commissioners and providers);
- **Learning events:** A series of face-to-face and online events, bringing together those involved in the CBO Fund and wider stakeholders to share the evaluation findings;
- **Learning network:** A series of events and communication tools between SIBs funded by CBO to share learning; and
- **Blogging and social media:** In order to share the findings with a wide range of stakeholders.

## 1.4 Structure of Report

The remainder of the report is structured as follows:

- In Chapter 2**: Introducing SIBs: Evidence from Available Literature** we report on the findings from the Literature Review, including: the history of SIBs and how they have developed; the SIBs that are currently in place and what they aim to achieve; the benefits that SIBs could offer and the challenges faced by key stakeholders in developing them successfully; and the evidence that is currently available on whether SIBs work and succeed in improving outcomes for people and communities.
- In Chapter 3**: Perceptions of SIBs: Findings from Surveys and Consultations with Stakeholders, Investors, Commissioners and Providers** we summarise the findings from the stakeholder consultations and survey results with investors, commissioners and providers, including stakeholders': awareness and understanding of SIBs; perceptions of SIBs; experience of SIBs; and knowledge of CBO Fund.
- In Chapter 4**: Typology Matrix** we provide a matrix demonstrating a set of typologies we have produced that can be used to summarise the characteristics of current SIBs. This categorises SIBs by their: main outcomes being sought; interventions funded; contracting party/delivery agency; provider type; investor type; commissioners; scale (financial); scale (size of cohort); scale (geographical coverage); contract duration; local authority type; and location.
- In Chapter 5 **Conclusions** we draw together the findings from the three surveys and the Literature Review to provide a summary of the current state of play of SIBs in the UK.

# 2.0 Introducing SIBs: Evidence from Available Literature

## 2.1 Introduction

The primary purpose of this review is to gain a full understanding of the national and international development of SIBs as well as understand the current evidence base for SIBs as an instrument of public policy and extent of their impact.

The review aims to add value to the wider community of stakeholders who are involved in the development and implementation of SIBs, by drawing together learning and information about SIBs across a wide range of sources.

Our aim will be to update the review at intervals throughout the CBO Evaluation.

We have included all references cited within the review in Annex A.

### 2.1.1 Methodology

The review was conducted by Ecorys and ATQ Consultants and covers all literature published up to 20 June 2014. In addition, three important evaluations of SIBs published later in 2014 are also included[3]. The sources included in the review were compiled initially by the review team and then shared with key stakeholders, including Big Lottery Fund, the Cabinet Office, Big Society Capital (BSC) and individuals involved in the commissioning of SIBs to date. These stakeholders added further documents to the review including some that are not publicly available.

The review covered the following sources:

- Academic articles;
- Government reports including both strategies for policy and market development and reports commissioned by government into the evaluation of SIBs;
- Government and other press notices;
- Feasibility studies into particular SIBs;
- Other reports into SIBs and their development by third parties;
- Press articles; and
- Online articles including selected blogs.

[3] These were the results of the independent assessment of Peterborough Cohort 1 (Jolliffe & Hedderman 2014, the first process evaluation of the DWP Innovation Fund SIBs (Thomas & Griffiths 2014), and the interim qualitative evaluation of the London Homelessness Bond (ICF GHK 2014)

### 2.1.2 Limitations and Exclusions

SIBs are a relatively recent development which means that there is little academic literature available and few formal evaluations of SIBs to date. Conversely there is much press and other comment on SIBs, from numerous viewpoints and both favourable and critical to the concept. This affects decisions taken on what to include or exclude from its scope.

The review:

- Includes opinion and comment by third parties only where it is from a reputable source or appears to be based on a sound technical understanding of SIBs;
- Excludes most literature relating to the development of Payment by Results (PbR). Although SIBs are widely defined as a form of PbR contract (see section 2.2: Background Context and SIB Development), the inclusion of all significant literature relating to PbR would have broadened the scope of the review considerably and risked a loss of focus on the development of SIBs as a specific instrument and approach. PbR is therefore included in this review only where necessary to understand the context in which SIBs have developed; and
- Excludes articles and other information by third parties who are involved in the development of SIBs as advisers or intermediaries except where such information is conveying facts about the development of specific SIBs, rather than promoting services through "advertorial" or other promotional material.

Inevitably there has been a degree of subjectivity in deciding what to include and what to exclude under these latter categories and we have sought to distinguish clearly between fact and opinion throughout this report.

### 2.1.3 Review Structure

This chapter structures the findings from the review as follows:

- Firstly we explain how the SIB concept originated and evolved in recent years;
- Next we review the different types of SIB that have been developed and the scale of development to date in both the UK and overseas;
- Then we consider evidence and commentary on the success factors and challenges involved in developing SIBs; and
- Finally we draw together existing evidence for the impact of SIBs.

## 2.2 Background Context and SIB Development

### 2.2.1 What is a Social Impact Bond?

There are numerous definitions of a SIB in the literature but in its simplest form a SIB is a form of PbR contract, under which the commissioner pays not for the interventions made but for the outcomes achieved as a result of those interventions. According to the Cabinet Office (2013a) a SIB is a subset of PbR under which the working capital needed to fund the interventions made by providers comes from external (usually so-called social) investors.

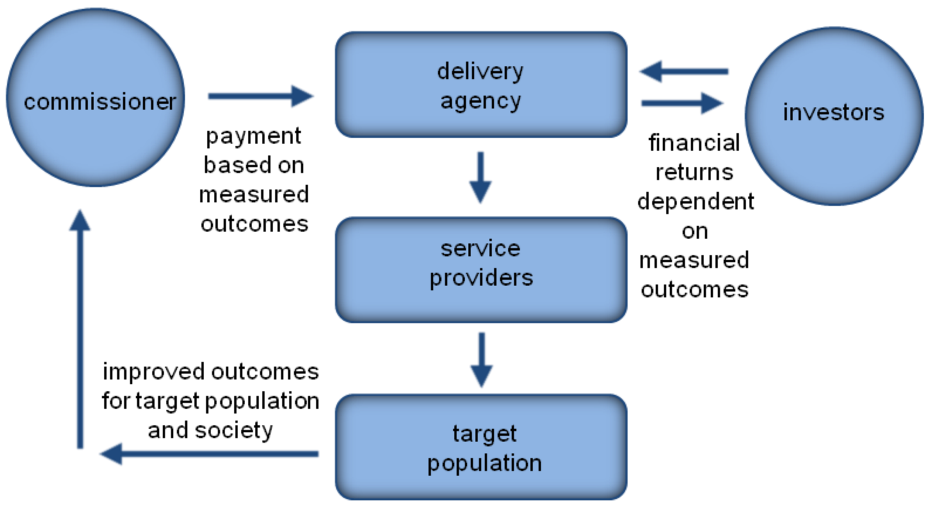
The Cabinet Office Centre for SIBs (Cabinet Office 2013b) further defines a SIB as:

*'.....an arrangement with four necessary features:*

- A contract between a commissioner and a legally separate entity 'the delivery agency';
- A particular social outcome or outcomes which, if achieved by the delivery agency, will activate a payment or payments from the commissioner;
- At least one investor that is a legally separate entity from the delivery agency and the commissioner; and
- Some or all of the financial risk of non-delivery of outcomes sits with the investor.'

The Cabinet Office (ibid) includes a simplified structure for a typical SIB based on the above definition (reproduced in **Figure 2.1** below). This definition of a SIB is however sufficiently broad to have allowed a number of different models and structures of SIB to have emerged, as discussed in section 3 of this review.

**Figure 2.1 SIB Structure (Cabinet Office 2013b)**




The Cabinet Office also explains (ibid) that a SIB is not a bond, and is a significantly riskier investment than a bond, where the returns to investor are low risk and usually guaranteed. It argues that it is easier to think of a SIB as 'a contractual relationship between the government and an external organisation.'

### 2.2.2 The History of SIB Development

The first contractual arrangement to be termed a SIB was announced in March 2010 (Ministry of Justice 2010), and involved the use of a SIB to fund interventions to reduce reoffending by short sentence prisoners from Peterborough prison. This was a significant milestone in the development of SIBs as a commissioning and delivery model, and the history of SIB development can sensibly be set in the context of what happened before and after it.

### 2.2.3 The Early Development of SIBs

Both the Cabinet Office (2013c) and Nicholls and Tomkinson (2013) have similar accounts of the developments which led to the invention of the SIB concept prior to the introduction of the Peterborough SIB. Both sources highlight the important roles played by the Council for Social Action, set up by Prime Minister Gordon Brown in 2007; by Arthur Wood of Ashoka, who developed the concept of ‘Contingent Revenue Bonds’; and, in particular, of Social Finance.

Social Finance was launched in April 2008 to accelerate ‘the creation of a social investment market in the UK’ (Social Finance, 2008) and built on previous work to the point where it was able to publish a paper in August 2009 (Social Finance 2009) arguing the case for Social Impact Bonds[4] in a number of areas including reducing reoffending rates of short sentence offenders; reducing the number of young people entering Pupil Referral Units; reducing the need for residential placements for children in care; and reducing acute hospital spend through the increased provision of community-based care. In December 2009 the potential offered by SIBs was first officially recognised by government in the White Paper ‘Putting the Frontline First: smarter government’ (HM Government 2009) which committed the then Labour government to ‘pilot Social Impact Bonds as a new way of funding the third sector to provide services.’

### 2.2.4 The Peterborough SIB

In parallel with these developments, Social Finance was already working closely with the Ministry of Justice and the Treasury, as well as a range of other stakeholders, on the Peterborough SIB (Cabinet Office 2013c). The development of this took a total of 18 months (Disley et al 2011). When the Peterborough SIB was announced in March 2010 it received widespread and broadly positive press coverage (for example Giotis 2010). When the SIB was formally launched in September 2010 (Ministry of Justice and Social Finance 2010) it received further positive coverage including commentary on the potential offered by SIBs (see for example Travis 2010).

Between the announcement of the Peterborough SIB in March 2010 and its formal launch in September 2010 there was an important announcement by Big Lottery Fund of funding of £11.25m. £6.25m was for the SPV set up by Social Finance to fund part of the infrastructure costs and the outcome payments for the Peterborough SIB. A further £5m was awarded as a grant to Social Finance and would be used to ‘develop a further package of pilots to address a number of deep rooted social issues, raise awareness of Social Impact Bonds among policy makers and statutory agencies and create a broad base of potential investors.’ (Big Lottery Fund 2010)

### 2.2.5 Subsequent Development of SIBs in the UK

Since the launch of the Peterborough SIB there have been a number of initiatives which have led to the growth of the SIB market. These can be divided broadly into specific projects to develop or test the feasibility of SIBs and wider polices and strategies to develop the social investment market.

[4] Although Social Finance are widely credited with developing the SIB concept, the Young Foundation, which worked with Social Finance, claim credit for inventing the term (Mulgan et al 2010 page 5)

### 2.2.5.1 Specific SIB Initiatives

In approximate chronological order, the literature shows that the following key initiatives have been taken since late 2010 to encourage the development of SIBs, often with government support. Further analysis of the SIBs which resulted from some of these developments is included in section 3 of this review.

- In early 2011, Social Finance started work with three local authorities in England (Essex County Council, Manchester City Council and Liverpool City Council) to test the feasibility of using a SIB 'to assess the opportunities for establishing Social Impact Bonds to address the problems of some of the most vulnerable young people and their families' (Social Finance 2011). This work focused on opportunities to use intensive therapies to prevent children entering council care or enable them to leave such care, and led to the development of SIBs with Essex and Manchester[5].
- In May 2011, the Department for Work and Pensions (DWP) launched an Innovation Fund of up to £30m over three years from 2012 to support 'social investment projects [for]...disadvantaged young people and those at risk of disadvantage, aged 14 years and over' (DWP 2014). This led to the creation of 10 SIBs which were commissioned via open competition in two rounds, starting respectively in April 2012 (six projects) and November 2012 (four projects).
- In August 2011, the Cabinet Office announced funding to test the feasibility of using SIBs to address the challenges faced by families with multiple and complex needs (Cabinet Office 2011). This project worked with four local authorities (Westminster, Hammersmith and Fulham, Birmingham and Leicestershire). Birmingham City Council subsequently went ahead with a SIB/PbR procurement for interventions aimed at families and their children in or on the edge of care (see Section 2.3: Scale and Type of SIB Models Developed). A final report on the project (Cabinet Office 2012) made a number of recommendations for improving or facilitating the development of future SIBs.
- In November 2011 Big Lottery Fund announced funding of up to £6m though its Next Steps Programme for social investment projects in England, including SIBs and SIB-like projects (Big Lottery Fund 2011). This led to the award of grants to 12 projects by July 2012 (Social Enterprise 2012).
- In November 2012 the Cabinet Office announced (Cabinet Office 2012c) the launch of the Social Outcomes Fund, through which up to £20m would be made available to 'provide a 'top-up' contribution to outcomes based commissions (social impact bonds or payment by results)' and 'deal with the main problems holding up the growth of social impact bonds: the difficulty of aggregating benefits and savings which accrue across multiple public sector spending 'silos' in central and local government'. At the same time the Essex County Council SIB was launched, as well as a SIB aimed at homeless rough sleepers in London (ibid).
- Also in November 2012, The Cabinet Office launched its Centre for Social Impact Bonds, which provides both background and technical guidance on SIBs and their development (Cabinet Office 2013a). The Centre for SIBs and the documents it contains are extensively referenced within this review.
- In June 2013 the Cabinet Office announced (HM Government 2013 p12, para 2.13) the first awards of funding from the Social Outcomes Fund, to Manchester City Council (to support its SIB aimed at diverting young people from residential care) and The Consortium of Voluntary Adoption Agencies (to increase the adoption of hard-to-place children).

[5] There are a number of references to Liverpool conducting a feasibility study with Manchester and Essex but no source explains why a SIB did not proceed in Liverpool.

- In July 2013, Big Lottery Fund announced the launch of the CBO and its alignment with the Social Outcomes Fund (Big Lottery Fund 2013a). Subsequently, in August 2013, there was the separate announcement and launch of the support package provided by Social Finance in partnership with the Local Government Association (LGA) for those developing SIBs through the CBO Fund (Big Lottery Fund 2013b).

#### *2.2.5.2 Development of the Social Investment Market*

Over the same period there were a number of important developments designed to stimulate the social investment market in all its forms, including investment in SIBs and similar instruments[6]. Most significantly:

- In February 2011 the government published its strategy, led by the Cabinet Office, for growing the social investment market (HM Government 2011). This highlighted (ibid. pp 30 and 41) the potential role of SIBs in encouraging social investment in addressing social policy issues. An update to the strategy, which stressed progress in developing the SIB market including the Social Outcomes Fund, was published in 2013 (HM Government 2013) and a further update on 19 June 2014 (HM Government 2014b). Coupled with this, in September 2014 the Social Impact Investment Taskforce, launched by David Cameron when Chair of the G8, published a report, 'Impact Investment: The Invisible Heart of Markets' (Social Investment Taskforce, 2014). The report examined what is needed to catalyse the growth of a global market for impact investment. In the report, the Taskforce recommended governments streamline pay-for-success arrangements, such as SIBs.
- In April 2012 the government launched Big Society Capital (BSC) with a specific mission to grow the social investment market, including by investing in SIBs (Cabinet Office 2012a). BSC has become an important investor in SIBs as described further in section 3 of this review.

### 2.2.6 Development of SIBs Outside the UK

The development of SIBs in the UK has been followed and mirrored by the development of similar mechanisms overseas. Most importantly, there have been substantial developments similar to SIBs in the United States and Australia. In Australia, the state government of New South Wales (NSW) has signed contracts for two Social Benefit Bonds (NSW Government 2013).

In the United States, where SIBs are known as Pay for Success Bonds, four bonds are now in place and a number of others are in various stages of development (Pay for Success Learning Hub 2014). The Netherlands became the first country in Europe outside the UK to launch a SIB when the municipality of Rotterdam launched a SIB funded by ABN AMRO and a social investor to address youth unemployment (Municipality of Rotterdam 2013). This has recently been followed by a SIB in Brussels aimed at improving employment among migrants (EVPA 2014) and very recently (May 2014) by a first SIB in Canada, addressing the issues faced by at-risk single mothers in Saskatchewan (Government of Saskatchewan, 2014).

[6] While SIBs are important in policy terms, they form a relatively small part of the social investment market as a whole.

## 2.3 Scale and Type of SIB Models Developed

### 2.3.1 Current SIBs in the UK

There are at the time of writing (June 2014) 15 SIBs[7] which are in place and currently funding/providing interventions in the UK (Cabinet Office 2013d). **Table 2.1** summarises the key features of these SIBs, according to case studies available on the Cabinet Office Centre for SIBs (ibid) and DWP (2014) as well as investor information from Bridges Ventures (2014a) and Big Society Capital (2014b).

### 2.3.2 Planned SIBs

Further SIBs will be created due in part to the support of the CBO and Social Outcomes Funds. The number of new SIBs that will be created as a result depends on the average contribution in outcome payments to each SIB, but on the assumption that each SIB receives an average contribution of £1m around 50 further SIBs could be created with support from the two funds.

It was recently announced in the 2014 update to the government's social investment strategy (HM Government 2014b) that two further SIBs would receive support from the Social Outcomes Fund and will be commissioned shortly. These SIBs will be commissioned by Birmingham City Council (addressing children in or on the edge of care); and by Worcestershire County Council and local clinical commissioning groups, addressing loneliness and social isolation[8]. Birmingham City Council commenced procurement of its SIB in early 2013 (Birmingham City Council 2013) and Cardiff Council resolved to go ahead with the procurement of a similar SIB in December 2013 (Cardiff Council 2013).

In addition, the government has recently announced (Deputy Prime Minister's Office and Cabinet Office 2014) investment of £31m in two new schemes which will lead to further SIBs on a similar model to the existing DWP Innovation Fund SIBs. There will be funding of £16m from DWP, the Cabinet Office and Ministry of Justice in the Youth Engagement Fund (YEF), which 'aims to support up to 18,000 young people in over 100 schools in England to help them improve their skills and employability' (ibid) and £15m from the Department for Communities and Local Government (DCLG) and the Cabinet Office to 'move over 2,000 homeless young people into sustainable accommodation, as well as employment, education or training over 3 years' (ibid) through the Fair Chance Fund (FCF).

[7] The Cabinet Office (2013d) refers to 14 SIBs in the UK but this excludes the Manchester City Council SIB which was launched on June 5th 2014, and is included in the Cabinet Office case studies

[8] These SIBs are not included in Figure 3.1 because they were not 'live' SIBs at the date of this review although they were both in advanced stages of development. At the date of publication (November 2014) the Birmingham SIB was live, so there are now 16 live SIBs in the UK

### Table 2.1 Current SIBs in the UK and their Main Characteristics

<table>
<tr><th>Commissioner</th><th>Location</th><th>Contracting Party/ Delivery Body</th><th>Service Providers</th><th>Major Investors</th><th>Outcomes</th><th>Target Cohort</th></tr>
<tr><td>Ministry of Justice with co-commissioning[9] support from Big Lottery Fund</td><td>Peterborough</td><td>Social Impact Partnership LP</td><td>St. Giles Trust,<br>Ormiston Children and Families Trust<br>Sova<br>MIND<br>YMCA<br>John Laing Training</td><td>Barrow Cadbury Charitable Trust<br>Esmée Fairbairn Foundation<br>Friends Provident Foundation<br>The Henry Smith Charity<br>Johansson Family Foundation LankellyChase Foundation<br>The Monument Trust Panahpur Charitable Trust<br>Paul Hamlyn Foundation<br>The Tudor Trust</td><td>Reduced reoffending by short sentence prisoners as measured by number of reconviction events</td><td>3,000 prisoners serving sentences of less than one year in three cohorts of 1,000</td></tr>
<tr><td>DWP (Innovation Fund round 1)</td><td>West Midlands</td><td>APM UK Ltd</td><td>Birmingham Employment, Skills and Training Network</td><td>APM UK Ltd</td><td rowspan="4">Common outcomes for both rounds of Innovation fund include<br>Improved attendance and behaviour at school<br>Attainment of NQF or equivalent at level 1-3<br>Entry into first employment<br>Sustained employment<br>Additional outcomes for round 1 include<br>Successful completion of an ESOL course</td><td rowspan="4">Individual cohort information for each SIB is not publicly available. As a whole, the Innovation Fund aims to address up to 17,000 young people who are, or are at risk of becoming disadvantaged, over a three-year period.<br>Round 1 is targeted at 14-24 year olds</td></tr>
<tr><td>DWP (Innovation Fund round 1)</td><td>Stratford and other parts of East London</td><td>Links4Life Ltd</td><td>Working Links</td><td>Bridges Ventures<br>Stratford Development Partnership</td></tr>
<tr><td>DWP (Innovation Fund round 1)</td><td>Perthshire and Kinross</td><td>Indigo Project Solutions</td><td>Perth YMCA</td><td>Range of philanthropic investors and charitable trusts</td></tr>
<tr><td>DWP (Innovation Fund round 1)</td><td>Nottingham City</td><td>Nottingham City Council</td><td>Nottingham Futures</td><td>Nottingham City Council<br>Nottinghamshire County Council</td></tr>
</table>

[9] The CBO and Social Outcomes Fund Glossary of Terms defines a 'Co-commissioner' as: *A public sector body that is also part of the PbR or SIB contract. The co-commissioner commits to funding part of the outcomes payments alongside the lead commissioner."*

| Commissioner | Location | Contracting Party/ Delivery Body | Service Providers | Major Investors | Outcomes | Target Cohort |
|---|---|---|---|---|---|---|
| DWP (Innovation Fund round 1) | Shoreditch<br>London | Impetus Private Equity Foundation | Think Forward | Impetus Trust<br>Big Society Capital | NQF or equivalent at level 4 | |
| DWP (Innovation Fund round 1) | Greater Merseyside | Triodos | Greater Merseyside Connexions Partnership | Bridges Ventures<br>Big Society Capital<br>Esmée Fairbairn Foundation<br>Charities Aid Foundation<br>Knowsley Housing Trust<br>Helena Partnerships<br>Liverpool Mutual Homes<br>Wirral Partnership Homes | | |
| DWP (Innovation Fund round 2) | West London | Prevista | Prevista | Prevista self-funding | As common outcomes for round 1 plus<br>Improved attitude at school<br>Attainment of an accredited QCF Entry level qualification; and<br>Attainment of Basic Skills by young people over 16 years old | Round 2 is aimed at disadvantaged young people aged 14-15 only |
| DWP (Innovation Fund round 2) | Thames Valley | Social Finance | Adviza | Barrow Cadbury Charitable Trust<br>Esmée Fairbairn Foundation<br>Big Society Capital<br>Berkshire Community Foundation<br>Bracknell Forest Homes<br>Buckinghamshire County Council | | |
| DWP (Innovation Fund round 2) | Greater Manchester | Social Finance | Teens and Toddlers | Bridges Ventures; Impetus Trust<br>Big Society Capital Esmée Fairbairn Foundation,<br>CAF Venturesome<br>Barrow-Cadbury Trust | | |

| Commissioner | Location | Contracting Party/ Delivery Body | Service Providers | Major Investors | Outcomes | Target Cohort |
|---|---|---|---|---|---|---|
| DWP (Innovation Fund round 2) | South Wales | 3SC | Dyslexia Action, CfBT Education Trust | 3SC<br>Big Society Capital | | |
| Greater London Authority with funding from DCLG | Greater London | Street impact Limited, Thames Reach | St Mungo's, Thames Reach | St Mungo's<br>Thames Reach<br>CAF Venturesome<br>Department of Health Social Enterprise Investment Bond<br>Orp Foundation<br>Big Issue Invest<br>High net worth individuals | Reduction in numbers sleeping rough<br>Sustained moves to settled accommodation<br>Reconnection of foreign nationals<br>Increased employment<br>Reduction in (A&E) visits | 831 rough sleepers in two separate, unequal cohorts |
| Essex County Council | Essex | Children's Support Services Ltd (Social Finance) | Action for Children | Bridges Ventures<br>Big Society Capital<br>Esmée Fairbairn Foundation<br>Tudor Trust<br>Social Venture Fund, King Badouin Foundation<br>Barrow Cadbury Trust<br>Charities Aid Foundation | Reduction in care placement days compared to predicted baseline<br>Secondary measures around educational engagement, offending and personal well-being | 380 children at risk of entering care or custody and their families |
| Spot purchase (It's All About Me adoption bond) | UK-wide | IAAM | Council of Voluntary Adoption Agencies | Bridges Ventures<br>Big Society Capital | Registration and subsequent successful placement in adoption | Initially 100 looked after children rising to 650 over ten years |
| Manchester City Council | Manchester | Action for Children | Action for Children | Bridges Social Impact Bond Fund<br>Bridges Social Entrepreneurs Fund | Young people successfully moved out of residential care plus secondary well-being measures around school attendance and anti-social behaviour | Up to 95 young people over 5 years |

Both the YEF and FCF will link payment to the achievement of outcomes and will therefore be PbR programmes. The YEF will be procured from partnerships of investors and delivery organisations (HM Government 2014a) with a prescribed separation of investor and delivery roles, which means that the resulting contracts will almost certainly be a form of SIB.

The FCF does not require bidders to use a SIB mechanism but encouraging the growth of SIBs is a specific objective of the fund and 'An additional weighting will be available to bids that propose to use a social impact bond' (DCLG and the Cabinet Office 2014 p 15). The majority of projects approved under the FCF are therefore expected to meet the definition of a SIB.

Taken together, therefore, these funds are expected to add a significant number of new SIBs, depending on the size of individual projects.

### 2.3.3 Characteristics of Existing SIBs

#### *2.3.3.1 Commissioners*

As shown in **Table 2.1**, a high proportion of existing SIBs are commissioned and/or funded by central government, although the picture is arguably skewed by the DWP Innovation Fund (which accounts for 10 out of 15 current SIBs (DWP 2014)). Among current SIBs, only the Essex and Manchester SIBs are truly locally commissioned, although the Adoption Bond depends ultimately on a form of local commissioning through 'spot-purchasing' by local authorities. The impending Birmingham and Worcestershire SIBs will, however, be locally commissioned, and the CBO and Social Outcomes Funds are likely to create further locally commissioned or spot-purchased SIBs. Conversely, the impending Youth Engagement and Fair Chance Funds will add further SIBs where the predominant commissioner is a central government department.

#### *2.3.3.2 Providers*

**Table 2.1** also shows both the contracting party and delivery agency for each SIB, and the ultimate service providers. Given the nature of SIBs, and the role of intermediaries or special purpose vehicles[10] in their design and delivery, the contracting party is not, in the majority of cases, the party that actually provides the services or interventions to those requiring support. However this is not always the case and the relationship between the contractor and providers of services or interventions varies according to the structure of the SIB. We explore this further in section 3.3.4 below.

[10] The CBO and SOF Glossary of Terms defines a 'Special Purpose Vehicle' as: *"[A] legal entity created solely to deliver or host a particular financial transaction or series of transactions. Forming an SPV is a standard approach when contracting with a group of entities, but has tax implications especially where it is for profit."*

### 2.3.3.3 *Investors*

The number and types of investors who have invested in SIBs to date varies and information on who has invested in specific SIBs is not always publicly available. Where information is available, major investors are shown in **Table 2.1**[11]. The majority of investors in SIBs fall into two major categories, usefully summarised in a recent presentation in relation to the Fair Chance Fund (Big Society Capital and Bridges Ventures 2014). These are:

- **Charitable Foundations and Trusts.** Most of these were and remain providers of funding to social sector providers of services and interventions through grants. However a number have chosen also to invest in SIBs. As shown in **Table 2.1** a number of Foundations invested in the Peterborough SIB (Disley et al 2011 p 25) and many of the same investors, plus others, invested in the Essex SIB (Eccles & Halilovic 2013 p13).
- **Specialist fund managers.** These operate in a similar way to conventional institutional fund managers in that they raise funds from other investors (such as high net worth individuals12) and invest them on their behalf. Investors in SIBs are mainly specialist fund managers of funds with specific social objectives and include (Big Society Capital and Bridges Ventures 2014):
  - Social Venture Fund;
  - Bridges Ventures Social Impact Bond Fund;
  - Bridges Ventures Social Entrepreneurs Fund;
  - Big Society Capital;
  - CAF Venturesome; and
  - Big Issue Invest.

Two investors appear to have a particularly important position in the market and its potential development:

- **Big Society Capital (BSC).** As already stated in section 2, BSC was launched by the government in 2012 and has an important role as both a social investor in its own right and as a champion of the social investment market (Big Society Capital 2014 a). BSC has invested in seven SIBs, including the IAAM Adoption SIB, the Essex SIB and five of the DWP Innovation Fund SIBs (Big Society Capital 2014b). In addition, it has invested £10m in the Bridges Social Impact Bond Fund (Big Society Capital 2014c), managed by Bridges Ventures (see below). This is the first fund developed specifically to invest in SIBs – or more precisely, 'provide finance and support for social sector organisations that deliver services designed to improve social outcomes PbR contracts' (ibid). BSC is technically a 'wholesale investor' (Cabinet Office 2013e Q1) and therefore invests in intermediaries who in turn make investments in specific SIBs.
- **Bridges Ventures** is an established social investor which has been investing in both conventional and social enterprises since 2002, when it launched its first Sustainable Growth Fund (Bridges Ventures 2011). It first invested in SIBs via its Social Entrepreneurs Fund, established in 2009, being a lead investor alongside BSC in the Essex SIB (Bridges Ventures 2012) and now has a focus on SIB-type investment through the aforementioned Social Impact Bond Fund[13]. In total and as at end of June 2014 its portfolio includes six current SIBs (Essex, IAAM, Manchester and three Innovation Fund SIBs).

[11] There may be other smaller investors not shown in Table 2.1. In addition high net worth individuals have invested in some SIBs but have chosen to do so anonymously

[12] For example, David Burnett, who invested in the Essex SIB via the Charities Aid Foundation

[13] It is requirement of the SIB Fund that Bridges Ventures match an investment from the Fund with one from its Social Entrepreneurs' Fund, so it continues in practice to invest in SIBs via both funds.

### *2.3.3.4 SIB Models and Structures*

As noted in section 2 there are various definitions of a Social Impact Bond and the Cabinet Office definition quoted in section 2.1 allows for a number of different structures of SIB. In terms of detailed financial and operational structure every SIB is unique but it is possible to categorise existing SIBs across the following five broad structural types:

**SIBs Delivered through a Special Purpose Vehicle (SPV).**

Under this structure (**Figure 2.2**[14]) the contract is delivered through an SPV which holds the contract with the commissioner. The SPV in turn contracts with service providers to deliver the interventions required to achieve the outcomes specified in the contract. The SPV may be owned by investors, an intermediary or both.

This structure was the basis of the original Peterborough SIB (Cabinet Office 2013f), of a number of DWP Innovation Fund SIBs, and of the Essex SIB (Barclay & Symons 2013 p3).

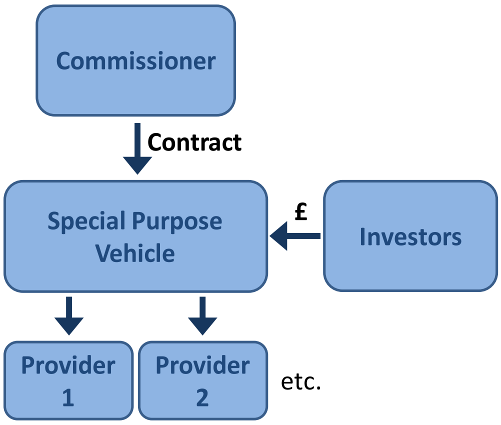



**Figure 2.2 Special Purpose Vehicle**

**SIBs Delivered through a Single Investor.**

Under this structure (**Figure 2.3**) the commissioner contracts with a single investor who in turn contracts with one or more providers to deliver the interventions.

This is one of the structures used to provide SIBs under the DWP Innovation Fund (Cabinet Office 2013g). In practice this structure may also involve an SPV set up by the investor actually to hold the contract, but the key distinction is between a single and multiple investors[15].

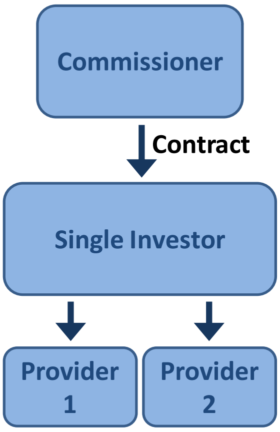



**Figure 2.3 Single Investor**

**SIBs Delivered through a Subsidiary.**

Under this structure (**Figure 2.4**) the service provider establishes a subsidiary to deliver and hold the contract, in which investors hold a stake.

This structure forms the basis of the delivery of the Rough Sleepers SIB by St Mungo's (Triodos 2013).

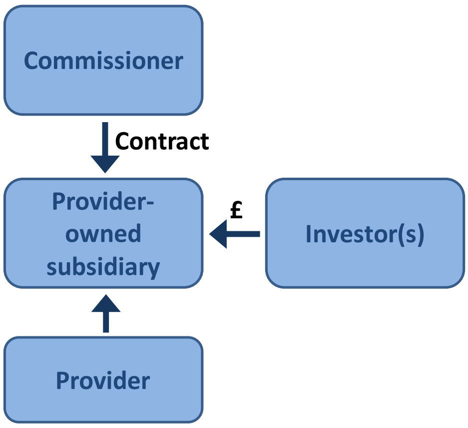



**Figure 2.4 Provider subsidiary**

[14] The structures shown here are illustrative and simplified – in practice structures are likely to be more complicated

[15] Note Cabinet Office 2013g categorises DWP Innovation Fund into structures 1 and 2 above plus a third, 'the intermediary' model which does not appear structurally different to Option 1 above – except that the SPV will be owned by (and contract made with) the intermediary rather than by/with investors.

### SIBs Delivered Directly by the Service Provider, with Working Capital Provided by (usually one[16]) Investor.

Under this structure (**Figure 2.5**) the commissioner lets what is effectively a conventional PbR contract with the provider, who obtains working capital from a suitable social investor.

This structure has been used to date in the Manchester SIB, where the contract is with Action for Children and working capital is provided by Bridges Ventures via its Social Impact Bond and Social Entrepreneurs Funds (Bridges Ventures 2014b).

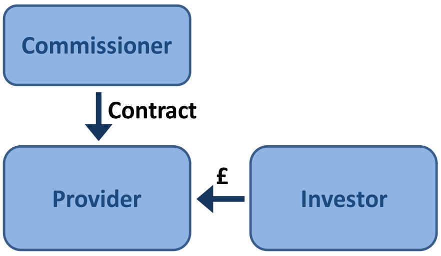



**Figure 2.5 Direct Provider Investment**

### SIBs Delivered by the Provider and Commissioned on a Spot Purchase Basis.

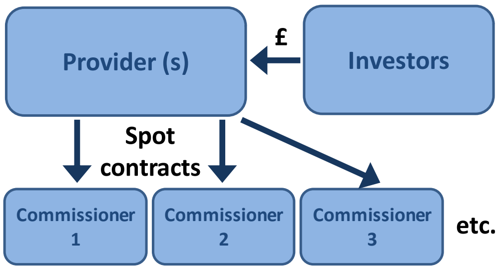



**Figure 2.6 Provider led/spot purchase**

Under this structure (**Figure 2.6**) one or more service providers of a similar intervention initiate and develop the SIB, and set out a pricing structure for the provision of a specific outcome on the basis of which they secure up-front investment to develop the service. This is then offered to commissioners for a pre-agreed price per outcome. There may be no identified commissioner when the SIB is launched.

This structure is the basis of the IAAM Adoption Bond. As explained above this provides a staged approach, with a series of outcomes, to the adoption of children. Local authorities can choose to buy the service and pay a set amount at each stage (Cabinet Office 2013h).

As already noted these are broad categories and there are potentially numerous variants. For example, the Manchester SIB was procured under a process which allowed bidders to propose structures 1, 3 and 4 above, plus a variant on structure 2 under which provider and investor formed a joint venture (Ashman 2013 pp 18-19). In addition other variants and structures are being proposed as intermediaries, advisors and others consider how a SIB could work in specific circumstances (for example ibid p 20).

[16] It is unlikely that this structure would be used if there were multiple investors – either options 3 or option 1 would be used.

#### 2.3.3.5 Comparative Benefits of Each Structure

There appears to be little in current literature which evaluates the benefits of one structure over another although Jupp (2011) offers guidance on the commissioning and procurement of SIBs using different structures. It is worth observing that:

- although the SPV structure, with multiple investors providing capital via an SPV to multiple providers appears often in the literature, it has not been used to structure all of the SIBs which are in place at present. It was used for the Peterborough, Essex and several DWP Innovation Fund SIBs, but not for many others;
- although Option 4 above meets the Cabinet Office definition of a SIB quoted in section 2, and forms the basis of the Manchester SIB, it does not meet other definitions and fails to achieve one of the perceived benefits of a SIB. This is because the provider receives what is effectively conventional working capital, and does not receive up-front payment from investors on a fee for service basis, and is therefore taking financial as well as delivery risk. For example, Cabinet Office state elsewhere (Cabinet Office 2013i) that:

  *'Under a PBR contract… the service provider must cover the initial costs of delivering services. Many potential providers find this difficult, particularly social enterprises and charities, as they often do not have the capital available to provide services in advance of being paid. A SIB is a way to bridge this gap'.*

  It should however be noted that there are specific reasons why Manchester adopted this structure, mainly to do with the need for the contract provider to be registered as a provider of fostering services (Ashman 2013).

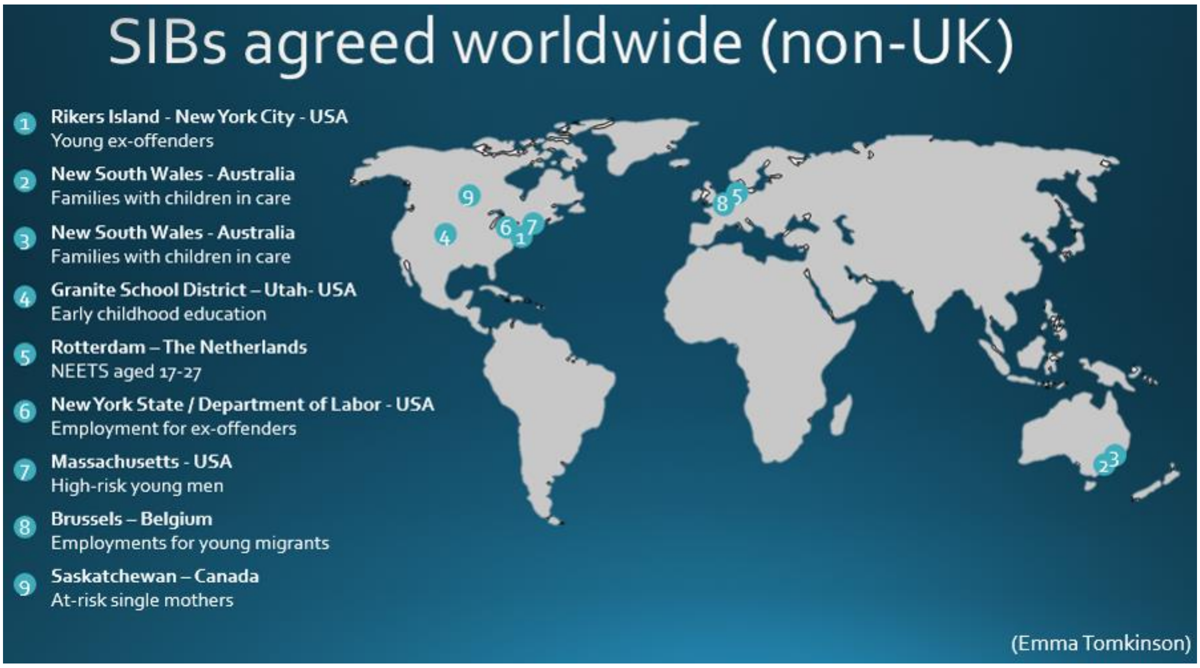
### 2.3.4 International Picture of SIBs

#### 2.3.4.1 International SIBs in Place

In addition to the 15 SIBs in the UK, there are a number now in place overseas. Due to issues of different definition of various instruments (notably Development Impact Bonds, as opposed to SIBs) and tendency of some sources to include SIBs which are under consideration as opposed to deals in place, it is difficult to be precise about how many SIBs are agreed and in implementation.

However Tomkinson (2014) provides a useful map of international SIBs which appears to correlate with other sources as regards deals which are finalised and SIBs which have been launched (i.e. the same basis as the 15 in the UK). This map is reproduced in **Figure 2.7** below.

**Figure 2.7 International SIBs Map (Tomkinson 2014)**




### *2.3.4.2 Characteristics of International SIBs*

We have not in this review analysed international SIBs in depth, but it is worth noting that while some are similar to SIBs in the UK, there are important differences as well. In terms of similarities, the social issues addressed and outcomes sought are similar, covering issues such as offending, employability, families, children in care and early intervention for children.

A key difference is that overseas SIBs have tended to be funded by institutional rather than social investors, such as Goldman Sachs in the US and ABN AMRO in Holland. This in part reflects a relative lack of a social investment market in these countries, but also the way some SIBs have been constructed in order to attract institutional finance providers by de-risking their investment. For example, in the US both the Rikers Island and Utah SIBs have Goldman Sachs as senior lender, but with subordinate loans or guarantees from philanthropic investors who take some of the risk of their investment (Cabinet Office 2013l and 2013m). In Australia, the Newpin bond aimed at children in out-of-home care includes government guarantees which limit investor losses to 25 per cent of capital during the first four years and 50 per cent thereafter (Cabinet Office 2013n).

There are also differences in the way SIBs have been developed, structured and procured, for example in New South Wales, Australia where there has been joint procurement of consortia of providers and investors, who have then been engaged in a joint development phase after selection as preferred provider. In other words, the majority of SIB development work has been undertaken after selection of providers and investors, reflecting the fact that providers are much larger, and have much greater capacity, than the majority of providers in the UK. A further difference is that providers share financial risk with investors, due in part to the fact that Australian third sector providers are larger, and have greater capacity, than their UK counterparts.

## 2.4 Benefits and Challenges of Developing SIBs

### 2.4.1 Introduction

In this section we consider what the literature says about:

- the main benefits of a SIB approach, and the rationale for commissioning a SIB; and
- the main critical success factors and challenges in commissioning and implementing a SIB successfully.

The primary focus of this section is on benefits from a process viewpoint, as opposed to whether SIBs achieve improved social impact, which is considered separately (and insofar as literature is available) in section 5. We consider both benefits and success factors/challenges from the different perspectives of the main stakeholders in a SIB: commissioners, investors and providers.

We also consider in this section the wider debate about the merits or otherwise of SIBs, as conducted in the press and other media.

It is especially important in this section to note the limitations in the literature and the fact that much of it is from sources that have an interest in promoting the benefits of SIBs. There is little independent process evaluation of SIBs to date, with the main sources of such evaluation being the first report by RAND Europe from the independent evaluation of the Peterborough SIB (Disley et al 2011); and its successor, second report published in April 2014 (Disley & Rubin 2014). In addition, a short report on early findings from the Innovation Fund pilots was published in April 2014 (Thomas et al 2014). Disley and Rubin make the point that, 'There is, as yet, no research or evaluation of a completed SIB' (2014 p7) and therefore that many of the claimed or perceived benefits of SIBs are potential at this stage.

### 2.4.2 Benefits of and Rationale for the SIB Approach

#### *2.4.2.1 Overview*

Summarising what the literature says about the key benefits of a SIB approach is challenging. The Cabinet Office Centre for SIBs (Cabinet Office (2013) quoting Tomkinson (2013)) lists no fewer than 24 reasons 'given by organisations around the world to explain their motivation for being involved in a social impact bond.' In part this reflects both the different rationales provided by different stakeholders for their involvement, and in part the recognition of wider/different benefits and potential benefits over time. We have focused in this review on the main benefits for each of the key stakeholders – i.e. commissioners, investors and providers – that appear in multiple sources.

### 2.4.2.2 Benefits for Commissioners

Social Finance[17] (Eccles & Halilovic 2013) suggests six main benefits to a commissioner of a SIB which others also appear to accept as likely benefits. These are:

- **Innovation** – the ability to test a new intervention and see whether it works at minimum risk because there is no payment unless it succeeds. This objective is explicit in Manchester's SIB (Manchester City Council para 2.6) and is also recognised in Disley and Rubin (2014 p3) which states that: 'For government a SIB moves the upfront costs of service delivery (and the risk of paying for services which prove to be ineffective) to private investors'.
- **Flexibility** – since outcomes rather than inputs or outputs are specified, there is flexibility to deliver services differently and to adapt them over time as required. Again, Disley and Rubin (2014 pp 4-5) found evidence of flexibility and responsiveness to change in the Peterborough SIB[18].
- **Rigour and a stronger focus on performance management and data** than is usual in conventional contracts means that all parties are focused on ensuring outcomes are achieved. This is recognised by Thomas et al (2014) in relation to Innovation Fund SIBs, who state that:

  *'The interest of all parties in ensuring the projects are successful and the need to generate cash-flow for continued delivery to be sustained, has led to careful and pro-active performance management by intermediaries, investors and deliverers alike.'*
- **Partnership and alignment of the interests of multiple service providers, investors and commissioners.** This has been emphasised as a key potential benefit of SIBs since their inception (Social Finance 2009 p4). There is a strong emphasis on this aspect of SIBs in much opinion and comment, and it is viewed as a transformative element of SIBs by the Cabinet Office, which argues (2013a) that one such element is 'Bringing together distinct expertise (and addressing knowledge gaps) from different sectors'. It is also recognised by investors – see for example the views of Panaphur on the benefits of the Peterborough SIB (Perry 2013).
- **Shifting resources to early Intervention and prevention, as well as or instead of later, more expensive crisis intervention.** This again has been recognised as a key benefit of SIBs since their inception (Social Finance 2009 p3) and has been widely recognised by others with an interest in early intervention and how it can be funded – notably by Graham Allen MP in the second of his reports on the benefits of early intervention and its funding through external investment (Allen 2011). A much more recent report by the Early Intervention Foundation, which was founded on the back of Allen's recommendations (Griffiths & Meinicke 2014), provides more specific guidance on the opportunities and challenges of SIBs in the early intervention context.
- **Attracting additional, external investment from social and philanthropic sources.** This is of benefit to commissioners but also to ultimate service users and beneficiaries, since 'funding raised through a SIB may pay for services that fill a gap in existing provision' (Disley et al 2011 Summary p i.) and 'improve outcomes and quality of life by funding service provision where previously there was none' (Disley & Rubin 2014).

[17] This is one of many Social Finance sources which refer to these six key benefits – see also for example Ashman 2013.

[18] Disley and Rubin also note that many of the benefits of a SIB in relation to innovation and flexibility can be achieved by other PbR mechanisms, and do not necessitate a SIB approach

A further potential benefit for commissioners is the opportunity to deploy a SIB in order to generate savings to current budgets. For example generating savings was an objective of the Manchester SIB (the most recent to be implemented in the UK, in June 2014) when it was first presented to the Council's Cabinet for a decision to proceed in March 2012 (Manchester City Council 2012). Savings sought may be both cashable (a direct reduction in current costs) or non-cashable (freeing resources to be used for something else, or avoiding an increase in costs in the future). The issue of savings, and especially cashable savings, as an objective of SIBs is itself a source of debate in the literature and is explored further in section 4.3.1 below.

#### *2.4.2.3 Benefits for Investors*

According to Disley and Rubin (2014 p8) the principle benefit of SIBs for investors is that they offer 'a new investment opportunity with a 'blended return' i.e. a blend of financial and social returns[19] if outcomes are achieved'. Social Finance (2009) takes a similar view, arguing that SIBs 'align the financial and social return on investment' and also 'create a rational investment market within which effective social service providers receive funding to deliver their services'.

A further benefit for some social investors is that SIBs can catalyse and grow the social investment market. For example, Barrow Cadbury state that their social investment, including in SIBs, is designed both to generate blended returns as above and also to 'further the development of the market place in social investments' (Barrow Cadbury 2013).

#### *2.4.2.4 Benefits for Providers*

There is a strong emphasis in the literature on the biggest single benefit of SIBs for providers being that they enable smaller, VCSE providers to participate in PbR–type contracts where they would otherwise be unable to participate due to shortage of working capital and/or inability or unwillingness to take financial risk. As noted in section 2 this is a key distinction between SIBs and conventional PbR, and a major justification for using a SIB approach. This view is expressed among others by Cabinet Office (2013), Social Finance (2009 p4), Disley et al (2011 p.2) and Disley and Rubin (2014 p.8). Disley et al (2011 p.2) also point out that under a SIB, several different providers can deliver services that contribute to improved outcomes.

Providers also benefit, alongside commissioners, from the ability to innovate and adapt their service delivery models in line with flexibility allowed under a SIB.

### 2.4.3 Success Factors and Challenges

There is much technical and other guidance available on the issues to be addressed when developing a SIB, especially and mainly from two sources, Social Finance and the Cabinet Office. Less literature is available which draws on other SIB development experiences such as the DWP Innovation Fund. What follows identifies what appear to be the main issues highlighted in these sources as regards SIB development from the specific standpoints of commissioners, investors and providers.

[19] The CBO and SOF Glossary of Terms defines 'Social return' as: *"[A]n outcome relating directly to society and societal gain, often as opposed to pure financial gain from a financial return."*

### 2.4.3.1 Commissioners

Social Finance has published two technical guides to SIB development (Jupp 2011 and Barclay & Symons 2013) which explore SIB development issues, especially from a commissioner standpoint, in significant detail[20]. Based on these, and other sources referenced below, the major success factors in developing a SIB (and challenges to doing so) include the following:

### 2.4.3.2 Identifying the Social Issue and its Appropriateness for a SIB

It is important to pursue a SIB only where it is the right or best solution to a social issue. Important questions include whether outcomes commissioning is right for the service (Jupp 2011 pp 5-6) and whether external social investment is needed and cost effective (Barclay & Symons 2013 p7). Subsequently, detailed work is needed to confirm the nature and extent of the social issue (Ibid p8). The Cabinet Office (2013i) recommends a feasibility study to confirm that a SIB is appropriate, addressing both the nature of the social issue and other technical issues outlined below. Most commissioners considering a SIB appear to have undertaken such studies, often with external support (Manchester City Council 2012, Cardiff Council 2013).

### 2.4.3.3 Setting the Right Outcome Metrics

There is a challenge in identifying the right outcomes which can be easily measured and relate directly to the interventions funded through the SIB (Cabinet office 2013i, Jupp 2011 p8, Barclay & Symons p11). Barclay and Symons also argue that 'The most important criteria for any outcome metric is whether it incentivises a service that ultimately improves outcomes for those who use it'. There is debate in the literature about the relative benefits and challenges of a single outcome which is easily measurable and creates certainty for investors, versus a 'basket' of outcomes. Jupp (2011 p8) argues that many SIBs will require multiple outcomes across different services and Barclay & Symons (2013 p 12) explain the value of the basket of outcomes selected for use in the Essex SIB 'to guard against perverse incentives[21]'. The challenges of setting multiple outcomes and linking them to both interventions and savings are also addressed in the Cabinet Office study related to families with multiple and complex needs (Cabinet Office 2012b sec 5.3.3 pp 42-3).

The setting of outcome metrics is an area where government and others have sought to provide further guidance and avoid, or reduce, the risk of duplication where similar outcomes and interventions are the subject of SIBs. The Big Lottery Fund (Merrett 2012) identified the potential for duplication of effort in setting outcome metrics and BSC has developed an outcomes matrix which 'aims to develop common ground and language for social investment and impact assessment in the social sector' (Big Society Capital 2013).

[20] The second of these guides is not a simple update of the first. They have some common themes but Jupp 2011 focuses on SIB commissioning and Barclay & Symons on SIB development, and they address different issues in different degrees of detail. Both are therefore useful and complementary sources of guidance on technical issues.

[21] The CBO and SOF Glossary of Terms defines 'Perverse incentives' as: "*These occur when a payment incentivises undesirable behaviour inadvertently. For example if a payment is made to reduce the number of children in care there could be a perverse incentive to bring children who should be in care out of it. Perverse incentives can be managed, for example, by separating decision makers from payment beneficiaries.*"

### 2.4.3.4 Measuring Impact and the Achievement of Outcomes

There is strong emphasis in the literature in the importance of being able to measure both additionality and attribution in a SIB, so that, as expressed in Jupp (2011 p 21), 'the commissioner can be satisfied that 'but for' the provider, the changes in outcomes would not have been achieved'. Both Jupp (ibid) and, in more detail, Barclay & Symons (2013 p13) suggest the use of historic benchmarks or control groups in order to establish a counterfactual. The latter in particular explores the relative merits of control approaches (in terms of rigour and the ability to control for external factors) and benchmarks (in not excluding individuals in the control group from receiving SIB interventions). Cabinet Office (2012b) also discusses the relative merits of different approaches to impact measurement and highlights the challenge of identifying a control group for a cohort with multiple complex needs such as families (Cabinet Office 2012b Sec 4.3 pp22-27).

The importance of having a strong and valid comparator appears to vary across SIBs to date. The development of an independent comparison group is a key feature of the Peterborough SIB (Cave et al p2, Disley & Rubin 2014 p 11) and both the development of this comparison group and achievement of outcomes is subject to independent assessment (Cave et al 2012). A matched comparison group will also be used to measure the impact of each Innovation Fund SIB (Cabinet Office 2013g). The Essex SIB uses a historical comparison group to predict the likelihood of children entering care, based on 650 cases tracked over 30 months (Cabinet Office 2013j). However the IAAM Adoption Bond has no comparator and assumes that 'none of the cohort would have been placed without IAAM, and deadweight is therefore nil'. (Cabinet Office 2013h).

There is also no mention that we have been able to find of a counterfactual in the Manchester SIB, the report on which (Manchester City Council 2012 para 2.3) mentions only that, 'Without this programme, [the children's] prospects of moving out of residential care are low.'

### 2.4.3.5 Identifying Interventions

Numerous sources discuss or provide guidance on the importance of identifying 'promising' interventions that might be used to achieve outcomes and funded through a SIB for various reasons including the need to understand the costs of those interventions, to establish whether they work, and identify whether there are providers capable of delivering them effectively (Jupp 2011 p. 8. Barclay & Symons 2013 p 16).

An important issue is the strength of the "evidence" base of interventions, especially for investors, since it increases their confidence in the programme and therefore mitigates their investment risk. In both the Manchester and Essex SIBs specific evidence-based programmes (EBPs) have not only been identified during the feasibility stage but also prescribed during the subsequent commissioning and procurement process, with Essex specifying Multi-Systemic Therapy – MST (Cabinet Office 2013, Eccles & Halilovic 2013) and Manchester Multi-dimensional Treatment Foster Care – MTFC (Manchester City Council 2012, Ashman 2013).

Elsewhere, however, there has been no attempt to prescribe a specific intervention and in the case of the Innovation Fund SIBs the identification of interventions was left entirely to providers and their investors/intermediaries during the bidding process, with the commissioner (DWP) then evaluating the interventions proposed. Subsequently, some Innovation Fund interventions have been modified during the implementation phase as a result of which 'Differences between projects in the content and structure of their interventions have tended to diminish' leading to 'more time-limited and structured interventions' (Thomas et al 2014). In Peterborough, a key strength of the SIB has been that there is no fixed intervention model, enabling both the tailoring of the intervention to individual need (Disley & Rubin 2014 p3) and the adaptation of the intervention model over time (ibid p 35).

There is clearly tension and ongoing debate about the relative merits of a defined or prescribed intervention (especially one based on an EBP) versus the flexibility and innovation enabled by no prescription. A Cabinet Office Centre for SIBs blog (2013k, quoting Tomkinson 2013) explores this issue in more detail. It is perhaps significant that the two SIBs to prescribe an intervention are in the area of Children's Services, where EBPs are more prevalent, but Birmingham City Council (2013) explicitly stated that they would not 'prescribe the services to be deployed' when commissioning a SIB/PbR in similar areas, and Cardiff Council have also resolved not to prescribe a specific intervention for a SIB aimed at children in residential care (Cardiff Council 2013).

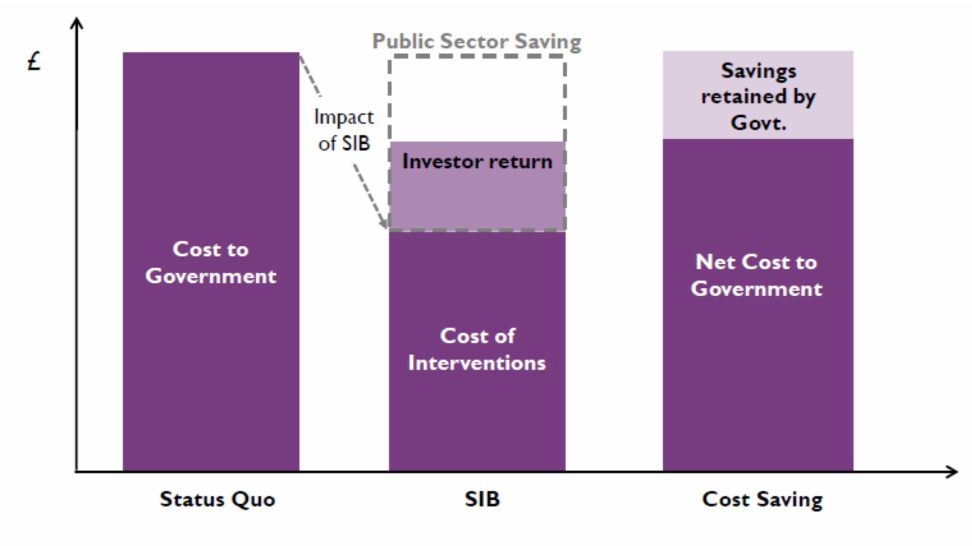
### *2.4.3.6 Developing the Financial or Value for Money Case*

At its simplest level the financial or value for money case for a SIB is a matter of determining whether the costs of intervention are lower than the savings which accrue from achievement of outcomes or, as more precisely expressed in Barclay & Symons (2013 p 19), 'SIBs work when the costs of achieving the target outcome (intervention costs plus overheads and fixed costs) are substantially lower than the level of the resulting public sector savings'. In practice a complex financial model is usually required to test the viability of the SIB at different levels of impact or outcome achievement (ibid pp 18-19). There is much guidance available on how to collect cost data and calculate savings, including from the Cabinet Office (Cabinet Office and ATQ Consultants 2013).

Two particular issues are worth noting, namely:

- **The costing of current services.** Most SIBs assume a reduction in current service costs as a result of the SIB intervention, which means that those current costs and how they will change needs to be identified. There have been challenges since the start of SIBs in identifying such current costs, especially in local government (see for example Cabinet Office 2012b pp 38-9) and this is another area where there has been central action to avoid duplication and unnecessary effort through the creation of a Unit Cost Database by HM Government and New Economy (New Economy 2013). A contemporaneous blog by Toby Eccles of Social Finance (Eccles 2014) lists ten benefits of this database, including six specific to the faster and easier development of SIBs; and
- **Whether and to what extent savings have to be "cashable".** Nearly all SIB development depends on making savings in current service costs, but the extent to which savings have to be cashable varies according to both the type of SIB and the intentions of the commissioner. The identification of cashable savings in the medium term, and the willingness of those making savings 'to use these savings to make outcome payments', is one of the five basic tests of viability of a SIB set out by Jupp (2011 p 8) and there is a diagram used widely by Social Finance (e.g. Eccles and Halilovic 2013) which illustrates the SIB model in terms of savings sufficient not only to cover all outcome payments and SIB costs, but also to enable their partial retention by government after all costs incurred. One version of this diagram is reproduced below in **Figure 2.8**.

### Figure 2.8 – Social Finance Cost Savings Illustration




However this test has evolved over time into a wider test of whether a SIB creates cashable savings (or the commissioner is prepared to fund the outcomes irrespective of cashable savings) for other reasons. Disley et al (2011 p 8) noted that the Peterborough SIB is too small in scale to produce cashable savings for government, and the London Rough Sleepers Bond is based explicitly on a business case where no net savings to government were envisaged (Social Finance & The Young Foundation 2012). Instead the case is based on the value of improved outcomes for the rough sleepers themselves who might actually add to costs as they access additional services.

Cashability[22] is also not an explicit objective of the DWP Innovation Fund, so it is arguable that only two SIBs (Essex and Manchester) are built explicitly on the achievement of cashable savings, although the IAAM Adoption Bond depends on local authority purchasers accepting that their costs will be lower if they buy the service than if the child remained in its current placement.

Barclay & Symons (2013 p 18) suggest that commissioners may pursue a SIB either because it achieves cashable savings or because it enables them to innovate with external finance, and test programmes that ‘commissioners believe may work but currently have a small but growing evidence base’. They also suggest (ibid p 14) that, ‘With the introduction of co-commissioning funds such as the Cabinet Office’s Social Outcomes Fund, it is likely to become more practical to implement SIBs where savings accrue to more than one commissioner’s budget.’

[22] The CBO and Social Outcomes Fund Glossary of Terms defines ‘Cashability’ as: *When calculating savings, commissioners calculate the proportion of those savings that can be directly realised as reductions in spending, i.e. are ‘cashable’. For instance, a reduction in children on the edge of care, will generate cashable savings because less residential places will need to be held open for them. Some savings are unlikely to be directly cashable - for example a small reduction in police call outs. The cashability of an intervention is partly linked to the scale of the intervention and may therefore be scaleable: if a SIB resulting in fewer phone calls to the police was scaled up nationwide, cash savings might be generated by employing fewer people to answer phones."*

Adrian Brown of Boston Consulting (Brown 2013) argues in a blog for the Pioneers Post that there is too much emphasis on cashable savings in SIBs and that this encourages perverse incentives, with the risk of SIBs being limited to areas where immediate and early savings can be achieved, and being used only as a way to save money. Brown argues that the main benefit of SIBs lies in the outcomes–based approach, and that they should be used solely to drive innovation, funded not by cashable savings but by money released through straight service de-commissioning[23]. However, as noted above, the majority of SIBs are not driven by cashability, and most commissioners consider innovation alongside savings in their considerations. In a direct response to this blog, Goldberg (2013) argues that, 'The lesson isn't that savings are a flawed basis for SIBs, but that we should be more selective about what interventions are funded that way' and that, 'In the many cases where sufficient savings aren't reliably available, diverting current spending to unproven innovations is likely to prove harrowingly difficult'.

### *2.4.3.7 Defining the SIB Structure and Procuring the SIB*

In some SIBs the preferred structure is predetermined by the commissioner but in others the specific SIB structure is not defined but is left wholly or partly to investors, intermediaries and/or providers to determine during the procurement process. Jupp 2011 provides guidance on the advantages and disadvantages of different structures and the different procurement routes/processes that might be used to procure them, and much of this guidance is reproduced in the Centre for Social Impact Bonds (Cabinet Office 2013l). However, as noted above, there is no literature available which evaluates the effectiveness of different models after implementation, and this is not a feature of current process evaluations. The DWP used an open competition to procure the Innovation Fund SIBs (DWP 2014), but with the exception of one short article for other civil servants (Ruttner 2013), there is little information available on the strengths and weaknesses of their approach, or lessons learnt.

### *2.4.3.8 Investors*

Much of the available literature on issues in SIB development is aimed at commissioners and there are fewer resources available which explore the issues and challenges in SIB development specifically from an investor standpoint. However many of the issues discussed at length above apply also to investors, and much of what is written has investors at least partly in mind. For example, it is equally important to investors that clear and easy to measure outcome metrics are chosen.

An important issue for investors is the level of risk they are being asked to assume in any SIB contract, and achieving the right balance of risk between investors (who under some SIB models assume both financial and delivery risk, and under others share delivery risk with providers) and commissioners. This issue arises also in PbR contracts and is highlighted by the Charities Aid Foundation (CAF) in their September 2012 discussion paper 'Funding Good Outcomes" (Charities Aid Foundation 2012 pp 5-6).

[23] The CBO and SOF Glossary of Terms defines 'De-commissioning' as: *To stop commissioning an existing service; this could be for a variety of reasons including the service no longer being required."*

One useful source that examines investor issues specifically is a joint report to Government by BSC and Bridges Ventures in November 2012 (Big Society Capital and Bridges Ventures 2012). This drew on lessons from SIB development and procurement to that point to identify five success factors to encourage social investment in SIBs and PbR. These were:

- Early and direct involvement by commissioners with investors to avoid roadblocks during later stages of the commissioning process.
- Ensuring that, if social impact is achieved, investors receive a positive return. The paper argues that, 'Payment profiles that could see meaningful social impact translate into a negative financial return are not investible. Similarly, a cap on returns for outstanding social performance without a corresponding floor to losses can create a very difficult profile to invest in.'
- The provision of early and continuous data, in as much detail a possible, to help investors evaluate the risk they are taking on. Information that is valuable to investors includes details on the target cohort and current outcomes achieved, and the impact or otherwise of existing interventions.
- Filtering the number of bidders, and/or creating a reserve list, to avoid investors having to do due diligence on a large number of proposals. Commissioners 'should only invite a very small number to bid. Alternatively, firm investor commitment can be sought after the selection of successful bidder, but a reserve list should be maintained in case no firm commitment is forthcoming.'
- Adjusting standard contract terms to reflect the nature of PBR, and to reflect fair terms given the outcome payments context – avoiding for example short notice termination clauses.

The need for early investor engagement is widely endorsed and is recognised in Jupp 2011 and most SIB feasibility studies and business cases (e.g. Manchester 2012). There is little else with which to triangulate these findings in other sources although the complexity of contracts is noted in relation to Peterborough by Disley et al (2011 p 15).

#### *2.4.3.9 Providers*

There has been very little literature considering the issues and challenges of a SIB from the provider standpoint, with nearly all literature (see above) being aimed at or reflecting the viewpoint of commissioners and SIB development from their standpoint. However a recent report by New Philanthropy Capital (NPC) has specifically addressed this and looks at SIBs from the standpoint of providers (Rotheroe 2014). This report identifies a number of key lessons for providers within SIBs including:

- The need for providers to adapt to the flexibility offered by SIBs, and the range of different models emerging, tailored to local needs and circumstances. The report notes that this flexibility is also a barrier for charities, who find SIBs overly complex and often lack the knowledge, skills and resources to make the most of the plethora of options available.
- The importance of preparation and keep it simple wherever possible, since setting up a SIB is a major undertaking for a charity and takes huge commitment by both the executive and trustees.
- The need for charities and others not to underestimate the difficulty of delivering to a new business model. For example staff may need to adjust to changes in their working practices, such as measuring progress on a daily basis, and have in place flexible resource structures which can be adapted to meet unexpected patterns of demand.
- Recognition that management of the SIB can be complex, since SIB structures bring new stakeholders for service providers to manage. In addition to the commissioners, there are investors and usually a SIB delivery organisation, distinct from the service provider on the ground.

- The importance of strong outcome measurement and a sound understanding of the outcomes to be delivered, and the means by which this takes place, allows outcomes and payment measures for payment by results to be sensibly aligned.

With regard to other sources, a report by the NSPCC strategy unit (NSPCC 2011) considered the broader benefits and challenges of PbR including SIBs for providers of children's services. In the main this discussed issues which have already been identified elsewhere in this review (such as the importance of identifying and measuring outcomes, and managing the cashability of savings) as opposed to issues which are specific to providers.

While Disley et al (2011) and Disley & Rubin (2014) included providers in their process evaluations of Peterborough, there is little in these reports that is relevant to the issues and challenges specifically faced by providers. However Disley et al (2011 p 15) identified that the SIB mechanism, when as in Peterborough it involves an intermediary-led delivery agency interposed between commissioners and providers, has potential implications for providers in that 'government delegates a role and relationship that it formerly held with service providers through which it might be able to direct and control service delivery more closely'. In other words, providers no longer have a direct relationship with the commissioner.

In addition, Disley & Rubin (2014 p 40) refer to the monthly, detailed monitoring of performance to which providers are subjected under a SIB as a result of closer management by investors and their representatives, and the fact that 'This was more detailed management than would normally be expected in a commissioner-provider relationship'. While no broad conclusions are drawn from this, it suggests that SIBs might pose a challenge for providers because of the greater oversight and performance management demands that they impose.

#### *2.4.3.10 The Cost and Complexity of SIBs*

An issue which emerges in the literature and which is common to all stakeholders is the potential cost and complexity of SIBs. Disley et al identify six major contracts underlying the Peterborough SIB (2011 p13) and include a complex schematic (ibid, Figure 1, p17) showing the processes through which those six contracts were developed (reproduced at Annex B). Disley et al also comment (2011 p15) that all the key parties, including investors, found the process of contract negotiation complex and time consuming, with Social Finance investing 2.5 years of resource and 300 hours of pro bono legal advice into the development of the SIB.

While there are some unique and unusual features to the Peterborough SIB (such as its newness, and the need for additional contracts that would not be needed elsewhere, like a separate contract with the private Peterborough prison) it is clear that existing SIBs are taking a long time to develop and their structures, involving a minimum of three parties in commissioner, provider(s) and investor(s), as well as intermediaries in many cases, make them inherently more complex than conventional fee for service or even PbR contracts[24] For example Merrett (2012 sec 2) highlights concern about high transaction and set up costs in the context of the Big Lottery Fund's learning about SIBs, and the Early Intervention Foundation (2012 p12-13) highlight the intensive nature of SIB development and point out that the Essex SIB took 23 months and the London Rough Sleepers Bond took 19 months. Since the Manchester SIB started at about the same time as Essex, in early 2011 (Social Finance 2011), and was completed some 18 months later (Bridges Ventures 2014) it appears to have taken well over three years to complete.

[24] Although PbR contracts might involve the raising of external capital by a provider, this would be a matter only for the provider, and would not complicate the relationship with the commissioner, which would be similar to a fee for service contract.

Similar conclusions emerge from the process evaluation (KPMG 2014) of the development stage of the pilot Social Benefit Bonds in New South Wales, Australia – see section 2.4.4.2: International Comment and Reports).

HM Government (Cabinet Office 2013k) have taken steps to address the time and cost associated with developing the legal arrangements of a SIB by developing a template contract for SIBs and other PbR contracts. It will be interesting to see whether this and other tools already referred to in this review (such as the Unit Cost Database), are used by commissioners and others and help to reduce the time and cost needed to develop further SIBs.

### 2.4.4 Wider Debate about SIBs

This section looks briefly at some of the wider debate about SIBs and the questions they raise. There is extensive informal literature in this area in the form of articles and commentaries in both the national press and specialist journals, and more detailed commentaries or think pieces from those with an interest in public sector reform, social and other investment, and/or the VCSE sector. However much of this literature, while appearing technically sound and showing a good understanding of the SIB concept, adds little to the wider debate and is mainly commenting on major events in SIB development or summarising the SIB approach for a new/different audience[25]. In addition almost all this literature, as previously noted, comes from non-academic sources and is essentially opinion, with little supporting evidence. We have focused in this section on literature which goes further than basic commentary, or adds a new or broader slant to the issues, and have grouped our analysis into:

- wider comment about the benefits and drawbacks of SIBs in the UK, especially from an ideological standpoint; and
- international comment and reports on SIBs

#### *2.4.4.1 Wider and Ideological Comment about SIBs*

While most comment on SIBs is neutral or broadly favourable (while reserving judgement given their immaturity as a concept) some have been critical of SIBs in principle. At national level, Polly Toynbee of the Guardian (Toynbee 2011) wrote a highly critical piece in the wake of the second Graham Allen Report on Early Intervention (Allen 2011) that advocated the use of SIBs or another form of bond to fund early intervention. Toynbee argues that such 'bonds' make only a marginal difference, will allow intermediaries and others to 'cream off' profit and, fundamentally, 'the state borrows money for 1% less than private investors. This is inordinately complex financial engineering to take public spending off current accounts – paying a higher future price.'

The Toynbee piece led to a direct riposte from James Perry of the leading social investor Panaphur (Perry 2013). Perry argues that Toynbee appears fundamentally to have misunderstood the SIB concept[26] and that:

'Social Impact Bonds, for all the questions surrounding them, offer a new tool with the potential to redefine the way in which welfare is delivered, and fundamentally alter the role of the state. Rather than 'provider of services', the state becomes a 'procurer of outcomes'.

[25] For example, the Economist has published three articles on SIBs, one about the Rough Sleepers Bond (2013a) (2013b), one about Peterborough and one about the Adoption Bond (2013c). All show good insight into the SIB concept but do not make any significant new points about either their challenges or potential.

[26] This may be the case. Toynbee does not refer specifically to SIBs, and may have been misled by the term and its potential confusion with conventional bonds, since she refers to bonds being sold as part of ISAs. However the Allen report does posit the idea of other types of bond for early intervention.

There has also been criticism in specialist journals and press, notably an article in the Journal of Poverty and Social Justice (McHugh et al 2013) which 'provides a rounded critique of social impact bonds' and argues, among other things, that SIBs will create pressure for social enterprises to grow substantially or amalgamate in order to become more suitable for SIB finance. McHugh et al also argue (2013 p 253) that SIBs are 'the latest stage in an ideological shift which favours removing delivery of social and welfare services from conventional public or third sector providers'. One of the contributors to this article also writes a blog (Huckfield 2014) which is highly critical of SIBs, social investment and public service mutualisation on similar grounds.

Similar criticism can be found in a paper by a social enterprise, Cancook (Davison 2013), which argues that there are significant drawbacks to the shift from grant to investment finance for social enterprises (and therefore by implication to SIBs, although SIBs are not specifically mentioned in the paper). These drawbacks include the relative costs of raising finance and becoming 'investment ready'; and the fact that programmes that are grant fundable may not be investable.

These types of critique are, however, relatively isolated and there appears to be relatively little literature opposing SIBs on ideological grounds. Nicholls and Tomkinson (2013 p7) set SIBs in the wider context of a thirty-year shift to more commercial models of service delivery by governments around the world (without criticism of that shift) but there have been few other commentators who have made this wider contextual link in either a positive or negative way.

A more focused debate about the merits or otherwise of SIBs has been sparked by the recent decision not to continue the Peterborough SIB beyond 2015, when the second (of an original three) cohorts of 1,000 prisoners will have completed the programme. This is due to the impact of wider changes to criminal justice and the commissioning of prisoner rehabilitation through the Transforming Rehabilitation programme, rather than a failure of the SIB. However, it has inevitably led to discussion of SIBs and their future as a concept.

An example of the more critical comment there has been in the wake of the Peterborough decision can be found in an article in Third Sector magazine (Third Sector 2014). This argues that, 'the Peterborough prison decision has reinforced the views of some sceptics' and quotes Greater Manchester Centre for Voluntary Organisations and Voluntary Sector North West, with the latter's Chief Executive arguing that 'SIBs are 'over-hyped", with the case not proven and highly irrelevant to the vast majority of the voluntary and community sector'.

Both the Institute for Government (IoG) and the Guardian have however published more thoughtful and balanced articles, with views from a range of contributors, on the future of SIBs after the Peterborough decision was announced... In the former, Randall (2014) reports on the outcome of a roundtable on the future of SIBs held by the IoG in partnership with Big Lottery Fund. This reports on a live and positive discussion which acknowledged 'frustration that the model has yet to become mainstream policy' and identified a number of concerns with the SIB model, but also was 'positive, practical, and different to others I've attended in the past' with 'greater engagement with the more important – but difficult – question of how [SIBs] would be spread more widely.'

In the latter (Cahalane 2014), the Guardian brought together a range of contributors representing the voluntary sector, Social Finance, Action for Children and others to give their views, and all were positive about the future for SIBs, albeit with reservations. The views of Action for Children's David Derbyshire are especially noteworthy, commenting that, 'this type of social investment is going to keep growing in children's services as it provides a source of additional funding when public spending is constrained'.

#### 2.4.4.2 International Comment and Reports

In this section we consider at high level some of the commentaries, articles and reports about SIBs and their development outside the UK. Again we have ignored press and other articles which simply comment on earlier announcements of new SIBs or on SIBs elsewhere (there are numerous articles commenting on the Peterborough SIB and its relevance in other countries and to other governments, for example).

#### 2.4.4.3 United States of America

There is now extensive literature on SIBs or 'pay for success' (PFS) bonds and their development in the USA, including a pay for success website and learning hub (Pay for Success Learning Hub) which provides an impressive repository of news, guidance and commentary on all aspects of PFS bonds and their development. The site shows an extremely dynamic and growing market for PFS with numerous bonds under development in e.g. Illinois, San Francisco and Washington DC.

The USA was relatively quick to see the potential of the SIB approach, possibly because of the availability of federal and state funding[27]; and/or the use other funding, as noted in section 3.4.2 of this review, to de-risk pay for success bonds for investors. Only a few months after the launch of the Peterborough SIB, in February 2011, the Center for American Progress (Liebman 2011) produced a report on SIBs and made the case for testing their use in the US. A subsequent report by McKinsey in 2012 (Callanan et al 2012) seems to have been influential in setting the agenda of the development of SIBs/PFS in the US. It was, however, written when Peterborough was still the only 'live' SIB and, while it had some useful insights at the time, it does not appear especially significant now that SIBS and PFS are more developed.

A good example of the way the market has developed in the US (and the vitality and variety of thinking around PFS) is a special edition of the Community Development Investment Review from April 2013 (Community Development Investment Review 2013). A product of the Federal Reserve Bank of San Francisco and its Center for Community Development Investment, this contains no fewer than 22 articles on the purpose and context of SIBs and PFS, roles and responsibilities in their development, and their potential application in specific outcome areas and services.

#### 2.4.4.4 Australia

In Australia, the New South Wales Government website (NSW Government 2013) provides factual background to the pilot of two 'Social Benefits Bonds' (SBBs) in the state, the only 'live' SBBs in Australia. This pilot has generated the most significant document to date on SBBs which is the first report of an independent process evaluation of the two NSW SBBs by KPMG. KPMG's report (2014) on the joint development of the trial, across both SBBs, comes to strikingly similar conclusions to those arrived at by Disley et al 2011 and other sources on the challenges of SIBs/SBBs and lessons for future development. In particular it notes that:

- development of skills within NGOs and government in measurement, contracting and financial modelling are vital;
- as a result of no precedent and contracting templates in NSW, each bond took many months to negotiate;
- there were challenges in the measurement and capture of savings, and difficulties in determining outcome measures; and
- the trial demonstrates both financial and contracting innovation.

[27] The Obama Administration's 2012 Federal Budget included[provision of up to $100m for pay for success bonds (The White House Office of Management and Budget 2012)

As in the US, there has been extensive comment on the development of SBBs but there is no equivalent of the US pay for success hub in Australia. However a paper recording output from the first Social Finance Forum in Australia, which focused on SIBs and was held in September 2012 (Tomkinson 2012), provides a useful synopsis of views on the development of SBBS in Australia across government, providers and investors.

#### *2.4.4.5 Europe*

As SIBs have been slower to develop in Europe, there has been less literature on the concept and what there is tends to be linked to current SIBs. Notably, Vennema & KoeKoek (2013) produced a paper for ABN AMRO on the potential of SIBs in the Netherlands following their involvement in the pilot Rotterdam SIB.

## 2.5 Level of Impact Achieved by SIBs to Date

### 2.5.1 Introduction

This section summarises the literature relating to the impact of SIBs to date.

Although all the 15 SIBs in the UK are subject to independent impact evaluation in one form or another, the only independent evaluation of impact to have yet been published relates to the first cohort of offenders that have received interventions funded by the Peterborough SIB. In addition some interim findings on impact, outside the scope of the formal impact evaluations, have been published in relation to the Peterborough SIB, the DWP Innovation Fund pilots and the London Homelessness Bond. We review the available evidence of impact in relation to these SIBs below.

### 2.5.2 The Peterborough SIB

The Peterborough SIB is subject to two separate and independent evaluations:

- a process evaluation by RAND Europe. Two reports on the process evaluation have so far been published on the development and early stages of the SIB (Disley et al 2011) and a Phase 2 report published in April 2014 (Disley & Rubin 2014);
- a form of impact evaluation through an independent assessment of whether the SIB is achieving the required outcomes that will trigger payment. This is being carried out by Leicester University in partnership with QinetiQ (Cave et al 2012).

#### *2.5.2.1 The Process Evaluation*

Both the Peterborough process evaluation reports, as one of the few independent sources of research into SIBs in the UK, have already been extensively referenced earlier in this review. The first report considered only the development of the SIB, but the second addressed, as one of five research questions (Disley & Rubin 2014 p, 1), 'How, if at all, did the pilot lead to better outcomes of reduced reoffending (including the role played by voluntary and community sector organisations and partner agencies)?' In response to this question, Disley & Rubin (ibid p3 and pp 18-33) report a number of findings on the process followed in Peterborough which indicate that it is likely to lead to good outcomes.

### 2.5.2.2 The Independent Assessment

The role of the independent assessor (Cave et al 2012 p2) is to measure the impact of the Peterborough SIB by:

- designing and confirming the validity of the independent comparison group against which additionality will be measured, and which has been developed using Propensity Score Matching (PSM); and
- confirming (or otherwise) whether the SIB has achieved the requisite reduction in reconvictions to trigger payments under the SIB.

This independent assessment of the SIB is being carried out in three phases (Ibid p4-5):

- Development of measurement approach:
- Development of the PSM methodology;
- Assessment of the validity of the PSM methodology for the contractual purpose of determining payments to investors under the SIB;
- Cohort 1 PSM analysis; and
- Cohort 1 outcome analysis.

### 2.5.2.3 Development of Measurement Approach

Cave et al 2012 is the first report by the Independent Assessor and is a highly technical and detailed report covering the development of the PSM methodology and assessment of its validity. It explains how the assessor constructed the statistical sample using PSM and then confirmed its validity.

### 2.5.2.4 Cohort 1 PSM and Outcome Analysis

In August 2014 the Independent Assessor published the results of the Cohort I PSM analysis and outcome analysis, covering activities 2 and 3 above (Jolliffe and Hedderman 2014). This is arguably the most important evaluation of impact in relation to any SIB that has been published to date in the UK, since it is wholly independent of any party to the SIB and follows the rigorous comparison and measurement methodology, based on PSM, agreed by all contractual parties when the SIB was initiated.

Jolliffe and Hedderman explain in considerable detail how the PSM comparison group was constructed and how, following data cleaning and the exclusion of some missing data, it was used to match 936 offenders released from Peterborough (and comprising Cohort 1), with a 10:1 comparison group of 9,360 prisoners released from other prisons. The Peterborough cohort and comparison group were matched on 36 out of 38 variables, which the Independent Assessors concluded was 'sufficiently accurate and robust to support a reconviction analysis' (ibid p.3).

In terms of impact, the report shows (ibid p 26 and **Table 2.2**) that there was an average of 1.42 reconviction events for each prisoner in cohort 1, compared to 1.55 reconviction events for the comparison group (see **Table 2.2** below).

**Table 2.2 – Comparison of Reconviction Events for Peterborough SIB**

| | Number of prisoners | Number of reconviction events | Average Per Person |
|---|---|---|---|
| Peterborough Cohort 1 | 936 | 1,330 | 1.42 |
| Other prisons (PSM) | 9,360 | 14,523 | 1.55 |

The Peterborough SIB therefore achieved a reduction in conviction events of 8.4%. As the report notes, this is less than the 10% reduction required to trigger early payments under the SIB.

Both the Ministry of Justice (2014d) and Social Finance (2014) have welcomed these results as positive and indicated that, if sustained, they are likely to lead to investors receiving impact payments once the results of the analysis of outcomes from the second (and now final) cohort are available in 2016. This is because payments are triggered by a reduction in reconviction events of 10% in relation to a single cohort, but a lower threshold of 7.5% across both cohorts.

### 2.5.2.5 *Interim Analysis by the Ministry of Justice*

While the above report form the Independent Assessor is the more robust analysis of the impact of Peterborough (and the one which determines outcome payments to investors), we should also note that the Ministry of Justice produced an interim analysis of the impact of Peterborough in June 2013 (Ministry of Justice 2013a), alongside results of the Doncaster prison PbR pilot[28]. These first results were published in an ad hoc statistical notice and were subsequently updated in the regular quarterly bulletins of Proven Reoffending Statistics. Through the latter, further interim figures were published for the Peterborough SIB in October 2013 (Ministry of Justice 2013b), January 2014 (Ministry of Justice 2014a) and April 2014 (Ministry of Justice 2014c).

These statistical releases show in each case how the reconviction rate under the Peterborough SIB compared to both reconviction rates in Peterborough in previous years and to national reconviction rates. The comparative figures (See **Table 2.3**) show in each case that for offenders released from Peterborough:

- the average number of re-conviction events per 100 offenders was lower than comparable figures in previous years, and lower than equivalent figures for England as a whole; and
- the average number of reconviction events fell, while the equivalent national figures rose.

These figures appear, therefore, to further support the Independent Assessment as measured by the PSM analysis, that the Peterborough SIB is having a positive impact on reoffending, albeit based on a different basis of comparison and one which is not as robust as the PSM methodology. This latter point is acknowledged by the Ministry of Justice in each statistical bulletin, and similar caution was expressed by Social Finance (Social Finance 2013) and by Professor Carol Hedderman of the Independent Assessment team (Shaw 2014).

**Table 2.3 – Peterborough Interim Reconviction Figures**

| Date of statistical release | Peterborough Cohort and period of comparison | No. of reconviction events per 100 offenders under SIB | Percentage change compared to pre - SIB period (Sept 2008 – June 2010) | Equivalent percentage change nationally |
|---|---|---|---|---|
| June 2013 | First 19 months of Cohort 1 (6 month reconviction figures) | 81 | – 6% | + 16% |
| October 2013 | First 16 months of Cohort 1 (12 month figures) | 148 | – 12% | + 11% |
| January 2014 | First 19 months of Cohort 1 (12 month figures) | 148 | – 9% | +10% |
| April 2014 | Full 22 months of Cohort 1 (12 month figures | 141 | – 11% | + 10% |

[28] The Ministry of Justice regards both Peterborough and Doncaster as pilots of different approaches to PbR. Peterborough is also a SIB, but Doncaster is not – there is no social investment, and payments are linked to the impact of the company running the prison (Serco) in reducing reconviction among those released from it.

### 2.5.3 The Innovation Fund Pilots

The DWP Innovation Fund Pilots are also subject to both process and impact evaluation, which are being undertaken by Natcen and Insite Consulting (Natcen 2013). As explained earlier in this review, a short report on early findings from the process evaluation (Thomas et al) was published in April 2014. At the same time the Department published (DWP 2014) figures showing starts to date – i.e. the number of young people who are now receiving support and interventions under one of the ten SIB pilots. DWP 2014 shows that, in total, 10,700 young people had started participation in Innovation Fund projects up to the end of October 2013, of which 8,600 are participating in Round 1 projects, and 2,100 in Round 2 projects.

No data have yet been published on the achievement of outcomes relating to the Innovation Fund SIBs. The final results of the external evaluation are due to be published in January 2016 (Natcen 2013).

However in July 2014 the first full report form the process evaluation, covering early implementation, was published (Thomas and Griffiths 2014). This expanded on the April 2014 report and includes some findings which give indications of progress and likely future outcomes. The report found, among other things, that:

- the Innovation Fund SIBs had encouraged proactive performance management by intermediaries, investors and providers;
- there had been some profiling of project starts and outcomes, especially among round one pilots, and following readjustments, projects were progressing well;
- overall, projects had seen an increase in targeted lower level qualifications, and in behavioural and attendance outcomes suitable for younger cohorts;
- projects most comfortable with the SIB funding model appeared to be those undertaking more time-limited, preventative interventions with school pupils; and
- the projects experiencing the greatest delivery challenges were those targeted on young people already Not in Education, Employment or Training (NEET), and those primarily working towards longer-term outcomes.

It is also worth noting that some internal reviews of performance on DWP SIBs have been published and tend also to support the positive view of progress reported above. For example , an internal report by Social Finance on the two SIBs it is managing under Round 2 of the innovation Fund (through Adviza and Teens and Toddlers) claims that both are showing good progress in achieving soft outcomes (Social Finance 2014b).

### 2.5.4 The London Homelessness Bond

In September 2014 the Department for Communities and Local Government (DCLG) published an interim qualitative evaluation on the London Homelessness Bond (ICF GHK 2014). While this was a qualitative evaluation it did include some commentary on early indications of performance and impact, based on data relating to four of the five key outcomes on which payments under the Bond are predicated. The Bond aims to reduce rough sleeping by homeless people in London, move them into sustainable accommodation, and achieve further positive outcomes including sustained reconnection to home country (where appropriate), progress towards employment, and improved physical health. Interventions are delivered by two providers, St Mungo's and Thames Reach, each of which delivers to half the cohort under different and separate SIB contracts and structures.

- Data was not available for the outcome relating to improved physical health, but for the other four outcomes the review does include early indications of progress and outcome which can be summarised as follows for each of the four outcomes:**Outcome 1 - Reducing**

**rough sleeping:** The programme fell short of the quarterly targets for reducing incidents of rough sleeping below the baseline measure, with 82 fewer clients being identified (against a target reduction of 121, representing 68% of target reductions.

- **Outcome 2 - Into stable accommodation**: The target set for clients entering stable accommodation was exceeded, with 139 individuals entering accommodation against a target of 94 (representing 148% of the year one target, and almost half (45%) of the target for Years 1 to 4).
- **Outcome 3 - Sustained reconnection to home country**: Performance under the reconnection outcome had fallen behind target, with 46 initial reconnections achieved against a target of 104 (representing 44% of target)
- **Outcome 4 - Progress towards employment**: Performance for qualifications achieved, and volunteering and part-time employment secured, was below target, but the targets for full time employment (although based on small numbers) were exceeded.

Based on very early and incomplete data, therefore (and reported as part of a qualitative rather than impact evaluation) it appears that the results from the London Homelessness Bond can fairly be described as mixed. Across the four outcomes for which data is available, performance exceeded target on one outcome (Into Stable Accommodation) and part of another (Progress Towards Employment). Performance was below target on part of the employment outcome, and on Reduced Rough Sleeping and Sustained Reconnection to Home Country.

# 3.0 Perceptions of SIBs: Findings from Surveys and Consultations with Stakeholders, Investors, Commissioners and Providers

## 3.1 Introduction

In this chapter we report on the findings from the stakeholder consultations and the three surveys undertaken as part of the Scoping Stage. In Chapter Five: Conclusions, we use our wider knowledge of the SIB market to offer some further insight as to why respondents may have answered in the way they did. To protect the anonymity of stakeholders, their views have been merged within the sections in this chapter.

### 3.1.1 Survey Methodology

We adopted a purposive sampling approach in creating the sample of investors, commissioners and providers to participate in the surveys. We consciously decided to not undertake surveys with all investors, commissioners and service providers as we did not believe they would produce useful findings: SIBs are a fledgling concept and therefore the vast majority of respondents would have had limited awareness and would not be able to provide detailed answers to the questions. In creating the sample, we selected stakeholders who fit into four categories:

- Stakeholders involved in a SIB
- Stakeholders who have shown interest in SIBs
- Stakeholders likely to have a view on the SIB model (including those who have been previously consulted)
- Stakeholders known to be active in social investment.

We used the following sources to identify stakeholders fitting into these categories:

- Literature Review
- Stakeholders already known to us through previous work
- Stakeholders identified by other stakeholders during the Stakeholder Consultations.

For each group (investors, commissioners and service providers), we asked questions structured around the following themes:

- Awareness and understanding of SIBs
- Perceptions of SIBs
- Experience of SIBs
- Knowledge of CBO Fund.

The Commissioner and Service Provider Surveys were surveyed through an e-survey. The Investor Survey was undertaken through semi-structured telephone or face-to-face consultations. The rationale for this difference was that the Investor Survey was likely to be more complex, and the sample population more diverse, and therefore a semi-structured survey allowed for more variation and flexibility in the questioning. Our reporting method in this section reflects this variation: we have included a large amount of quantitative data for the responses to the Commissioner Survey and Service Provider Survey; conversely we have included a large amount of qualitative data for the Investor Survey.

Due to the purposive sampling approach, it is important to be aware of the limitations of the surveys when analysing and interpreting the results. The surveys are not representative of the views of all investors, commissioners and service providers, and to some extent probably over-represent the views of those actively engaged with SIBs and their development. However, these surveys are still useful, as we can understand from them the motivating factors, and barriers to engagement, of people already aware of, and interested in, SIBs.

## 3.2 The Perceptions of Social Investors: Findings from the Investor Survey

### 3.2.1 Introduction and Methodology

This section summarises the findings from the survey of investors. The interviews were carried out over a number of weeks in June, July and early August 2014.

### 3.2.2 Characteristics of Respondents

#### *3.2.2.1 Number of Respondents*

In total, 19 investor organisations were interviewed, out of 30 contacted (63% response rate).

#### *3.2.2.2 Type of Respondents*

The 19 investors interviewed can be grouped into three main types, as follows:

- Eight were specialist social investors which have moved into the SIB market in a more structured way.
- Five were Foundations and Trusts which traditionally gave grants and were attracted to the SIB model by the potential to recycle funding and get better alignment with social outcomes. Most of these were first engaged by Social Finance in the context of the Peterborough SIB.
- Six were associations, intermediaries, banks and fund managers who were already involved in the social investment market. In various ways some of these first entered the market as a result of the spur provided by the DWP Innovation Fund (see Chapter 2: Subsequent Development of SIBs in the UK). Others, and especially high street and investment banks, have moved into social investment as a result of a broadening of their Corporate Social Responsibility (CSR) agenda.

#### 3.2.2.3 Level of Involvement in SIBs

Of the 19 investors and intermediaries we interviewed 15 are directly managing their own and others funds, and can therefore make SIB investments. Of these 15, 12 have done so. All of these 12 have made more than one SIB investment, with seven the highest individual investor tally. A number were prepared to disclose the nature and scale of the investment; where they did not details are in many cases available from other sources – further details are provided in Chapter 2: Characteristics of Existing SIBs.

### 3.2.3 Awareness and Understanding of SIBs

#### 3.2.3.1 Level of Understanding

All interviewees rated their own individual understanding of SIBs as high, which might be expected as we were interviewing those with direct responsibility for SIBs and/or the evaluation of them as investment opportunities). However, interviewees indicated that the pool of individuals within their respective organisations that held a similarly high level of awareness and understanding of SIBs was generally narrow.

In effect, it appears that full awareness and understanding of SIBs within social investment organisations is at present limited to the specialists such as those to whom we were speaking, although others within the organisation may have a more general understanding of the SIB concept.

#### 3.2.3.2 How Heard About SIBs

The majority of investors (17 out of 19) knew about SIBs through word-of-mouth within the social investment community or because they were engaged by specialist intermediaries or directly by government policymakers. Other channels through which investors might learn about SIBs (e.g. conferences) were not much used.

Three respondents reported that institutional awareness is growing slowly but investors were encountering barriers that deterred them. For example, where institutions have taken the time to find out about SIBs, the feedback reported is that the risk / reward balance 'is wrong' i.e. the rewards to investors (especially where capped by commissioners) do not balance the risks.

Few respondents had views on how this could be changed except by either increasing the scale of SIBs (so that they become more attractive due to higher value) and/or providing some kind of 'first loss' finance (where government or another funder guaranteed to return investors a defined proportion or value of their investment, irrespective of impact achieved) which would reduce investment risk and enable institutional investors to become more easily and readily involved – along the lines of the type of finance that has been used to support SIB type models in the US and Australia (see Chapter 2: Characteristics of International SIBs).

### 3.2.4 Perceptions of SIBs

#### *3.2.4.1 Motivations for Getting Involved*

The reasons for investment varied according to the type of organisation (see above on broad types of investing organisation). In summary, the reasons for investment included:

- **Interest in an innovative financial product:** Foundations and Trusts in particular had initially been attracted to the model by the Peterborough SIB (see Chapter 2: The History of SIBs) because it was an innovative financial and service solution that they considered worth supporting. Banks, too, cited 'finding out more' about such an innovative financial product as a motivation for funding SIB investment opportunities;

'We were really excited; we thought this was a genuinely innovative approach and one that we ought to support in principle'.

- **Highly visible and better alignment of funding to improved social outcomes:** Driving social change has always been a high priority for grant-giving organisations and one of the key strengths of SIBs, mentioned by five respondents, is that SIBs offer opportunities to better align (previous) grant funding with desired social outcomes;
- **Extension of previous social sector involvement:** A number of others had entered via the DWP Innovation Fund and saw it as a natural extension of previous involvement with social investment, or the Social Enterprise (SE) sector;

'We already knew the providers could deliver, so why not try the SIB approach?'

- **Greater benefits for service providers:** Two investors explicitly highlighted that SIBs, depending on structure, had been attractive to them and their service provider partners because they are a potential way of ensuring that service providers gain a fair share of the benefits of delivering good performance and share in the financial returns of doing so;
- **Recycling of funding:** For some Foundations, which have traditionally distributed investment returns as grants, SIBs, in theory at least, offer the potential to put more money to work in the expectation that a fair amount, if not all of it, will be returned. This was mentioned by two respondents but does not appear to be as important a motivation for investment in SIBs as some claim;
- **Intermediary expertise and levels of trust:** The introduction of BSC and additional funding for intermediaries has changed the market somewhat. Certain specialists such as Bridges, Triodos and Social Finance have invested in the capacity to carry out due diligence on deals and take them 'fully formed' to other social investors: thus simplifying decisions for those organisations that usually only consider co-investment.

When asked specifically what analysis and due diligence investors had carried out, and when and how it had been done, specialist investors who had invested in building in-house expertise indicated that they tended to do their own due diligence, and that it could be time consuming. Others with more limited internal resources (Foundations and Trusts) relied on analysis carried out by intermediaries (notably Social Finance and Triodos) as regards financials and the achievement of outcomes, or had asked specialists such as Bridges to manage and invest funds on their behalf. This was in part so that they had access to the necessary due diligence expertise.

The limited evidence base for the achievement of outcomes was highlighted by seven respondents as a challenge in completing due diligence. Where limited evidence is available, investors tended to fall back on two other routes to satisfying themselves as to the security of their investment, namely:

- **Hands-on review of the delivery capacity and capabilities of the service provider organisation(s)**: This was sometimes supported by prior experience and working knowledge from earlier grant-funding relationships; and
- **Encouraging the use of 'High Fidelity' Evidence-based Programmes'**: This is where providers deliver a prescriptive and process-driven intervention that allows investors to substitute confidence in the intervention for due diligence of the provider.

There appeared to be no occasion on which an investor had engaged a specialist provider of due diligence, except in relation to legal advice on contractual matters or associated diligence. In general, legal support and due diligence had been bought in, but had often been shared between investors (and sometimes had been provided pro bono).

### *3.2.4.2 Barriers to Getting Involved*

Among investors in SIBs to date, one has chosen not to invest in any further SIBs as it felt there was enough funding capacity now in the market. Another investor (a Charitable Trust) remains committed to SIBs in principle but has at present stopped investing because it has reached an agreed ceiling for SIB investment within its overall social investment portfolio.

Where investors had chosen not to invest in SIBs, the main reasons cited for this were that:

- They did not believe that SIBs offer appropriate risk-adjusted returns (i.e. the risk is too high for the return); and/or
- They thought the SIB model is too complicated. Similarly, one stakeholder interviewed as part of the Stakeholder Survey reported that SIBs are only one type of investment option available to social investors; their relatively complex nature may put off some social investors from these other more straightforward investment opportunities.

*'We think there are easier and better ways to put our money to work'.*

*'It's hard to see commissioners wanting to talk about the structure of SPVs on a Monday morning'.*

Some investors referred specifically to the early termination of the Peterborough SIB and indicated that it was likely to have a dampening effect on the market, with comments along the lines of how the decision to stop Peterborough showed that, however valid the reasons, investors always have to remain wary of changes of government policy and the election cycle.

Some investors also indicated that SIBs were only viable above a certain value level. Origination costs and on-going contract performance overheads are currently high and this generally means SIB values have to be greater than £1m to justify the costs.

### 3.2.5 Experience of SIBs

#### *3.2.5.1 Benefits*

When asked whether they were getting the expected social and financial returns from SIB investments to date, a number of investors said that it was 'too early to tell' because of the time lag between intervention, outcome and payment.

However, a number of investors did give broad indications that they were happy with progress to date, and in some cases indicated that they had been receiving outcome payments. While we would not expect investors publicly to admit to any significant SIB performance shortfalls or failures, at the same time no hints were given that currently active SIBs were causing concern.

There was strong and consistent consensus that the four key benefits of the SIB model (each mentioned by five respondents) were:

- **Ability to innovate through 'black box'[29] specification:** Lack of prescription around inputs by commissioners has "*been empowering"* and allowed service delivery models to adapt beneficially in some SIBs to date – notably Peterborough where the final delivery model was very different to that envisaged at the outset;
- **Alignment:** Greater alignment of social and financial returns, with the two being mutually reinforcing and 'mission aligned' with the objectives of providers;
- **Performance management:** Strengthening of the contract and performance management capability of service providers. Investors reported that it had been "*eye-opening"* for some service providers, in particular, to adapt delivery management in order to drive towards outcomes effectively. The process has been reinforced by the contract performance management oversight operating in the Special Purpose Vehicle (SPV) itself on behalf of investors; and
- **New capital:** Bringing new capital to bear, especially where this enables small providers to deliver services without having to assume financial risks normally associated with Payment by Results (PbR) contracts.

Several investors said that SIBs created a novel and strong alignment of interests between commissioners, providers and investors. This comes to the fore when making adaptations to the delivery model quickly and in the interests of all parties. Some investors contrasted the SIB model with a traditional commissioner / provider contract, where changes to the contract and delivery model can be difficult to make and, even if agreed, will need to follow a variation order, or similar formal and time-consuming contract change procedure. With a SIB contract, there is an interest from all parties – commissioner, provider and investor – in moving quickly to solve problems, stop what is not working and do more of what is if the result is more/better outcomes and ultimately improved social and financial returns.

*'The SIB creates a win – win – win situation.'*

[29] The CBO and SOF Glossary of Key Terms defines the 'black-box approach' as: '*When procuring an intervention, the commissioner can specify the intervention or leave this to the bidder. The latter approach is called the 'black box' approach to delivering outcomes because the commissioner doesn't specify what the intervention should be; they simply agree to pay for outcomes if they are delivered'.*

### *3.2.5.2 Challenges*

When asked about challenges, investors indicated that SIBs are a 'good solution in the right place' but are not universally applicable to all circumstances.

A strong perception exists among some investors that the SIB model can be made unnecessarily complicated by both commissioners and intermediaries. There was also some criticism of central government-led SIBs (i.e. the DWP Innovation Funds, Fair Chance Fund (FCF) and Youth Engagement Fund (YEF)) because of:

- **Over-prescription** of what providers and investors could and could not do to meet the terms of each Fund – for example the FCF encourages co-investment by providers, while the YEF forbids it; and
- The need for intermediaries and investors to become involved in a **large number of deals**, many of which would not be approved through the competitive process leading to much wasted cost and effort.

A linked issue is that transaction costs (and contract management costs once the deal is done) are high and a deterrent to more SIBs.

A further challenge mentioned by some investors was where commissioners have capped upside returns – i.e. if outcomes are not achieved all investment is lost but if outcomes exceed a specified level no further returns will be made. This creates what investors perceive to be an unfair imbalance in the risk/reward ratio and is regarded as illogical by investors who do not understand why delivering more social outcomes to achieve higher returns should be limited in this way.

When asked about ways in which the challenges of SIBs could be overcome, some interviewees were critical of the terminology used. For example, the term SIB is itself misleading because the term Bond[30] is usually associated with safer risk / lower return instruments and a SIB is not a Bond in any investor-understood sense (i.e. a fixed return over a period of time). Two commented that the terminology could itself be a deterrent to broadening the market to conventional investors because they would not have the same understanding of this as social investors.

Some investors also pointed out that, for wider investor adoption of SIBs, there will need to be a greater deal flow and track record built up as well as a means of trading into and out of SIBs. Currently, a SIB is an illiquid investment often over a minimum timeframe of several years.

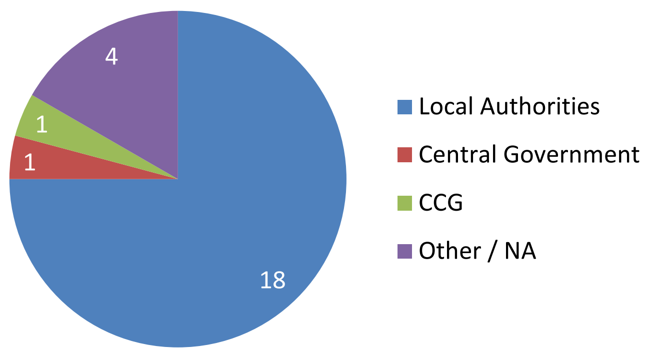
[30] The CBO and SOF Glossary of Key Terms defines the term 'Bond' as: *"[T]he generic name for a tradable loan security issued by governments and companies as a means of raising capital".*

## 3.3 The Perceptions of Commissioners: Findings from the Commissioner Survey

### 3.3.1 Characteristics of Respondents

24 commissioners completed the Commissioner Survey, between July and August 2014. Most (three quarters, 18) were from local authorities (**Figure 3.1**). All respondents were working in the social sector, with few specialising in the field of children and youth (4 respondents), social care and/or health (3); learning disabilities (1), homelessness (1) and adults at risk (1).

**Figure 3.1: Type of Respondents to Commissioner Survey**



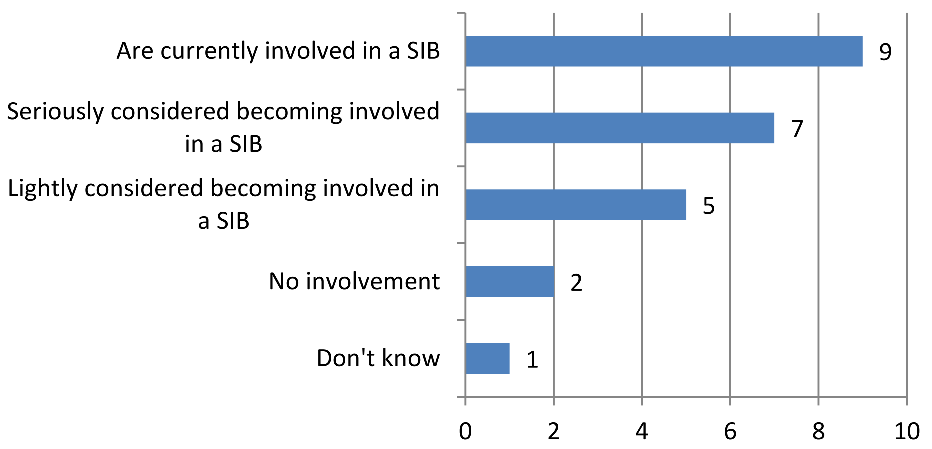

*Base: 24 respondents*

#### *3.3.1.1 Level of involvement in SIBs*

More than a third of respondents (9) were currently involved in a SIB (**Figure 3.2**). A further half of respondents (12) had considered becoming involved, with the majority of them (7) considering it seriously. The survey therefore reflects the views of a group of commissioners well engaged with SIBs.

Of those already involved in a SIB, the majority of respondents (7 out of 9) run a single project, two respondents indicate running two projects.

**Figure 3.2: What has been your organisation's level of involvement in SIBs to date?**



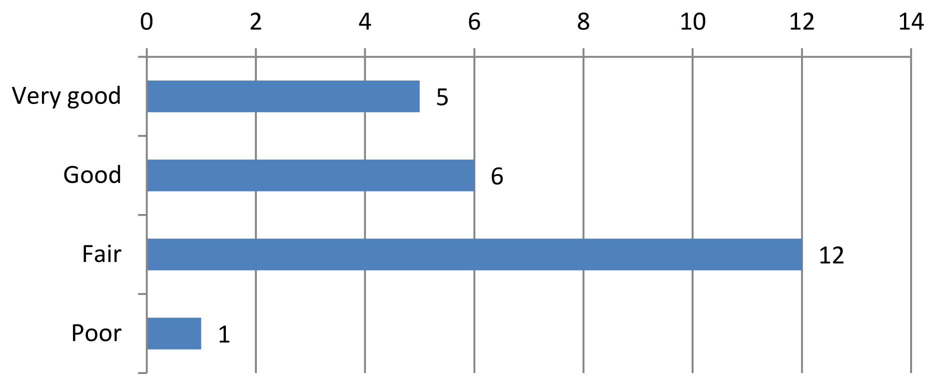

*Base: 24 respondents*

### 3.3.2 Awareness and Understanding of SIBs

#### *3.3.2.1 Level of Understanding*

The level of understanding of SIBs is mixed, with almost half of respondents (11) rating their understanding as good or very good, with the other half (12) rating is as fair (**Figure 3.3**). Only one respondent indicated a poor understanding of SIBs. One commissioner highlighted that understanding varied across the organisation: whilst some understood them well, most did not understand much at all. Interestingly, commissioners' level of involvement in a SIB did not seem to improve their level of understanding. Looking at the 9 respondents involved in SIBs, 5 indicated to have a fair understanding of SIB, while 4 indicated it to be good or very good.

**Figure 3.3: How would you rate your organisation's understanding of SIBs?**




*Base: 24 respondents*

Assessing the 13 respondents indicating a fair/poor understanding of SIBs, on average each respondent cited seven areas they did not understand[31]. The most challenging aspect seems to be linked to the role of the investor (reported by over half of those (7) responding to the question) and intermediaries (7), as well as linked issues such as how investors and commissioners work together during the SIB contract (6), and how commissioners engage with investors (5) (**Table 3.1**). The level of return from the investor to expect to receive appears unclear for 46 respondents.

[31] If we count the person who ticked 'all aspects' as citing 19 aspects they did not understand (i.e. all the options available within the survey).

**Table 3.1 Which aspects of SIBs do you feel your organisation does not fully understand?**

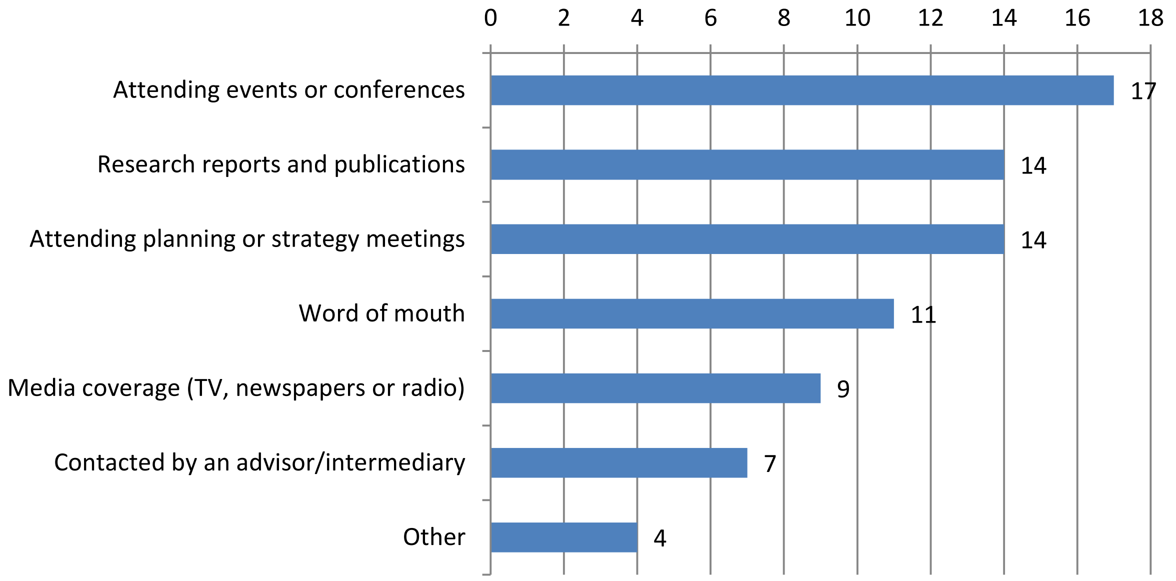
| Response | Number of Respondents |
|---|---|
| The role of the investor | 7 |
| The role of intermediaries (e.g. in setting up Special Purpose Vehicles) | 7 |
| What level of returns investors will expect to receive | 6 |
| How investors and commissioners work together during the SIB contract | 6 |
| How and when commissioners engage with investors | 5 |
| How to test whether a SIB is feasible | 4 |
| How payment levels and mechanisms are agreed | 4 |
| How to obtain funding for SIB feasibility and development work | 3 |
| How risk is split between the commissioner, investor and the service provider(s) | 3 |
| When co-commissioning might be appropriate | 3 |
| How evidence for achieving outcomes is gathered | 3 |
| What the benefits are to commissioners in funding a service through a SIB | 3 |
| How commissioners identify where a SIB might be used | 2 |
| The difference between a SIB contract and a Payment by Results contract | 2 |
| Who selects service providers to deliver interventions | 2 |
| Whether and when to specify the intervention to be used | 2 |
| How outcomes are identified and agreed | 2 |
| How the selection of service providers can be undertaken in line with competitive tendering rules | 1 |
| Other | 1 |
| All aspects | 1 |

*Base: 13 respondents, more than one response possible.*

### 3.3.2.2 How Heard about SIBs

The majority of respondents heard about SIBs by attending events and conferences (17 respondents; many different events were cited) or planning and strategy meetings (14 respondents) (**Figure 3.4**). More than half (14 respondents) read about it in research reports and publications (many different publications were cited, though 5 explicitly mentioned reports authored by Social Finance). Outside specific events or studies, the general coverage in media seems quite fair (indicated by 9 respondents, citing a range of publications). Few respondents had heard about it through direct contact (7 respondents, almost all of whom (5) had been contacted by Social Finance).

**Figure 3.4: Where have you heard about SIBs?**




*Base: 24 respondents, more than one response possible.*

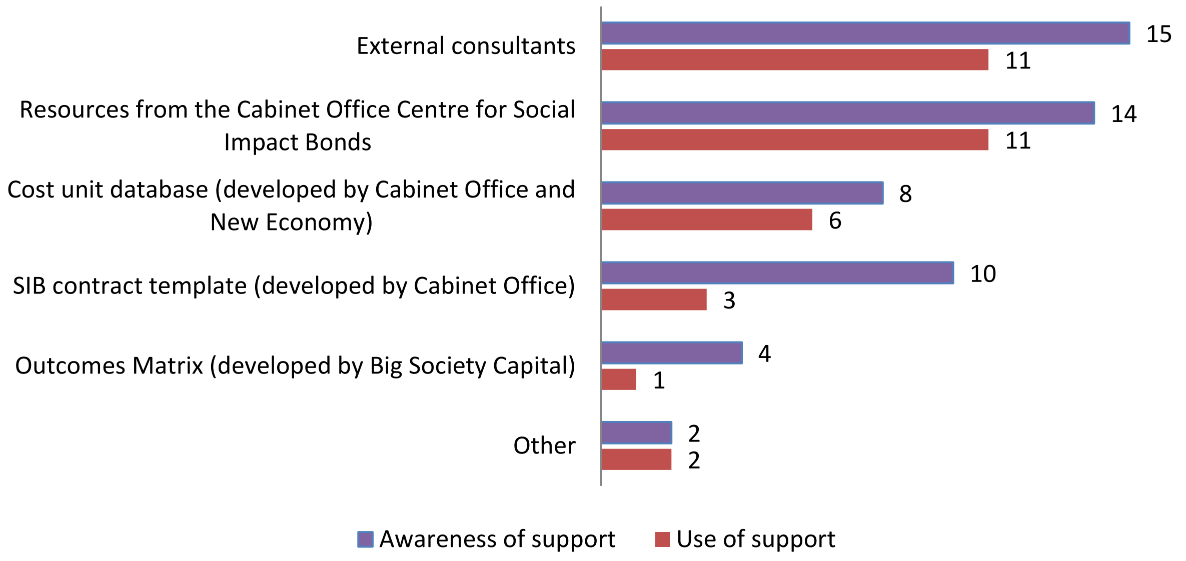
The communication channel used might affect SIBs understanding, as more respondents indicated a fair level of understanding (compared to a good level) when they heard about SIBs through events, conferences and planning and strategy meetings; this difference does not appear for other ways of communication.

### *3.3.2.3 Type of Support Accessed to Develop SIBs and Views on Helpfulness*

Two thirds of respondents (15) had used external consultants and two thirds had also used resources from the Cabinet Office Centre for Social Impact Bonds (**Figure 3.5**). Other specific instruments such as the Unit Cost Database, SIB contract template and Outcomes Matrix had been used, though to a lesser extent.

Broadly speaking, there was an alignment between the level of awareness and the level of use of the support tools (i.e. those tools used the most were the ones commissioners were most aware of). However, there are some discrepancies. For example, the SIB contract template was not widely used (used by three commissioners) despite half of those responding to the question (10) declaring to know about it – i.e. less than a third of those aware of the contract used it. The same difference can be seen for the Outcomes Matrix, whereby 4 commissioners were aware of it, but only 1 respondent used it.

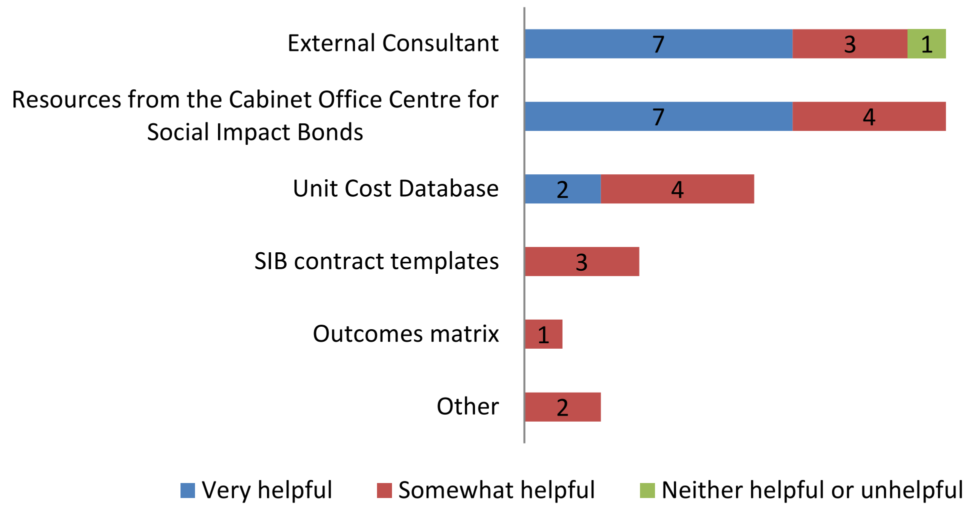
**Figure 3.5: Awareness and use of different types of support**




*Base for the awareness of support: 20 respondents, more than one response possible. Base for the use of support: 17, more than one response possible*

Looking at the helpfulness of these instruments (**Figure 3.6**), it appears that the two instruments used the most (i.e. resources from the Cabinet Office Centre for Social Impact Bonds and use of an external consultant) were also the resources which were considered as the most helpful. However, all tools were seen to be at least somewhat helpful.

**Figure 3.6: How helpful was the support to understand and set up the SIB?**



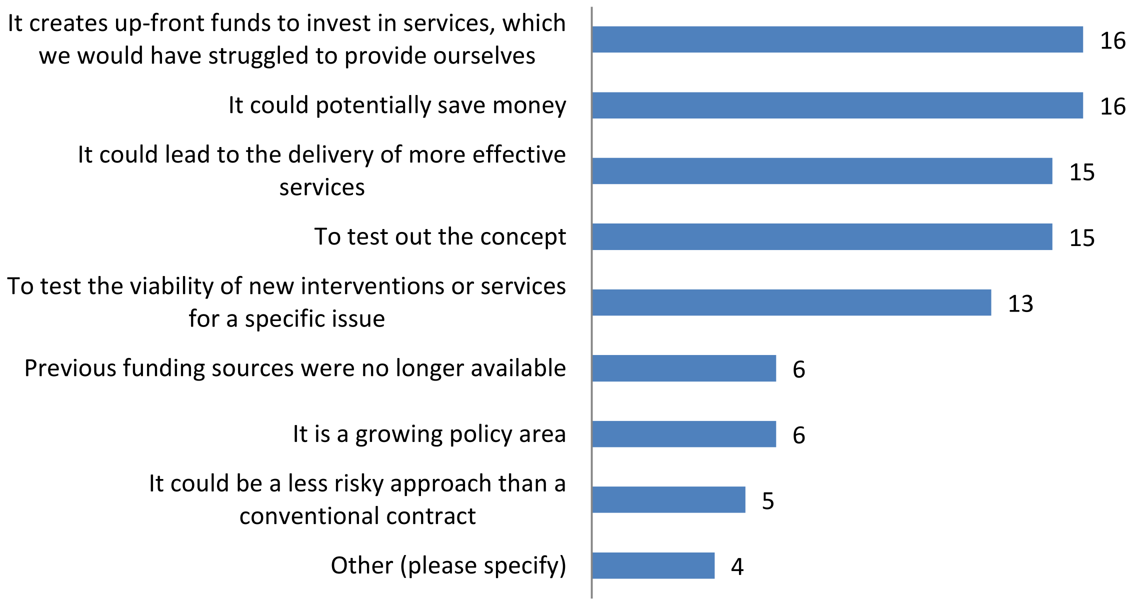

*Base: 17 respondents, more than one response possible.*

## 3.3.3 Perceptions of SIBs

### *3.3.3.1 Motivations for Getting Involved*

There are multiple reasons why commissioners are interested in or decided to get involved in a SIB (**Figure 3.7**). On average, each commissioner responding to the question identified six reasons why they decided to get/were interested in getting involved in a SIB. Almost all (16 out of 20) were interested by the potential for a SIB to create up-front funds and save money. Three quarters (15 out of 20) were interested in its potential to lead to the delivery of more effective services, and to test out the concept.

**Figure 3.7: Why is your organisation interested in/did your organisation decide to get Involved in a SIB?**




*Base: 20 respondents, more than one response possible.*

### 3.3.4 Barriers to Getting Involved

Only one person responded to the question and it is therefore difficult to draw anything meaningful from the response. The one person responding highlighted the complexity of SIBs, and the willingness of other people in the organisation, as barriers to getting involved in a SIB.

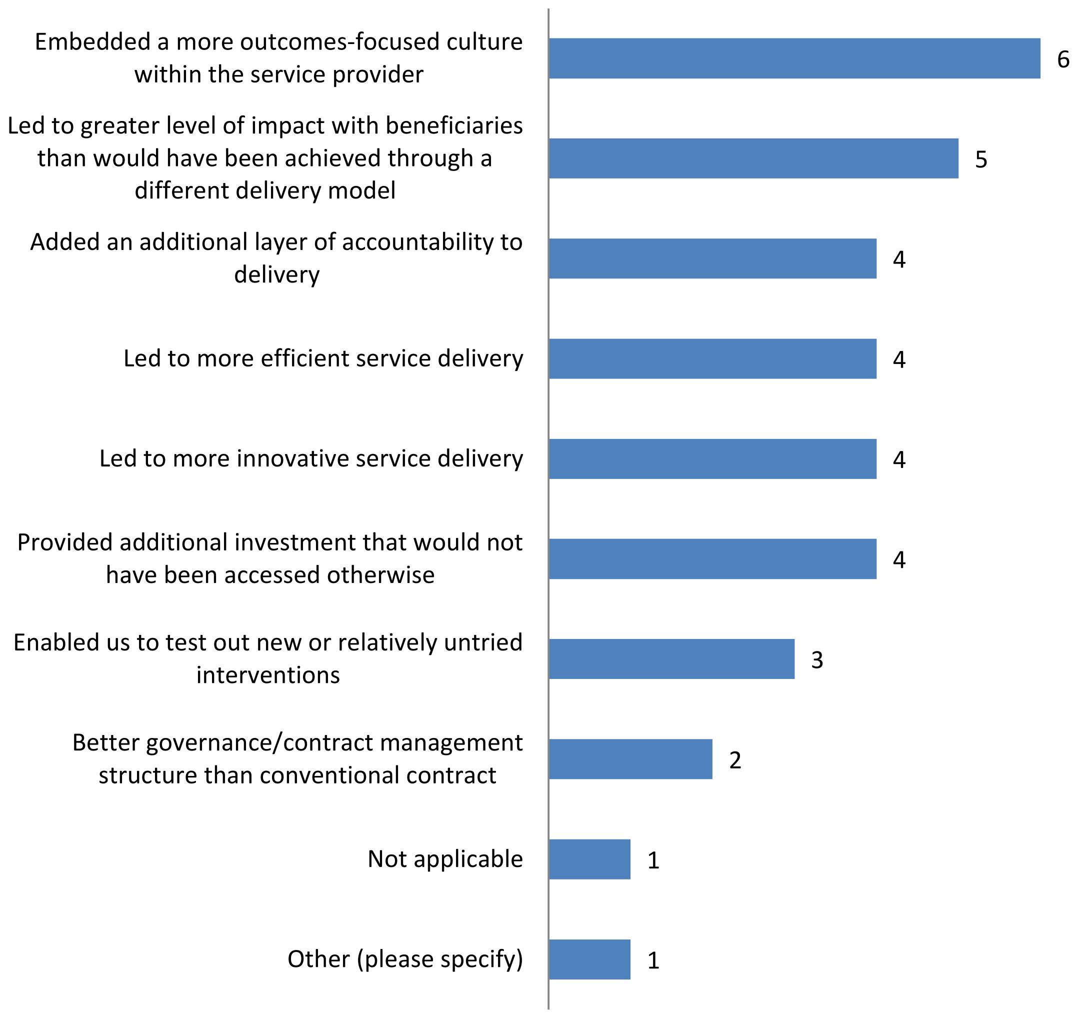
### 3.3.5 Experience of SIBs

#### *3.3.5.1 Benefits*

The survey indicates a mixed experience working with SIBs, with just over half of those responding to the question (5 out of 9) reporting to have had a 'good' experience. Three reported a 'fair' experience and one, who did not set up a SIB but instead set-up a PbR contract, reported a 'poor' experience.

Respondents did, though, report a large range of benefits; on average each respondent cited five benefits to being involved. Two thirds of commissioners responding to the question (6 out of 9) indicated a more outcomes-focused culture within the service provider (**Figure 3.8**). Other main benefits, cited by around half the respondents, included a greater level of impact with beneficiaries (5), more efficient service delivery (4), more effective service delivery (4), and providing additional investment (4).

**Figure 3.8: What were/are the benefits of working within a SIB model?**

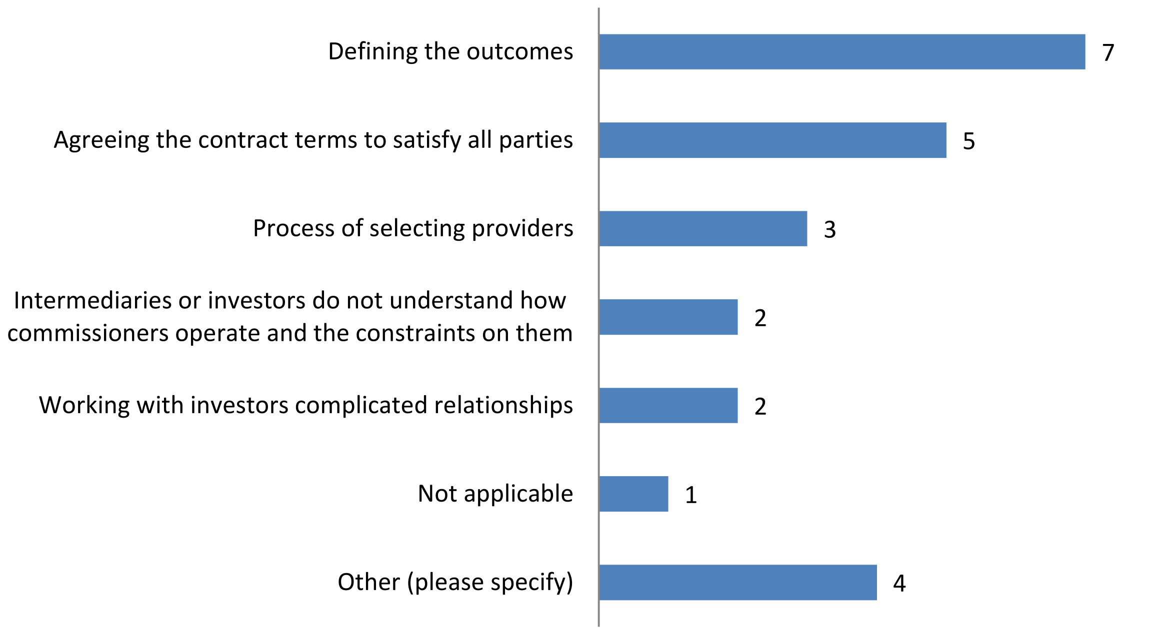



*Base: 9 respondents, more than one response possible.*

### 3.3.5.2 *Challenges*

Encouragingly, commissioners involved in a SIB report fewer challenges than benefits, with each commissioner citing on average four challenges. Two main challenges emerge from the responses: defining the outcomes (cited by 7 out of 9 respondents answering the question) and agreeing the contract terms to satisfy all parties (5) (**Figure 3.9**).

**Figure 3.9: What were/are the challenges of working within a SIB model?**




*Base: 9 respondents, more than one response possible.*

### 3.3.5.3 *Likelihood of Future Involvement*

Despite the mixed experience reported in the previous section, almost all (6 out of 7) commissioners responding to the question reported to being either likely or very likely to become involved in future SIBs. The commissioner who stated they were unlikely to become involved in future SIBs stated:

'SIB is a very, very bureaucratic way of commissioning; it adds costs and significant additional monitoring into contracting. Equally it struggles to cope with risk and tries to minimise all risks and therefore dampens innovation significantly'.

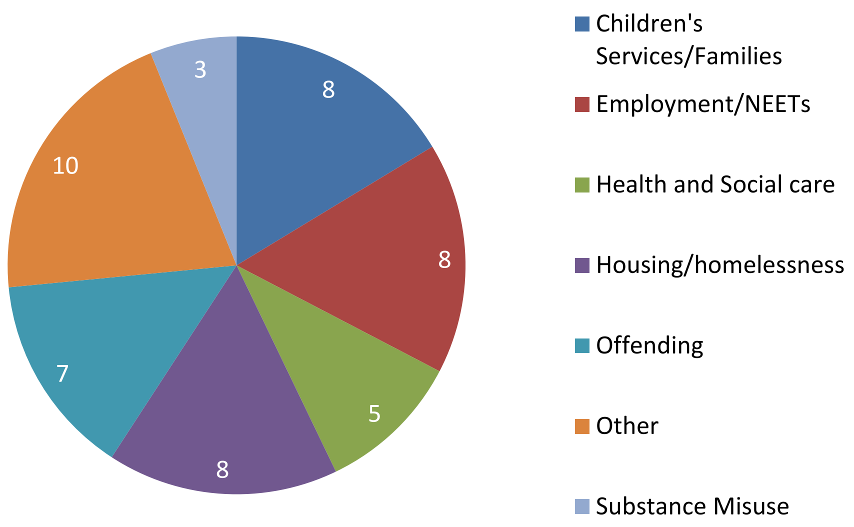
The fact that this statement contradicts with 4 other commissioners who reported SIBs leading to more innovative delivery highlights the diversity of the SIB experience.

## 3.4 The Perceptions of Service Providers: Findings from the Service Provider Survey

### 3.4.1 Characteristics of Respondents

49 respondents completed the survey. Respondents worked across a range of areas, including children and families; employment and young people NEET; housing and homelessness; offending; health and social care; and substance misuse (**Figure 3.11**).

**Figure 3.11: Sector within which Respondents Work**




*Base: 49 respondents.*

#### *3.4.1.1 Level of involvement in SIBs*

Around one third of respondents (16) were currently involved in a SIB and almost one half (23) had considered getting involved (**Table 3.2**). Respondents currently involved in a SIB were more likely to work in the field of Employment and NEETs (5 respondents), followed by the sector of children and families (3 respondents) and the sector of housing (3 respondents), reflecting the areas where current SIBs are operating. Half were involved in a single SIB; slightly less than a third involved in two, and one was involved in three.

**Table 3.2 What has been your organisation's level of involvement in SIBs to date?**

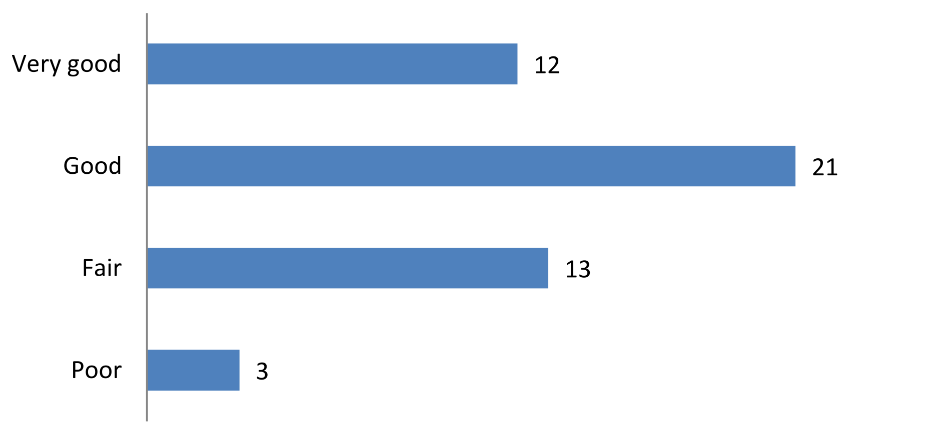
| Level of Involvement | Total | Sectors | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | Children's Services/ Families | Housing/ Homeless-ness | Employ-ment /NEETs | Substance Misuse | Offending | Health and Social care | Other |
| No involvement | 18% | | 25% | 25% | 33% | 29% | | 20% |
| Lightly considered | 22% | 25% | 13% | | 33% | | 40% | 50% |
| Seriously considered | 25% | 38% | 25% | 13% | | 43% | 40% | 10% |
| Currently involved in a SIB | 33% | 38% | 38% | 63% | 33% | 29% | 20% | 10% |
| NA | 2% | | | | | | | 10% |
| **Total respondents** | **49** | **8** | **8** | **8** | **3** | **7** | **5** | **10** |

## 3.4.2 Awareness and Understanding of SIBs

### *3.4.2.1 Level of Understanding*

Positively, more than two thirds of respondents (33 out of 49) indicated a good or very good understanding of SIBs, while only a quarter (13) indicating a fair understanding (**Figure 3.12**). Similarly to the Commissioner Survey, the number of respondents with a poor understanding is low (3). Unsurprisingly, yet in contrast to the results from the Commissioner Survey, service providers involved in a SIB were more likely to report having a good understanding of them.

**Figure 3.12: How would you rate your organisation's understanding of SIBs?**




*Base: 49 respondents.*

Among respondents indicating a fair or poor understanding of SIBs, challenges are mainly related to the relationships between the different stakeholders, especially between providers and investors (**Table 3.3**). These included: how providers engage with investors (6 respondents), how investors and providers work together during the SIB contracts (5) and how the risk is split between them (5). It also related to the selection of providers: who selects providers (5) and on which basis (5). Some areas of low understanding related to the form of intervention provided by SIBs: why some SIBs specified the intervention to be used (6); and, to a lesser extent, who decided it (4).

**Table 3.3 Which aspects of SIBs do you feel your organisation does not fully understand?**

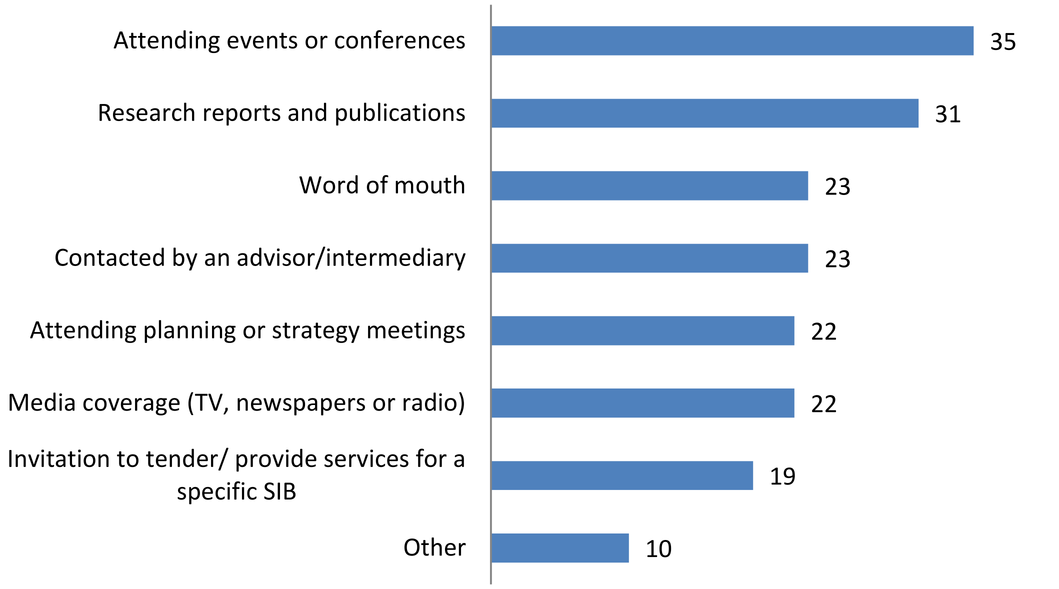
| Response | Number of Respondents |
|---|---|
| How providers engage with investors/seek investment | 6 |
| Why some SIBs specify the intervention to be used | 6 |
| The role of intermediaries (e.g. in setting up Special Purpose Vehicles) | 5 |
| How the level of risk is split between the investor and the provider | 5 |
| How payment levels are agreed | 5 |
| Who selects providers to deliver interventions | 5 |
| How investors and providers work together during the SIB contract | 5 |
| What the benefits are to providers in getting involved in a SIB | 5 |
| The basis on which providers are chosen to deliver interventions | 5 |
| The difference between a SIB contract and a Payment by Results contract | 4 |
| Who specifies the intervention to be used | 4 |
| How evidence for achieving outcomes is gathered | 4 |
| How service providers get involved | 3 |
| The role of the investor | 3 |
| How payment is made | 2 |
| Who makes payments | 2 |
| How outcomes are identified and agreed | 2 |
| How SIBs relate to the wider policy objectives of commissioners | 2 |
| All aspects | 2 |
| Other | 1 |
| Not applicable | 1 |

*Base: 16 respondents, more than one response possible.*

### *3.4.2.2 How Heard About SIBs*

Responses revealed a large range of information channels; the main ones being attending events and conferences (35; a wide range of events were cited), as well as information through research and publications (31; various publications were cited, though 5 respondents cited reports relating to the Peterborough SIB) (**Figure 3.13**). Interestingly, almost half of providers had heard about SIBs through word-of-mouth (23), which might suggest an increasing awareness of SIBs at sector level.

Figure 3.13: Where have you heard about SIBs ?



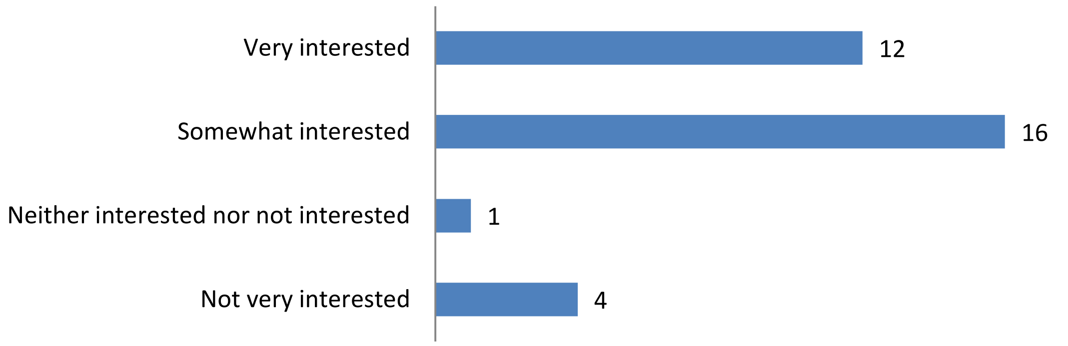

*Base: 49 respondents, more than one response possible.*

## 3.4.3 Perceptions of SIBs

### *3.4.3.1 Motivations for Getting Involved*

Looking at those respondents who were currently not involved in a SIBs (33 out of 49), a large proportion of them (28) were interested to some extent in getting involved (**Figure 3.14**).

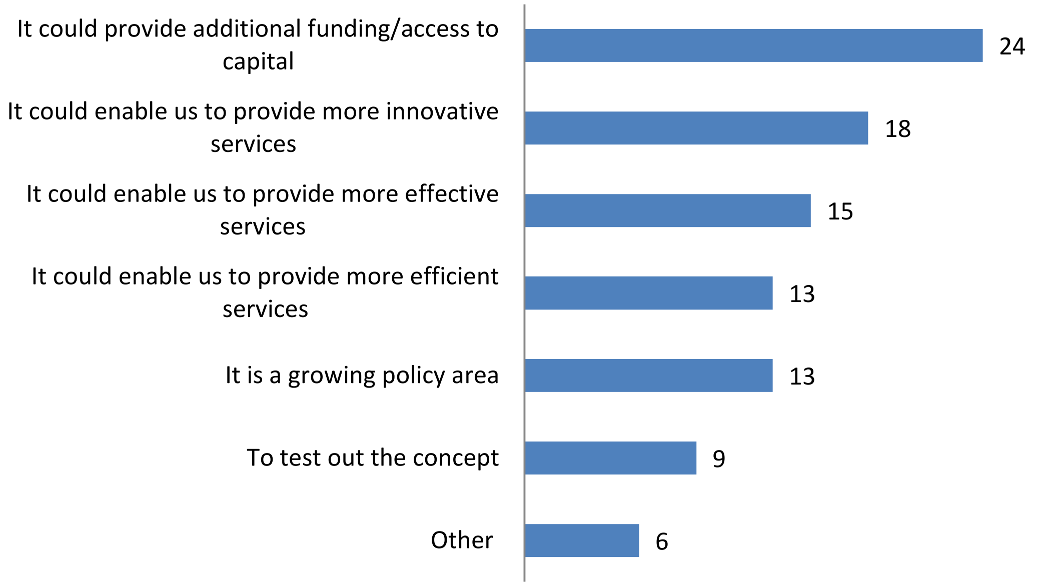
Figure 3.14: How interested is your organisation in getting involved in a SIB?




*Base: 33 respondents.*

When assessing their motivations, 24 out of 28 of those responding to the question indicated funding and access to capital as a main reason (**Figure 3.15**). Almost two thirds (18) were motivated by the potential of a SIB to enable more innovative services, when just over half (15) expected a SIB to enable more efficient and effective services.

**Figure 3.15: Why is your organisation interested in getting involved in a SIB?**



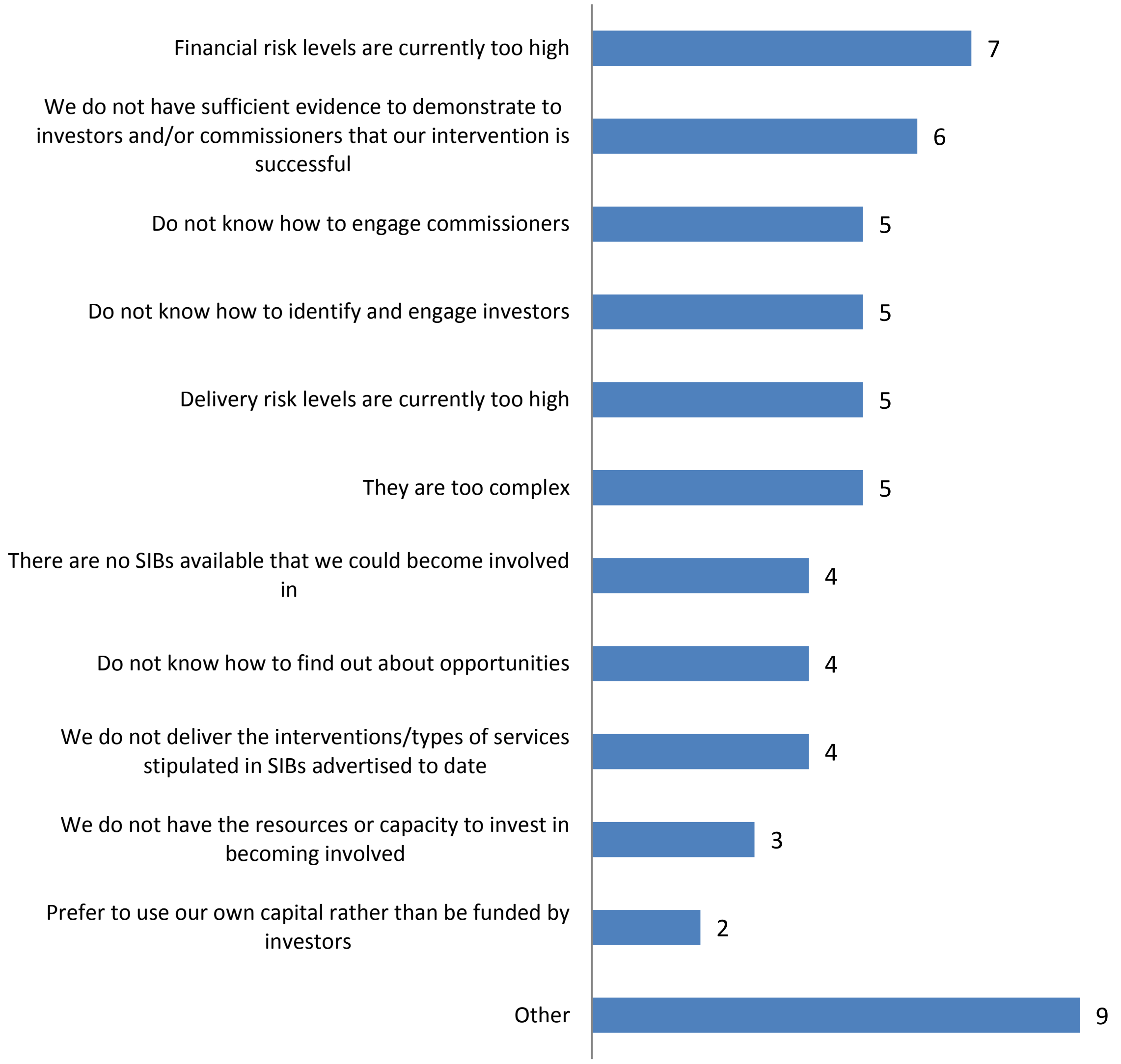

*Base: 28 respondents, more than one response possible.*

### 3.4.3.2 Barriers to Getting Involved

Encouragingly, respondents who were not yet involved in a SIB, but willing to engage into a SIB, indicated fewer barriers than expected benefits (**Figure 3.16**). Reasons were predominantly related to risk - both financial (one quarter, 7) and delivery (5) risks, and evidencing outcomes (6) as well as the way to engage with commissioners (5) and investors (5).

Looking at the 4 respondents not interested in getting involved in a SIB, 2 of them indicated that they prefer to use their own capital rather than be funded by investors; 1 indicated that SIBs were too complex, and another indicated to prefer contracting directly with the commissioner.

**Figure 3.16: Are there any barriers preventing your organisation from getting involved in SIBs?**

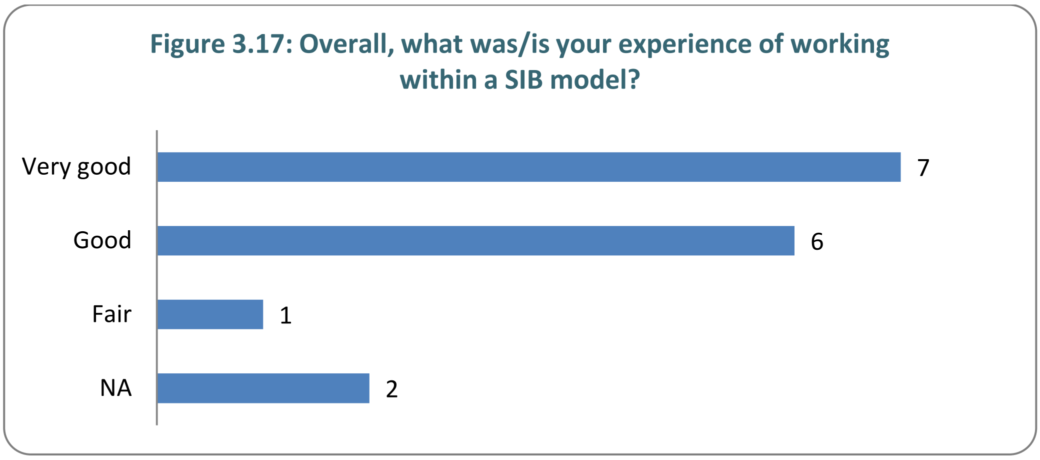



*Base: 28 respondents, more than one response possible.*

### 3.4.4 Experience of SIBs

#### *3.4.4.1 Benefits*

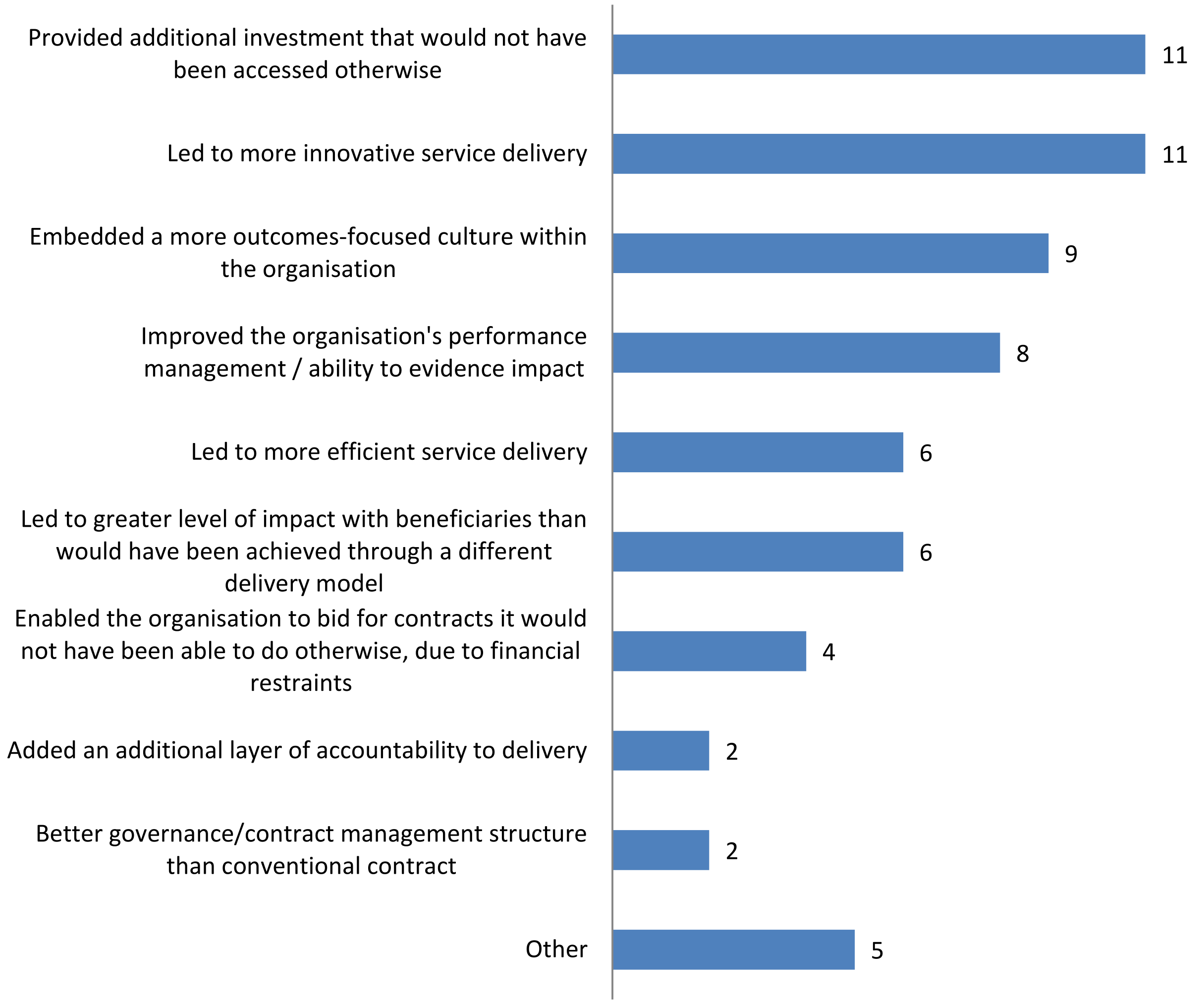
The majority of service providers (over four fifths, 13 out of 16) involved in a SIB reported having a good or very good experience (**Figure 3.17**).




*Base: 16 respondents.*

The main benefits cited mirrored the potential benefits perceived by those interested in getting involved, suggesting that the perceived benefits of SIBs are correct. Specifically, the main benefits were: access to additional investments (11) and leading to a more innovative service delivery (11) (**Figure 3.18**). The other main benefit of a SIB related to the management of interventions; embedding a more outcomes-focuses culture (9), and a better performance management (8).

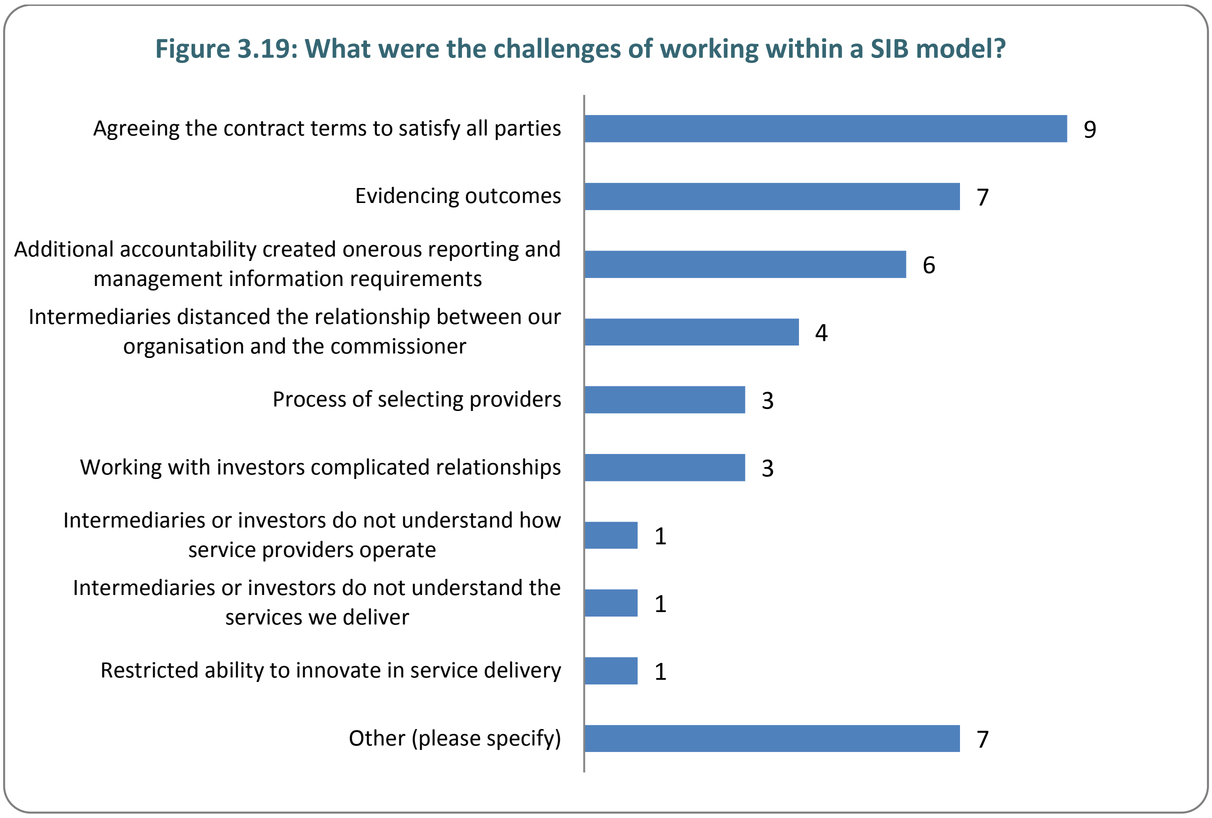
**Figure 3.18: What were/are the benefits of working within a SIB model?**




*Base: 16 respondents, more than one response possible.*

### *3.4.4.2 Challenges*

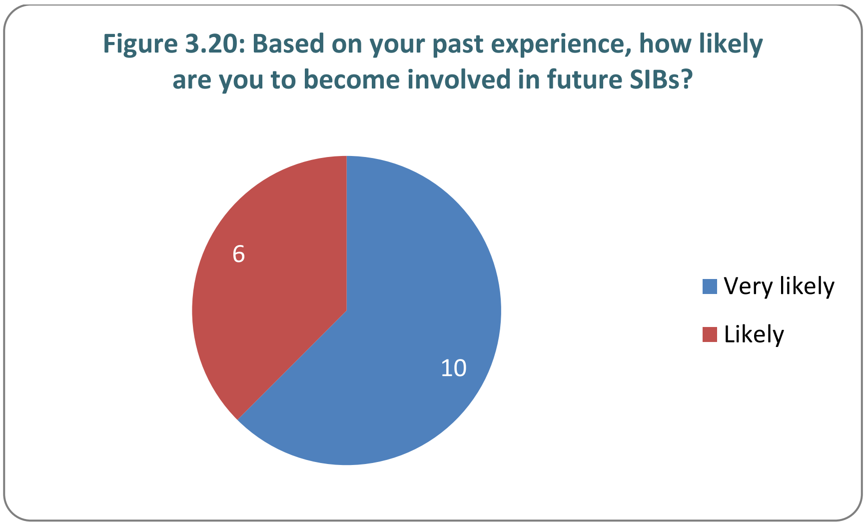
More than half of respondents (9 out of 16) mentioned the main challenge to be defining the terms of the contract to satisfy all parties (**Figure 3.19**). Further challenges related to outcomes: evidencing them (7) and the additional resources related to the reporting on them (6).




*Base: 16 respondents, more than one response possible.*

### *3.4.4.3 Likelihood of Future Involvement*

Reflecting their good or very good experience of SIBs, all respondents were likely to be involved again in a SIB in the future (**Figure 3.20**).




*Base: 16 respondents.*

# 4.0 Typology Matrix

Overleaf we provide a matrix demonstrating a set of typologies we have produced that can be used to summarise the characteristics of current SIBs. This categorises SIBs by their:

- Main outcomes being sought;
- Interventions funded;
- Contracting party/delivery agency;
- Service provider type;
- Investor type;
- Commissioners;
- Scale (financial);
- Scale (size of cohort);
- Scale (geographical coverage);
- Contract duration;
- Local authority type; and
- Location.

### Table 4.1 SIB Typology Matrix

| Category | Sub-categories | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| **SIB Factors** | | | | | | | | | |
| Main outcomes being sought | Reduction in or avoidance of children Looked After | Reduction in Homelessness | Reduced re-offending/ reconviction | Re-engagement in education, employment and training | Successful adoption of a child/ young person | Reduced isolation of older people | | | |
| Interventions Funded | Provider-defined programme | Proprietary Evidence-based programme (e.g. Multi-Systemic Therapy) | Commissioner-specified intervention or programme | | | | | | |
| Contracting party/delivery agency | Multi-party Special Purpose Vehicle | Single party SPV | Provider | Provider-owned subsidiary | Intermediary | Joint venture | Local authority | | |
| Provider type | Single VCSE provider | Two VCSE providers | More than two VCSE providers | | | | | | |
| Investor type | Single investor | Multiple investors | Bridges Ventures | Bridges Ventures and Big Society Capital | | | | | |
| Commissioners | Local authority | Central Government Department | Spot purchase | LA and Central Government | LA and CCG(s) | | | | |
| Scale (Financial) | <£1 million | £1 –3 million | £3.1 – 5 million | £5.1 – 10 million | >£10 million | | | | |
| Scale (Size of cohort) | <50 | 51-200 | 200 - 500 | 501-1000 | 1001-3000 | >3000 | | | |
| Scale (geographical coverage) | District/ Borough wide | County -wide | Multiple LA areas | Other | | | | | |
| Contract Duration | 2 years | 3 – 4 years | 5 – 6 years | More than 6 years | | | | | |
| **Local Area Factors** | | | | | | | | | |
| Local Authority Type | Metropolitan | Two-tier | Unitary | Not applicable | | | | | |
| Location | London | South East | South West | East | East Midlands | West Midlands | North East | North West | Yorkshire & Humber |

# 5.0 Conclusions

## 5.1 Introduction

In this final section we draw together the findings from the three surveys and the Literature Review to provide a summary of the current state of play of SIBs in the UK. We also draw on our wider knowledge of working in the SIB market to interpret some of the underlying factors driving the responses to the surveys and the actions necessary to support the growth of SIBs.

## 5.2 SIBs: The Current State of Play

The responses from investors, commissioners and service providers who are generally informed about SIBs paints a positive picture. Those that have had prior involvement of SIBs have, on the whole, had a good experience and the majority are likely to get involved in SIBs in the future, It is interesting to note, though, that commissioners are less positive than service providers and investors. Investors, commissioners and service providers report that SIBs provide additional investment; lead to more innovative service delivery; help embed a more outcomes-focused culture in service providers; and lead to greater impact with beneficiaries.

There is also an appetite from those not yet involved in SIBs to become involved in the future. Whilst none of the surveys undertaken are representative of the whole of these groups, they do suggest that those who are either involved in, or very informed about, SIBs view them positively. However, survey respondents did report that awareness outside this informed group was low. One comment made by a service provider in the Service Provider Survey can be used to summarise this positive outlook:

'SIBs present a real opportunity to both focus on outcomes and develop real cross-sector relationships that provide access to finance in an environment of reducing budgets'.

The evidence available in the literature on the impact of SIBs to date tends to confirm this positive picture, although there has as yet been very little independent and objective evaluation of SIBs and their impact on which to base firm conclusions.

One of the main aspects the surveys highlight is how diverse the wants and needs of those involved in SIBs are. For example, stakeholders are motivated to become involved for different reasons: different people experience a variety of different benefits and face a range of challenges; whilst different people are willing to take on different levels of risk. This may be why the literature refers to numerous different and sometimes conflicting benefits of SIBs. Because of the multiple partners that exist within a SIB (potentially multiple investors, commissioners, service providers and intermediaries), this most likely means that the combination of wants and needs from those involved varies relatively widely from one SIB to another. This will likely have consequences for the future development of SIBs: most notably that a 'one-size-fits-all' approach to SIB development and implementation will be less likely to work. Indeed, this may be why investors criticised the over-prescription from some central government SIB programmes, which seem to channel stakeholders into adopting a limited number of SIB models. Equally, investors criticised organisations for promoting a limited number of SIB models, when other viable models are possible. Instead, the development of each SIB will likely need to be tailored to the wants and needs of all those involved and the nature of the problems the SIB is trying to address. The Literature Review confirms this point. At least five broad types of SIB model exist in the UK without allowing for sub-variants which have different structures and relationships between the key parties.

The models being adopted overseas, in the United States, Australia and elsewhere in Europe, are different again from all these UK models in a number of important respects, and confirm the potential for other SIB models to be used.

Stakeholders consulted did not understand why more SIBs had not been developed in light of the generally positive views of those who are informed about them. In particular, very few local SIBs have been developed outside of central government programmes, as the Literature Review shows. Whilst the surveys were not comprehensive, they do suggest some reasons that are delaying the development of more SIBs, which are detailed below

### 5.2.1 Challenge 1: Lack of Understanding of Investors and Intermediaries.

The area that service providers and commissioners understood the least was the role of the investor and, to a lesser extent, the intermediary. This is perhaps unsurprising, given that for many service providers and commissioners the role of an investor working in this way, and the role of intermediaries, is likely to be new to them.

From our wider experience of working with commissioners and service providers, they tend to be confused by the varied nature of both investors and intermediaries, and when and how best to involve them. This is a concern given that a major theme coming form the Literature Review is the need for early investor involvement if a SIB is to be successful.

### 5.2.2 Challenge 2: Agreeing Contracts to Suit all Parties.

Through our wide experience working in the SIB market we are aware that SIBs require a successful three-way relationship between commissioners, providers and investors. This tripartite relationship is also a major theme in the literature and arguably the greatest single difference between SIBs and other types of contract. Agreeing a contract that suits all three is therefore difficult.

One of the largest challenges emerging from the surveys relating to agreeing contracts is agreeing outcomes metrics, as different stakeholders have different needs from these metrics:

- **Investors** need to be able to understand them and the level of risk involved in their achievement. The literature shows that investors prefer one or two ‘main’ outcomes, as this makes measurement and monitoring easier , and is possibly why the DWP Innovation Fund – which had a small number of prescribed outcomes – was popular amongst investors.;

- **Commissioners** need to be confident in their robustness, in order to make payments against them, and that they will not produce perverse incentives;

- **Service providers** need to be confident they can deliver them (and prove they have done so).

For these reasons SIBs have to-date generally focused on outcomes which are objective and easy to define. For example, this has included reducing recidivism and preventing children going into care, where the beneficiary has very clearly either been convicted or not, or has gone into care or not. There has been much debate in the literature about the challenges of setting and measuring multiple outcomes in SIBs.

This is one example of the numerous challenges involved in developing and agreeing a SIB that satisfies all the parties, as described in some detail in the literature. As a result of this, SIBs can take a very long time to develop (as we identified' in Chapter 2: The Cost and Complexity of SIBs). Stakeholders reported this creates a challenge, as often things happen during their development that can derail them (e.g. key member of staff leaving). This was supported by comments made by both commissioners and service providers in the surveys:

> *'They take too long from starting the initial business case through to putting in place and service starting'. (Comment made by service provider in Service Provider Survey)*

> *'Our authority received a bad Ofsted judgment during the period when SIB was under consideration; this impacted on the authority's appetite for innovation and risk, leading to our pull-out'. (Comment made by commissioner in Commissioner Survey)*

However, it is likely that this challenge will reduce as more SIBs are developed, as it will increase everyone's knowledge of SIBs and create examples that can be replicated. In addition, as we note in the Literature Review, central sources of replicable knowledge are already in place in relation to template contracts, indicative costings and outcomes for different types of service and intervention.

### 5.2.3 Challenge 3: Policy Uncertainty.

Some investors have commented on the effect that policy changes might have on the measurement of impact, and ultimately on the outcome payments that might or might not be made. The major policy changes that resulted in the early ending of the Peterborough pilot are an example of this, but investors mentioned other policy changes – such as the potential impact of changes to the structure and marking of GCSE examinations on educational attainment. Whilst these policy changes did not dissuade the investors we interviewed from getting involved in future SIBs, it did make them more cautious. In addition, local policy issues can have as great an impact as national ones (see example in Chapter 3: The Perceptions of Commissioners: Findings from the Commissioner Survey in relation to an Ofsted inspection).

### 5.2.4 Challenge 4: Financial Risk.

A quarter of service providers not yet involved in a SIB cited financial risk as a challenge to getting involved. This is perhaps surprising, given that a perceived benefit of SIBs is that they move financial risk away from the service provider (and commissioner) to the investor, as identified in Chapter 2: Benefits for Providers. It therefore seems surprising that financial risk would still be cited as a barrier. We cannot derive an answer to this from the surveys alone, though there are two possible explanations:

1. It could suggest the service providers responding to the survey are not aware that SIBs do indeed shift financial risk;

2. Some SIBs do require the service provider to take on some financial risk. For example, this includes those which involve direct investment in the provider, or where the provider itself is a co-investor., It is possible that for some service providers that risk is too great, or one which they would prefer not to consider. We believe that this is the most likely explanation, drawing on our experience of working with SIBs. At the same time, some investors identified the opportunity for providers to take a stake in SIBs as a key benefit, so there are arguments both ways and this tends to reinforce the view that different SIB models and structures will be appropriate for different stakeholders. This area therefore needs further investigation during the evaluation.

### 5.2.5 Challenge 5: Evidence.

Just over a fifth of service providers reported they did not have sufficient evidence to demonstrate to investors and/or commissioners that their interventions were successful. Similarly, just over a third of investors highlighted a limited evidence base relating to intervention success as a challenge in completing due diligence.

Drawing on our experience of working in the SIB market, this area could be a particular challenge for SIBs over traditional fee-for-service contracts, or indeed other forms of Payment by Results contracts. This is because investors, as identified in the Investor Survey, hold particular weight to the evidence-base supporting interventions to gauge whether they should invest. As both the Literature Review and Investor Survey highlight, this is leading to the use of evidence-based programmes in some SIBs, and to a wider debate about the merits of this approach compared to allowing (or indeed encouraging) so-called 'black box' solutions by providers.

However, given that all three groups (investors, commissioners and service providers) reported that being involved in a SIB embeds a more outcomes-focused culture within service providers, it is possible that this is only an initial hurdle to becoming involved in SIBs; once a service provider is involved their capacity to evidence outcomes could improve, enabling them to provide better evidence of their capability to become involved in future SIBs, and increasing investor confidence in the capability of such providers.

### 5.2.6 Challenge 6: Scale.

As reported in the Investor Survey, some investors indicated that SIBs were only viable when above a certain value level (£1m), due to the required organisation, transaction costs and on-going contract performance overheads. Some service providers in the Service Provider Survey reported that this excluded them from getting involved, such as this comment:

*'The model is a good one until one realises the size an individual SIB must be in order to be viable'.*

Some key stakeholders argued that this is one reason why there should be more provider-led or spot purchase SIBs, not only because they make it easier for commissioners (see below) but also because they enable economies of scale and reduce overall set up and management costs.

The latter three barriers (financial risk; evidence; scale) are perhaps a counter-argument to the point made in many SIB-related documents to date (see Chapter 2: Benefits for Providers) that SIBs can enable smaller VCSEs to participate in PbR contracts where they would otherwise be unable to participate due to shortage of working capital and/or inability or unwillingness to take financial risk. Indeed, this is corroborated by the Commissioner Survey, in which none of the eight commissioners involved in SIBs identified 'Opened up the tendering process to service providers who would not have been able to do so otherwise, due to financial restraints' as a benefit of SIBs. Additionally, in the Service Provider Survey one respondent commented:

*'Scale is an issue i.e. nationals have advantage'.*

*Again, this will require further investigation during the evaluation.*

There is concern in some parts of the literature about the complexity of SIBs and associated high transaction costs, and the views of some investors tend to reinforce this. Key stakeholders have also argued that SIBs could be made simpler, especially to make it easier for commissioners to purchase outcomes, and this perception of SIBs is a key driver of arguments in favour of more provider-led or spot purchase SIBs. Perhaps surprisingly, the Commissioner and Provider Surveys did not in general support the view that SIBs are viewed as overly complex, although we need to recognise the preponderance of those who have engaged with SIBs among those surveyed. There are also some findings that point to concern about complexity: for example service provider concern about the challenges of contract negotiation. This apparent contradiction requires further investigation.

To return to the title of this report, though – 'Social Impact Bonds: The state of play' – it would seem that SIBs are still in their early stages of development, although the number being developed is increasing. The early signs are, however, positive: all three members of the core groups required for a SIB to work (investors, commissioners and service providers) have had a broadly positive experience of being involved, as evidenced by both the surveys and by independent process evaluations of SIBs to date. Those involved in SIBs confirm their potential benefits are being achieved: they not only bring in upfront capital to fund services, they also improve the capacity of service providers, allow for more innovative service delivery and, some say, achieve better outcomes. There is also an appetite from more members of each group to get involved.

Findings from the Literature Review and comments made by stakeholders do suggest, however, that their development has been slow – particularly local SIBs outside of central government-supported programmes. These surveys seem to suggest that one of the biggest barriers is understanding the third, 'new' group to the relationship – the investor (and, to a lesser extent, intermediaries). Breaking down barriers and building relationships between these groups therefore seems to be crucial to growing the SIB market in the UK.

## 5.3 Implications for Funds Aiming to Grow the SIB Market

Looking at the future development of SIBs, we believe the survey findings tell us the following:

- **Support to local areas is helpful and should be continued.** There seems to be a good level of awareness, usage and opinion of the support available for commissioners developing SIBs. In particular, external consultants and resources from the Cabinet Office Centre for Social Impact Bonds are widely used and regarded as very helpful. This suggests stakeholders wishing to grow the SIB market should continue to focus on providing support to commissioners, either through direct support or through producing resources.
- **Support needs to be focused on linking together the different groups making up a SIB.** There is a group of investors, commissioners and service providers who are willing to become involved in SIBs yet are often being held back because of a lack of understanding of, and communication with, each other. This could be overcome through increasing the different groups' knowledge of each other and providing opportunities for the different groups to network. Some stakeholders argue it could also be helped by enabling and supporting certain types of SIB (notably spot-purchase SIBs) which reduces the need for detailed interaction and complex contract negotiation.

- **Innovation needs to be encouraged.** There seems to be a paradox in the development of SIBs. In order to reduce the transaction costs associated with setting up a SIB, some SIBs are replicating other SIB models previously developed. However, due to the diverse wants and needs of those involved in SIBs, these previous models may not meet the needs of everyone. Indeed, we believe this could possibly explain why some central government-led programmes are prescribing SIB models, and why some investors have been unsatisfied with the terms prescribed. We believe the solution to this paradox might be to create more diverse SIB models, so that areas wanting to replicate a previous model have more choice and could select a model that suits their needs
- **Over-prescription needs to be avoided.** As highlighted above, the wants and needs of groups getting involved in SIBs are very diverse, and there is therefore no 'one size fits all' approach to implementing a SIB. Consequently, SIB programmes should avoid being overly-prescriptive, and organisations should be wary of promoting only a few SIB models, and should instead allow partners to agree their own structures and terms to suit their individual wants and needs.

# Annex A – References

Allen, G. MP (2011) Early intervention: smart investment, massive savings The Cabinet office, London, 4 July 2011. Accessed 9 June 2014 at https://www.gov.uk/government/publications/early-intervention-smart-investment-massive-savings

Ashman, S. (2013) Webinar: introduction to the multi-dimensional treatment foster care (MTFC) Social Impact Bond Social Finance and the Local Government Association 2013. Accessed 6 June 2014 at http://socialfinance.org.uk/sites/default/files/introduction_to_the_mtfc_social_impact_bond.pdf

Barclay, L & Symons, T (2013) A technical guide to developing social impact bonds. Social Finance, January 2013. Online, accessed 5 June at http://www.socialfinance.org.uk/sites/default/files/technical_guide_to_developing_social_impact_bonds.pdf

Barrow Cadbury (2013) Social Investment. Barrow Cadbury Trust Website 2013, accessed 9 June 2014 at http://www.barrowcadbury.org.uk/social-investment/

Big Lottery Fund (2010) BIG paves way forward through social investment. Press Release, 31 August 2010 accessed 4 June at http://www2.biglotteryfund.org.uk/uk-wide/global-content/press-releases/uk-wide/big-paves-way-forward-through-social-investment

Big Lottery Fund (2012) Next Steps: Supporting social investment in England. Call for proposals. November 2011. Available online at http://www.biglotteryfund.org.uk/global-content/programmes/england/next-steps

Big Lottery Fund (2013a) Lottery announces joined-up support with Cabinet Office for social investment market. Press Release, 13 July 2013 accessed 4 June 2014 at http://www.biglotteryfund.org.uk/global-content/press-releases/england/090713_eng_sib_for-social-investment-market

Big Lottery Fund (2013b) Big Lottery Fund appoints contractor to support social investment programme, Press Release, 28 August 2013 accessed 4 June 2014 at http://www.biglotteryfund.com/global-content/press-releases/england/280813_eng_si_support-social-investment-programme

Big Society Capital (2013) How to use the Outcomes Matrix. Big Society Capital Website. 2013 accessed 10 June 2014 at http://www.bigsocietycapital.com/outcomes-matrix

Big Society Capital (2014a) About Big Society Capital Online, accessed 6 June 2014 at http://www.bigsocietycapital.com/about-big-society-capital

Big Society Capital (2014b) Our investment portfolio. Online, accessed 6 June at http://www.bigsocietycapital.com/how-we-invest

Big Society Capital (2014c) Bridges Social Impact Bond Fund. Online, accessed 6 June at http://www.bigsocietycapital.com/how-we-invest/bridges-social-impact-bond-fund

Big Society Capital and Bridges Ventures (2012) Lessons from social investor involvement in payment-by-result programmes. Joint report to the Minister for Government Policy in the Cabinet Office, November 2012.

Big Society Capital and Bridges Ventures (2014) Social Investors Overview. Presentation to launch events for Fair Chance Fund, Big Society Capital and Bridges Ventures, February 2014

Birmingham City Council (2013) Children in Care Services – Payment by Results. Briefing note for potential bidders. Birmingham, January 2013

Bridges Ventures (2011) About us. Online, accessed 6 June 2014 at http://www.bridgesventures.com/about-us

Bridges Ventures (2012) Bridges Ventures and Big Society Capital support UK's first local authority Social Impact Bond aimed to improve outcomes for vulnerable young people Press release, 23 November 2012, accessed 6 June 2014 at http://www.bridgesventures.com/node/698

Bridges Ventures (2014a) Portfolio, Social Sector Funds. Online accessed 17 June 2014 at http://www.bridgesventures.com/portfolio-0

Bridges Ventures (2014b) UK's first social impact bond to fund foster placements for kids in care Press release, 5 June 2014, accessed 6 June 2014 at http://www.bridgesventures.com/news/uk's-first-social-impact-bond-fund-foster-placements-kids-care

Brown, A (2013) The flawed logic of cashable savings risks undermining Social Impact Bonds. Pioneers Post, 29 July 2013. Online, accessed 11 June 2014 at http://www.pioneerspost.com/comment/20130729/the-flawed-logic-of-cashable-savings-risks-undermining-social-impact-bonds

Cabinet Office, (2011) Big Society innovation aims to get families out of deprivation. Press release, 26 August 2011, accessed 4 June 2014 at https://www.gov.uk/government/news/big-society-innovation-aims-to-get-families-out-of-deprivation

Cabinet Office (2012a) Launch of Big Society Capital – the world's first ever social investment market builder Press Release, 4 April 2012, accessed 3 June 2014 at https://www.gov.uk/government/news/launch-of-big-society-capital-the-world-s-first-ever-social-investment-market-builder

Cabinet Office (2012b) Payment by results for troubled families: report on the feasibility and design stage Cabinet Office, June 2012 accessed 3 June 2014 at https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/73130/VF_PBR_for_troubled_families_Final_Report.pdf

Cabinet Office (2012c) New boost to help Britain's most vulnerable young adults and the homeless. Press release, 23 November 2012, accessed 3 June 2014 at https://www.gov.uk/government/news/new-boost-to-help-britain-s-most-vulnerable-young-adults-and-the-homeless

Cabinet Office (2013a) Social impact bonds (SIBs): a Payment by Results model, Cabinet Office Centre for SIBs Knowledge Box. Accessed 28 May 2014 at http://data.gov.uk/sib_knowledge_box/social-impact-bonds-sibs-payment-results-model

Cabinet Office (2013b), SIB definition, Cabinet Office Centre for SIBs Knowledge Box Accessed 28 May 2014 at http://data.gov.uk/sib_knowledge_box/sib-definition

Cabinet Office (2013c) SIB History, Cabinet Office Centre for SIBs Knowledge Box Accessed 28 May 2014 at http://data.gov.uk/sib_knowledge_box/sib-history

Cabinet Office (2013d) Case Studies – existing SIBs Cabinet Office Centre for SIBs Knowledge Box Accessed 5 June 2014 at http://data.gov.uk/sib_knowledge_box/case-studies-existing-sibs

Cabinet Office (2013e) Frequently asked questions about the Big Society Capital Online, accessed 7 June 2014 at https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/85855/Big_Society_Capital_FAQs.pdf

Cabinet Office (2013f) Ministry of Justice: Offenders released from Peterborough Prison. Cabinet Office Centre for SIBs Knowledge Box Case Study. Accessed 6 June 2014 at http://data.gov.uk/sib_knowledge_box/ministry-justice-offenders-released-peterborough-prison

Cabinet Office (2013g) Department for Work and Pensions Innovation Fund. Cabinet Office Centre for SIBs Knowledge Box Case Study. Accessed 6 June 2014 at http://data.gov.uk/sib_knowledge_box/department-work-and-pensions-innovation-fund

Cabinet Office (2013h) It's All About Me (IAAM) Adoption Bond. Cabinet Office Centre for SIBs Knowledge Box Case Study. Accessed 6 June 2014 at http://data.gov.uk/sib_knowledge_box/node/183

Cabinet Office (2013i)Knowledge box Cabinet Office Centre for SIBs Accessed 6 June 2014 at http://data.gov.uk/sib_knowledge_box/knowledge-box

Cabinet Office (2013j) Essex County Council: Children at risk of going into care. Cabinet Office Centre for SIBs Knowledge Box Case Study. Accessed 5 June 2014 at http://data.gov.uk/sib_knowledge_box/essex-county-council-children-risk-going-care

Cabinet Office (2013k) SIB Template Contract (UK). Cabinet Office Centre for SIBs Knowledge Box. 10 May 2013 accessed 10 June 2014 at http://data.gov.uk/sib_knowledge_box/sib-template-contract-uk

Cabinet Office (2013l) Reoffending on Rikers Island Cabinet Office Centre for SIBs Knowledge Box Case Study. Accessed 17 June 2014 at http://data.gov.uk/sib_knowledge_box/reoffending-rikers-island-0

Cabinet Office (2013m) Pre-School Education in Utah. Cabinet Office Centre for SIBs Knowledge Box Case Study. Accessed 17 June 2014 at http://data.gov.uk/sib_knowledge_box/pre-school-education-utah

Cabinet Office (2013n) New South Wales Government: Children in out-of-home care. Cabinet Office Centre for SIBs Knowledge Box Case Study. Accessed 17 June 2014 at http://data.gov.uk/sib_knowledge_box/new-south-wales-government-children-out-home-care

Cabinet Office and ATQ Consultants (2013) Social impact bonds: a data gathering how-to guide for commissioners. Online. Accessed 12 June 2014 at https://www.gov.uk/government/publications/social-impact-bonds-how-to-guide-for-commissioners

Callanan, C, Law, J, Mendonca, L. (2012) From Potential to Action: Bringing Social Impact Bonds To The US. New York: McKinsey & Co. 2012 Accessed 12 June 2014 at http://mckinseyonsociety.com/downloads/reports/Social-Innovation/McKinsey_Social_Impact_Bonds_Report.pdf

Cardiff Council (2013) Social Impact Bond with a looked after children theme. Report to Cabinet by Director of Children's Services, 12 December 2013

Catalane, C (2014) Social impact bonds: is the dream over? Guardian Voluntary Sector Network. 1 May 2014 accessed 6 June 2014 at http://www.theguardian.com/voluntary-sector-network/2014/may/01/social-impact-bonds-funding-model-sibs-future

Cave, S, Williams, T, Jolliffe, D and Hedderman, C , (2012) Peterborough Social Impact Bond: an independent assessment. Development of the PSM methodology. London: Ministry of Justice 2012. Online, accessed 6 June 2014 at https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/217392/peterborough-social-impact-bond-assessment.pdf

Charities Aid Foundation (2012) Funding Good Outcomes: Using social investment to support payment by result. A CAF 'Putting Practice into Policy' discussion paper: September 2012. Accessed 20 June 2014 at https://www.cafonline.org/pdf/Funding%20Good%20Outcomes.pdf

Community Development Investment Review (2013) Pay for success financing. San Francisco: Community Development Investment Review 2013, Volume 9, Issue 1, April 2013 accessed 12 June 2014 at http://www.frbsf.org/community-development/files/review-volume-9-issue-1.pdf

Davison, R (2013) Does social finance understand social need? Cancook, January 2013, accessed 13 June 2014 at http://www.cancook.co.uk/wp-content/uploads/2013/01/Does-Social-Enterprise-Understand-Social-Need.pdf

DCLG and the Cabinet Office (2014) Fair Chance Fund: full bid specification documentation. June 2014, Online, accessed 6 June 2014 at https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/317392/FULL_SPEC_020614_-web_version.pdf

Deputy Prime Minister's Office and Cabinet Office (2014) £30 million boost to improve the lives of Britain's most vulnerable young people. Press release, April 30 2014, accessed 5 June 2014 at https://www.gov.uk/government/news/30-million-boost-to-improve-the-lives-of-britains-most-vulnerable-young-people#YEF

Disley, E, Rubin, J, Scraggs E., Burrowes N, and Culley D. (2011) Lessons learned from the planning and early implementation of the Social Impact Bond at HMP Peterborough London: RAND Europe 2011. Online, accessed 5 June 2014 at https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/217375/social-impact-bond-hmp-peterborough.pdf

Disley, E & Rubin, J. (2014) Phase 2 report from the payment by results Social Impact Bond pilot at HMP Peterborough. London: Rand Europe April 2014. Online, accessed 5 June 2014 at https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/305802/peterborough-phase-2-pilot-report.pdf

DWP (2014) Youth Unemployment Innovation Fund Pilot: Starts and Outcomes, April 2014. Online, accessed 4 June 2014 at https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/307070/youth-unemployment-innovation-fund-pilot.pdf

Eccles, T (2014) Valuable Numbers. Cabinet Office Centre for Social Impact Bonds Blog, 18 February 2014. Accessed 11 June 2014 at http://data.gov.uk/sib_knowledge_box/blogs

Eccles, T. & Halilovic, S (2013) Introduction to social Impact Bonds Workshop Social Finance and the LGA 19 November 2013 accessed 9 June 2014 at http://www.local.gov.uk/web/guest/past-event-presentations/-/journal_content/56/10180/5692341/ARTICLE

The Economist (2013a) Commerce and conscience: a new way of financing public services gains momentum. The Economist February 23, 2013. Accessed 9 June 2014 at http://www.economist.com/news/finance-and-economics/21572231-new-way-financing-public-services-gains-momentum-commerce-and-conscience

The Economist (2013b) The Peterborough Principles. The Economist May 10, 2013. Accessed 9 June 2014 at http://www.economist.com/blogs/blighty/2013/05/prisoner-rehabilitation

The Economist (2013c) Baby steps The Economist July 17, 2013. Accessed 9 June 2014 at http://www.economist.com/blogs/freeexchange/2013/07/social-impact-bonds

EVPA (2013) A Belgian première: A Social Impact Bond to tackle unemployment in Brussels EVPA April 29 2014. Online, accessed 9 June 2014 at http://evpa.eu.com/blog/2014/04/a-belgian-premiere-a-social-impact-bond-to-tackle-unemployment-in-brussels/

Giotis, C (2010) Launch of first Social Impact Bond signals “funding revolution”. Social Enterprise ,18 March 2010 accessed 4 June 2014 at http://www.socialenterpriselive.com/section/news/money/20100318/launch-first-social-impact-bond-signals-funding-revolution

Goldberg, S (2013) Babies, bathwater and desperately seeking savings. Pioneers Post, 12 August 2013. Online, accessed 11 June 2014 at http://www.pioneerspost.com/comment/20130813/babies-bathwater-and-desperately-seeking-savings

Government of Saskatchewan (2014) New home for single mothers opens in Saskatoon; funding first of its kind in Canada. Press release, 12 May, accessed 9 June 2014 at (http://www.saskatchewan.ca/government/news-and-media/2014/may/12/social-impact-bond)

Griffiths, A & Meinicke C (2014) Introduction to Social Impact Bonds and Early Intervention. Initial Report, April 2014. The early Intervention Foundation. Online, accessed 9 June 2014 at http://www.eif.org.uk/wp-content/uploads/2014/04/Social-Investment-Report-final-for-publication-04-Apr.pdf

HM Government (2009) Putting the Frontline First: smarter government. Online, accessed 4 June 2014 at https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/228889/7753.pdf

HM Government (2011) Growing the Social Investment Market: A vision and strategy February 2011. Online, accessed 4 June 2014 at https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/61185/404970_SocialInvestmentMarket_acc.pdf

HM Government (2013) Growing the social investment market: 2013 progress update. Online, accessed 4 June 2014 at https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/205295/Social_Investment_Strategy_Update_2013.pdf

HM Government (2014a) Youth Engagement Fund prospectus, May 2014. Online, accessed 6 June 2014 at https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/313589/Youth_Engagement_Fund_prospectus.pdf

HM Government (2014b) Growing the social investment market: 2014 progress update. Online, accessed 19 June 2014 at https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/321380/2014_Social_Investment_Strategy.pdf

Huckfield, L (2014) Lesley Huckfield Research. Website accessed 13 June 2014 at http://www.huckfield.com

ICF GHK (2014) Qualitative Evaluation of the London Homelessness Social Impact Bond: First Interim Report. ICF GHK for the Department for Communities and Local Government, September 2014. Online, accessed 19 November 2014 at https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/357785/Qualitative_Evaluation_of_the_London_Homelessness_SIB.pdf

Jolliffe, D and Hedderman, C (2014) Peterborough Social Impact Bond: Final Report on Cohort 1 Analysis. Qinetiq and University of Leicester for Ministry of Justice, August 2014. Online, accessed 22 August 2014 at https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/341684/peterborough-social-impact-bond-report.pdf

Jupp, B, (2011) A technical guide to developing social impact bonds. Social Finance, November 2011. Online, accessed 5 June at http://www.socialfinance.org.uk/resources/guide/technical-guide-commissioning-social-impact-bonds

KPMG (2014) Evaluation of the Joint Development Phase of the NSW Social Benefit Bonds Trial. KPMG Australia 2014. Online, accessed 11 June 2014 at http://www.treasury.nsw.gov.au/__data/assets/pdf_file/0006/123189/KPMG_Evaluation_SBB_JDP_Final_Report_290114.pdf

Liebman, J. (2011), Social Impact Bonds: A Promising New Financing Model to Accelerate Social Innovation and Improve Government Performance, New York: Centre for American Progress. February 2011. Online, accessed 9 June 2014 at http://cdn.americanprogress.org/wp-content/uploads/issues/2011/02/pdf/social_impact_bonds.pdf

Manchester City Council (2012). Looked After Children: Multi-systemic Treatment Foster Care. Report of Strategic Director Children's Services and the City Treasurer to the Executive. 14th March 2012

McHugh, N, Sinclair, S, Roy, M, Huckfield L and Donaldson, C. (2013) Social impact bonds: a wolf in sheep's clothing? London: Journal of Poverty and Social Justice. Vol 21 No 3 pp247-257

Merrett, A (2012) Challenges and Issues in developing and delivering Social Impact Bond (SIB) models Big Lottery Fund internal briefing paper, 28 August 2012. Not published

Ministry of Justice (2010) Scheme launched to reduce reoffending in short term prisoners. Press release 18 March accessed 4 June 2014 at http://webarchive.nationalarchives.gov.uk/20100306090523/http:/www.justice.gov.uk/news/newsrelease180310a.htm

Ministry of Justice (2013a) Interim re-conviction figures for the Peterborough and Doncaster Payment by Results pilots. Statistical Notice, June 2013 accessed 12 June 2014 at https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/206686/re-conviction-results.pdf

Ministry of Justice (2013b) Interim re-conviction figures for the Peterborough and Doncaster Payment by Results pilots. Statistical Notice, October 2013 accessed 12 June 2014 at https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/254186/annex-a-payment-by-results-oct13.pdf

Ministry of Justice (2014a) Interim re-conviction figures for the Peterborough and Doncaster Payment by Results pilots. Statistical Notice, January 2014 accessed 12 June 2014 at https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/276105/annex-a-payment-by-results-jan14.pdf

Ministry of Justice (2014b). Payment by results prison pilot continues to show falls in reoffending. Press release, 24 April 2014. Online, accessed 6 June 2014 at https://www.gov.uk/government/news/payment-by-results-prison-pilot-continues-to-show-falls-in-reoffending

Ministry of Justice (2014c) Interim re-conviction figures for the Peterborough and Doncaster Payment by Results pilots. Statistical Notice, April 2014 accessed 12 June 2014 at https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/305897/annex-a-payment-by-results-apr14.pdf

Ministry of Justice (2014d). Payment-by-results pilots on track for success. Press release, 7 August 2014. Online, accessed 22 August 2014 at https://www.gov.uk/government/news/payment-by-results-pilots-on-track-for-success

Ministry of Justice and Social Finance (2010) Minister launches Social Impact Bond Pilot, Press Release September 2010 accessed 4 June at http://www.socialfinance.org.uk/sites/default/files/SIB_Launch_PR.pdf

Mulgan, G., Reeder, N., Aylott, M, and Bo'sher, L. (2010), Social Impact Investment: the Challenge and Opportunity of Social Impact Bonds, London: The Young Foundation 2010. Accessed 6 June 2014 at http://Youngfoundation.org/wp-content/uploads/2012/10/Social-Impact-Investment-The-opportunity-and-challenge-of-Social-Impact-Bonds-March-2011.pdf

Municipality of Rotterdam (2013) Press release accessed June 6 2013 at http://www.rotterdam.nl/rotterdamabnamroenstartfoundationpakkenjeugdwerkloosheidaanvianieuwefinancieringsconstructie

Natcen (2013) Your life, your future: Evaluation of the Innovation Fund pilots. Natcen website, accessed 17 June 2014 at http://www.natcen.ac.uk/our-research/research/your-life,-your-future/

New Economy (2013) Unit Cost Database. Building an evidence base of costs. New Economy Website. Accessed 11 June 2014 at http://neweconomymanchester.com/stories/832-unit_cost_database

Rotheroe, A (2014) Lessons and opportunities: perspectives from providers of Social Impact Bonds. New Philanthropy Capital, 20 June 2014. Accessed 30 June 2014 at http://www.thinknpc.org/publications/lessons-and-opportunities/

Nicholls, A. & Tomkinson, E. (2013) The Peterborough Pilot Social Impact Bond Oxford: Saïd Business School, Oxford University. Accessed 28 May 2014 at http://emmatomkinson.files.wordpress.com/2013/06/case-study-the-peterborough-pilot-social-impact-bond-oct-2013.pdf

NSPCC (2011) Payment by results: opportunities and challenges for improving outcomes for children. NSPCC Strategy Unit Briefing, 2011. Online, accessed 11 June 2014 at https://www.nspcc.org.uk/Inform/research/findings/payment_by_results_pdf_wdf86759.pdf

NSW Government (2013) Social Benefit Bonds, Online, accessed 4 June 2014 at http://www.treasury.nsw.gov.au/site_plan/social_benefit_bonds

Pay for Success Learning Hub (2014) Pay For Success Deals in the United States. Online, accessed 6 June 2014 at http://payforsuccess.org/pay-success-deals-united-states

Perry, J (2013) Come Back Polly. Panaphur Blog, 5 July 2011, accessed 7 June 2014 at http://www.panahpur.org/tag/polly-toynbee-social-impact-bonds-sub-prime-behaviour-bonds-guardian/

Randall, J. (2014) Is it time to call time on social impact bonds? Institute for Government blog, 17 April 2014 accessed 6 June 2014 at ttp://www.instituteforgovernment.org.uk/blog/7739/is-it-time-to-call-time-on-social-impact-bonds/

Ruttner, H (2013) Creating Social Impact Bonds (DWP). Civil Service Open Policy Making Portal. 9 August 2013 Accessed 12 June 2014 at http://my.civilservice.gov.uk/policy/2013/08/09/creating-social-impact-bonds-in-the-department-for-work-and-pensions-via-the-30m-innovation-fund/#lessons

Shaw, D (2014). Can outsourcing probation services cut reoffending rates? BBC News Website, 18 February 2014 accessed 12 June 2014 at http://www.bbc.co.uk/news/uk-26231133

Social Enterprise (2012). Big Lottery funds eight more social investment schemes. Online. Accessed 16 June 2014 at http://www.socialenterpriselive.com/section/news/money/20120718/big-lottery-funds-eight-more-social-investment-schemes

Social Finance (2008) Social Finance launched to accelerate the creation of a social investment market in the UK. Press release, 21 April accessed 4 June 2014 at http://www.socialfinance.org.uk/sites/default/files/SFPR_21-04-2008.pdf

Social Finance (2009) Social Impact Bonds: Rethinking finance for social outcomes. Online, accessed 4 June 2014 at http://payforsuccess.org/sites/default/files/sf_rethinkingfinance.pdf

Social Finance 2011. Services for Young People. Written evidence submitted by Social Finance to the House of Commons Select Committee on Education, Session 2010-12, 31 May 2011, accessed 6 June 2014 at http://www.publications.parliament.uk/pa/cm201011/cmselect/cmeduc/writev/744/syp156.htm

Social Finance (2013) Peterborough interim figures – 31 October 2013. Press release, 31 October 2013 accessed 12 June 2014 at http://www.socialfinance.org.uk/sites/default/files/peterborough_interim_figures_october_2013.pdf

Social Finance (2014a) Peterborough social impact bond reduces reoffending by 8.4%; investors on course for payment in 2016. Press release, 7 August 2014 accessed 22 August 2014 at http://www.socialfinance.org.uk/wp-content/uploads/2014/08/Peterborough-First-Cohort-Results.pdf

Social Finance (2014b) Social Impact Bonds: Supporting Vulnerable 14-16 Year Olds, a Year in Review. Online, accessed 19 November 2014 at http://www.socialfinance.org.uk/wp-content/uploads/2014/05/DWP_Report_final_webReady.pdf

Social Finance & The Young Foundation (2012) A social impact bond for entrenched rough sleepers: outline business case. Social Finance & The Young Foundation, 20 January 2012, accessed 10 June 2014 at http://www.london.gov.uk/sites/default/files/Rough%20Sleeping%20SIB%20Report%20-%2020%20January%202012.PDF

Social Investment Taskforce (2014). Impact Investment: The Invisible Heart of Markets. Online, accessed 16 September 2014 at http://www.socialimpactinvestment.org/reports/Impact%20Investment%20Report%20FINAL[3].pdf

Third Sector (2014). Why the social impact bond at Peterborough prison is being halted. 21 May 2014 accessed 6 June 2014 at http://www.thirdsector.co.uk/Finance/article/1294813/why-social-impact-bond-peterborough-prison-halted/

Thomas, A, Griffiths, R & Pemberton, A (2014) The Innovation Fund pilots qualitative evaluation: Early implementation findings . Department for Work and Pensions, April 2014, accessed June 6 2014 at https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/307104/innovation-fund-pilots-qualitative-evaluation-april-2014.pdf

Thomas, A, & Griffiths, R (2014) Innovation Fund pilots qualitative evaluation: Early implementation findings. Insite Consulting for Department for Work and Pensions, July 2014, accessed August 22 2014 at https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/329168/if-pilots-qual-eval-report-880.pdf

Tomkinson, E (2012) An Australian snapshot: Social impact bonds Perspectives from the Social Finance Forum. Sydney: Centre for Social Impact, November, 2012 accessed 12 June 2014 at http://csi.edu.au/media/content/download/file/Social_Impact_Bonds_-_An_Australian_snapshot.pdf

Tomkinson, E (2014) Social Impact Bond (SIB) UK v. world map. Emma Tomkinson Blog. Posted February 14 2014. Accessed June 6 2014 at http://emmatomkinson.com/2014/02/14/social-impact-bond-sib-uk-v-world-map/

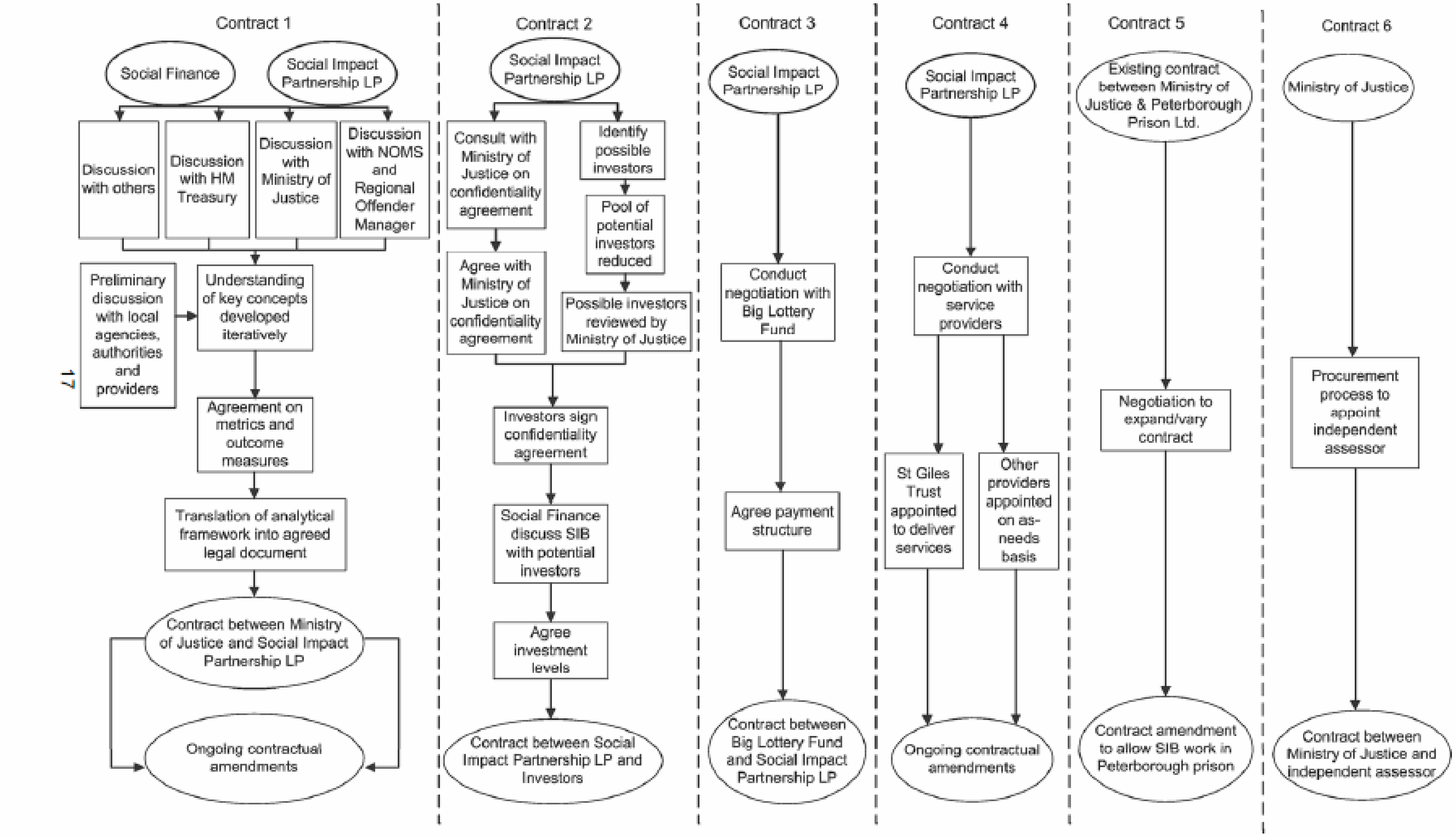
Toynbee, P (2011) Who's in the market for sub-prime behaviour bonds? The Guardian, 4 July 2011 accessed June 9 at http://www.theguardian.com/commentisfree/2011/jul/04/sub-prime-behaviour-bonds-fools-gold

Travis A, (2010) Will social impact bonds solve society's most intractable problems? The Guardian, 6 October 2010 accessed 3 June 2014 at http://www.theguardian.com/society/2010/oct/06/social-impact-bonds-intractable-societal-problems

Triodos (2013) Fair Chance Fund – The Role of the Intermediary Presentation, Triodos Corporate Finance, 24 February 2014

Vennema, B and KoeKoek, R. (2013) Social Impact Bonds: opportunities and challenges for The Netherlands. Amsterdam: ABD AMRO September 2013. Accessed 12 June 2014 at https://insights.abnamro.nl/wp-content/uploads/2013/10/Social-Impacts-Bonds-rapport.pdf

# Annex B – Peterborough SIB Contract Development




Source: Disley et al (2011) Page 17

# Annex C – Research tools

# CBO Evaluation
# Stakeholder Consultations
# Topic Guide

## 1. Introduction

The purpose of the stakeholder consultations is to:

a) Further understand the SIB background context, from both a policy and delivery perspective. This is to both increase our, and everybody's understanding of the SIB landscape, and to serve as a 'baseline' which we will use to observe how the SIB landscape changes during the CBO Fund;
b) Enable stakeholders to contribute to the focus and design of the CBO Evaluation.

The range of stakeholders is varied and therefore this topic guide should be seen as a very loose structure; the precise questions may need to be tailored based on the stakeholder being consulted.

Please explain to the consultee the aim of the consultation and that their comments will feed into our Scoping Report in June but comments will be suitably anonymised.

We will be consulting with stakeholders at intervals during the CBO Evaluation to observe how perceptions change during the life of the Fund.

## 2. Background Context

1. Please explain your roles and responsibilities.
2. In what context are you involved with SIBs?
3. Why did you/your organisation decide to become involved with SIBs?

## 3. Experience of SIBs

4. How well would your say your SIB programme/project is developing so far?
    a. What have been the strengths?
    b. What have been the main challenges?
        i. How do you think these could be overcome?
5. Given your experience to date, would you consider becoming involved in future SIBs?
    a. Have you become involved in future SIBs?
    b. If unlikely, what needs to change to increase the likelihood of you becoming involved?

## 4. Perception of Wider SIB Landscape

6. How well do you think the SIB agenda more widely is progressing?
    a. What is the level of demand from people to get involved in SIBs?
        i. Overall but also specifically from policy makers, commissioners, investors and service providers.
        ii. How do you think demand could be increased?
    b. What are the strengths?

    i. Overall but also specifically for commissioners, investors and service providers.

  c. What are the challenges?

    i. Overall but also specifically for commissioners, investors and service providers.
    ii. How do you think these could be overcome?

## 5. CBO Fund

7. What has been your involvement with the CBO Fund to date?
8. How well do you think the CBO Fund is progressing?
    a. What do you think is going particularly well?
    b. What do you think are its challenges?
        i. How do you think these could be overcome?
9. Do you think anything needs to change to improve the CBO Fund?

## 6. CBO Evaluation

*Summarise the evaluation plan.*

10. What in particular do you think the CBO Evaluation should focus on?
    a. We are undertaking 20 'thematic' case studies, focusing on specific aspects of SIB delivery. Are there any specific themes you think we should focus on?
11. I sent you the contact details for our investor and service provider surveys in advance. Do you think there is anyone we have not included in the list?
12. I sent you the list of key SIB documents for our Literature Review. Do you think there are any other key documents we have not included?

13. Is there anything else you would like to raise that we have not yet covered?

**Thank and close.**

# CBO Evaluation
# Interviews with investors
# Topic Guide

## 1. Introduction

[Note we will approach interviewees in advance by email, so much of this will be known to them by the time of the call.  If not it will be explained to them at the start of the call]

Ecorys, in partnership with ATQ, have been commissioned to provide a long term evaluation of the CBO fund.  (Outline the main components of the study, i.e. the process and impact evaluation, and the communications feedback activity).  As part of the study we plan to conduct regular surveys of the key stakeholders who are involved in the development of SIBs that are stimulated and funded by the CBO, namely investors, service providers and commissioners.  The purpose of these surveys is to understand the involvement of stakeholders in CBO-funded SIB development, the challenges they have faced, and how the response to those challenges and wider attitudes to SIBs changes over time.

We are carrying out the first surveys at the start of the evaluation and in the early stages of the CBO fund, so that:

a. the findings can act as a baseline for the evaluation; and
b. we can help the development of the fund by getting better information and insight into the current challenges that all stakeholders are facing in developing SIBs.

We will be repeating the survey at intervals during the CBO Evaluation to observe how perceptions change during the life of the Fund.

The information will be used in reports for the Big Lottery Fund about the SIB agenda, which will be publicly available. Survey responses will be anonymised, so you will not be named or otherwise identified in any reports, and we would encourage you to voice your opinions as openly as possible.

## 2. About the interviewee and their organisation

1. Please explain your role and responsibilities.
2. Are you/your organisation
    a. A direct investor?
    b. A manager of other investors' funds?
    c. Both?
3. If a direct investor, what is the source of the capital you are investing e.g. charitable foundation, corporate social responsibility fund?
4. What restrictions/boundaries if any are there on the types of investment you can make in terms of e.g.
    a. Deal size and value
    b. Size and type of investee organisation
    c. Geography – where you can invest
    d. Purposes/outcomes of investment
    e. Expected rates of return on investment

f. Types of investment (equity, debt etc.)

## 3. Awareness and Understanding of SIBs

5. How would you rate your organisation's understanding of SIBs?
    4. Very good
    5. Good
    6. Fair
    7. Poor
    8. Very poor
    9. Unable to answer as my organisation has very little awareness of SIBs
6. Which aspects of SIBs do you feel your organisation does not fully understand?
7. Where have you heard about SIBs?
    a. Media coverage (TV, newspapers or radio)
    b. Attending events or conferences
    c. Attending planning or strategy meetings
    d. Research reports and publications
    e. Word of mouth
    f. Other (please specify)
8. In your view, how good is awareness of SIBs more generally:
    a. among social and philanthropic investors?
    b. among institutional investors?
    c. Where awareness is weak, what more do you think could be done to improve it?

## 3. Previous involvement in SIBs

9. Have you/your organisation previously invested in SIBs?
10. If yes,
    a. What was/were the project(s) you invested in?
    b. What was the nature and scale of your investment, if you are prepared to disclose it
11. Why did you decide to invest? (prompt for extent to which they were motivated by social or financial reasons, or by other factors e.g. location of investment).

## 4. Experience of SIB investment to date

12. Based on your experience of investing in SIBs to date, are you getting the returns you expected, both social and financial)? If not, why has this been the case e.g. lower than expected outcomes?
13. Based again on your experience to date, what have been the strengths of the SIB approach:
    a. For you and fellow investors?
    b. In your view, for others involved in the process (e.g. policy makers, commissioners, providers)?
14. And what have been the main challenges:
    a. For you and fellow investors?
    b. In your view, for others involved in the process?
15. Based on your experience, how likely are you to become involved in future Social Impact Bonds?

16. Are there particular aspects that would need to be in place for you to consider investing? (e.g. minimum/maximum investment value, reputation of delivery partner, evidence base behind the proposed intervention, number of other investors, split in risk between investors and providers, whether a SPV is in place)

## 5. Reasons for not investing in SIBs

17. If you have not invested in SIBs to date, is this because:
    a. You did not consider it/were not approached/ are new to this market?
    b. Considered it but decided not to invest?
    c. Have chosen not to invest in SIBs?
18. If you considered an investment but decided not to, why was that e.g. level of risk involved, unsure about capability of provider, returns (social or financial) not good enough?
19. If you have decided not to invest in SIBs
    a. why is that e.g. general view of the market and its stage of development, not where you are positioning a particular fund, alternative investments offer better returns
    b. w hat would need to change in order for you to consider investing?

## 6. Experience and perception of the CBO Fund

20. Are you aware of the fund and what it aims to achieve?
21. Have you had any involvement in the CBO Fund to date (e.g. in principle discussion with commissioners at expression of interest or full application stage)?
22. Whether or not you have been involved in the CBO Fund to date:
    a. What is your view of how the fund is progressing?
    b. What is going well?
    c. What are the challenges?
    d. What changes might be made, from your standpoint, to maximise strengths or address challenges?
23. How if at all do you expect the CBO fund to change perceptions of SIBs:
    a. Within your organisation?
    b. More widely for commissioners and providers?

## 7. CBO Evaluation

*Summarise the evaluation plan.*

24. Do you have any views on the focus of the CBO Evaluation in terms of:
    a. Specific themes for the case studies?
    b. Issues to be addressed din process evaluation?
    c. Issues to be addressed in impact evaluation?
    d. Content of investor specific reports and other briefing?
25. How as an investor would you like to be kept informed of the outputs from the evaluation:
    a. Web portal/repository?
    b. E-mail newsletter?
    c. Group investor-specific briefings?
    d. Other?

26. Is there anything else you would like to raise that we have not yet covered?

**Thank and close.**

# Commissioning Better Outcomes Evaluation

# Commissioner ESurvey

## Introduction

This survey is part of the Commissioning Better Outcomes Fund Evaluation, commissioned by the Big Lottery Fund and managed by Ecorys UK in partnership with ATQ Consultants.

The Commissioning Better Outcomes Fund is funded by the Big Lottery Fund, with a mission to support the development of more Social Impact Bonds (SIBs) in England. It is operating alongside the Cabinet Office's Social Outcomes Fund. Between them these funds are making up to £60m available to pay for a proportion of outcomes payments for these types of models in complex policy areas, as well as support to develop robust proposals. For more information visit: http://www.biglotteryfund.org.uk/sioutcomesfunds

A Social Impact Bond is a new way of investing in social interventions. A public sector commissioner (e.g. local authority, Clinical Commissioning Group (CCG)) commissions a service provider to deliver a social intervention, but the intervention is funded by a private investor. The commissioner pays the investor a sum for any social outcomes achieved, possibly generating a return for the investor. If outcomes do not improve, then the investor does not recover their investment. For more information please visit: https://www.gov.uk/social-impact-bonds

The main purpose of this survey is to understand service providers' perceptions of and involvement in SIBs. The main topic areas are:

- Awareness and understanding of SIBs
- Level of involvement in SIBs
- Perceptions of SIBs
- Experience of SIBs
- Commissioning Better Outcomes Fund

The survey will be administered at four points during the evaluation to measure how providers' perceptions of and involvement in SIBs change over time. The survey will be administered first in 2014 and then again in 2016, 2018 and 2022.

The survey should take around **15 minutes** to complete. The information will be used in reports for the Big Lottery Fund about the SIB agenda, which will be publicly available, however, survey responses will be anonymised, so you will not be named or otherwise identified in any reports, and we would encourage you to voice your opinions as openly as possible.

## A. Awareness and Understanding of Social Impact Bonds

1. How would you rate your organisation's understanding of SIBs?

| | |
|---|---|
| Very good | Go to Q3 |
| Good | Go to Q3 |
| Fair | Go to Q2 |
| Poor | Go to Q2 |
| Very poor | Go to Q2 |
| Don't know | Go to Q3 |
| Not applicable | Go to Q3 |

2. Which aspects of SIBs do you feel your organisation does not fully understand? *[Please tick all that apply]*

| | |
|---|---|
| How commissioners identify where a SIB might be used | |
| How to test whether a SIB is feasible | |
| How to obtain funding for SIB feasibility and development work | |
| The role of the investor | |
| How and when commissioners engage with investors | |
| The role of intermediaries (e.g. in setting up Special Purpose Vehicles) | |
| The difference between a SIB contract and a Payment by Results contract | |
| How risk is split between the commissioner, investor and the provider(s) | |
| How payment levels and mechanisms are agreed | |
| When co-commissioning might be appropriate | |
| Who selects providers to deliver interventions | |
| Whether and when to specify the intervention to be used | |
| What level of returns will investors expect to receive | |
| How outcomes are identified and agreed | |
| How evidence for achieving outcomes is gathered | |
| How investors and commissioners work together during the SIB contract | |
| What the benefits are to commissioners in funding a service through a SIB | |
| How the selection of providers can be undertaken in line with competitive tendering rules | |
| Other (please specify) | |
| All aspects | |
| Don't know | |
| Not applicable | |

3. Where have you heard about SIBs ?*[Please tick all that apply]*

| | | |
|---|---|---|
| | | (Ask if ticked 'Yes' to any of the options) |
| Media coverage (TV, newspapers or radio) | | Please provide more information (e.g. name of newspaper) [open text] |
| Attending events or conferences | | Please provide more information (e.g. name of event) [open text] |
| Attending planning or strategy meetings | | Please provide more information (e.g. type of meeting) [open text] |
| Research reports and publications | | Please provide more information (e.g. name of report) [open text] |
| Word of mouth | | Please provide more information (e.g. person who told you) [open text] |
| Contacted by an advisor/intermediary | | Please provide more information (e.g. name of advisor) [open text] |
| Other (please specify) | | |
| Don't Know | | |
| Not applicable | | |

## B. Level of Involvement in Social Impact Bonds

4. What has been your organisation's level of involvement in SIBs to date? *(Please tick the most appropriate option)*

| | |
|---|---|
| No involvement | Go to Q7 |
| Lightly considered becoming involved in a SIB (e.g. done background research; held internal conversations and/or meetings; attended SIB events) | Go to Q7 |
| Seriously considered becoming involved in a SIB (e.g. entered into discussions with service providers, investors and/or intermediaries; undertaken or been involved in feasibility studies) | Go to Q7 |
| Have been involved in a SIB in the past | Go to Q5 |
| Are currently involved in a SIB | Go to Q5 |
| Don't know | Go to Q7 |
| Not applicable | Go to Q7 |

5. How many SIBs are/have you been involved in?

| |
|---|
| [open text] |

6. Please provide some brief details of the SIB(s) you have been/are involved in: *[routing note: If respondent has inserted a number greater than 1 in Q5, this table should be inserted multiple times to reflect the number inserted in Q]*

| | |
|---|---|
| Name: | [open text] |
| Service provider: | [open text] |
| Nature of service: | [open text] |

7. a) There are various types of support commissioners can use to help them understand and set up a SIB. Please state which of these types of support you are aware of and have used *(Please tick all that apply)*:

| | I am aware of this type of support | I have used this type of support | Don't know | Not applicable |
|---|---|---|---|---|
| External consultants | | | | |
| Outcomes Matrix (developed by Big Society Capital) | | | | |
| SIB contract template (developed by Cabinet Office) | | | | |
| Cost unit database (developed by Cabinet Office and New Economy) | | | | |
| Resources from the Cabinet Office Centre for Social Impact Bonds (e.g. the SIB Knowledge Box) | | | | |
| Social Impact Bond calculator (developed by Social Finance) | | | | |
| Other (please specify): | | | | |
| Don't know | | | | |
| Not applicable | | | | |

*If any types of support have been used, go to Q7b. If not, go to Q12.*

b) How helpful was this support in aiding you to understand and set up your SIB(s)? *[Pre-populate based on the responses to Q7b]*

| | External consultants | Outcomes Matrix | SIB contract template | Cost unit database | Resources from the Cabinet Office Centre for Social Impact Bonds | Other (please specify): |
|---|---|---|---|---|---|---|
| Very helpful | | | | | | |
| Somewhat helpful | | | | | | |
| Neither helpful | | | | | | |
| Not very helpful | | | | | | |
| Very unhelpful | | | | | | |
| Don't know | | | | | | |
| Not applicable | | | | | | |

*[Now go to Q12]*

## b) Perceptions of Social Impact Bonds

8. How interested is your organisation in getting involved in a SIB?

| | |
|---|---|
| Very interested | Go to Q9 |
| Somewhat interested | Go to Q9 |
| Neither interested nor not interested | Go to Q17 |
| Not very interested | Go to Q11 |
| Not at all interested | Go to Q11 |
| Don't know | Go to Q17 |
| Not applicable | Go to Q17 |

9. Why is your organisation interested in getting involved in a SIB? *[Please tick all that apply]*

| | |
|---|---|
| It could potentially save money | |
| It could be a less risky approach than a conventional contract | |
| It creates up-front funds to invest in services, which we would struggle to provide ourselves | |
| It brings in additional, external funding | |
| It is a growing policy area | |
| There is development funding available | |
| To test out the concept | |
| To test the viability of new interventions or services for a specific issue | |
| It could lead to the delivery of more effective services | |
| Other (please specify) | |
| Don't Know | |
| Not applicable | |

10. If there are any barriers preventing your organisation from getting involved in SIBs, please detail them below: *[Please tick all that apply]*

| | |
|---|---|
| Other people within the organisation do not want to get involved | |
| Do not know how to identify and engage investors | |
| Do not know what interventions could be funded | |
| Prefer to fund services in-house rather than use capital from investors | |
| We are not interested in delivering the interventions/types of services normally funded by SIBs advertised to date | |
| They are too complex / difficult to understand | |
| We do not have the resources or capacity to invest in becoming involved | |
| Other (please specify) | |
| Don't Know | |
| Not applicable | |

*[Now go to Q17]*

11. Why is your organisation not interested in getting involved in a SIB? *[Please tick all that apply]*

| | |
|---|---|
| Do not fully understand them | |
| They are too complex | |
| Prefer to fund services in-house rather than use capital from investors | |
| Prefer conventional fee for service contract with service provider | |
| Morally oppose the notion that investors could make profit from social outcomes | |
| Other (please specify) | |
| Don't Know | |
| Not applicable | |

*[Now go to Q17]*

12. Why did your organisation decide to get involved in a SIB?

| | |
|---|---|
| It could potentially save money | |
| It could be a less risky approach than a conventional contract | |
| It creates up-front funds to invest in services, which we would have struggled to provide ourselves | |
| It is a growing policy area | |
| To test out the concept | |
| To test the viability of new interventions or services for a specific issue | |
| It could lead to the delivery of more effective services | |
| Previous funding sources were no longer available | |
| Other (please specify) | |
| Don't Know | |
| Not applicable | |

## C. Experience of SIBs

13. Overall, what was/is your experience of working within a Social Impact Bond model?

| | |
|---|---|
| Very good | |
| Good | |
| Fair | |
| Poor | |
| Very poor | |
| Don't know | |
| Not applicable | |

14. What were/are the benefits of working within a Social Impact Bond model?

| | |
|---|---|
| Provided additional investment that would not have been accessed otherwise | |
| Led to more innovative service delivery | |
| Led to more efficient service delivery | |
| Embedded a more outcomes-focused culture within the service provider | |
| Enabled us to test out new or relatively untried interventions | |
| Added an additional layer of accountability to delivery | |
| Led to greater level of impact with beneficiaries than would have been achieved through a different delivery model | |
| Opened up the tendering process to service providers who would not have been able to do otherwise, due to financial restraints | |
| Better governance/contract management structure than conventional contract | |
| Other (please specify) | |
| It is no different to commissioning a service under a conventional contract | |
| Don't Know | |
| Not applicable | |

15. What were/are the challenges of working within a Social Impact Bond model?

| | |
|---|---|
| Process of selecting providers | |
| Agreeing the contract terms to satisfy all parties | |
| Defining the outcomes | |
| Intermediaries distanced the relationship between our organisation and the service provider | |
| Working with investors complicated relationships | |
| Intermediaries or investors do not understand how commissioners operate and the constraints on them | |
| Other (please specify) | |
| Don't Know | |
| Not applicable | |

16. Based on your past experience, how likely are you to become involved in future Social Impact Bonds?

| | |
|---|---|
| Very likely | |
| Likely | |
| Neither likely nor unlikely | |
| Unlikely | |
| Very unlikely | |
| Don't know | |
| Not applicable | |

## D. Commissioning Better Outcomes Fund

17. Which of the following best describes your organisation's current level of awareness of the Commissioning Better Outcomes (CBO) Fund?

| | |
|---|---|
| No awareness | |
| Some awareness | |
| Good level of awareness | |
| Not applicable | |
| Don't know | |

18. We are setting up an ‘Expert Pool’ of stakeholders who we may ask to review some of our reports and case studies aimed at commissioners to ensure they are suitable for the audience. Would you be interested in joining the Expert Pool?

| | |
|---|---|
| Yes (please provide a preferred email address) | |
| No | |

19. Is there anything else you would like to say, either about your views and experience of SIBs or the Commissioning Better Outcomes Fund?

| | |
|---|---|
| Yes (please type in) | |
| No | |

## c) Background Information

20. Please provide some basic information below. Please note, this information will only be used to compare results between different organisations and to track changes in your answers over time. The survey is anonymous and your answers will not be shared with anyone outside of the evaluation partnership.

| | |
|---|---|
| Name | |
| Position / job title | |
| Type of organisation | 1. Local Authority<br>2. CCG<br>3. Police<br>4. Central government department<br>5. Other (please specify) |
| Name of organisation | |

**Thank you for taking part**. We will be **repeating the survey exercise in 2016**, to measure how commissioners’ perceptions of and involvement in SIBs changes over time. A member of the evaluation survey team will attempt to re-contact you at this time.

# Commissioning Better Outcomes Evaluation

# Provider ESurvey

## Introduction

This survey is part of the Commissioning Better Outcomes Fund Evaluation, commissioned by the Big Lottery Fund and managed by Ecorys UK in partnership with ATQ Consultants.

The Commissioning Better Outcomes Fund is funded by the Big Lottery Fund, with a mission to support the development of more Social Impact Bonds (SIBs) in England. It is operating alongside the Cabinet Office's Social Outcomes Fund. Between them these funds are making up to £60m available to pay for a proportion of outcomes payments for these types of models in complex policy areas, as well as support to develop robust proposals. For more information visit: http://www.biglotteryfund.org.uk/sioutcomesfunds

A Social Impact Bond is a new way of investing in social interventions. A public sector commissioner (e.g. local authority, Clinical Commissioning Group (CCG)) commissions a service provider to deliver a social intervention, but the intervention is funded by a private investor. The commissioner pays the investor a sum for any social outcomes achieved, possibly generating a return for the investor. If outcomes do not improve, then the investor does not recover their investment. For more information please visit: https://www.gov.uk/social-impact-bonds

The main purpose of this survey is to understand service providers' perceptions of and involvement in SIBs. The main topic areas are:

- Awareness and understanding of SIBs
- Level of involvement in SIBs
- Perceptions of SIBs
- Experience of SIBs
- Commissioning Better Outcomes Fund

The survey will be administered at four points during the evaluation to measure how providers' perceptions of and involvement in SIBs change over time. The survey will be administered first in 2014 and then again in 2016, 2018 and 2022.

The survey should take around **15 minutes** to complete. The information will be used in reports for the Big Lottery Fund about the SIB agenda, which will be publicly available, however, survey responses will be anonymised, so you will not be named or otherwise identified in any reports, and we would encourage you to voice your opinions as openly as possible.

## A. Awareness and Understanding of Social Impact Bonds

1. How would you rate your organisation's understanding of SIBs?

| | |
|---|---|
| Very good | Go to Q3 |
| Good | Go to Q3 |
| Fair | Go to Q2 |
| Poor | Go to Q2 |
| Very poor | Go to Q2 |
| Don't know | Go to Q3 |
| Not applicable | Go to Q3 |

2. Which aspects of SIBs do you feel your organisation does not fully understand? *[Please tick all that apply]*

| | |
|---|---|
| How service providers get involved | |
| The role of the investor | |
| How providers engage with investors/seek investment | |
| The role of intermediaries (e.g. in setting up Special Purpose Vehicles) | |
| The difference between a SIB contract and a Payment by Results contract | |
| How the level of risk is split between the investor and the provider | |
| How payment levels are agreed | |
| How payment is made | |
| Who makes payments | |
| Who selects providers to deliver interventions | |
| Why some SIBs specify the intervention to be used | |
| Who specifies the intervention to be used | |
| How outcomes are identified and agreed | |
| How evidence for achieving outcomes is gathered | |
| How investors and providers work together during the SIB contract | |
| What the benefits are to providers in getting involved in a SIB | |
| The basis on which providers are chosen to deliver interventions | |
| How SIBs relate to the wider policy objectives of commissioners | |
| Other (please specify) | |
| All aspects | |
| Don't know | |
| Not applicable | |

3. Where have you heard about SIBs ?*[Please tick all that apply]*

| | | |
|---|---|---|
| | | (Ask if ticked 'Yes' to any of the options) |
| Media coverage (TV, newspapers or radio) | | Please provide more information (e.g. name of newspaper) [open text] |
| Attending events or conferences | | Please provide more information (e.g. name of event) [open text] |
| Attending planning or strategy meetings | | Please provide more information (e.g. type of meeting) [open text] |
| Research reports and publications | | Please provide more information (e.g. name of report) [open text] |
| Word of mouth | | Please provide more information (e.g. person who told you) [open text] |
| Contacted by an advisor/intermediary | | Please provide more information (e.g. name of advisor) [open text] |
| Invitation to tender/ provide services for a specific SIB | | Please provide more information [open text] |
| Other (please specify) | | |
| Don't Know | | |
| Not applicable | | |

## B. Level of Involvement in Social Impact Bonds

4. What has been your organisation's level of involvement in SIBs to date?

| | |
|---|---|
| No involvement | Go to Q7 |
| Lightly considered becoming involved in a SIB (e.g. done background research; held internal conversations and/or meetings; attended SIB events) | Go to Q7 |
| Seriously considered becoming involved in a SIB (e.g. entered into discussions with commissioners, investors and/or intermediaries; undertaken or been involved in feasibility studies; responded to an invitation to tender) | Go to Q7 |
| Have been involved in a SIB in the past | Go to Q5 |
| Are currently involved in a SIB | Go to Q5 |
| Don't know | Go to Q7 |
| Not applicable | Go to Q7 |

5. How many SIBs are/have you been involved in?

| |
|---|
| [open text] |

6. Please provide some brief details of the SIB(s) you have been/are involved in:

| | |
|---|---|
| Name: | [open text] |
| Commissioner: | [open text] |
| Nature of service: | [open text] |

*[Now go to Q11]*

## C. Perceptions of Social Impact Bonds

7. How interested is your organisation in getting involved in a SIB?

| | |
|---|---|
| Very interested | Go to Q8 |
| Somewhat interested | Go to Q8 |
| Neither interested nor not interested | Go to Q16 |
| Not very interested | Go to Q10 |
| Not at all interested | Go to Q10 |
| Don't know | Go to Q16 |
| Not applicable | Go to Q16 |

8. Why is your organisation interested in getting involved in a SIB? *[Please tick all that apply]*

| | |
|---|---|
| It could provide additional funding/access to capital | |
| It is a growing policy area | |
| To test out the concept | |
| It could enable us to provide more innovative services | |
| It could enable us to provide more efficient services | |
| It could enable us to provide more effective services | |
| Other (please specify) | |
| Don't Know | |
| Not applicable | |

9. If there are any barriers preventing your organisation from getting involved in SIBs, please detail them below: *[Please tick all that apply]*

| | |
|---|---|
| There are no SIBs available that we could become involved in | |
| Do not know how to find out about opportunities | |
| Do not know how to engage commissioners | |
| Do not know how to identify and engage investors | |
| Financial risk levels are currently too high | |
| Delivery risk levels are currently too high | |
| Prefer to use our own capital rather than be funded by investors | |
| We do not deliver the interventions/types of services stipulated in SIBs | |
| We are not able to conform to the levels of performance management required by SIBs | |
| They are too complex | |
| We do not have sufficient evidence to demonstrate to investors and/or commissioners that our intervention is successful | |
| We do not have the resources or capacity to invest in becoming involved | |
| Other (please specify) | |
| Don't Know | |
| Not applicable | |

*[Now go to Q16]*

10. Why is your organisation not interested in getting involved in a SIB? *[Please tick all that apply]*

| | |
|---|---|
| Do not fully understand them | |
| They are too complex | |
| Too much financial risk | |
| Too much delivery risk | |
| Prefer to use our own capital rather than be funded by investors | |
| Prefer direct contract with commissioner | |
| Investor creates additional layer of scrutiny | |
| Morally oppose the notion that investors could make profit from social outcomes | |
| We do not have sufficient evidence to demonstrate to investors and/or commissioners that our intervention is successful | |
| Other (please specify) | |
| Don't Know | |
| Not applicable | |

*[Now go to Q16]*

11. Why did your organisation decide to get involved in a SIB?

| | |
|---|---|
| It could provide additional funding/access to capital | |
| It is a growing policy area | |
| To test out the concept | |
| It could enable us to provide more innovative services | |
| It could enable us to provide more efficient services | |
| It could enable us to provide more effective services | |
| Previous funding sources were no longer available | |
| Other (please specify) | |
| Don't Know | |
| Not applicable | |

## D. Experience of SIBs

12. Overall, what was/is your experience of working within a Social Impact Bond model?

| | |
|---|---|
| Very good | |
| Good | |
| Fair | |
| Poor | |
| Very poor | |
| Don't know | |
| Not applicable | |

13. What were/are the benefits of working within a Social Impact Bond model?

| | |
|---|---|
| Provided additional investment that would not have been accessed otherwise | |
| Led to more innovative service delivery | |
| Led to more efficient service delivery | |
| Embedded a more outcomes-focused culture within the organisation | |
| Added an additional layer of accountability to delivery | |
| Improved the organisation's performance management / ability to evidence impact | |
| Led to greater level of impact with beneficiaries than would have been achieved through a different delivery model | |
| Enabled the organisation to bid for contracts it would not have been able to do otherwise, due to financial restraints | |
| Better governance/contract management structure than conventional contract | |
| Other (please specify) | |
| It is no different to delivering a service under a conventional contract | |
| Don't Know | |
| Not applicable | |

14. What were the challenges of working within a Social Impact Bond model?

| | |
|---|---|
| Process of selecting providers | |
| Agreeing the contract terms to satisfy all parties | |
| Evidencing outcomes | |
| Intermediaries distanced the relationship between our organisation and the commissioner | |
| Working with investors complicated relationships | |
| Intermediaries or investors do not understand how service providers operate | |
| Intermediaries or investors do not understand the services we deliver | |
| Restricted ability to innovate in service delivery | |
| Additional accountability created onerous reporting and management information requirements | |
| Other (please specify) | |
| Don't Know | |
| Not applicable | |

15. Based on your past experience, how likely are you to become involved in future Social Impact Bonds?

| | |
|---|---|
| Very likely | |
| Likely | |
| Neither likely nor unlikely | |
| Unlikely | |
| Very unlikely | |
| Don't know | |
| Not applicable | |

## E. Commissioning Better Outcomes Fund

16. Which of the following best describes your organisation's current level of awareness of the Commissioning Better Outcomes (CBO) Fund?

| | |
|---|---|
| No awareness | |
| Some awareness | |
| Good level of awareness | |
| Not applicable | |
| Don't know | |

17. We are setting up an 'Expert Pool' of stakeholders who we may ask to review some of our reports and case studies aimed at service providers to ensure they are suitable for the audience. Would you be interested in joining the Expert Pool?

| | |
|---|---|
| Yes (please provide a preferred email address) | |
| No | |

18. Is there anything else you would like to say, either about your views and experience of SIBs or the Commissioning Better Outcomes Fund?

| | |
|---|---|
| Yes (please type in) | |
| No | |

## d) Background Information

19. Please provide some basic information below. Please note, this information will only be used to compare results between different organisations and to track changes in your answers over time. The survey is anonymous and your answers will not be shared with anyone outside of the evaluation partnership.

| | |
|---|---|
| Name | |
| Position / job title | |
| Organisation / service | |
| Main sector of work (e.g. supporting older people, young offenders etc.) | |

**Thank you for taking part**. We will be **repeating the survey exercise in 2016**, to measure how providers' perceptions of and involvement in SIBs changes over time. A member of the evaluation survey team will attempt to re-contact you at this time.