



Saïd Business School
UNIVERSITY OF OXFORD

OCTOBER 2013

The Peterborough Pilot Social Impact Bond

Alex Nicholls – Emma Tomkinson

This case was prepared by Dr. Alex Nicholls and Emma Tomkinson. Dr Alex Nicholls is the Professor in Social Entrepreneurship, Saïd Business School, Oxford University. Emma Tomkinson is a Social Impact Analyst who, at the time of writing, was working with the Centre for Social Impact Bonds, UK Cabinet Office. The case is intended to be used as the basis for class discussion rather than to illustrate the optimum contracting or financing model. Information in this case was collected from a site visit, interviews, presentations and public sources.

This case study was developed with support from the Pears Business School Partnership. The purpose of the partnership is to inspire future leaders to make a positive difference to society. www.pearsfoundation.org.uk

© 2013 University of Oxford. All rights reserved.

The University of Oxford makes no warranties or representations of any kind concerning the accuracy or suitability of the information



Summary

This case study¹ will examine the emergence, development and global variations of a new financing mechanism for welfare services, the Social Impact Bond (SIB). The case will define SIBs in their historical context and will explore the first, pilot, SIB in Peterborough in the UK in detail. In addition, it will consider innovations introduced by other examples from the UK, Australia and the USA. Conclusions will set out the key innovations and contributions of the SIB form and will also consider obstacles and considerations in terms of the future expansion and development of this novel contractual model.

Specifically, this case aims to enhance the reader's knowledge about:

- How an environment of government reform encourages the development of new contracting models
- How social purpose organizations and social enterprises that deliver welfare services are involved in new relationships with government
- How innovative social finance investment opportunities grow the social finance market
- How social impact metrics can support new funding opportunities and improve organizational performance in terms of social outcomes
- How long-term contracts and flexible funding can enhance strategic flexibility in welfare services delivery that enhances overall performance
- How the involvement of several stakeholder groups in the pursuit of a single outcome creates a unique set of benefits and challenges

The information in this case is presented in five parts:

Part 1: What Is a Social Impact Bond?

Part 2: The Historical Context

Part 3: The Peterborough Pilot Social Impact Bond

Part 4: Social Impact Bond Models Globally

Part 5: Conclusions²

¹ This case was made possible through the generous co-operation of Social Finance Ltd.

² The authors gratefully acknowledge the valuable comments contributed by Dan Gregory

Part 1: What Is a Social Impact Bond?

The Social Impact Bond (SIB) model is an innovative method of financing welfare and other social services. It aims to improve a social outcome through the collaboration of government, service providers and external investors. Put simply, a SIB involves a set of contracts, the basis of which is an agreement by government to pay investors for an improvement in a specific social outcome once it has been achieved. Service providers address the social outcome by delivering an intervention to a group within a target community. Investors provide working capital for service providers to deliver the intervention, thus assuming the financial risk. If greater improvements in the social outcome are made, government payments are larger and thus, investor returns are higher. Effectively, the SIB acts a social futures contract rather than a debt instrument.

The effective implementation of a SIB contract is underpinned by rigorous social impact metrics that measure relevant changes in the lives of service users. Unlike many public sector contract models, the measurement of social outcomes is a necessary component of a SIB, as a trigger for payments by government and repayment to investors. By enabling non-government investment to be utilized, SIBs aim to increase spending on preventative services, such that these interventions can have a direct impact on costly health and social problems, saving the state money over time without reducing the overall level of welfare services. SIBs also directly link financial rewards with social outcomes, something traditional government commissioning methods have struggled to do.

SIBs require innovative collaborations between government, investors and service providers – something that occurs in the negotiation of the terms of the SIB, in its implementation and in its management. The SIB structure also aims to align the interests of these key stakeholders around agreed and measurable social outcomes as follows:

- *Government commissioners:* SIBs ensure that payments are only made by the public sector if SIB-financed services improve outcomes for service users.³ Government transfers the financial risk that funded interventions fail to improve outcomes to investors
- *Investors:* SIBs offer trusts and foundations, commercial and institutional investors, high net worth individuals, and retail investors an opportunity to generate a blended social and financial return on investment. The social and financial returns are aligned since investors receive higher financial returns for greater improvements in social outcomes

³ The SIBs in New South Wales, Australia, called *Social Benefit Bonds*, are an exception to this. Even if no positive outcomes are achieved, government payments will be made and investors will be repaid a proportion of their capital.

- *Service providers*: SIBs offer extra investment for service delivery. Providers are encouraged to innovate in order to maximize outcomes for their target populations. The focus is on collaboration and the social outcomes that service providers can generate together, rather than on the cost of services or outputs alone. Long-term contracts allow providers to employ full-time staff and gain the trust of service users
- *Intermediaries*: SIBs create a new market for intermediaries across a range of functions in their development and execution. For example, they can conduct feasibility studies, perform due diligence, negotiate the deal, establish a special purpose vehicle (SPV), raise capital, and manage performance
- *Service users*: services are delivered to a cohort of service users for whom outcomes could be improved. Payments by government are made on the basis of improvement of outcomes for this group of individuals. Services are flexible, responding to individual need rather than prescribed processes or units of time

Each SIB is structured around at least one well-defined social outcome in an intervention area (e.g. youth offending, teenage pregnancy, young people not in education, employment or training). Appropriate outcomes and success metrics are negotiated and agreed between government and the party responsible for delivering the outcomes. Investors may be involved in these discussions, or may be sought once the terms of the contract are established. These investors are asked to take on some or all the risk that the interventions lead to the target outcomes, but will make a return on their investment in the event that the intervention is successful. Due to the perceived riskiness of SIBs (they are novel and lack a track record of financial performance), social finance institutions - that are driven primarily by achieving social impact and will take more financial risk as a result - have typically funded or underwritten the first SIBs (Loder et al, 2010).

The SIB model is different to other contracting models due to its use of both outcomes-based contracts and non-governmental investment to deliver social services.

The outcomes-based contract - a type of *payment by results* agreement⁴ - between the government and the service provider is an innovative way of commissioning welfare services in two respects. First, it relates payments to measurable outcome change, for example a reduction in reoffending. This is in contrast to government contracts that have traditionally paid for services based on outputs, for example the number of people who completed a programme, or inputs, like the number of contact hours staff spent with clients. The outcomes-based contract also creates an incentive for the service deliverer to collaborate and sub-contract with effective local providers to achieve optimal outcomes for service users. Second, a SIB contract typically has a

⁴ This model is sometimes known as *payment by success*, particularly in the United States.

longer duration than most government contracts. For example, the Peterborough SIB (see below) has a payment by results contract with government that involves seven years of service delivery. It is unusual for government contracts to extend beyond allocations in the current spending review: for example, the UK government spending review typically occurs every three years or so. Payment on the basis of outcomes, combined with a longer contracting period, means that the service provider has more flexibility over how services are delivered and time to collect and respond to performance information. Thus the service is enabled, even required, to improve and adapt to performance information and changes in the delivery environment in a dynamic way.

External investors also have an outcomes-based contract with the service provider, by which they are ultimately repaid. Thus, the social and financial incentives of both providers and investors are aligned. The involvement of external investment shifts the financial risk of non-delivery and, therefore, responsibility for delivering the outcomes, to non-government investors. As a result, the service provider becomes focussed on delivering the outcome for the investor, instead of the traditional model of delivering against a suite of non-outcomes metrics required by government commissioners. Moreover, traditional contracts with government can be highly prescriptive as to how a service is delivered. They deliberately restrict the flexibility the service provider has to deviate from the agreed process of service delivery by funding parts of the process, rather than the outcomes produced.

Investor involvement also enables social purpose organisations to engage in payment by results contracts with government, as the contract effectively provides working capital until payments are made.⁵

Social Finance – the pioneering developer of the world’s first SIB – defined the model as follows:

Social Impact Bonds are a form of outcomes-based contract in which public sector commissioners commit to pay for significant improvement in social outcomes (such as a reduction in offending rates, or in the number of people being admitted to hospital) for a defined population. Social Impact Bonds are an innovative way of attracting new investment around such outcomes-based contracts that benefit individuals and communities. Through a Social Impact Bond, private investment is used to pay for interventions, which are delivered by service providers with a proven track record. Financial returns to investors are made by the public sector on the basis of improved social outcomes. If outcomes do not improve, then investors do not recover their investment. Social Impact Bonds provide up front funding for prevention and early

⁵ Smaller providers are, however, unlikely to be able to participate as the prime contractor due to prohibitive transaction costs, but may deliver services as a sub-contractor.

intervention services, and remove the risk that interventions do not deliver outcomes from the public sector. The public sector pays if (and only if) the intervention is successful. In this way, Social Impact Bonds enable a re-allocation of risk between the two sectors (Social Finance, 2012).

The UK Cabinet Office has defined a SIB by four necessary criteria:

- a contract between a commissioner and a legally separate entity ‘the delivery agency’
- a particular 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
- some or all of the financial risk of non-delivery of outcomes sits with the investor (Cabinet Office, 2013).

The key relationships and finance/outcomes flows in a SIB are summarised in Figure 1.

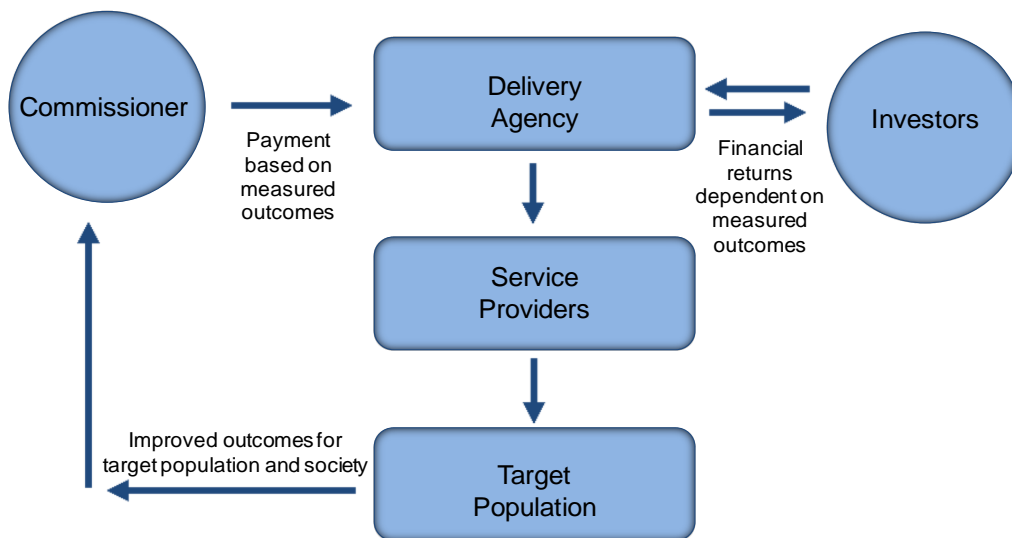


Figure 1: The Structure of a Social Impact Bond

Part 2: The Historical Context

Over the past thirty years – in many developed countries - there have been a series of significant structural and operational changes in the way the state aims to deliver its services to citizens. These changes have reflected both ideological and economic trends in terms of the role of modern government. These are typically characterized as representing the dominance of a neo-liberal agenda that prioritizes tax reduction and privatization over more centralized, ‘tax and spend’ models of the state. In purely economic terms this has been the consequence of a rejection of centralized, state-driven, neo-Keynesian economics in favour of more neo-liberal, market-based, Hayekian approaches.

Two key themes in this revolution have been identified as the ‘New Public Management’ approach to the internal functioning of the state and a broader ‘Reinventing Government’ movement (Osborne and Gaebler, 1995). In both cases, there has been a strong focus on reforming state bureaucracies and dismantling centralized government systems and structures in favour of more ‘business-like’ and enterprising models of welfare service delivery and internal operations. Although both sets of reforms have been very controversial (and strongly resisted at times by the civil service and others), these changes are now the norm in most modern governments (see Figure 2).

In addition to driving various systemic changes to government structures these agendas have also addressed other aspects of what were formerly exclusively state responsibilities. In terms of large infrastructure projects - schools, hospitals, roads - these reforms drove a series of new hybrid contractual models between the state and private, commercial companies, defined in the UK as Public-Private Partnerships or Private Finance Initiatives. In terms of service delivery, a series of key reforms aimed to introduce market - or quasi-market - models into public welfare that separate the (typically external of government) providers of services from the (internal government) commissioners. This market model introduced tendering processes into the provision of public welfare and was designed to be both more efficient and effective. As a result many areas of welfare are now delivered as out-sourced goods and services via contracts with third parties, often charities or third sector organizations. In the UK, this market has been of central importance to the development of the social enterprise sector.

SIBs fit into this tradition of change as part of a new wave of welfare reforms that have been largely driven by the deficit crises that many states faced following the effective nationalization of private sector bank debt in 2008-10. Many governments chose to address this crisis by introducing savage austerity programmes (rather than

steep tax increases) that cut public spending by up to 40% in some countries.⁶ In conjunction, governments sought to increase the effectiveness of their remaining expenditure. In this context, several governments looked to payment by results models, or more specifically, an outcomes-based model of welfare services, which promised more effective services for key beneficiaries and were attractive within a broader policy focus on social innovation. The SIB model brings in third party funding to scale or instigate welfare programmes with government only paying by results and - at least in theory - from savings over time. These features have made SIBs very attractive to cash-strapped ministers.

SIBs also fit into the context of a range of policy initiatives that aimed to develop the social finance market in the UK and beyond. The UK has been the market leader globally in such innovation and successive governments have developed policy approaches including: new fiscal policy (Community Investment Tax Relief); new regulation (the establishment of the Community Interest Company legal form for social enterprises); direct investment (Futurebuilders); facilitating legislation for new social finance infrastructure (Commission on Unclaimed Assets and Big Society Capital); and changes to commissioning policy (the Social Value Act 2012). Policy enthusiasm for SIBs within this context represents a combination of new commissioning processes and direct investment.

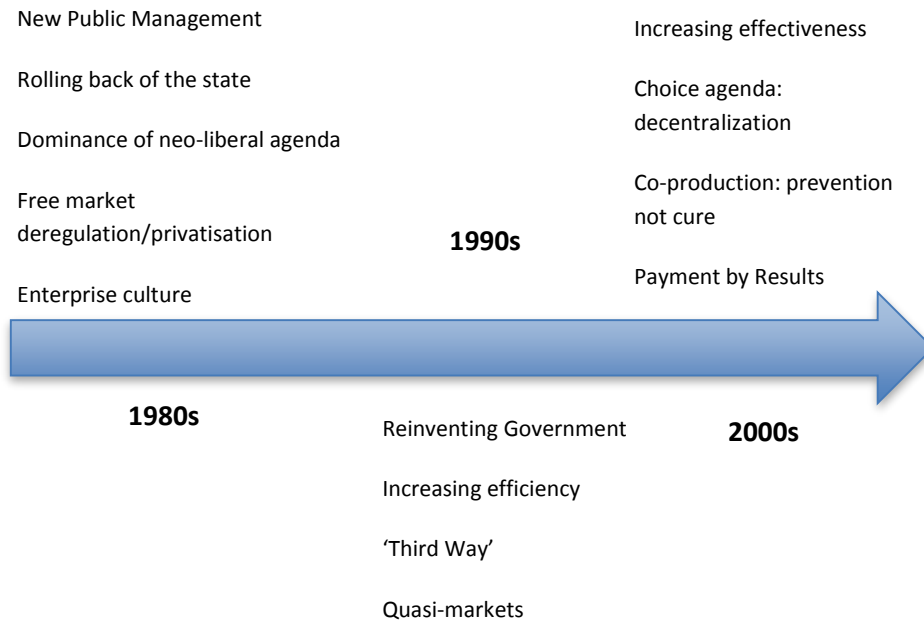


Figure 2: Innovations in Modelling the Role of Government

⁶ This was true in many OECD countries, but not all. For example, Australia did not experience the same banking crisis or subsequent deficit problems seen elsewhere in the developed world, yet there has been a long-standing policy enthusiasm for outsourcing models and New South Wales has developed Social Benefit Bonds that mirror SIBs (Tomkinson, 2012).

Part 3: The Peterborough Pilot Social Impact Bond

This case study focuses on the first, pilot, SIB that aims to reduce reoffending by prisoners released from Her Majesty's Prison (HMP) Peterborough after serving a sentence of less than twelve months. It was launched in collaboration with the UK Ministry of Justice (MOJ) on 18th March 2010 and services are expected to be delivered over seven years (Strickland, 2010). The initial social investors are mostly charitable trusts and foundations, some of which represent individual or institutional wealth. The investment closed at £5 million. The contract agreed that the MOJ would make payments to investors in the event that re-offending is reduced below an agreed threshold. Re-offending is an area where preventative work saves the taxpayer money: 60% of the 40,200 adults on short-term sentences reoffend within a year of release in the UK. The pilot SIB offers intensive support to 3,000 short-term prisoners in HMP Peterborough over a seven-year period, both inside prison and after release, to help them resettle into the community. Social enterprise delivery partners include: St Giles Trust; Ormiston Children and Families Trust (Ormiston); SOVA; YMCA; Peterborough and Fenland Mind (Mind). If the SIB reduces re-offending by at least 7.5%, investors receive a minimum repayment of 2.5%. The greater the drop in re-offending beyond this threshold, the more the investors will receive. The total payments by Government are capped at £8m (or £7m in real terms) and return to investors is capped at 13% annual IRR.⁷

Development of the SIB Model and its First Pilot

In late 2007, the then Labour government in the UK established the Council on Social Action⁸ 'to generate ideas and initiatives through which government and other key stakeholders can catalyse, celebrate and develop social action' (Cabinet Office, 2009). The Council became a platform through which key individuals and organisations connected according to four themes; social technology; social leadership; collaborative commitments; and new models for financing social action (Cabinet Office, 2009). The Council invited various organisations to generate ideas to contribute to its work. One of these was Social Finance, which was launched in April 2008 'to accelerate the creation of a social investment market in the UK' (Social Finance, 2008). The initial Social Finance Board of Directors included two members of the Council on Social Action.

⁷ According to an evaluation of a previous St. Giles Trust 'Through the Gates' by Frontier Economics, the economic benefits of preventing reoffending were ten times the programme costs.

⁸ The members of the Council were: David Robinson, Community Links; Kay Allen, Royal Mail; Oli Barrett, Connected Capital; Shankari Chandran, Allen & Overy; Olga Heaven, Hibiscus; Geoff Mulgan, Young Foundation; Julia Ogilvy, Project Scotland; Rob Owen, St. Giles Trust; Tim Smit, Eden Project; Kevin Steele, Inspired Campaigns; David Thomlinson, Accenture; Sophi Tranchell, Divine Chocolate Ltd.; Paul Twivy, Communications Consultant; Julia Unwin, Joseph Rowntree Foundation; Peter Wheeler, Investment and Philanthropy Specialist.

At the same time, Arthur Wood, the former investment banker turned social investment specialist within the social entrepreneur network Ashoka, was developing a 'Contingent Revenue Bond' focussed on financing new sanitation projects in developing countries. This instrument was funded by private investment linked to a repayment schedule contingent on outcomes.⁹ In the Contingent Revenue Bond funders would be split into for-profit loan providers of capital financing for work on the ground and charitable foundations that would fund measurable outcomes and, thus, repay the loans. This model became the basis for the SIB structure (Cabinet Office, 2013).

In 2008, David Robinson and Peter Wheeler - two members of the Council on Social Action approached Social Finance to explore whether they could develop a model of preventative activity that could be funded from savings made in acute services spending as a result of measurable outcomes. Robinson and Wheeler helped manage ongoing relationships with government for Social Finance as they developed the first SIB. They also connected Social Finance to Allen and Overy who later became their legal advisors, providing over 300 hours of pro bono legal support for the development of SIBs.

Also in 2008 Martin Brookes, then CEO of New Philanthropy Capital, invited Social Finance to join a meeting to consider whether financial structures could be developed to fund early intervention work. The meeting followed discussions with Graham Allen, MP for Nottingham, who posed the problem of how more resources could be devoted to early intervention initiatives. Social Finance were also introduced to Edmond Curtin, later of Cadwalader, Wickersham and Taft LLP, a derivatives lawyer who wrote the first draft term sheet for the pilot SIB, and Chris Egerton-Warburton, of Lion's Head Global Partners, who had structured the International Finance Facility for Immunization (IFFI) bond, and who helped with the vital work of getting support from the UK Treasury and an agreed accounting treatment.

Geoff Mulgan, of the Young Foundation, connected Social Finance to both senior policy makers and a range of previous research on outcomes-based commissioning that aimed to reduce perverse incentives across government departments. In early 2008, in response to ideas from the City Leader's Group and the work of Social Finance, the Young Foundation published a short paper and introduced the term 'social impact bond' as one of several new social investment models (Strickland, 2010; Bolton and Savell, 2010).

As the project moved forward, Social Finance looked at areas of social need where costs were high and there was potential to make a significant difference with new or increased preventative programmes. Criminal Justice was an obvious choice. Experts

⁹ This model shares some similarities with the Global Alliance on Vaccine and Immunization (GAVI) model that uses future government development aid commitments to underwrite bonds in the capital market that, in turn, fund large scale early intervention and prevention programmes in developing countries. In addition the GAVI model works at sufficient scale to shape pharmaceutical markets and accelerate the development of drugs that are of particular utility in developing country contexts: see <http://www.gavialliance.org>.

across the UK had highlighted the issue of short sentenced prisoners (those who are imprisoned for less than twelve months) having very high reoffending rates: approximately 60% are convicted of at least one offence in the year after release. As a result, by late 2008, Social Finance was working closely with the MoJ and HM Treasury to build a pilot SIB in criminal justice. As part of this process, Social Finance engaged with a wide range of key groups including: prison staff; local stakeholders; voluntary organisations working in the field; other criminal justice experts; and potential investors (such as trusts and foundations).

In 2009, the UK Parliament provided further impetus to the pilot SIB project. First the Justice Committee advocated the development of a SIB within the criminal justice system in their December 2009 report *Cutting Crime: the Case for Justice Reinvestment* (Justice Committee, 2009). Second, in the same month, the White Paper *Putting the Frontline First: Smarter Government* stated that the Labour government would 'pilot social impact bonds as a new way of funding the third sector to provide services' (HM Government, 2009, p.32). In their response, Social Finance summarised the potential benefit of SIBs for the social sector, the public and the government:

The Social Impact Bond has the potential to unlock an unprecedented flow of finance for social sector organisations. By focusing returns on outcomes, these organisations will be incentivised to develop innovative interventions to tackle ingrained social problems which weigh heavily on our society and our national purse (Social Finance, 2009).

In March 2010, two months prior to the May General Election, the MoJ issued a press release announcing that the first pilot SIB in the world, developed by Social Finance, would begin in Peterborough that summer.

Taking a more systemic view, Toby Eccles, Development Director at Social Finance, positioned the launch as an important next step in the development of a social investment market:

These bonds can bring large amounts of new finance into the social sector, but first we need to build a track record of success. This first bond is likely to attract investors who are already experienced in this sector and we've been careful to choose groups with solid experience to deliver the services to prisoners. I'm confident that this first bond will be a success, offering excellent returns on investment. That will give other investors the confidence to invest in future bonds. SIBs could finance activities like enhanced support for foster carers, home care services for older people and nursing in the home for the chronically sick (Macdonald, 2010).

During the May 2010 General Election, the opposition Conservative party included SIBs within their manifesto platform *Big Society, Not Big Government*. As a part of this, the party promoted a social investment bank (later Big Society Capital) as a

‘cornerstone investor in innovative products, such as Social Impact Bonds, that offer a blend of social and financial return that is attractive to socially responsible, mainstream investors’ (Conservative Party, 2010).

After the Election that installed a coalition Conservative-Liberal Democrat Government, on 31 August 2010, the Big Lottery Fund announced that it would allocate £5 million to Social Finance to develop SIBs as a tool for preventing social problems across the UK. They also agreed to co-fund the outcomes payments for the Peterborough pilot SIB in partnership with the MoJ. Peter Wanless, Chief Executive of the Big Lottery Fund said:

The Big Lottery Fund’s aim is to be an intelligent and innovative funder and it is our aspiration to seek out new ways to bring improvements to communities. At a time of tight public finances, Social Impact Bonds represent a new and innovative way of attracting investment from outside the public sector and by funding Social Finance’s work we are hoping to pave the way for many more similar projects across the UK – this is a very exciting project for BIG. Prevention is better and cheaper than cure and there is a growing body of evidence that if preventative interventions are effective, we can all spend less money on services such as prisons, acute medical care and drug rehabilitation (BIG Lottery Fund, 2010).

On 9 September 2010, the new Secretary of State for Justice, Kenneth Clarke, visited HMP Peterborough and commented:

As part of our radical approach to rehabilitation we are considering a range of payment by results schemes like the Social Impact Bond. The voluntary and private sectors will be crucial to our success and we want to make far better use of their enthusiasm and expertise to get offenders away from the revolving door of crime and prison (Ministry of Justice and Social Finance, 2010)

The press release on the day also included a quote from David Hutchison highlighting how innovative the structure was, but for the first time introducing the idea of aligning incentives:

The Social Impact Bond aligns the interests of government, charities, social enterprises and socially motivated investors around a common goal. We are delighted to be launching the first such structure in the world here at Peterborough (Ministry of Justice and Social Finance UK, 2010).

Structure

Initial contracts for the Peterborough SIB were finalised in March 2010 with the formation of a new Special Purpose Vehicle (SPV) - Social Impact Partnership (see Figure 3). The contracts agreed that the MoJ and Big Lottery Fund would make

payments to the Social Impact Partnership in the event that re-offending is reduced for male, short-sentenced prisoners released from HMP Peterborough. Frontline services were to be managed by the One Service, an organisation created by Social Finance specifically for this SIB.¹⁰ The One Service negotiated contracts to deliver services with social enterprise partners including St Giles Trust, Ormiston, SOVA, YMCA, and Mind. The RAND Europe (2011, p. 13) evaluation identified six key contractual relationships between:

- MoJ and Social Impact Partnership - the limited partnership set up by Social Finance which is the contracting entity in the SIB
- Social Impact Partnership and investors
- Social Impact Partnership and service providers (for example, St Giles Trust)
- MoJ and independent assessors
- MoJ and Peterborough Prison Management Limited¹¹
- Social Finance and the Big Lottery Fund

The investment pool in the SIB totalled £5 million from 17 investors including: the Barrow Cadbury Charitable Trust; the Esmée Fairbairn Foundation; the Friends Provident Foundation; the Henry Smith Charity; the Johansson Family Foundation; the Lankelly Chase Foundation; the Monument Trust; the Panahpur Charitable Trust; the Paul Hamlyn Foundation; and the Tudor Trust. The Director of the One Service, suggested that these investors were interested in two things: first, the reoffending results and their possibility of repayment; second (and not necessarily to a lesser degree) what the programme actually does and how it might change the lives of its service users. However, while the SIB contract agreed that investors would receive a quarterly report on the latter, the measure of the outcome by which their repayments will be triggered will begin to reveal information four years after SIB started to deliver services.

¹⁰ For the purpose of this case study, 'the One Service' shall be used to refer to the management organisation of the consortium of organisations delivering the services of the Peterborough SIB and the suite of services they deliver.

¹¹ The MoJ negotiated a no-cost amendment to the private finance initiative contract to ensure that providers under the SIB could enter the prison, use prison premises and access prisoners in order to deliver interventions (RAND, 2011, p.16).

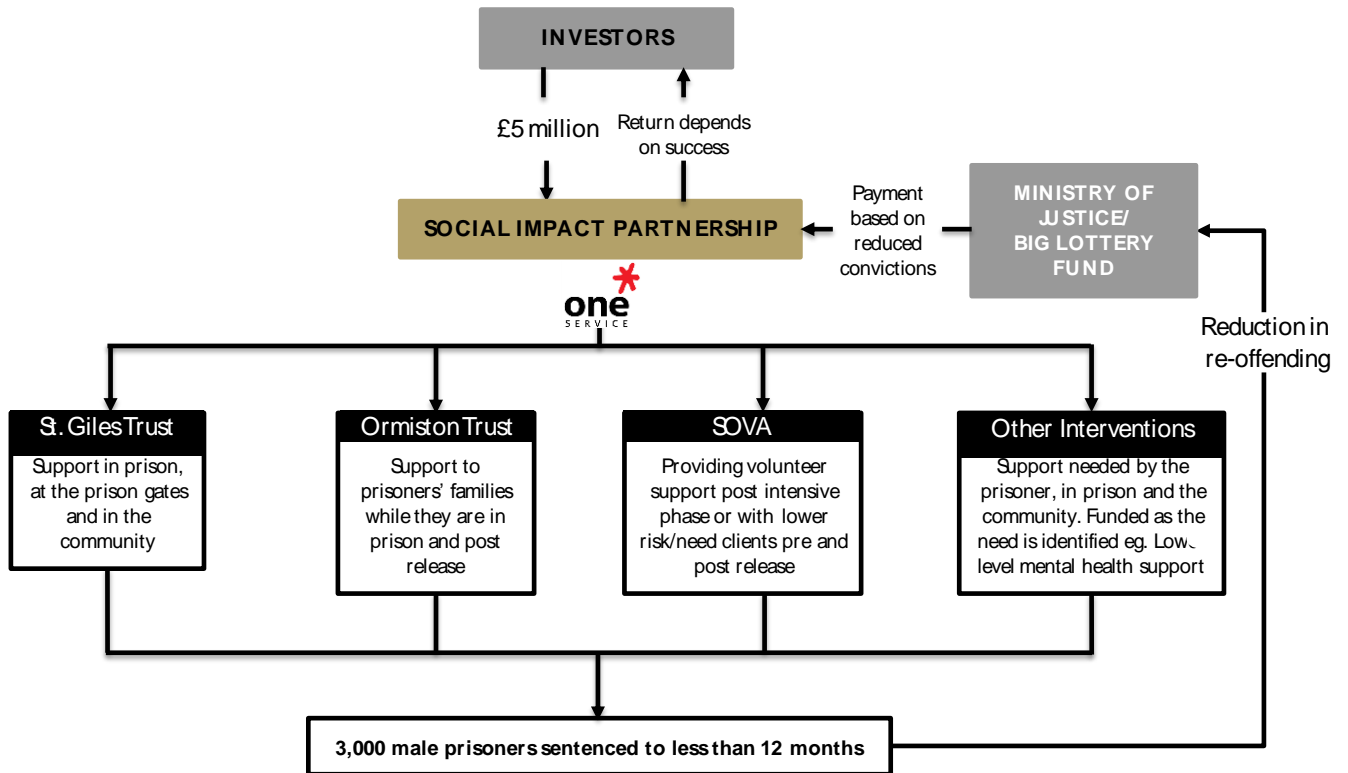


Figure 3: Structure of the Peterborough SIB

The One Service is available to male prisoners who are or will be discharged from HMP Peterborough after serving a sentence of less than 12 months. Sentenced prisoners at HMP Peterborough are all over the age of 21. These prisoners do not qualify for any other statutory support from probation services upon release from prison. Their engagement with the One Service is voluntary. The One Service is designed to be delivered to approximately 3000 men, divided into three cohorts. The first cohort was set to close after the SIB had been in operation for two years, or when 1,000 offenders have been discharged - whichever happened first. The second cohort began when the first cohort finished, rather than a set point in time. It was expected that services would be delivered for approximately seven years. The Peterborough SIB began delivering services in September 2010. At the start of the programme, roughly 100 prisoners (from a total prison population of approximately 1000) were eligible for the One Service. The One Service also aimed to interact with the roughly 30% of remand prisoners sentenced to less than 12 months.

Measurement and Payment

The Peterborough SIB contract stipulated that if the SIB reduced re-offending by a threshold of 10% for any of the three cohorts of 1000 ex-prisoners - or 7.5% across the entire 3000 - then a minimum payment equivalent to a return of 2.5% per annum would be released by the MoJ and Big Lottery Fund to the Social Impact Partnership SPV and from this vehicle to investors (RAND Europe, 2011). If the SIB delivers a

drop in re-offending below the threshold, investors will receive a corresponding increasing return capped at £7m in real terms, equivalent to approximately 13% annual IRR. Payments to investors from the MoJ and the Big Lottery Fund are capped at a combined £8m (Strickland, 2010). If the SIB delivers outcomes below 7.5% investors lose their money.

The measure of reoffending used in the SIB contracts is the number of reconviction events resulting from offences committed in the 12 months following a prisoner's release from HMP Peterborough.¹² The number of reconviction events will be compared to a control group of short-sentenced male prisoners from across the UK drawn from the Police National Computer database over the same time period and matched on the basis of factors like criminal history, age and ethnicity. Each Peterborough service user will be compared to up to ten similar offenders. This strengthens the reliability of the measurement system to detect a statistically significant effect. The contract independently to assess the results of the Peterborough SIB was awarded to the University of Leicester together with private sector firm Qinetiq. The process of matching the Peterborough reconviction data with data in the Police National Computer database is expected to take up to six months and results will first be available in 2014, four years after the first services were delivered (Ministry of Justice, 2012).

The outcomes-based contract for the Peterborough SIB relates payments to one outcome only: the number of reconviction events from offences committed in the 12 months following release from HMP Peterborough. Using the number of reconviction events as the outcome measure has several advantages over using a binary measure like the number of prisoners reconvicted¹³. Specifically, the One Service has a greater incentive to work with more difficult offenders, from whom the state incurs far higher costs. There is also an incentive to continue working with offenders over the entire 12 months period even if they have already been reconvicted. These two incentives do not arise from the seemingly simpler binary measure. Nick Leader, manager of HMP Peterborough commented: 'I think we've got the best monitoring process... compared to the binary measures' (see Figure 4).

Interviewees for the RAND Europe (2011, p. 35) report perceived the advantages of the measure as:

- A clear, single metric
- A metric that is already measured and for which good data is available

¹² The reconviction event must occur within 18 months of release in order for it to be counted (RAND, 2011). This extends the measurement period to 18 months rather than 12.

¹³ It is referred to as a 'binary measure', because there are two categories prisoners can fall into - either they are reconvicted or they are not. Measuring the number of reconviction events is referred to as a 'frequency measure' - it measures how often reconvictions are recorded.

- A measure that helps to prevent ‘cherry-picking’ – compared to a more simple yes/no reconviction measure, which could introduce an incentive to focus on those least likely to reoffend at all
- A measure that has the most direct link to costs

Payments based only on one outcome means that while the One Service and their investors can not change how the outcomes is measured, they can change how they deliver services as the SIB progresses. Thus, as they collect performance information from their services, they can respond to this evidence strategically.¹⁴

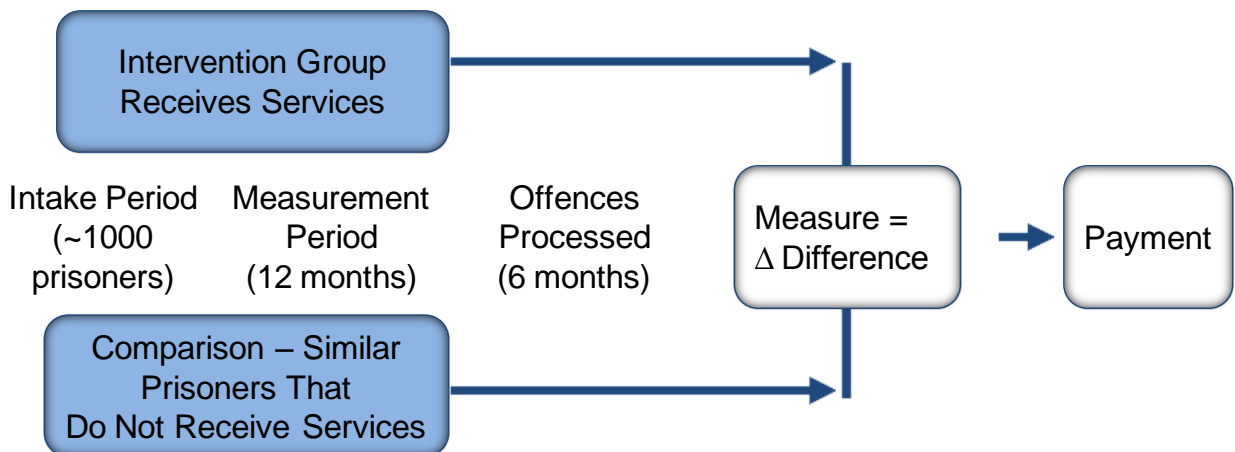


Figure 4: The Measurement and Payment System

The One Service in Action

Connections Workers – Prisoner Engagement

On reception, prisoners eligible for the SIB programme are met by a Connections worker and shown a video about the One Service. Connections workers are prisoners serving long sentences that have volunteered and completed training to be peer support workers in the prison. Upon reception to HMP Peterborough, the Connections worker acts as an immediate point of contact and support. For example, as mobile phones need to be handed in upon arrival the Connection worker helps the new prisoner retrieve essential phone numbers for use throughout their stay. They might also provide writing material should the new prisoner want to write a letter that night to ‘get stuff off their chest’, let the new prisoner know that there are education and training courses available, and give them information about gym induction. If the

¹⁴ However, according to the One Service Director, the most difficult thing about the focus on a single outcome is not being able to tell staff how they were progressing against it until results come in several years into the programme.

prisoner is eligible for the One Service they go through an interview that will form the basis for individualized future service provision. This initial assessment is scanned and sent to a One Service caseworker prior to initial contact between the caseworker and the new prisoner. In 2012, there were four Connections workers specifically assigned to the One Service.

Connections workers are trained by other Connections workers and also complete the NVQ Level Three in Information, Advice and Guidance, which takes about three months and is delivered by St Giles Trust. They feel that 'because we're an inmate like them, we can ask questions better', particularly sensitive questions, for example 'What age did you first start offending?' The initial assessment includes expected needs at prison release. It is both what the new prisoner thinks their needs are going to be as well as what the Connections worker thinks their needs are going to be. On leaving the prison, the main problems prisoners foresee - and subsequently ask for help with - are finding somewhere to live, obtaining identification documents, and opening a bank account.

Connections workers carry an information folder with them at all times. The folder contains all the application forms for the One Service and other prison services and systems. Some also carry pamphlets in up to twelve other languages for prisoners that do not speak English: some Connections workers at the prison also speak multiple languages. Moreover, the local Polish community has been very supportive, providing magazines and conducting events in the prison for the Polish population.

Frontline Services

After the initial contact with a Connections worker, the One Service caseworkers provided by St Giles Trust conduct a more in-depth interview with the new prisoner and tell them what help and support they can receive once they leave prison. Caseworkers mostly provide knowledge, direction, advice and support. If the prisoner is deemed suitable for a volunteer mentor managed by SOVA, they are introduced either at the initial caseworker interview or some time later. SOVA volunteers work with lower risk prisoners who have less complex needs, while St Giles Trust caseworkers typically take on higher-risk/need prisoners. Mentors and clients are matched on locality, interests and other background factors and both have the opportunity to reject the partnership. Prisoners that do not live locally will receive a combination of a volunteer mentor from the SOVA national database, local services that are spot-purchased by the One Service or that are provided without any charge by pro-bono partners, and core support from the One Service itself.

However, in 2012, 63% of the prisoners at HMP Peterborough lived in the local county (Cambridgeshire). The Director of the One Service noted the significance of this fact in terms of the delivery of services after the prisoner has left prison: 'I think that was a big factor in testing that 'through the gate' model'. The local distribution of HMP Peterborough's population may make the duplication of the One Service model more difficult elsewhere, where ex-offenders may be more dispersed after release.

The Director of the One Service said, 'If it was rolled out with 10 big prime contractors across the country you'd need to work hard to build real engagement, although we do currently manage a regular caseload of clients who are released to London. This is possible because St Giles Trust are based there and have a network of contacts.' One essential feature seems to be location. The One Service and the 'through the gate' model would be difficult to replicate in other prisons as Peterborough has one of the largest local prison populations in the UK. Additionally, prisoners are often transferred between prisons in order to manage behaviour. The success of the 'through the gate' model may be a strong incentive to house more prisoners in the location in which they will live upon release. HMP Peterborough is also a relatively new prison, opening in 2005, and so has more 'general purpose' spaces for running workshops and other services than some older prisons.

In addition to casework and mentor support, the One Service commissioned Mind, a mental health support service, to offer services two days a week. Of this time, half a day is spent with prisoners still in the prison and the remainder with those who have been released. This was an unmet need identified after services began. Finally, Ormiston delivers the course 'Maintaining Family Ties' to clients of the One Service in the prison, as well as supporting their families on the outside.

The relationship between the four main service providers who work for the One Service is designed to maximize efficiencies and offer a seamless and integrated service experience to prisoners. For example, an important design feature of the One Service is that all the service providers are based in close proximity to each other in a single building outside HMP Peterborough. They are also closely positioned within the prison. One Ormiston caseworker felt that it was very important that all the One Service partners are based under one roof to deliver their services outside the prison: 'they just say they're here for One Service'. A second important design feature was the decision to be completely transparent about sharing data.

The data system used by the One Service - *Meganexus* - is custom-designed to be client-focused, which means that all information is attached to a client's personal record. All of the service providers use the same system and service users must give them consent to share their data. The data system operates seamlessly inside and outside the prison which is very rare. An advantage of this system is that it saves the service user retelling his story to every person he works with, and facilitates collaboration between providers as they discuss support options for him. The use of evidence is an on-going learning process, and the development of this system was considered as much a tool that empowered caseworkers to do their job better, as it was a way for investors and managers to monitor performance. The system was not intended to track resultant savings for the MoJ, although it may be that the *Meganexus* data can be linked to the Police National Computer database to estimate costs avoided at some point.

Voluntary Engagement

An important feature of the One Service is that participation is voluntary: prisoners and ex-prisoners can opt in or opt out as they chose over the period the service is available. Service managers say that because the programme is voluntary there had been a far greater buy-in from participants. Managers say the participants also recognise and appreciate that the volunteers working with them have given up their own time and effort, and therefore put in more effort than they may have done for a mandatory programme. Some prisoners have said the main reason that they engaged with the service was because it is voluntary.

When asked by his colleague how he would feel if the service he delivered for the One Service was mandatory, a Connections worker said, 'I don't think it would be very successful...Prisoners don't want to be told what to do....I think if you told people they had to do it 9 out of 10 wouldn't want to'. His colleague added, 'It would destroy what we've built up... it would destroy what we're trying to do'. An ex-offender receiving services through the SIB said that if the One Service was mandatory, 'I don't think it would work...it's always about freedom of choice... I don't think many would turn up'.

However, crucially, the outcome results were to be measured for *all* prisoners eligible for the service, not merely those who chose to participate. This creates a significant incentive for the One Service to engage as many of the eligible prisoners as possible. More than 70% of the eligible cohort has chosen to engage with services, far more than is the case in many other social programmes in which participation is voluntary.

Contractual Flexibility

The One Service Director said the flexibility of their long-term, outcomes-based contract was an important strategic enabling factor: 'It's about trying to embed systemic change... people have talked about it and haven't had the freedom to do it'. The HMP Peterborough Prison Director agreed, saying: 'at the moment I'm paid for custodial services. Offender management services should be linked to reducing reoffending'.¹⁵

The One Service has one-year contracts with their service providers, reformulating contracts at each annual renewal and, sometimes, changing providers. The sub-contracted service providers see the One Service as their commissioner and the SIB as their overall project. The One Service Director said, 'one of the good things is that you can commission in a very different way because of the way it's funded'. Despite the fact that the SIB has been focussed on delivering the same outcome from the outset, the providers and the services they delivered have changed as the service has progressed. For example, the contract with the YMCA to provide local volunteers

¹⁵ All prisons currently have their performance scored against a raft of targets that include entering housing, education and employment upon release. (NOMS, 2012)

was not renewed, which may have seemed an unlikely decision considering the YMCA is also the landlord of the One Service outside the prison. However, the partnership between the One Service and the YMCA still continued and came to include payments for additional gym facilities and physical training as well.

Risks

The outcomes-based funding model is not without its risks. The One Service pays the full cost of services delivered by their providers. Service providers, however, assume significant reputational risk, heightened by considerable media attention on the Peterborough SIB as the pilot. A St Giles Trust manager said: 'Financially it's great for us, but I do say if it doesn't work we'll never work again'. Government is attracted to the accountability of paying only for results, but this comes with reputational risk, as an ineffective programme for which Government did not make payments would be widely acclaimed as a failure by Government. The outcomes-based contract also holds service providers to account as a measurement of their results is published and scrutinised in an unprecedented manner.

Those against social investment sometimes argue that a profit should not be made from delivering services to address disadvantage. The investor's annual internal rate of return for the Peterborough SIB is expected to be 7.5% and is capped at 13% annual IRR (RAND Europe, 2011). Some investors expressed gratitude for this cap, as they felt uncomfortable with high returns. However, when asked what the users of the One Service think about being invested in, the One Service Director said, 'I've been surprised how little people mind that the funding comes from social investors... They don't know who it is, they just think it's rich people and we just say it's 17 investors, so they know it's very rich people. Some people give time as volunteers, some give money'.

Finally, outcome measurements relying on comparison with a control group cannot be rolled out nationally. Improved outcomes among the Peterborough cohort are measured by comparison to a matched control group that is not receiving the intervention. If every short-sentenced prisoner in England and Wales were part of a SIB, there would be ultimately be no control group with which to compare the target population. Therefore, any future SIBs projects might have to test other ways of measuring counterfactuals or deadweight effects, for example, before-and-after measures (RAND Europe, 2011).

Key Aspects of The Peterborough Pilot

The Peterborough SIB might be thought of as a 'proof of concept' of this form of PBR [payment by results] rather than a pilot, because there are some questions and issues which the Peterborough SIB will not be able to test. We identify the following five key areas in which the Ministry of Justice may be able to draw lessons from the Peterborough SIB for the wider roll-out of PBR models.

The SIB at HMP Peterborough provides an opportunity to test the concept of a PBR model which raises funds through, and shifts the risk to, private, non-governmental investors. The Peterborough SIB tests whether and how, in this instance, stakeholders can develop feasible and suitable outcome metrics in the area of offender interventions, and agree upon a model to pay if outcomes are improved according to those metrics.

The Peterborough SIB may provide evidence of the performance of SIBs as a new kind of financial product, at least in the area of offender interventions. Developing this track-record of investment will be crucial to building an investor base and improving understanding of outcome risk, all of which is necessary to open up a larger pool of capital.

The Peterborough SIB potentially involves a new commissioning relationship. In other payment-by-results arrangements, government has tended to maintain some control over the selection of providers, whereas in the Peterborough SIB the government leaves the selection to an intermediary (such as Social Finance), and has no direct relationship with the service provider.

Although the intervention funded by the SIB at Peterborough (mentoring offenders) itself is not new, the SIB is an opportunity to test the impact of working intensively with short-sentenced prisoners. It is an opportunity to begin to build a robust evidence base on whether and how this was effective.

We identify the following as some issues which cannot be tested in the Peterborough SIB.

- *The SIB at HMP Peterborough is not likely to result in substantial cashable savings to the Ministry of Justice or other government departments, which can be achieved only through significant reductions in the prison population or the number of court cases, etc. Of course, there are other, non-cashable benefits to the public and victims if the Peterborough cohort reoffends less, in which the Ministry of Justice is interested. There is also the benefit of testing payment by results at a time of great pressure on public sector budgets.*
- *The SIB at Peterborough does not test whether and how different departments can share outcome payments*

Box 1: Key Aspects of the Peterborough Pilot SIB (RAND, 2011, pp. 7-9)

Learning as They Go

Initially, the One Service intended St Giles Trust workers to be the service users' primary point of contact with prisoners, offering intensive support for four months at which point they would hand over to volunteer mentors. After beginning with this model, it became apparent that it was more effective for volunteer mentors to be involved from the beginning, with the intensive support provided by St Giles Trust if required. There was also a desire to involve ex-offenders as peer mentors, but it was realised that more support and screening would be needed when involving ex-offenders as mentors as the stability of the mentor relationship was essential. As time progressed, the service started taking on peer mentors that were on probation, but had already had some time out of prison and had adjusted well in this time. The service also employs ex-social workers.

A second point of learning was the One Service discovery that it is more effective to plan the endpoint of service after a particular goal has been achieved, rather than letting the relationship between service provider and prisoner peter out after essential needs had been met. It became clear that if the service ceased in a decisive way at a high point, the offender was more likely to re-engage if they needed future support, since they had a more positive previous encounter.

A third development flowed from a realisation that prison staff could be just as institutionalised as the prisoners. As a result, the One Service organised for their providers and service users to come back and talk at full staff meetings. This both engaged staff to support the programme in prison and recognised the contribution of prison staff to prisoners' journeys. A member of the prison staff commented positively on this approach, 'before we only saw the failures, but now we see the successes. The One Service brings them back and it's really important to the staff to hear these stories'.

As the SIB has progressed, collaboration with other services has increased. Community partner organisations see the One Service as having flexible, available funding that can offer benefits to their services, even if they are not direct providers. Some local organisations have said that increased referrals from the One Service, from which they receive no additional funding, has freed them up to focus more on service delivery and less on advertising their services to potential users. Moreover, the One Service Director sits on several boards across local community services and the One Service has collaborated to help with issues faced by other organisations. For example, when the One Service forecast a local housing shortage for their clients, other local organisations including health, housing and the police volunteered to assist in different ways to address the contributing factors.

Another important innovation achieved by the One Service two years into the SIB was the flagging of their service users' names on the Police National Computer database. This means that when the police come into contact with an ex-offender, as they enter his name into the computer, the One Service phone number will

automatically appear. This allows the police to re-engage the person with the service, increasing their options for dealing with issues faced by ex-offenders and their communities.

The One Service delivery model initially had the Ormiston relying on the St Giles Trust for referrals. However, after only a few referrals were forthcoming, it became apparent that service users were unlikely to disclose family support needs to St Giles Trust staff at a time when they were addressing crisis issues such as housing. In response, the One Service looked to create a separate opportunity for prisoners to engage with Ormiston to discuss family needs, so arranged for Ormiston to offer new parenting courses in prison. These were so successful that the prison subsequently contracted the Ormiston to run parenting courses for other prisoners.

The introduction of mental health services through Mind was a further addition to the original programme. Mind had a business model offering appointments only to clients at their office in town on Wednesday and Thursdays. They also had a 3 to 6-month waiting list. The One Service worked with them to redesign this model and spot-purchased mental health visits to the prison, starting with a couple of hours a week. This soon increased to two days a week and Mind became an integral provider working out of the One Service premises and HMP Peterborough. Mind worked with clients in custody and in the community and played a valuable role in explaining to prison staff the journey and mental state of offenders. Prison management also commissioned Mind to provide services in HMP Peterborough for women and long-term prisoners. The flexible approach from Mind enabled clients who would otherwise not have visited Mind to access support at the One Service.

The One Service worked closely with the HMP Peterborough private management company, Sodexo (previously known as Kalyx). The prison resettlement manager stressed that it was not an easy partnership to enter into: 'the set-up process was really hard in terms of the way we had to collect data, share data work with prisoners, open our doors to different people'. However, the two management teams soon established fairly regular review meetings to work together to improve services. For example, the One Service provided the prison with a list of persistent reoffenders and asked them to think of ways of doing things differently for these men, even if it was just little things like rewarding an increase in the amount of time spent out of prison between sentences. The prison and the One Service were also able to work together to pool funding to test new services before either party commissioned them on a greater scale.

Key Innovations

Long-Term Contracts

The seven-year funding agreement is considered an important feature of how services are delivered on the ground. The One Service Director said, 'The long-term

nature means the One Service can be taken seriously in the prison service space where so many services come and go frequently'. At their first meeting with Peterborough prisoners where the new service was explained, representatives of the One Service were surprised to be asked by a prisoner how the programme was funded. The prisoner later explained 'I wanted to know how it was funded to know how long it's going to last'.

Long-term funding under an outcomes-based contract allows the One Service to be flexible and adaptive as to how it spends money. Flexibility of funding means there are no fixed amounts directed at employment or housing, but spending can respond to what the service users need as they need it. If something is not working, the One Service can stop doing it. The flexibility has allowed them to test out new services too, often in collaboration with other funders, before deciding whether to add them to the One Service. The flexibility of the initial budget for the Peterborough SIB was well demonstrated by the inclusion of an entry for unspecified expenses. When asked what it was for, a Social Finance director simply said 'we don't know yet'. This became the 'innovation budget' to fund new work or address unexpected service gaps with community partner organisations.

St Giles Trust workers also experienced changes due to this flexibility. One worker commented, 'We're not being dictate to. We can shape the delivery model to meet needs'. For example, from handing over to volunteers, they now support clients in parallel with volunteer mentors. St Giles Trust have also found it easier to get spot funding for a particular service for an individual client than under previous contracts.

Single Outcome Contracts

Traditional government commissioning contracts are not necessarily a problem in all situations, however those involved with the Peterborough SIB saw several advantages in focussing their delivery on a single outcome rather than a prescriptive process. The One Service Director noted, 'It's about reducing reoffending, it's not just about finding a house, or focussing on one thing... it's a lifestyle change'. Lifestyle changes are what outcomes attempt to capture and measure, so it seems that in this case the choice of outcome and measurement system have produced an effective alignment. She elaborated, 'One of the real values of having one long term outcome is....it just changes the whole dynamic, it's a different mindset... it's not competitive – if we want to pay for him to go see his mother's grave in Wales, we pay'. Those working with the One Service communicated a sense of a longer-term or more holistic goal: 'I've worked on other programmes that are focussed on ticking the box, but they get someone a home and then what? Once you prescribe something and set targets for it, you lose the point'. The way an outcome is measured creates an incentive to work with people for the entire measurement period. An Ormiston worker commented, 'When you've got to work with people for 12 months, that's a lot of work, so you put more effort in'. Previously she had been involved in contracts where she always worked with prisoners for six contact visits, regardless of need.

However, the outcomes-based contract introduced new risks to service delivery as well as new benefits. One risk was the change in location of prisoners. When the Peterborough SIB began, 63% of the short-term prisoners released resided in the Peterborough area, with 10% residing in London. The One Service was set up to cope with up to 20% of the cohort resettling in London, but could find resources stretched if the proportion rose above that.

Collaboration

Collaboration with both providers and the community has been one of the most difficult and rewarding aspects of the One Service. Collaborative working is not typical in welfare provision in the UK and the Peterborough SIB has required substantial culture change from the organisations involved. But benefits have been realised. One of the workers involved in the One Service said that her other projects are more outreach, where she goes to work with clients on her own. Being based in the same physical space as the other providers enabled her to offer her clients more support in handover to other services. She was also able to share vital information with other providers and prepare her clients to interact with new people, increasing the chance that they would successfully engage with other providers. She also spoke of the increased support available to her under the One Service, 'When you're thinking you don't have the answer, someone else might...as a social worker I've never had that before; I've always been on my own'.

Service Innovation

One of the early innovations of the One Service was to meet all prisoners at the gate as they were released, regardless of whether they expressed a desire for this or not. One prisoner said to a St Giles Trust caseworker, 'If you hadn't met me at the gate I would have been in custody by tonight'. The caseworker noted that sometimes preventing a re-offence is as simple as providing a prisoner with a lift to the train station so that they catch their train home rather than get distracted by the off-licence on the way.

Part 4: Social Impact Bond Models Globally

As of 2013, there were approximately forty SIBs or SIB-type contracts in operation or development across the world. The early adopters were clustered in the UK, the USA and Australia with Canada and Israel also showing strong interest.¹⁶ However, across these different jurisdictions a number of important variations in the structure and focus of the SIB model have appeared. These differences demonstrate the adaptability of the SIB model to local political, social and economic contexts, as well as reflecting differences within countries in terms of the traditions of welfare service delivery, particularities of investor markets, and the landscape of service delivery organisations available for SIBs.

Table 2 sets out a number of the notable variants of the SIB model drawn from several examples across the world. These are presented in contrast to the Peterborough SIB pilot which for the purposes of this analysis is taken here as the archetypical model.

These variations of the SIB model emphasise its adaptability to different contexts and also underline the innovations that underpin it – namely the SIB model requires the agreement of several stakeholders of differing perspective and its many variables must be adjusted to suit their competing needs.

¹⁶ There is also evidence of interest in developing SIBs in Ireland, France, Germany, South Africa and South Korea as well as Development Impact Bonds (with foreign outcome funders) being explored in several other countries.

| Commissioner | How Does it Differ from Peterborough? |
|---|--|
| New York City, USA ¹⁷ | Investment Guarantee The \$9.6m investment by Goldman Sachs in the New York City juvenile reoffending bond is underwritten by a \$7.2m guarantee from Bloomberg philanthropies. This effectively reduces the risk of capital loss to \$2.4m or 25% of total investment. ¹⁸ |
| Essex County Council, UK | Early Payments Provide Working Capital Payments from Essex County Council, in their SIB for children on the edge of care, begin only nine months after services commence. Early cash flow is recycled into service delivery, with investor returns occurring at the end of the SIB. |
| Department of Work and Pensions, UK | A Suite of New Interventions The Department of Work and Pensions commissioned 10 SIBs over two rounds, via their innovation fund, to improve the education and employment prospects of disadvantaged young people. Payments were made monthly as outcomes were evidenced. After the three year pilot, a comprehensive assessment of the programme allowed for calculation of effect size and comparison between the interventions. |
| Greater London Authority, UK | Not About Savings Improved outcomes for homeless people as a result of this SIB might reduce demand in some service areas, but it is expected that they will access additional health services with additional cost to government. This SIB is therefore not justified on the basis of savings, but on the basis of the value of improved outcomes. |
| New South Wales, Australia ¹⁹ | No Intermediary Australian not-for-profit organisations are directly contracting with the New South Wales Government, rather than through an intermediary, such as Social Finance in Peterborough. In Australia, very large not-for-profits have a long history of contracting with government for a range of services, and have, thus, developed the capacity for negotiating complex contracts directly. |
| Massachusetts, USA | Service Provider as Investor In Massachusetts, the service provider, ROCA, contributed 15% of the investment into the SIB. This reduced the risk for the other investors, by demonstrating their confidence in their ability to deliver outcomes, as well as shared any financial upside. |
| Fresno, California, USA | Non-government commissioner An organization called the California Endowment, a private health foundation is funding the proof of concept for a pilot health care SIB in California to improve the health of people with asthma. |
| Council for Voluntary Adoption Agencies, UK | Multiple Commissioners and Service Providers The Council for Voluntary Adoption Agencies is bringing together 18 Voluntary Adoption Agencies to find successful adoption families for hard-to-adopt children, referred by Local Authorities across the UK. Payments will be made by Local Authorities in relation to the outcomes for the child(ren) they refer, and payments will be received by Voluntary Adoption Agencies as they effect outcomes for these individuals. |

Table 2: Key Variations in SIB Models Across the World

¹⁷ In the USA some SIBs are known as pay for success contracts.

¹⁸ The New South Wales Social Benefit Bond delivered by Uniting Care Burnside involves a Government guarantee of between 50% and 75%, dependent on time. The Benevolent Society is also another example of a service provider as investor.

¹⁹ In Australia the SIB is known as a Social Benefit Bond (New South Wales) or Social Impact Partnership (Western Australia).

Part 5: Conclusions

Since the launch of the first, pilot SIB programme in Peterborough in 2010, there has been an extraordinary amount of global interest in adopting this innovation elsewhere – interest that has preceded available evidence of the actual impact of this new model. There would appear to be a number of reasons for this.

Benefits

First, for government, there are considerable attractions in engaging with SIB models that address the long-standing increased efficiency and increased effectiveness policy agendas mentioned above. These include:

- Effectiveness:
 - *Outcomes focus*: focussing on evidenced outcomes (rather than outputs) based programmes to deliver improved results for service users and to increase the likelihood of delivering real and sustainable solutions to important social challenges
 - *Evidenced effects*: adding discipline to measuring outcomes for government programmes and improving the evidence base for social services by mandating measurement and publication of outcomes
 - *Enhanced social metrics*: building new data sets and performance benchmarks of value across other similar (non SIB) intervention and programmes
 - *Scaling*: identifying effective innovations early to scale them more quickly

- Efficiency
 - *New finance*: bringing in new private investment to fund welfare services²⁰
 - *Additionality*: expanding the range of effective interventions and make them available to more people funded by private investment
 - *Innovation*: harnessing the innovative capacity of both investors and service providers to reform publicly funded service delivery models
 - *Co-ordination*: facilitating coordination between organisations working on overlapping problems and aligning the interests of service users, service providers, private investors, and government
 - *Early intervention*: exploiting the net present *social* value of welfare services by moving resources towards prevention and early interventions up front to achieve larger outcome impacts down the line

²⁰ Thus allowing governments either to reduce existing spending for the same set of outcomes or to achieve more impact within existing budgets. The former policy position is more controversial than the latter in contexts where privatization agendas remain politically sensitive.

- *Transferring risk*: moving outcomes risk from state expenditure to private investment
- Accountability
 - *Incentives*: outcomes are more likely to be delivered if there are incentives for every party to achieve them
 - *Adaptability*: flexibility to adjust model to reflect experience of delivery and needs
 - *Rewarding success*: investors looking at new solutions to old problems encourages providers to innovate and demonstrate success

In addition, the development of a significant number of SIBs will play an important role in growing the larger social finance market by unlocking new sources of capital to fund social issues. Growing the social finance market has been a significant policy objective in several countries over the past decade, notably in the UK, USA and Canada. Moreover, at scale, SIBs may ultimately represent a new asset class within social finance that can harness private investment for the benefit of the community and enable investors interested in public welfare programmes to achieve financial returns and social impact simultaneously. Once a critical mass of SIBs has been established with a track record of successful performance and evidence of repayment, it is quite possible that a secondary market in SIBs could emerge that would be of interest to institutional – and ultimately retail²¹ - investors.

Challenges

However, for all the optimism surrounding SIBs there remain a number of significant future challenges. These include:

- *Realizing actual – cashable – savings for government*: in reality, the early SIB models are not designed to allow government to make real budget savings in the short or medium term. In order for savings to be made, any reduction in demand due to a SIB must result in a reduction in the supply of services by Government. This is only likely to occur when the outcomes of a SIB are either directed at discretionary services bought in small units from third parties or when a SIB market is at such scale that its outcomes can lead to a systemic change, such as the closure of a whole prison (in the case of reducing re-offending). Indeed, even in the latter case such action could be so politically difficult – increasing unemployment, cutting public services and so on – that it may still be avoided. It is also hard to imagine how a SIB could decrease spending on statutory services without major political consequences
- *Capturing cross-silo benefits within government*: most government accounting structures make it very difficult to account for the savings and

²¹ The appetite for a retail SIB product has already been tested by the successful launch of the Alia Bond in 2013 in the UK.

benefits accrued from a single project or intervention across several departments. In the UK, the Cabinet Office has set up the £20 million Social Outcomes Fund to smooth across these issues by quantifying and then funding value creation from payment by results contracts that accrue across departments

- *Risks of distorting the social finance market:* there may be the potential for external investors to drive SIBs away from the more risky or innovative interventions that can lead to the largest social impact and, thus, narrow the potential impact of the SIB model focus in terms of addressing the most difficult welfare challenges, difficult to reach target populations or hardest to measure outcomes
- *Reducing the legitimacy of government:* transferring risk and therefore responsibility for welfare services to its citizens may diminish the role of the state and lead to a perceived 'democratic deficit'. In the UK, for example, the presentation of SIBs as a form of 'privatization by the back door' has already appeared in the public discourse
- *High transaction costs:* the costs of establishing the necessary metrics, baselines, legal arrangements and financial calculations are sometimes so high that the SIB is infeasible without additional funding
- *SIB contracts are perceived to be complex* (RAND Europe, 2011): efforts to simplify SIBs would result in greater understanding and take up
- *Allocating risk and return fairly:* there is clearly a need to price the risk of a SIB correctly to attract (social) investors, but there is also a need to avoid risk dumping on intermediaries and service providers
- *Early stage of outcomes measurement and data:* few providers and public agencies have measured outcomes for the length of time and with the rigour to make confident predictions. This increases the scope of changes and length of time required for the development and implementation of a SIB
- *Procurement and optimism bias:* service providers are optimistic about the outcomes they can achieve and the likelihood they will achieve them. At the same time, commissioners lack sufficient data to assess a bid as hopelessly optimistic. This can lead to outcome pricing that is too low and outcomes that are disappointing
- *High levels of public scrutiny:* because of the structure and objectives (and novelty) of SIBs, such contracts may be expected to perform to a higher standard than other welfare service models. This offers the possibility of perceived failure or public cynicism over SIB outcomes
- *Political risk:* due to the longer term funding and contract structures of many SIBs, there is likely to be a need to consider how to transition across electoral cycles and between political ideologies – this could make SIBs vulnerable to political fashion

- *Innovating commissioning practices and systems*: if SIBs are to play a major role in delivering welfare services, there will need to be reforms across commissioning practices in many governments to acknowledge the unique requirement and opportunities of pay by results commissioning
- *Limited services and populations to which a SIB can be applied*: SIBs currently implement innovative programmes targeted at preventative ‘service gaps’ which are few and finite. SIBs have yet to be used to deliver services with a history of public funding and thus there may be limits to the size the SIB market can grow, limits that have not been explored to date
- *A means to an end or an end in themselves*: If successful, it could be assumed that there has been a funding shift to the preventative service introduced by the SIB, but it will need to be established whether SIBs best deliver impact if repeated in the same service area or whether they establish an evidence base for continued funding by other models

Legacy

The following section expands on this final issue concerning the legacy of, and exit from, a SIB contract. For key stakeholders, there is a need to evaluate whether the SIB achieved what was hoped and whether its legacy furthered or detracted from their strategic aims and objectives. For example, one key question of a SIB is when and why should it end? Other key questions to consider are set out below from the perspective of each stakeholder typically involved in a SIB:

Government

- How to institutionalise innovation into future welfare programmes and in the wider social services market?
- If early prevention is successful, how to maintain and fund preventative services after SIB ends? Do SIBs need to ‘rollover’ to produce sustainable change?
- How can SIB outcomes data (likelihood, effect size, cost of delivery, value or savings to tax payer, related externalities/proxy outcomes) drive better commissioning across government?
- How to achieve key outcomes post SIB?
- How to continue to grow the social finance market to fund welfare services?
- How to report on and share SIB learning and data more widely?
- How to calculate savings from SIB interventions?

Investors

- How to develop a secondary market exit?

- How to develop a follow-on SIB investment?
- How to adjust risk and return dynamically to the availability of new information from SIBs in the market?
- How to tranche investments in a single SIB according to different risk and return profiles and different personal costs of capital?

Service Providers

- How to ensure continuity of funding of increased capacity?
- How to institutionalize SIB performance data?
- How to build capacity to engage in future SIBs?
- How to manage on-going collaborative relationships?
- How to disseminate learning?
- How to leave a community stronger when a service ends?

Intermediaries

- How to build a pipeline of SIB deals?
- How to build capacity in providers so that they are stronger for having worked on a SIB?
- How to continuously innovate?
- Where to apply SIBs and develop other models that build upon SIB learning?
- When are SIBs no longer necessary, if ever?
- How to build a business model, given high transaction costs?
- How better to segment the investor market to the real, rather than perceived, risk and return opportunities of SIBs?
- How to manage the involvement of commercial, rather than purely social, investors in terms of expectations of high returns and the potential for risk dumping?

Service Users

- How to ensure that a service gap does not arise for current participants and relevant future populations/cohorts?
- How to avoid worse outcomes in the long term?
- Will improved outcomes be sustained for those who participated in a SIB?

SIBs offer the opportunity to make significant changes to the way welfare or other social services are delivered. They introduce a contractual structure predicated on agreed outcomes that align incentives across all key stakeholders. In 2013, the SIB market offers more in terms of promise and innovation than track record or evidence of success. But given the significant policy, media, and investor interest in this new model it seems likely that understanding the potentials and pitfalls of the SIB model will be an important skill within the social sector. This will be true for future entrepreneurs, policy makers, investors and fund managers as SIBs appeal to interest groups in social finance, social policy, and social innovation.

Key Readings

Allia (2013), *Future for Children Bond offer closed*, news release 17 April

Big Lottery Fund (2010), *BIG Paves Way Forward Through Social Investment*, London: BIG

Barclay, L. & Symons, T. (2013), *A Technical Guide to Developing Social Impact Bonds*, London: Social Finance. Bennett, R. (2012), 'Adoption Bonds will Provide Cash to Find Families for Children Languishing in Care' *The Times*, 8 November

Bolton, E. & Savell, L. (2010), *Towards a New Social Economy: Blended Value Creation Through Social Impact Bonds*, London: Social Finance

Cabinet Office (2009), *The Council on Social Action*, London; Cabinet Office

Cabinet Office (2013), *The Social Impact Bond Knowledge Box*, London; Cabinet Office

Callanan, L., Law, J., & Mendonca, L. (2012), *From Potential to Action: Bringing Social Impact Bonds to the US*, New York: McKinsey and Company

Conservative Party (2010), *Big Society not Big Government*, London: Conservative Party

Charlton, K., Douglas, E., Flateau, P., & Gill, I. (2013), *Social Impact Partnerships*, Perth: Centre for Social Impact

Clifford, J. (2012), 'Strengthening the Boundaries', *Charity Finance*, December, pp. 20-21

Essex County Council (2012), *First Local Authority to Award Social Impact Bond to Help Young People on the Edge of Care*, Press Release 22 November, Colchester: ECC

Federal Reserve Bank of San Francisco with contributions from 39 authors (2013), *Community Development Investment Review: Pay for Success Financing*

Fox, C., and Albertson, K. (2011), 'Payment by Results and Social Impact Bonds in the Criminal Justice Sector: New Challenges for the Concept of Evidence-Based policy?', *Criminology and Criminal Justice*, 11.5, pp. 395-413

Fiennes, C. (2013), *What the First Social Impact Bond Won't Tell Us*, Stanford Social Innovation Review

Frontier Economics (2010), *St Giles Trust's Through the Gates: An Analysis of Economic Impact*, London: Pro Bono Economics

Godeke, S., and Resner, L. (2012), *Building a Healthy and Sustainable Social Impact Bond Market: The Investor Landscape*, New York: Godeke Consulting

Justice Committee (2009), *Cutting Crime: the Case for Justice Reinvestment*, London: House of Commons

HM Government (2009), *Putting the Frontline First: Smarter Government*, London: HM Government

- HM Treasury (2009), *Pre-Budget Report*, London: HM Treasury
- Jupp, B. (2011), *A Technical Guide to Commissioning Social Impact Bonds*, London: Social Finance
- 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
- Loder, J. (2012), *Social Impact Bonds in Health*, London: Young Foundation
- Loder, J., Mulgan, G., Reeder, N., and Shelupanov, A. (2011), *Financing Social Value: Implementing Social Impact Bonds*, London: Young Foundation
- Macdonald, K. (2010), *First Social Impact Bond Launched*, London: Philanthropy UK
- Ministry of Justice (2010), *Scheme to Reduce Reoffending in Short Term Prisoners Launched*. Press Release 18 March, London: Ministry of Justice
- Ministry of Justice and Social Finance UK (2010), *Minister Launches Social Impact Bond Pilot*, Press Release 10 September, London: Ministry of Justice
- Ministry of Justice (2012), *Peterborough Social Impact Bond: Propensity Score Matching methodology*, London: Ministry of Justice
- 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
- Murray, R. Caulier-Grice, J. and Mulgan, G. (2009), *Social Venturing*, London: Young Foundation
- National Offender Management Service (NOMS) (2012), *National Offender Management Service Annual Report 2011/12: Management Information Addendum*, London: Ministry of Justice
- Osborne, D., and Gaebler, T. (1995), *Reinventing Government: How the Entrepreneurial Spirit is Transforming the Public Sector*, New York: Perseus Books
- Patton, A. (2013), *The Social Investment Market: The Role of Public Policy in Innovation and Execution*, Saïd Business School & Cabinet Office
- RAND Europe (2011), *Lessons Learned from the Planning and Early Implementation of the Social Impact Bond at HMP Peterborough*, London: Ministry of Justice
- Social Finance (2008a), *Social Finance Launched to Accelerate the Creation of a Social Investment Market in the UK*, Press Release 21 April, London: Social Finance
- Social Finance (2008b), *Social Impact Bonds: Rethinking Finance for Social Outcomes*, London: Social Finance
- Social Finance (2009) *Social Finance Welcomes the Government's Initiative to Pilot Social Impact Bonds*, Press Release 7 December, London: Social Finance
- Social Finance (2010a), *Social Finance Launches First Social Impact Bond*, Press Release 18 March, London: Social Finance

Social Finance (2010b), *Peterborough Social Impact Bond*, London: Social Finance
Social Finance (2011a), *Overview of the Peterborough Social Impact Bond*, London: Social Finance

Social Finance (2011), *Social Impact Bonds: The One Service. One Year On*, London: Social Finance

Strickland, P. (2010), *Social Impact Bonds – the Pilot at Peterborough Prison*, House of Commons Library: Standard Note SN/HA5758, 12 November

Third Sector Capital Partners (2013), *Case Study: Preparing for a Pay for Success Opportunity*, Cambridge, Massachusetts: Third Sector Capital Partners

Tomkinson, E. (2012), *Social Impact Bonds: An Australian Snapshot*, Sydney: Centre for Social Impact

Young Foundation (2008), *Social Impact Bonds*, London: Young Foundation

Mulgan, G., Reeder, N., Aylott, M., & Bo'sher, L. (2010), *Social Impact Investment: the challenge and opportunity of Social Impact Bonds*. London: The Young Foundation

Key Websites

http://www.data.gov.uk/SIB_knowledge_box/

<https://www.gov.uk/social-impact-bonds>

<http://www.socialfinance.org.uk/work/sibs>

http://en.wikipedia.org/wiki/Social_impact_bond

<http://mckinseysociety.com/social-impact-bonds/>

<http://nonprofitfinancefund.org/pay-for-success>

Appendix 1: Social Finance Commentary

David Hutchison, CEO of Social Finance, describes how we must rethink the role of markets to enable social progress September 2012

When Social Finance launched the first social impact bond (SIB) in October 2010, we were not anticipating the level of interest it would receive. The Peterborough Prison SIB is a £5m scheme that funds interventions for 3,000 short-sentenced male prisoners who are expected to leave the prison over the course of the subsequent six years. The scheme was oversubscribed by investors willing to take a risk on a project that would explore new ways of injecting funding into one of society's most pervasive problems: recidivism.

We wanted to provide increased funding for preventative services, with the dual aims of improving social outcomes and reducing long-term costs. Investors receive payments from the Ministry of Justice if – and only if – a measurable reduction in reoffending is achieved. The government will fund the payments with a proportion of the cost savings it can expect as a result of reduced criminal activity.

This small scheme has caught the imagination of world leaders: President Obama has allocated \$100m (£65m) to fund better outcomes in areas such as recidivism and chronic homelessness through social impact bonds. Social Finance has established a sister organisation in Boston to meet growing demand in the US. We are also working in partnership with other countries, including Australia, Ireland, Canada, New Zealand and Israel, to help them launch SIBs in their own markets.

and goes on to discuss investing in change

Building a market from scratch is not easy; there may be high-profile failures, and products that lack any track record make for wary investors. However, with the launch of government-backed initiatives such as the Investment and Contract Readiness Fund and Big Society Capital, much-needed support to scale social enterprises into investable propositions is becoming more readily available.

It seems that people are waking up to the attraction of investing in this way. The bottom line need not always be to maximise profit at any cost, but instead what we at Social Finance call 'investing for a social and financial return'. In terms of delivering social outcomes and change, the investment model is harnessing this sense of accountability and provides the incentive for innovation. The investors in the first SIB were trusts and foundations, but retail products are the next step in enabling this burgeoning social-investment market to grow. At a time when society's needs are increasing and public

expenditure is declining, the concept of social investment is ripe to be more fully explored

Ethos Online Journal at <http://www.ethosjournal.com/topics/the-economy/item/381-social-impact-bonds>

Appendix 2: Definitions of SIBs

Social Impact Bonds are based on a commitment from government to use a proportion of the savings that result from improved social outcomes to reward non-government investors that fund the early intervention activities (Social Finance, 2009)

A range of financial assets that entail raising money from third parties and making repayments according to the social impacts achieved (Young Foundation, 2010)

Social Impact Bonds bring together government, service providers and investors/funders to implement existing and proven programmes designed to accomplish clearly defined outcomes. Investors/funders provide the initial capital support and the government agrees to make payments to the programme only when outcomes are achieved. So government pays for success (Third Sector Capital Partners, 2010)

Appendix 3: Stakeholder Perspectives

An important feature of the SIB model is that – to be successful, indeed to even be agreed – it must align the interests and incentives of all its key stakeholders. These include: government; service providers; investors; and service users. Each will now be considered in turn.

Government Commissioners

SIBs may be attractive to government in terms of a range of policy agendas that will vary by context. However, some common drivers of state engagement in SIBs can be discerned.

Growing the Market for Welfare Services

It is beneficial to government to support a social sector that can both deliver services on behalf of the state and respond to the emerging or unmet needs of disadvantaged people. Disadvantage can be expensive for government and, therefore, the taxpayer voter. Social issues that remain unaddressed can escalate and governments worldwide are struggling to cope with current demands for acute services such as foster care, health services and custodial programmes. A stronger social sector arises both through the strengthening of the organisations and programmes they deliver, and the support of an emerging social investment market. SIBs can bring new capital into the social sector to grow existing programmes and start new ones.²²

Shifting Funding to Prevention

SIBs can enable governments to shift funding from acute services to preventative services. Under increasing demand for acute services, accelerated in Western economies by ageing populations, governments have increasingly cut rather than grown preventative services despite the fact that they may ultimately reduce overall demand. Thus, SIB outcomes are particularly attractive to government if they have the potential to reduce the demand for acute care.²³

Outcome Measurement

Governments worldwide are purchasing an increasing proportion of public services from external providers and moving to outcomes-based contracts can improve the effectiveness of this spending (Bolton & Savell, 2010). The basis of grants and

²² The extent to which the delivery of public services by external organisations is acceptable to society will be, to some extent, dependent on political and cultural context.

²³ However, a reduction in demand for acute services is not necessarily a saving for government, as substantial savings can only be made when the supply of acute services is actually reduced (Bolton & Savell, 2010). As a consequence, SIBs are most attractive to government in areas where the supply of acute services can easily be reduced in response to a reduction in demand.

contracts for services has traditionally been inputs or outputs. While most government grants or contracts require that providers report on the way they have spent money plus some operational information on a programme, they have typically not required providers to measure the change in the lives of the people they serve. Contracting by outcome allows government to quantify, as well as be held to account for, the real social value of state spending. A further benefit of the focus on outcomes data and evidence is that SIBs mandate rigour in measurement of the *effect* of services, so there is increased capacity for learning that can extend to wider services delivered by or on behalf of government. Moreover, payments dependent on proven outcomes also allow government only to fund programmes that have had a demonstrably positive effect. Finally, outcomes-based contracts mandate that results are measured and investor involvement increases the pressure for such measurement to be robust and results published. The data derived from SIBs may prove to have wider value in enhancing performance transparency and accountability in service delivery organizations. Such data can also support the development of the wider social finance market – since good information is the bedrock of all properly functioning markets.

Innovation

Governments may also be attracted to SIBs because they are innovative (Essex County Council, 2012). They are innovative because they change the nature of the government contract with a service delivery body to one based on outcomes. They are also innovative because they involve government consideration of investor motivation, risk and return. SIBs also often involve new relationships with and between organisations.

Wider Benefits

Due to the intensive resources required to develop SIBs and the media attention they have initially received, Governments have so far invested substantial time and energy into making sure that they only invest in SIBs with a high likelihood of success. A benefit of this is that commissioners are developing skills that can be transferred to improve the purchasing and evaluation of services more widely.

Investors

Investors may be attracted to SIBs purely on the basis that they offer a chance to make a financial return on investment. Indeed, the social element of a SIB (and its relationship to government) is likely to mean that an investment in such a model is not correlated to other mainstream investments – as such it offers a portfolio risk mitigation strategy. Furthermore, the involvement of government guarantees (New South Wales) or philanthropic underwriting (New York City) may make a SIB investment very low risk, despite its novelty and lack of track record. Indeed, even in the UK where no guarantees are in place, investments are likely to be low risk due to

the high levels of due diligence done in advance of the first few SIB contracts. It does not benefit government or intermediaries to see a SIB fail.

Many investors in SIBs will, of course, also be motivated by the potential of a social return too. Social investors find SIBs attractive because they offer a blended social and financial return, where the financial return is dependent on the social return. In this way, SIBs offer a clearer measure of social return than some other social investments. Investors approaching SIBs from a philanthropic perspective also find them attractive as they offer a means to ‘recycle’ their grant or donation capital as ‘investment’, enabling them to contribute more over time. They also see their involvement as a means to support service delivery organisations to access increased government funding as well as helping to build the wider social investment market.

The RAND Europe evaluation of the Peterborough SIB (2011) referred to Social Finance saying that over half the value, and number, of investments was by organisations or individuals investing in criminal justice for the first time. The report listed several reasons given by investors for their involvement:

- *Desire to support a new kind of payment-by-results financial product*
- *Charities’ desire to invest money more ethically*
- *Interest from some investors in funding programmes in the area of criminal justice*
- *Opportunity to learn about social investment was welcomed.*
- *The idea of delivering upfront funding to providers was attractive.*
- *An estimation by investors that there was a good chance of receiving a return (p. 28)*

As the social investment market grows, it is likely that a secondary market for SIBs may emerge offering primary investors liquidity and exit and secondary investors, such as pension funds, a potentially attractive asset class within a diversified (and socially aware) portfolio.

The first example of retail investors having access to investment in a SIB was the Allia Future for Children Bond. The £1m bond offer opened 4 February 2013 and was withdrawn in April after failing to raise sufficient capital to cover costs. 80% of the bond was a low risk loan to social housing provider, at 0% return, and the remaining 20% was investment in the Essex SIB, contributing an additional variable return. There was a minimum investment size £15k. Allia stated “The applications received demonstrated that certain investors could be motivated to invest their capital for the purpose of creating social impact, even though for this product the expected financial return was unknown. The campaign also revealed however some of the challenges in the structuring and distribution of complex products for retail investors” (Allia, 2013).

Service Providers

Service providers for a SIB fall into a three categories: the primary organisation that holds the outcomes-based contract with government; a sub-contractor of the contract holder; an organization delivering services to SIB service users without receiving funds from the SIB. Each may be attracted to a SIB for different reasons.

A Service Provider that Contracts with Government

Service providers will find SIBs attractive if they offer new, longer-term, or more stable funding. Some social purpose organisations are effectively excluded from bidding for government contracts because they cannot access sufficient working capital to achieve results before payments are received. In a SIB, working capital is provided upfront by private investors that solves this problem.²⁴ Moreover, the length of time over which SIB funding is committed may be longer than government funding cycles tied to elections or spending reviews. This can mean greater funding stability for the service providers involved and the people they serve. Long-term funding is attractive to service providers as it allows them better to plan their budgets and resourcing.

Contracting by outcomes, rather than outputs, allows service providers more freedom and flexibility as to how their programmes are delivered. This can allow service providers to be more responsive to their service users' needs. It also allows them to innovate as a programme is delivered to improve services and also to capture these innovations to improve their other services and, even, set benchmarks for services delivered by other organisations.

A Service Provider as Sub-Contractor

Service providers that sub-contract to deliver SIB services might be able to access longer-term, more stable funding too. This may allow them to expand the scope and scale of their work, thereby helping more people. Small organisations that find it difficult to access government contracts alone due to size, complexity or lack of experience may find the role of the SIB sub-contractor opens the door to contracting.

Many sub-contractors will need to develop collaborative partnerships with other service providers. Collaborative service delivery can initially be difficult for organisations or employees that are used to working alone. However, it also offers additional benefits such as shared measurement systems and learning. Working with other service providers in a SIB can mean that learning is captured and shared more easily, allowing for greater or more rapid improvement in services.

²⁴ Some social purpose organisations may find a relationship with private investors problematic (or, at least, novel). The involvement of an intermediary may help to manage such relationships.

Service Providers Not Funded by the SIB

Service providers that are not funded by a SIB might still deliver services to SIB service users or collaborate with SIB service providers. SIB service providers might refer service users to other services in the community, allowing them to focus more on service delivery and less on attracting clients. SIB service providers might also advocate for their service users or provide vital background information to other stakeholders in a welfare ecosystem. Community organisations might partner with SIB service providers to pool funding for a new programme or find solutions to mutual problems. Incentives for SIB service providers to support other community service providers will depend on the design of SIB measurement systems.

Service Users

Service users targeted by SIBs may be attracted to their services since they aim at effective outcomes (rather than outputs) over the long-term. In addition, long-term funding lowers the risk to service users that the services stop unexpectedly. If responsibility for engaging service users is transferred to providers, then providers also have an incentive to develop services that are appealing and tailored to the user. Thus SIBs improve the likelihood of delivering real and sustainable solutions to important social challenges at the community and individual levels. Moreover, due to their emphasis on collecting and publishing rigorous performance data, SIBs should be more transparent and more accountable to service users. A focus on outcomes may also encourage SIB service providers to be more participative in terms of their key service users exploring co-production models and more embedded innovative practices.

Godeke (2012) set out the priorities and value propositions of some of the key stakeholders that engage in SIBs, or pay-for-success contracts as they are sometimes referred to in the USA, though it excludes service users from this analysis (see Table 1).²⁵

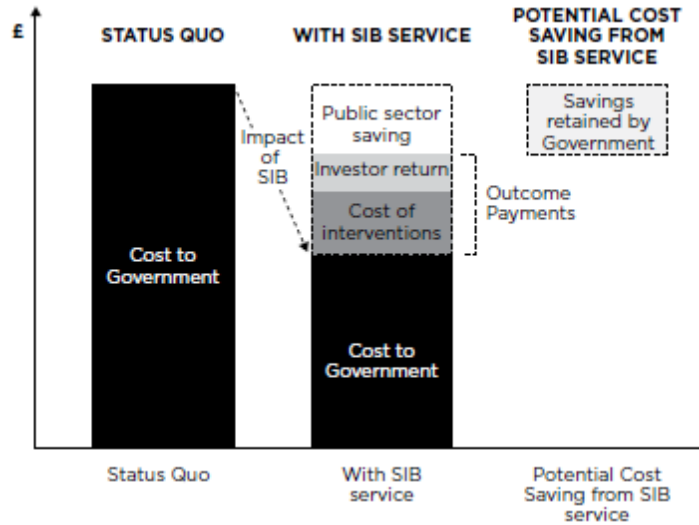
²⁵ This analysis does not acknowledge blended value returns that combine social and financial value creation as social investment/impact investment per se. Rather it ascribes social value creation only to philanthropy.

| | Government | Service Providers | Philanthropy | Investment |
|--|-------------|-------------------|--------------|-------------|
| Shift outcome performance risk and upfront cost to investors | Dark Blue | Light Blue | Dark Blue | Medium Blue |
| Creation of outcomes not just outputs | Dark Blue | Dark Blue | Dark Blue | Light Blue |
| Improve lives of beneficiaries | Dark Blue | Dark Blue | Dark Blue | Light Blue |
| Expansion of preventative services | Dark Blue | Dark Blue | Dark Blue | Light Blue |
| Monetize cost savings of prevention | Dark Blue | Light Blue | Light Blue | Dark Blue |
| Uncorrelated return and diversification | Light Blue | Light Blue | Light Blue | Dark Blue |
| Risk-adjusted return on investment | Medium Blue | Light Blue | Light Blue | Dark Blue |

positive value proposition
 neutral value proposition
 negative value proposition

Table 1: Value Proposition of a SIB to Some Key Stakeholders

Appendix 4: The Theoretical Value-for-Money Calculation by Government (Barclay & Symons, 2013)²⁶



²⁶ This figure summarizes the cost structure of a SIB to government. The ‘Cost to Government’ in the first column represents the costs of acute responses and care (for the Peterborough SIB this would include Police, court and prison costs). ‘Cost to Government’ in the second column shows that these costs are expected to decrease under a SIB, but government incurs an additional cost which is shown as the ‘Outcome Payments’ – ‘Cost of Interventions’ plus ‘Investor return’. The difference between the total costs to government in these two columns is shown as ‘Savings Retained by Government’ in the third column.

Appendix 5: A global map of Social Impact Bonds (Patton, 2012)

Canada

- Government released National Call for Concepts for Social Finance in November 2012
- “The federal government is willing to re-examine its role in social benefits delivery... [and] consider partnerships with private sector and innovative social businesses” - Siobhan Harty, Human Resources and Skill Development Canada

Ireland

- “With support from Social Finance UK, we have tendered for five ideas” – Paul O’Sullivan, Clann Credo

Germany

- Focus for any SIBs issued will be generating additional capital for programmes, not threatening programmes from the welfare state – Christian Kroll, Bertelsmann Stiftung

United States

- New York SIB for delivering services to youth on Rikers Island was launched in 2012 with Goldman Sachs providing capital, Bloomberg Philanthropies guaranteeing loan and Vera Institute of Justice measuring impact
“Hopefully will do 2 or 3 more projects [in 2013]. We are looking to institutionalize SIBs in New York” – Linda Gibbs, NYC government
- Massachusetts and Connecticut in exploration stage
- Fresno County, California in pilot stage of SIB where private insurance company would fund returns

France

- Currently examining international benchmarks for SIBs
- Have recently appointed a Minister of Social Sector

Israel

- “Currently establishing SIBs focused on employment for the ultra-orthodox and Arab populations” – Yaron Neudorfer, Social Finance Israel

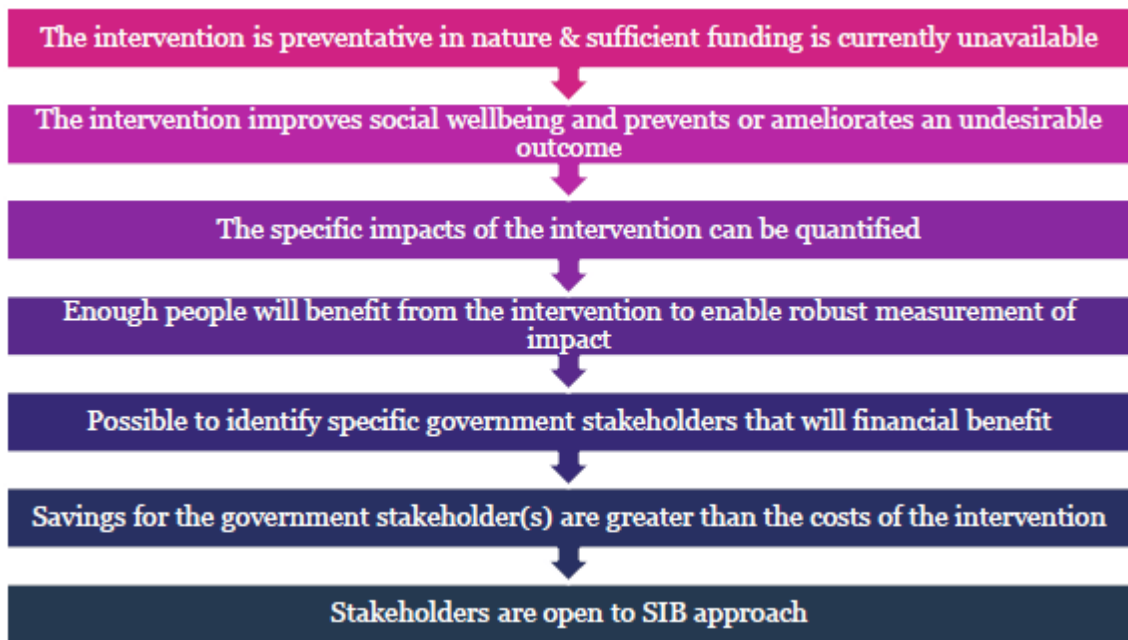
Korea

- Update from Kab Lae Kim, Korea Capital Market Institute

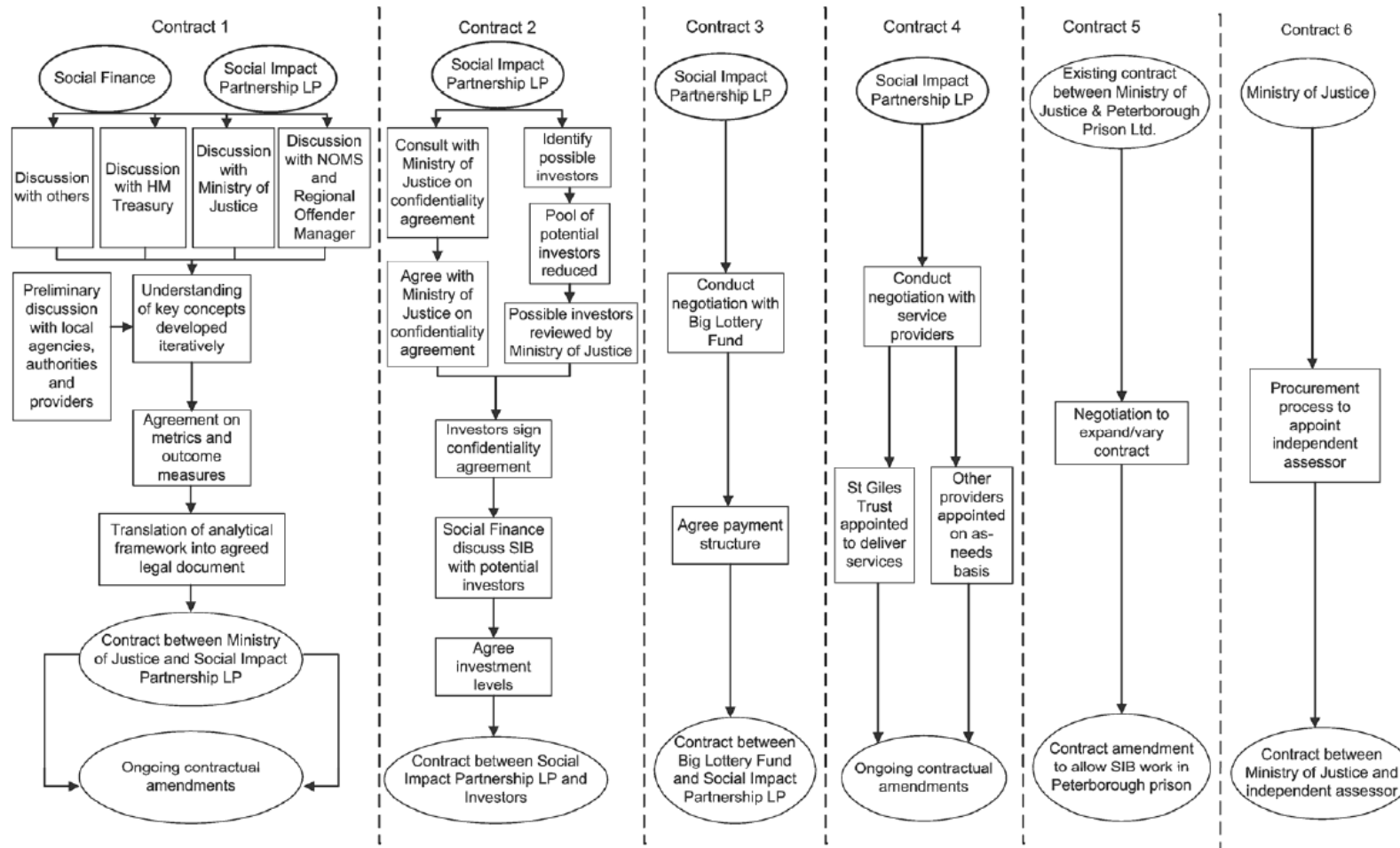
Australia

- Social Benefit Bonds (SBB) pilot was launched in 2012 in New South Wales. SBB pilot partners with three charities (Mission Australia, UnitingCare and the Benevolent Society) to develop three separate bonds that will reduce reoffending and the need for foster care.
- Other states are exploring SBB option
- “Charities are required to have financial stake in interventions to assure investors” – Emma Tomkinson, Centre for SIBs

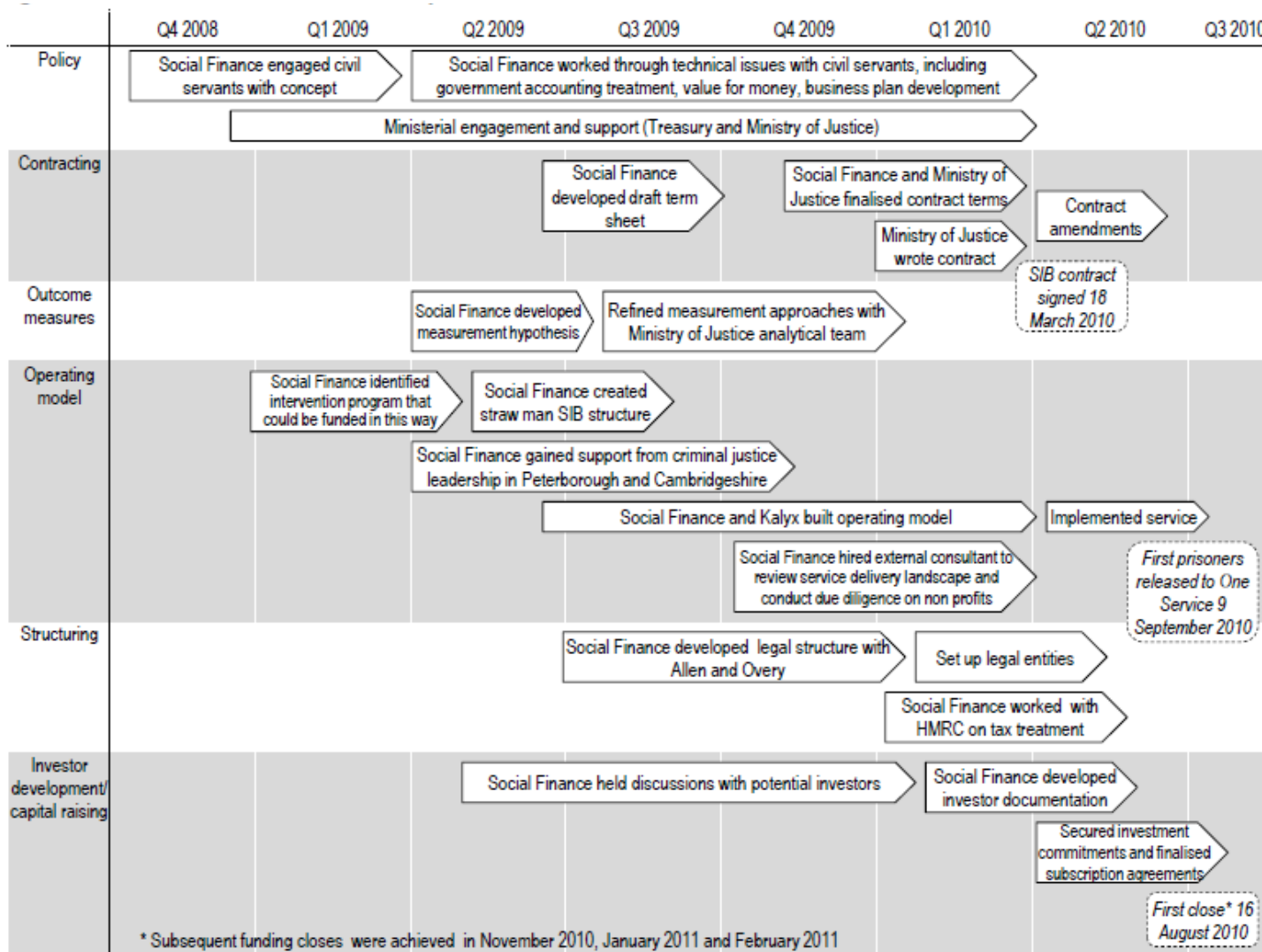
Appendix 6: Seven Tests of Whether a SIB is an Appropriate Funding Model (Mulgan et. al, 2010)



Appendix 7: The Processes of Negotiating and Drafting Contractual Arrangements for the SIB (RAND Europe, 2011, p.17 sourced from RAND Europe’s analysis of interviewees’ accounts)



Appendix 8: Timeline of SIB Development (RAND Europe, p.70)



Source: © Social Finance