Getting Results

The future of Social Impact Bonds & Outcomes-based Approaches

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About the author

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As well as developing the bulk of the Thatcher reform agenda, it has been responsible for proposing the raising of the personal allowance, the Enterprise Allowance and the ISA, as well as many other more recent successful policy innovations, such as free ports, fixed rate mortgages, full expensing, the public sector pay freeze, the stamp duty holiday, and putting the spotlight on how to use market-based solutions to reach Net Zero targets.

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Executive Summary

For decades, the British state has been focused on inputs rather than output – spending rather than results. In the wake of the Covid crisis, and its associated pressures, we need to do things differently, not just to save the state money and drive greater innovation, but to help those who are being let down by the current system.

Outcomes-based commissioning, or in other words, payment by results, and within this, Social Impact Bonds (SIBs), offer a particularly attractive way of doing this. They use private investment to tackle the hardest problems in government: homelessness, addiction, rehabilitation. Because they focus on outcomes, they leave the service provider free to innovate and experiment in order to deliver their goal – a process that has proved its worth during the pandemic. By attracting philanthropic and socially conscious capital, they save the Government money in both the short and long term – since the investors only get their payout if the project succeeds, and the projects concern generally deliver long-term savings to the state by investing in prevention rather than crisis management.

‘By 2016, the Government was spending roughly as much on purchasing goods and services from the private sector (£192 billion) as it was on paying its own staff (£193 billion)’

However, despite being invented in Britain – and thriving in other countries – SIBs have withered on the vine. By 2016, the Government was spending roughly as much on purchasing goods and services from the private sector (£192 billion) as it was on paying its own staff (£193 billion). Yet only about £3 billion of the £230 billion a year that the government spent on ‘human services’ like healthcare, children’s services and rehabilitation involved any kind of payment for outcomes, and only about £20m of that was delivered through SIBs. More widely, the focus on outcomes and outputs rather than inputs has never really taken hold. A different analysis by the National Audit Office (NAO) found of six major departments (DH, DfE, DWP, MHCLG, DfID and MoJ), the total spending which could be seen as having an outcomes focus was just £15 billion. So even when this was being pushed, it formed a very small minority of overall government expenditure. Since then, outcomes-based commissioning and SIBs have fallen further down the political agenda.

This is partly due to the distractions of Brexit and the pandemic, as well as Whitehall inertia. But it also reflects problems that need to be solved. There is plentiful evidence that focusing outcomes and outputs, and within that SIBs, when properly developed and structured, can have a transformative impact on people’s lives – as well as developing innovative new policy approaches that improve public services delivery in both the short and the long term. But there is an urgent need to put the sector on a firmer footing.

This paper argues that, just as Thatcher transformed the public sector by relying on private-sector expertise and know-how, so can outcomes-based commissioning form the basis of the next great public services revolution. For that to happen, the Government needs to take a series of relatively minor but vital steps to cement its place within Whitehall, develop capacity and expertise, and attract new investors to the SIB sector.

Key recommendations:

1. **To improve spending controls and advance outcomes-based approaches,** each government department should commit to publishing a report which sets out: 1) what it intends to do to achieve value for money and improve the effectiveness and efficiency; 2) what level of influence SIBs and payment-by-results already has on spending and the delivery of services; 3) how this has worked in practice; 4) the reasons why SIBs and payment by results have struggled to grow in influence; and 5) a plan for how the department will overcome these hurdles. The Treasury should then mandate that a certain percentage of all departmental spending should be focused on outcomes-based approaches.

2. **To clarify the nature and purpose of the SIB model,** the name should be changed from Social Impact Bonds to Social Outcomes Partnerships. This would signal a departure from seeing SIBs as purely an 'invest to save' proposition, and instead reflect their true purpose in driving public sector innovation by fostering long-term partnerships and maximise social outcomes.

3. **To provide strategic leadership in Government,** the Centre for SIBs should be rebranded the "Outcomes Delivery Unit' and its remit expanded to help lead the government's switch to an outcomes-focused approach. The unit should be moved from DCMS to the Treasury so that it can provide strategic leadership across Government, advise Ministers and officials on the deployment of SIBs and outcomes-based commissioning, and help to coordinate cross-department initiatives.

4. **To resolve the opaqueness and confusion surrounding the SIB market,** and in accordance with the Government's move towards open book contracting, open contracts should be mandated where the Government Outcomes Funds are involved. This would incentivise potential investors, in particular finance-first investors, by releasing key data on the pricing of outcomes, returns, interest rates and time-frames. It would give commissioners insight into value for money and encourage improvements to be made in pricing outcomes. And by making investor returns visible, it would combat the persistent (though ill-founded) concern that investors are making extensive profits off vulnerable beneficiaries.

5. **To establish a culture of knowledge-sharing in the market,** stakeholders should be required to report key learnings and outcomes to a central resource hub, such as the International Network for Data on Impact and Government Outcomes.

6. **To minimise the time and resources required to design and deploy an SIB project,** the Centre for SIBs should publish standard contract templates, beyond the existing service agreement, that take into account the requirements and demands of differing policy areas.

7. **To build the public sector's internal skills base,** central and local government should move away from an over-reliance on external consultants to design and develop contracts internally. Providing resources for this, rather than just funding consultants, would increase stakeholder capacity, ensure the retention of knowledge and ultimately drive down the costs.

8. **To encourage the development of long-term cross-sector partnerships,** commissioners must take responsibility at the contracting stage to ensure there is clear and open dialogue between key players. Prior to signing, all stakeholders must have a comprehensive understanding of the nature of the project; a shared vision of success; acknowledge the relevant time frames; recognise how the investment will be treated; and understand what level of participation is required from each key party.

9. **To mitigate risk for investors, in particular novice investors,** SIB projects should experiment more with features such as capital tier structuring, which mixes capital with different risk and return expectations, and top-up funding from government entities and/or philanthropists to supplement the set price per outcome where the main donor paying for outcomes has a hard cap. These features should become common practice in SIB projects across the UK.

10. **To harness the public's desire to invest in socially useful projects,** the Government should democratise SIB investment opportunities for taxpayers by establishing a new Social Innovation Fund. This crowd-funded enterprise would provide top-up investor capital to support and scale new social interventions.

1. Introduction

It is hard to overstate the enormous ramifications that the Covid pandemic has had for every part of society and government. The Government has had to see us through with no precedents or playbook to turn to. And we emerge from the pandemic a very different country to the one that was first asked to lock down in March 2020.

The most obvious – and unenviable – task, as we prepare for the Budget and Spending Review at the end of October, is to try to bring down borrowing and manage the country's mounting debt while continuing to fund new interventions, infrastructure projects and services improvements that will get the whole country back on its feet. Finding new ways to deliver more for less has never been more important. The Prime Minister's 'levelling up' agenda means there can be no let-up: the foot must stay firmly on the accelerator even as the Treasury tries to manage the public finances back to sustainable levels.

'By the time David Cameron left office in 2016, only about £3bn of the £230bn a year that the government spent on 'human services' like healthcare, children's services and rehabilitation involved any kind of payment for outcomes, and only about £20m of that was delivered through SIBs'

Although the context is different, the challenge faced by this Government is not dissimilar to ones faced by previous Conservative administrations. Margaret Thatcher's programme of outsourcing during the 1980s was predicated on the conviction that drawing on the talents and methods of the private sector could deliver better results, and offer greater efficiency gains, than the public sector ever could on its own. Similarly, after the financial crisis, the Conservative-led Coalition government set about accelerating a shift in focus towards outcomes-based approaches, in pursuit of more effective and efficient government. This led to new innovations like Social Impact Bonds (SIBs) being piloted.

But where Thatcher succeeded in transforming much of the state, her successors have been unable to pivot the government machine towards a full-blooded focus on results and outcomes. By the time David Cameron left office in 2016, only about £3 billion of the £230 billion a year that the government spent on 'human services' like healthcare, children's services and rehabilitation involved any kind of payment for outcomes, and only about £20m of that was delivered through SIBs.[1]

This Government's need to improve the effectiveness of interventions and efficiency of public spending, as well as its bold ambitions to 'level up' and 'Build Back Better',

1 Bridges Ventures, *Better Outcomes, Better Value: The Evolution of Social Impact Bonds in the UK*. Link.

foster the right environment to finally deliver – to shift the machine of government away from inputs and towards an outcomes-based approach that brings new discipline to public spending and encourages innovation and performance-improvements. This paper will argue that by advancing and developing SIBs and other outcomes-based approaches to public spending and service delivery, this administration can revolutionise the effectiveness of government and instil a new culture driven by excellence and efficiency.

2. The current spending approach

At the time of writing, more than 208 million people have been infected by Covid-19 around the world and more than four million have died from the virus. The impact in Britain has been particularly hard. Twelve months on from the announcement of the first lockdown in March 2020, around 1 in 5 people had contracted the virus, with a death rate of 1 in 500.[2]

The devastating impact of the pandemic has been felt well beyond the confines of public health. Global efforts to control the virus through lockdowns and restrictions led to an economic shock unlike anything since the Second World War, with social and fiscal ramifications that will affect almost every aspect of public policy and government spending for years to come.

'At its height, the furlough scheme was supporting 9.1 million people's jobs, contributing to a total of £280 billion spent on the pandemic in 2020 alone, with a further £55 billion set aside for 2021'

For example, the decisive action taken by the Government to suppress the virus, increase support to public services and provide a lifeline for jobs and businesses resulted in the largest peacetime spending programme by any British government. At its height, the furlough scheme was supporting 8.9 million people's jobs, contributing to a total of £280 billion spent on the pandemic in 2020 alone, with a further £55 billion set aside for 2021.[3] The Treasury set a record for peacetime government borrowing with £355 billion borrowed in 2020-21 alone.[4] This enormous sum represents 16.9% of UK GDP. Even the predicted figure of £234 billion in 2021-22 is still markedly higher than the 2009-10 peak during the financial crisis.

Meanwhile, despite its success in saving millions of jobs and supporting struggling families, the Government could not prevent a GDP reduction of 9.9% in 2020.[5] Green shoots have been emerging more recently, and the UK is expected to grow robustly this year – but the Office for Budget Responsibility's latest forecast still expects the pandemic to lower the capacity of the economy in the medium term by around 3% relative to pre-virus expectations.[6]

This presents a difficult picture for the Government. The Treasury faces the prospect of a smaller economy while contending with record levels of debt, even as yet more investment is needed to support society back onto the right path. Deep-rooted

2 OBR, *Overview of the March 2021 Economic and Fiscal Outlook.* Link.
3 Ibid.
4 Ibid.
5 Ibid.
6 OBR, *Overview of the March 2021 Economic and Fiscal Outlook.* Link.

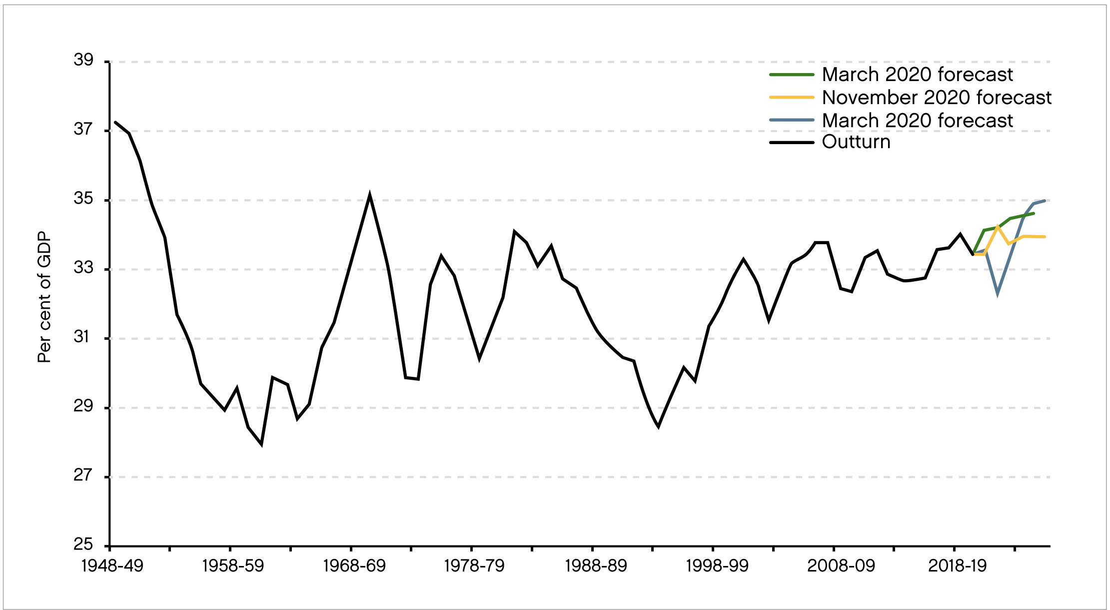
challenges that existed before the pandemic – such as NHS waiting times – have been exacerbated, while entirely new problems have emerged in many areas of social policy that need to be addressed urgently to prevent key sections of society from being left behind.

As we emerge from the pandemic, the role that public services play in people's lives will, in many cases, be more significant than ever before – and those demands on public finances will have to compete with the need to bring down public spending to manageable levels. To balance these opposing interests, the Chancellor has to find ways to make new capital available for public investment programmes while also driving efficiencies in each area of government spending.

'The key plank of Britain's recovery must be to create new opportunities for people and business to prosper as part of a jobs-led recovery'

The key plank of Britain's recovery must be to create new opportunities for people and business to prosper as part of a jobs-led recovery. The Government signalled its belief in this principle with £100bn investment in the 2020 spending review to 'kickstart growth and support jobs'.[7] In order to stay globally competitive, the tax environment cannot therefore become so restrictive as to put people, businesses and investment off Britain. This is especially important in the context of our departure from the EU and the country's ambition to become a Global Britain that leads the world in key sectors like technology, green energy and life sciences.

Chart 1: Tax as a share of nominal GDP



Source: ONS, OBR

7 OBR, *Overview of the March 2021 Economic and Fiscal Outlook*. link.

As illustrated by Chart 1, the UK tax burden is already historically very high and will reach its highest level since the 1960s by 2025. With the OBR anticipating that the tax burden will be at 35% by then, there is limited scope for any more meaningful amounts of revenue to be generated through tax increases without disrupting the economic recovery and Britain's future growth ambitions.[8] And given the size of the deficit, there is little scope for further borrowing.

> **'There is limited scope for any more meaningful amounts of revenue to be generated through tax increases without disrupting the economic recovery and Britain's future growth ambitions'**

To manage public spending, the Government instead needs to examine what improvements can be made to the facilitation, delivery and performance of services in order to generate better results for the recipients and greater savings for the Treasury over the longer term. This is about setting a new framework based on results that can set a tone for effective and efficient government. Establishing a greater focus on outcomes and enabling new sources of funding through social investment would help to direct future public spending and add discipline to investment in the context of our recovery from the pandemic.

The current approach to public spending

In defiance of the precedents set by his predecessors, who have historically restricted capital expenditure post-crisis to reduce borrowing and rein in debt, the Chancellor has reiterated the Government's commitment for public investment to be 2.7% higher as a share of GDP in 2025-26 than in 2019-20. In real terms, based on GDP from 2019, that amounts to more than £600 billion towards public investment over the next five years.[9]

The challenge for the government is now to ensure that investment delivers on the outcomes for which it is intended. The tendency of previous governments has been to concentrate focus on the input decisions without proper thought given to the purpose behind these decisions, how they should be delivered, and the results that are expected. The risk of this approach is the potential for wasteful or ineffective spending.

This is especially important in the context of the Government's levelling up agenda. Rather than a simple North v South divide, pockets of deprivation are found in each region and every constituency. These people and places rely on the type of targeted support that the blunt instrument of an inputs-focused approach struggles to deliver for. As will be discussed later, outcomes-based approaches, including Social Impact Bonds (SIBs), enable the nimbleness required to unlock some of these enduring and hard-to-reach challenges that successive governments have struggled to.

The need for outcomes-based approaches

During the 1980s, Thatcher's government set in motion the trend that would later lead to Payment by Results (PbR). But our commitment to driving through the necessary

8 OBR, *Overview of the March 2021 Economic and Fiscal Outlook.* Link.
9 OBR, *Overview of the March 2021 Economic and Fiscal Outlook.* Link.

changes has at best been patchy and at times non-existent. Input controls, although frequently criticised, have survived for decades, while outcomes-focused approaches have failed to exert much meaningful influence on public spending control.

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Among other consequences, this lack of commitment has prevented the machine of government from building the necessary capacity and structures that would enable outcomes-focused approaches to grow in influence and carry greater weight in the commissioning of public services and management of public finances.

The literature identifies three general conditions a country needs in order to make a serious shift from an input-focused to an outcome-focused approach to spending control:[10]

1. Bureaucracies that are not stifled by institutional inertia

2. Sufficient honesty and integrity in the public spending system to make relaxation of input controls possible without risking substantial corruption, fraud or embezzlement

3. Political and economic conditions assumed to be favourable to such a shift

We are lucky to live in an advanced country that has the necessary checks and balances to ensure good governance and prevent serious corruption and fraud from occurring. What has been lacking is the political will to sustain the momentum required for outcomes-based approaches to flourish.

This Government is well placed to provide that necessary weight and to finally commit the public finances to the rigours of outcomes-based approaches. Redirecting focus onto outcomes, including through the use of SIBs, would enable a more disciplined, agile and efficient system of public spending control for this country as well as drive performance improvements in the delivery of public services.

10 Christopher Hood, *Who loves input controls? What happened to "outputs not inputs" in UK Public Financial Management, and why?* Link.

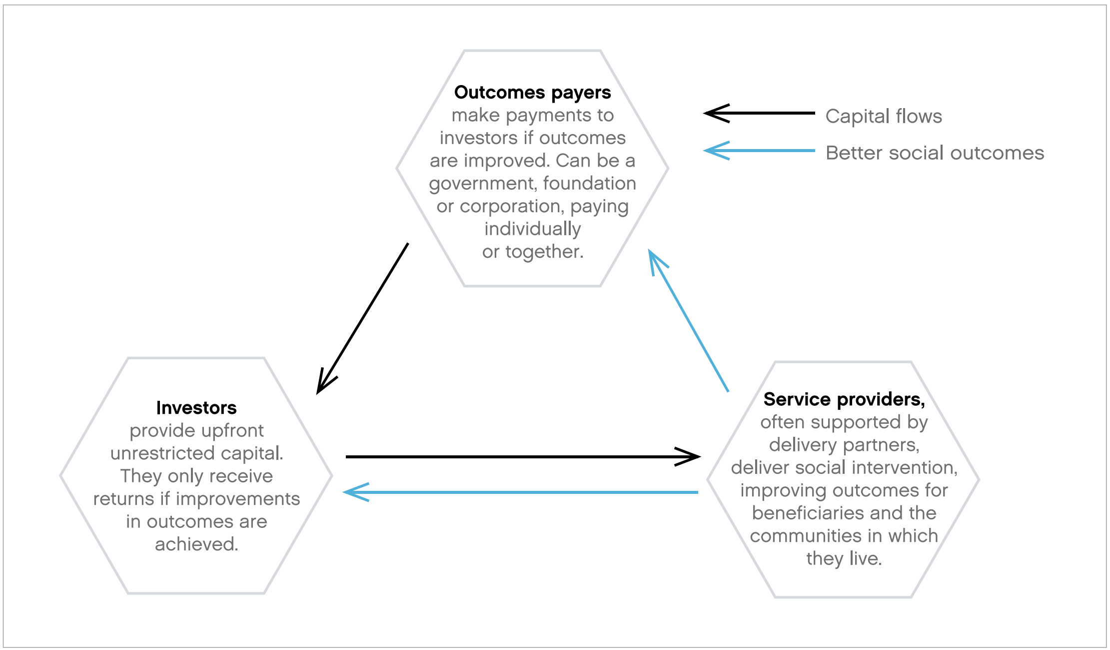
3. The role of Social Impact Bonds within outcomes-based approaches

As argued in the previous section, recovering from the pandemic while also achieving the Government's 'levelling up' agenda means there is mounting pressure on the public sector to look to new, innovative approaches that can deliver more for less. One such approach is the use of Social Impact Bonds (SIBs).

SIBs were first pioneered in 2011 under the Coalition government, during another time of significant pressure on the public finances, in order to keep funding new interventions while shielding the public finances from the capital risk of failure.

SIBs are a type of outcome-based contracting that incorporates the use of private funding from social investors to cover the upfront capital required for a provider to set up and deliver a service. The service commits to achieving specific measurable outcomes and the investor is repaid (by the state) only if these outcomes are achieved.[11] The concept – outlined in Figure 1 – quickly spread from the UK to other Western economies, given the shared backdrop of fiscal constraints and a shared interest in the blending of market principles into welfare provision. Indeed, countries like Australia and the US have innovated and adapted the model to better suit the needs of stakeholder groups. Britain has been slow in this regard, one of the factors which has prevented the model from evolving into something that works better for everyone.

Figure 1: How SIBs work



(Source: Bridges Fund Management)

11 Government Outcomes Lab, *Impact Bonds: Overview.* Link.

SIBs have proved to be particularly adept at tackling hard-to-reach challenges in 'human' service areas, but the model has also been transferred to areas outside of social policy, with Environmental Impact Bonds (EIBs) and Development Impact Bonds (DIBs) establishing themselves as effective mechanisms in the environment and aid sectors, and providing us with a template for how the model can influence other areas of government spending.

Despite differences in how contracts are structured, what connects every Impact Bond (including SIBs) – and makes them unique compared with other forms of outcomes-based contracting – is the use of private investors to provide the working capital needed for the delivery of public services, rather than the service providers themselves. They are however part of a wider Social Impact Investing (SII) community, discussed later, which makes up a much larger market and involves many different types of investment. The connective tissue is a desire for double-sided returns that deliver a social benefit as well as a financial return.

'In 2016 – five years on from the first SIB, with the momentum for SIBs and other outcomes-based approaches growing – the then Minister for Civil Society, Rob Wilson, spoke of his desire to see the SIB market reach 'at least' £1bn by 2020'

SIBs are, however, a British innovation that has been relatively neglected in Britain itself. In 2016 – five years on from the first SIB, with the momentum for SIBs and other outcomes-based approaches growing – the then Minister for Civil Society, Rob Wilson, spoke of his desire to see the SIB market reach 'at least' £1bn by 2020. But a retrenchment of commitment to SIBs from successive governments and commissioning organisations, and to outcomes-focused approaches more widely, has blocked their evolution and development, and left the influence of SIBs and outcomes-based commissioning (OBC) somewhere between the starting post and first hurdle.

Some have suggested, given this lack of progress, that the SIB model should be abandoned. But this is short-sighted view – particularly in light of how other countries have innovated and adapted the model to make it work better. We have failed to apply the principles which make well-delivered SIBs so successful – adaptability, flexibility, and performance improvement – to the model's development itself.

The struggles for clarity and commitment that have prevented SIBs from achieving the desired scale, and the challenges intrinsic to the model itself, will be analysed in subsequent chapters. However, there are obvious external factors which explain why SIBs and OBC have not made the progress that was originally hoped for. In the five years since the minister declared the Government's intentions for the SIB market, the country has been through the Brexit referendum campaign and subsequent withdrawal negotiation, three Prime Ministers and two General Election campaigns, not to mention a once-in-a-century pandemic.

The effectiveness of SIBs during times of crisis

That said, one of the strengths of the SIB model – among the others which we will discuss elsewhere – is how well they cope with uncertainty and instability. Being able to respond to crisis should be fundamental to the commissioning of future services.

And there is good evidence that the flexibility of the SIB mechanism, and that of other outcomes-based approaches, helped them to adapt and continue to deliver during the pandemic.

In March 2020, the Government Outcomes Lab (Go Lab) at Oxford University created a platform for peer-to-peer learning that monitors the impact of the pandemic on government services across the world (ERGO).[12] The findings, assessed below, revealed that the partnership agreement between the key parties involved in an SIB project – Investors, Service Providers and Outcome Payers – enabled them to innovate and develop new ways to deliver successful outcomes despite environmental challenges. According to the ERGO contributors, their results-focused nature enabled these programmes to be flexible, adaptable and robust enough to sustain effective delivery and even enhance services during times of difficulty.

Enabling strong relationships between partners

The development process of SIB projects requires stakeholders to collaborate closely over long periods of time, leading to the formation of long-term partnerships built on a shared appreciation of impact and an alignment of incentives.[13] These partnerships often involve a diverse range of stakeholders, each with their own unique perspective and expertise, allowing for collaborative problem-solving in a way that may not be possible in other types of projects.[14] This proved to be instrumental in building consensus among SIB stakeholders around the response to Covid-19.

‘The development process of SIB projects requires stakeholders to collaborate closely over long periods of time, leading to the formation of long-term partnerships built on a shared appreciation of impact and an alignment of incentives’

ERGO contributors noted the critical importance of the relationships between outcome funders, providers and investors in driving adaptation in the face of disruption. The fact that contractual stakeholders tend to view these contracts as partnerships, working to deliver a shared objective, made contractual renegotiations significantly less tense when adapting delivery models than many expected. As Adam Jagelewski of MaRS in Canada observed, the strong motivation to problem-solve and collaborate stems in part from the large investment made in time and resources to design and implement impact bonds.[15]

In Britain, at the beginning of the pandemic, SIB projects within the Life Chances Fund were given a choice as to whether to pause services, continue their agreed outcomes contract or adopt a grant arrangement based on revised project plans (ie an input-based ‘fee for service’ approach).[16] The majority of projects demonstrated their commitment to the shared goals and partnership, as well as

12 Government Outcomes Lab, *ERGO Sessions.* Link.

13 Gail Gibbons, *The Pros & Cons of Outcomes Based Contracts During the Covid-19 Pandemic – A Provider Perspective.* Link.

14 Louise Savell and Mara Airoldi, *Outcomes-Based Contracts in a Time of Crisis.* Link.

15 Emily Gustafsson-Wright, *What Happens in an Outcome-based Financing Model When a Major Crisis Hits?* Link.

16 Department of Digital, Culture, Media & Sport, *Life Chances Fun.* Link.

their preference for an outcomes-based approach, by continuing service delivery for beneficiaries. This was reflective of the wider market too: contributors to ERGO reported that, with very few exceptions, contractual parties prioritised the continuation of services, since target populations were generally vulnerable and at high risk of being significantly affected by Covid-19.[17] This included adaptations like extending the duration or value of contracts where the pace of achieving outcomes has slowed; advances on outcomes payments to avoid cash-flow problems where evaluation had been delayed; and re-evaluation of outcomes payments to acknowledge increased delivery costs. The interconnected nature of key partners in SIBs enabled strong relationships and shared dependency which encouraged them to continue making progress despite the disruption caused by the pandemic.

Focusing attention on outcomes to allow flexibility

Like other forms of outcomes-based commissioning, SIBs focus on outcomes – and therefore allow and indeed encourage flexibility in terms of the methods of delivery. This means they have the potential to fare better than traditionally funded government programmes that are restricted by a focus on inputs and prescribed delivery methods.

> **‘Over the course of the pandemic, key areas for further support have emerged, including emotional and psychosocial support, access to provisions or supplies (e.g food and medications), and providing crisis response – for example in response to self-harm or domestic violence’**

Unlike more traditional input-led contracts, where the Government will pay for the delivery of a specific service, with OBC they instead pay for the achievement of goals, which means providers can change their delivery methods as they go. Bridges Fund Management (‘Bridges’), a key investor in several UK SIBs including Ways to Wellness SIB and GM Homes Partnership SIB, highlighted that their impact bond structure provided them with the data and flexibility to adapt during the Covid-19 crisis. According to Mila Lukic, a partner at Bridges, when working within an outcomes-based contract, the social investment model gives SIB projects the flexible funding they need for their “teams operate using a flexible delivery model, which gives them the freedom to react to changing circumstances, learn and test out new approaches to see what works best for each individual.”[18] During the pandemic Bridges were able to advance extra funding to partners in need so they could maintain continuity of services, and keep innovating to achieve better outcomes for the service users.

In addition to adapting service delivery, the flexibility of outcomes contracts has also enabled service providers to rapidly shift focus to deliver outcomes.[19] This was demonstrated by the Ways to Wellness SIB, which supports people with long-

17 Government Outcomes Lab, ERGO Sessions, Session 6: So, you need to change your research and evaluation plans? Learning from COVID-19. Link.

18 Mila Lukic, *How Do You Keep Improving People’s Lives in a Lockdown?* Link.

19 Louise Savell and Mara Airoldi, *Outcomes-Based Contracts in a Time of Crisis.* Link.

term health conditions,[20] and which expanded its interventions to address more immediate coping and crisis management needs. Over the course of the pandemic, key areas for further support have emerged, including emotional and psychosocial support, access to provisions or supplies (e.g food and medications), and providing crisis response – for example in response to self-harm or domestic violence.

> **‘As the government looks to invest wisely in the wake of the pandemic, the influence that SIBs and other outcomes-based approaches could have on the efficiency and effectiveness of public spending and service delivery when under substantial stress must be considered’**

What this shows is the capacity for innovation, collaboration and performance improvement that is generated by the focus on results that SIBs determine. In the context of Covid-19, SIB projects were able to flourish where more traditional input-led approaches could not. As the government looks to invest wisely in the wake of the pandemic, the influence that SIBs and other outcomes-based approaches could have on the efficiency and effectiveness of public spending and service delivery when under substantial stress must be considered.

20 Ibid.

4. The potential of Social Impact Investment

Levelling up is not just about large infrastructure projects and economic investment. It also means levelling up people's opportunity and wellbeing, building back a better social fabric for society that gets support to those who need it, and enabling more effective and efficient government spending and interventions.

This requires huge levels of investment from budgets with competing priorities. A key strength of SIBs is that the working capital provided by investors allows the outcome payer (typically central or local government) to defer payment until the objectives have been achieved.

'A number of factors have propelled the evolution of SII since the term was coined in 2007, including a growing interest by individual and institutional investors in tackling social issues at the local, national and global level'

Furthermore, as with other forms of outcomes-based contracting, the financial risk of intervention failure is shifted away from the outcome-payer. This transfer of risk largely protects governments, which don't have to pay investors if the outcomes are not achieved.

In other words, unlike traditional contracting methods – where the Government supplies the working capital and holds the risk of failure – SIBs and other OBC approaches enable governments to continue commissioning projects, despite constrained budgets, as the risk of non-delivery and non-performance is reduced. This is particularly valuable when government spending is limited and public services are strained, since the financial structure of SIBs specifically enables investors to advance capital upfront to partners when needed.

The Social Impact Investment market

SIBs offer an opportunity for the Government to source additional working capital to fund new interventions. For the SIB market to exist at all though, it needs willing investors to participate. This type of social investing is part of a much larger community called Social Impact Investment (SII).

A number of factors have propelled the evolution of SII since the term was coined in 2007, including a growing interest by individual and institutional investors in tackling social issues at the local, national and global level.[21] Just as with SIBs, the values-driven approach of all SII is intended to deliver a 'double bottom line' for investors seeking to generate measurable social impact as well as financial returns. It is often used to direct funds into philanthropic sectors where traditional investment capital

21 OECD, *Social Impact Investment: Building the Evidence Base.* Link.

would not ordinarily flow in sufficient quantities, such as homelessness and child services, and has helped to resolve issues facing these sectors through private sector means and expertise, such as robust evaluation and evidence-based decision making.

While SII isn't suitable for every type of government outcome or expenditure, it has enormous value as an alternative means to address problems where existing policy interventions and service delivery are not achieving the desired outcomes.

> **'The UK is widely recognised to have one of the most advanced social investment markets in the world, with the sector now worth more than £5bn'**

The UK is widely recognised to have one of the most advanced social investment markets in the world, with the sector now worth more than £5 billion.[22] Big Society Capital reported that, since 2011, the social impact market has grown at a compound annual rate of 25%.[23] Based on underlying demand and growth rates, it estimated that the investable high impact segment of the UK market will be valued at £10 billion to £15 billion by 2025.[24] The latest BSC market estimate shows that most of the growth during this period has come through alternatives to traditional bank lending, which have scaled 20-fold from £169 million in 2011 to £3.39 billion in 2019.[25]

How to leverage this market as it grows, for the purpose of SIBs and the delivery of public services, should be considered carefully by the Government (and will be discussed further in a later chapter). But it is already clear that such investing is in tune with the spirit of the times, and therefore looks a safe bet for continued growth. As we move towards a values-driven society, sustainable funds are attracting record inflows – dispelling the idea that there's a financial trade-off for investors who want to focus on ESG. Morgan Stanley's Melissa James reports that there is now a 'belief that companies with favourable ESG characteristics will outperform, especially in an environment with a more heightened focus on tail risk'.[26] This belief has led to the development of investor partnerships such as the Schroders BSC Social Impact trust, which raised £75m last year.[27] The intention of the trust is to provide a measurable social impact, as well as an attractive and consistent return profile, through investing in a diversified market impact with a low correlation to equity market movements.[28] This is not, in other words, just about investor altruism, but the growing evidence that businesses and investors who take social impact into account end up with less risk and better returns.

In other words, the contract between business and society is changing. Businesses of all types are responding by developing longer-term, more inclusive approaches to value creation. There is a growing realisation across the private sector that 'doing good' and 'doing well' are not mutually exclusive.[29] Rather, the opposite is true. A

22 Department for Digital, Culture, Media & Sport Advisory Group, *Growing a Culture of Social Impact Investing in the UK*. Link.

23 Big Society Capital, UK *Social Impact Investment Market Now Worth More Than £5 Billion.* Link

24 Ibid.

25 Ibid.

26 Morgan Stanley, *Companies Tap Bonds for Social Impact During Coronavirus.* Link.

27 *Schroders, Schroders and Big Society to Launch UK Social Impact Trust to Improve Lives of Those in Need.* Link.

28 Ibid.

29 Morgan Stanley Wealth Management, *Why Investors Are Getting In on this Growing Trend.* Link.

business with a clear social purpose can help open up new markets, attract new customers, better engage employees, and drive sustainable, risk-adjusted returns.[30]

‘A Schroders Global Investor study found that millennials would not compromise their personal beliefs in order to benefit from higher returns’

In response, businesses are shifting their treatment of social purpose from a secondary consideration to a core commercial pillar, an objective woven into the fabric of the business itself.

Equally, consumers are incorporating values-driven considerations into their purchasing and investment decisions. There is growing demand among consumers and shareholders to see their money have a social impact. A Schroders Global Investor study found that millennials would not compromise their personal beliefs in order to benefit from higher returns.[31] In addition, a recent survey conducted by Morgan Stanley's Institute for Sustainable Investing found that nearly 95% of millennials are interested in sustainable investing,[32] while 75% believe that their investment decisions could make a material social impact.[33] In response, investors are increasingly seeking out new investment opportunities that incorporate social values and may provide solutions to these daunting challenges.[34]

How the Government responds to SII's potential for social services will be discussed in a later section, but what this already illustrates is the trend towards social investing in this country, how it could be used to fund new interventions and grow the SIB market, and the opportunity open to the government if they can harness that potential. If the Government can harness this trend, there is an opportunity for it to deliver better outcomes, and grow the SIB market. Engaging more ESG investors with SIBs would bring new capital into the market and drive additional investment in social service delivery.

30 Morgan Stanley Institute for Sustainable Investing, *Sustainable Funds Outperform Peers During Coronavirus*. Link.

31 Schroders, *Global Investor Study 2020*. Link.

32 Morgan Stanley Institute for Sustainable Investing, *Sustainable Signals: Individual Investor Interest Driven by Impact, Conviction and Choice*. Link.

33 Morgan Stanley Institute for Sustainable Investing, *Sustainable Reality: Analyzing Risk and Returns of Sustainable Funds*. Link.

34 Morgan Stanley Institute for Sustainable Investing, *Sustainable Funds Outperform Peers During Coronavirus*. Link.

5. The struggles of SIBs and outcomes-based approaches

So far in this paper we have seen something of a paradox. Britain invented the Social Impact Bond, and has a robust and growing investment market for social impact schemes. Yet within Whitehall itself, SIBs have withered on the vine – even as they have taken off in other countries.

In this chapter, we will explore the challenges SIBs have faced, and the explanation both for their rise and subsequent stall.

The history of SIBs

The long-term trend towards outcomes-based approaches like SIBs derived from the ambition of successive governments to improve the efficiency and effectiveness of government spending. By 1979, spending had reached 52% of GDP, up from 26% in 1939, while the public sector employed 1/5 of UK workers, up from 1/10 in the 1930s.[35]

Thatcher was elected in 1979 against the backdrop of this expensive and ineffective state machine. She was (not least via her role at the Centre for Policy Studies) in the vanguard of New Right thinking based on individualism and a liberal economy, with state intervention limited in order to free up markets and enable a dynamic economy to emerge. Her Government's free market reforms, which implemented a vast programme of privatisations and outsourcing, were largely premised on the conviction that the private sector was more capable of achieving efficiency gains than the public sector.[36]

'By 1979, spending had reached 52% of GDP, up from 26% in 1939, while the public sector employed 1/5 of UK workers, up from 1/10 in the 1930s'

That same principle has been a strong part of government thinking ever since. Even New Labour embraced the spirit of the Thatcherite reforms through their 'public-private partnerships' as discussed in a study by David Parker and Keith Hartley, *Transaction costs, relational contracting and public private partnerships: a case study of UK defence.* By 2016, the Government was spending roughly as much on purchasing goods and services from the private sector (£192 billion) as it was on paying its own staff (£193 billion).[37]

35 William H. Greenleaf, *The British Political Tradition : Vol 1 – The Rise of Collectivism.* London: Routledge, 1983.
36 Louise Dalingwater, *Civil Service reform and the Legacy of Thatcherism.* Link.
37 HM Treasury, *Whole of Government Accounts: year ended 31 March 2016.* Link.

The move towards PbR

Despite the revolutionary advancement of privatisation, outsourcing and New Right thinking, the resulting style of contracting – which usually structured grants or contracts with private delivery partners so the state paid for a pre-agreed set of activities – had two drawbacks which future governments would seek to resolve:

1. It did not directly incentivise service providers to strive for better outcomes – whether because their activities were not delivering the desired results, or because there was an opportunity to go further and surpass expectations.

2. Given competing demands for limited government resources (where every decision carried a high opportunity cost), there was an understandable inclination for governments to use 'tried and tested' approaches, to minimise the risks of failure – which also minimised the opportunity to do things differently or better.

In order to deliver better outcomes at a lower cost to the taxpayer, the Government gradually started to experiment with payment-by-results approaches (PbR). Moving payments away from prescribed inputs and towards the achievement of desired outcomes, PbR approaches were intended to produce better services for participants and better value for money for the Treasury. Also, since the commissioner was no longer specifying exactly how a service should be delivered, such approaches allowed providers much greater scope to adapt and improve their existing programmes, or even to devise new ones, in the event that the original intervention was not producing the desired outcomes.[38]

'In order to deliver better outcomes at a lower cost to the taxpayer, the Government gradually started to experiment with payment-by-results approaches (PbR)'

There are challenges to outcomes-based approaches (which we discuss below), but they have generally proved effective in tackling core issues in public services that have dogged the effectiveness and efficiency of successive governments' activity.

1. **A focus on outcomes:** They shift the focus of the service provider's attention to achieving results rather than simply delivering a service

2. **Innovation:** By specifying what needs to be achieved rather than how, PbR gives greater freedom to adapt and innovate services to achieve a desired outcome

3. **Cost-effectiveness:** All or some of the payment to providers is contingent on the outcomes they achieve, which reduces waste or ineffective spending

4. **Risk transfer:** Outcomes-based PbR contracts transfer the financial risk of delivering a service to the provider (who supplies the working capital) with either no or limited payment if they fail to achieve the desired outcomes

38 Bridges Ventures, *Better Outcomes, Better Value: The Evolution of Social Impact Bonds in the UK.* Link.

A stalled revolution

In recent years, the development of outcomes-based approaches and particularly the introduction of private investors into contracting via SIBs has stalled. As mentioned above, part of this has been due to the distractions of Brexit and the pandemic, as well as the instinctive preference of successive governments for traditional, large-scale, input-led contracting.

> **‘As one sector expert has commented, ministers and officials often have a limited awareness of SIB contracts and even fewer have a solid understanding of how they work, their purpose and where they belong’**

However, governments alone cannot be blamed for this lack of progress. There are some inherent qualities of outcomes-based approaches that have led to confusion, suspicion and ideological resistance in some quarters, and relatively low levels of awareness and understanding among officials and policymakers. Understanding these issues is crucial to explaining why SIBs have not taken off as hoped.

Low levels of awareness among officials and policymakers

As one sector expert has commented, ministers and officials often have a limited awareness of SIB contracts and even fewer have a solid understanding of how they work, their purpose and where they belong.[39]

This is not all that unsurprising, given that SIBs remain relatively new, have been underused, and are often (wrongly) perceived as technical in nature. One major barrier to remedying this lack of awareness and understanding has been the lack of a central management body that can strategically advise the entire government from the centre. While the Centre for SIBs does provide strategic leadership for the SIB model in Government, its position in DCMS renders it unable to exert as much advisory influence as it could if the unit was positioned centrally in the Treasury. (The fact that the unit was moved from its original place in the Cabinet Office in the first place is indicative of a retrenchment of commitment to SIBs and other forms of outcomes-based approaches.) Similarly, the fact that the unit is focused purely on SIBs removes its ability to influence the development of more outcomes-based approaches across government.

Despite these struggles, there is definitely an appetite for greater understanding among Whitehall officials, as demonstrated by users of the Go Lab's International Network for Data on Impact and Government Outcomes (INDIGO) project in SW1.[40] The INDIGO resource hub holds data on past and ongoing SIB projects across the world and provides an opportunity for stakeholders to learn from experiences of the past. For a relatively new innovation like SIBs that relies on a solid understanding of how the mechanism works and the purpose behind it, INDIGO has the potential to transform visibility in the market. However, it is currently still in a fledgling stage, building brand awareness, and is entirely reliant on the voluntary transfer of data from individual project teams. More effort is therefore required to build a better understanding of the model in Whitehall.

39 ThinkForward Interview, February 2021.

40 Nigel Ball Interview, 9th March 2021.

Confusion over terminology

The word 'bond' is somewhat of a misnomer because SIBs do not follow the financial logic of a 'bond'. SIBs are more similar to an equity instrument, as the return on investment is contingent on achieving specified social outcomes. At a basic level, this has contributed to misunderstandings and confusion as to their function and purpose.

Furthermore, while the use of private capital is an essential feature of SIBs, promoting them as solely financial instruments misrepresents their multiple functions. Though SIBs are mostly recognised as 'invest to save' mechanisms, they should be equally, if not more so, recognised as tools to facilitate partnerships that improve social outcomes in complex policy areas.[41]

'According to Nigel Ball, Executive Director of the Government Outcomes Lab, focusing only on that aspect of SIBs can shut off any consideration of their potential to solve very stubborn issues in how services are commissioned and run'

In other words, the notion that SIBs are purely profit instruments 'risks obscuring' their potential to rectify previous policy failure and provide tailored, intensive support to the most vulnerable, hardest-to-reach service users.[42] According to Nigel Ball, Executive Director of the Government Outcomes Lab, focusing only on that aspect of SIBs can shut off any consideration of their potential to solve very stubborn issues in how services are commissioned and run."[43]

In reality, those who invest in SIBs are seeking both a financial and social return, and generally these goals are aligned. However, the narrow depiction of SIBs as profit-driven bonds has concealed this reality. New terms have been proposed which better encapsulate the function of SIBs: as discussed below, changing the name to Social Outcomes Partnerships might help the model overcome some of the challenges and confusion that have so far held back its development and growth.

Suspicion and mistrust

A key challenge facing governments is the perception that outcomes-based approaches shift responsibility for welfare policy away from the state and into the hands of the private sector. This has fuelled ideological opposition over the perceived commodification of people and the financialisation of their needs.[44] In turn, these concerns have undermined the advancement of outcomes-based approaches by prejudicing many decision-makers, such as commissioners, local and national government officials, against their use.

The Life Chances Fund's interim evaluation report noted that even when the SIB approach appeared to represent better value, commissioners remained cautious about moving away from a 'fee for service' approach due to ethical concerns.[45]

41 OECD, *Understanding Social Impact Bonds.* Link.

42 Interview with Nigel Ball, 9th March 2021.

43 Interview with Nigel Ball, 9th March 2021

44 Stephen Sinclair, Neil McHugh and Michael Roy, *Social Innovation, Financialisation and Commodification: A Critique of Social Impact Bonds.* Link.

45 Department for Digital, Culture, Media & Sport, *Life Chances Fund Evaluation – Interim Report.* Link.

Similarly, an evaluation of SIBs in health and social care reported that some commissioners were 'wary of being complicit in the fragmentation and outsourcing of public services' associated with SIB contracts.[46]

'The Life Chances Fund's interim evaluation report noted that even when the SIB approach appeared to represent better value, commissioners remained cautious about moving away from a 'fee for service' approach due to ethical concerns'

At an individual level, this suspicion has often been exacerbated by hostile reports in the press, which have damaged the SIB brand and discouraged participation from key players. Commissioners tend to be wary of the reputational damage inflicted by media reports in the event that high-profile policy decisions fail.[47]

Taken together, these challenges, which have prevented a greater understanding of outcomes-based approaches in Whitehall, have led to the retrenchment in commitment to the principles of PbR/outcomes-based contracting, and a continued dependence on an input-led approach.

46 Stephen Sinclair, Neil McHugh and Michael Roy, *Social Innovation, Financialisation and Commodification: A Critique of Social Impact Bonds.* Link.

47 Eleonora Harwich, Alexander Hitchcock and Elaine Fischer, *Faulty by Design: The State of Public-Service Commissioning.* Link.

6. The case for outcomes-based approaches

So far, this report has focused mostly on the theoretical justifications for SIBs in particular and OBC in general. But the most important reason to support their expansion is the growing body of evidence that they deliver better outcomes.

At the heart of almost every outcomes-based approach is a desire to enable more innovation. We have already discussed the resulting flexibility that outcomes-based approaches afford during times of crisis, when compared to the traditional input-led 'fee for service' approach. But this principle applies more broadly.

SIBs can improve outcomes

Consider the Teens and Toddlers SIB, which helped disadvantaged children aged 14 to 16 in Greater Manchester by focusing on issues that can lead to children becoming disengaged from education, employment or training. Following a successful launch, the programme was extended to add a 'Stage 2' that applied the strengths and skills developed in Stage 1 to school behaviour and academic studies. Within the first year of delivery, analysis of the interim results indicated that the new Stage 2 needed modifying to ensure that the desired academic outcomes were achieved. The nature of the SIB arrangement meant key partners were motivated to deliver outcomes rather than services – so the programme was adapted accordingly, with a new sub-contractor appointed to tutor students in Maths and English. In other words, the outcomes-based nature of the arrangement gave partners the freedom to innovate the model in order to improve performance for recipients and ensured efficiency in delivery.

> **'The nature of the SIB arrangement meant key partners were motivated to deliver outcomes rather than services – so the programme was adapted accordingly, with a new sub-contractor appointed to tutor students in Maths and English'**

The crucial thing to bear in mind here as that these outcomes are not just about delivering better value for money for government – they are about improving people's lives. Outcomes-based approaches, underpinned by service learning and flexibility, can produce positive outcomes for their target populations that input-led approaches cannot.[48]

The London Rough Sleeper SIB, for example, was able to improve outcomes and opportunities via innovative and intensive service provision. The model was designed so that a Navigator (key worker) would support a homeless client with an individualised assessment.[49] The model is predicated on a highly entrepreneurial approach to service delivery which offers the Navigator freedom to adjust their approach within the constraints of a personal budget. The Young Foundation identified this as an effective

48 Bridges Ventures and Bank of America Merrill Lynch, *Choosing Social Impact Bonds: A Practitioner's Guide*. Link.
49 The Young Foundation, *Designing an Intervention for a Rough Sleeping Social Impact Bond*. Link.

approach to supporting the cohort and noted that its highly personalised approach would sustain ongoing support to achieve long-term outcomes.[50]

Fieldwork data demonstrates that the beneficiaries of such SIBs value the tailored and intensive support they receive – and often credit it for helping them achieve their goals.[51] For example, the Fair Chance Fund was a three-year programme funded by the Ministry of Housing, Communities and Local Government (MHCLG) that provided outcomes funding for SIBs and other OBCs to improve accommodation, education and employment outcomes for homeless young people aged 18 to 24.[52] The majority of funding from traditional government contracts followed the accommodation rather than the beneficiary; as a result, the system often failed to provide sufficient support for more chaotic and vulnerable individuals who cannot hold down the accommodation. In addition, those who can hold down accommodation are often disincentivised from leaving it because supported housing rents are often high.

‘Under the Fair Chance Fund’s outcomes-based programmes, the funding followed the beneficiary rather than the accommodation’

Under the Fair Chance Fund’s outcomes-based programmes, the funding followed the beneficiary rather than the accommodation. That allowed providers to take into account the individual needs of beneficiaries and offer personalised support. And since the key outcome target was employment, providers had a strong incentive to support beneficiaries into education or a job. This encouraged them to work towards long-term independence, rather than short-term accommodation, and ultimately helped to unlock better outcomes for the recipient.[53]

That said, the success of such schemes does have benefits for the Treasury too. In California, for example, the corrections system suffered from high probation violation rates which were driving up the prison population and placing a huge strain on public finances. Over the two decades between 1989 and 2009, the state prison population rose by 125%, with around 40% of prison admissions due to probation violations.[54] By 2009, spending on corrections was consuming 11% of the state budget, up from just 5% in 1989.

In response, the state introduced outcomes-based funding through the Community Corrections Performance Incentives Act. This was designed to incentivise investment in proven interventions. Within just three years, the probation failure rate had dropped by a third, resulting in $536 million in savings.[55]

SIBs can drive innovation and partnerships

SIBs and other outcomes-based approaches are, of course, a social innovation in their own right, with a combination of different talents and interest groups coming together in pursuit of a shared goal. The OBC approach encourages social innovation through

50 Ibid.

51 Ecroys for the Department for Digital, Culture, Media and Sport, *A Study into The Challenges and Benefits of Commissioning Social Impact Bonds in the UK, and the Potential for Replication and Scaling: Final Report.* Link.

52 Ministry for Housing, Communities & Local Government, *Evaluation of The Fair Chance Fund: Final Report.* Link.

53 Bridges Ventures Better Outcomes, *Better Value: The Evolution of Social Impact Bonds in the UK.* Link.

54 KPMG, *Better Outcomes for Public Services, 2015.* Link.

55 Ibid.

collaboration and coordination among different stakeholder groups, drawing on the expertise and resources of varied skillsets to identify and respond to challenging policy areas.

The importance of SIBs' focus on partnership and collaboration to the success of interventions has been evident since the Peterborough SIB was first piloted in 2011. The official programme evaluation report for the pilot identified these two factors – partnerships and collaboration – as key to allowing the service to overcome fragmentation challenges which had undermined existing systems. The 'ONE Service' was therefore commissioned to link multiple providers to a single service to better support prisoners and reduce reoffending rate. They undertook structured assessments to capture the diverse needs reported by offenders. As a result, voluntary and public-sector providers from health, social care, housing and legal services were brought into the project, with service providers co-located in the physical 'hub' provided by the ONE Service office.

'The importance of SIBs' focus on partnership and collaboration to the success of interventions has been evident since the Peterborough SIB was first piloted in 2011'

As well as the benefits in terms of the delivery of services, collaboration between key parties and their varied skillsets from an early stage of a SIB's development has been shown to strengthen the service design and intervention approach itself.

The Ways to Wellness project, for example, pioneered collaboration between local GPs, Newcastle Gateshead Clinical Commissioning Group, local VCSE organisations and social investors. The project aims to improve outcomes for 8,500 patients with long-term conditions over its first six years. Its creators brought together key stakeholders at an early stage to 'co-design' the service, which strengthening the model while increasing stakeholder understanding and buy-in to the programme as a whole.

The inclusion of social investors in the design phase of an SIB has also been shown to add a layer of rigour and attention to detail that is not present in traditional forms of contracting. Many stakeholders involved in SIB projects through the DWP Innovation Fund identified that the presence of social investors and their interest in social outcomes being achieved led to a very hands-on approach in ensuring services were performing effectively, resulting in those involved securing 'better results than they would have done had the pilot been commissioned using more traditional procurement methods'.[56]

In the London Rough Sleeper SIBs, as part of the loan agreement, the investor was given 'observer' status on the board of Thames Reach (the service provider) and their relationship progressed into a long-term partnership. The investor benefited from greater insight into the internal operations of the SIB, while the provider greatly valued the support provided in delivering on outcomes.[57]

56 Department for Working and Pensions, *Qualitative evaluation of the DWP Innovation Fund: Final report.* Link.

57 Department for Communities and Local Government, *Qualitative Evaluation of the London Homelessness Social Impact Bond: Final Report.* Link.

SIBs can shift risk and incentivise outcomes

Governments spend billions of pounds of taxpayers' funds each year on crisis-driven services. Yet although they recognise the economic and social benefits of prevention, government agencies generally cannot afford early intervention services, since their budgets are already committed to high-cost remediation programs.

'The increased prominence of OBC is underpinned by a desire to improve service quality, mitigate the risk associated with service experimentation and enhance the social outcomes achieved when using public resources'

The increased prominence of OBC is underpinned by a desire to improve service quality, mitigate the risk associated with service experimentation and enhance the social outcomes achieved when using public resources. Since repayment to investors in an SIB, or service providers in other forms of OBC, is linked wholly or partly to whether the outcomes are achieved, the model shifts the financial risk to the investor and away from the government and service provider.[58] By linking financial reward to social outcomes rather than inputs or activities, service providers and investors are incentivised to deliver a better service for the user, because it will lead to a greater reward for their services.[59]

(i) The result is a model that works better for everyone.

Commissioners (governments) are generally shielded from the capital risk of failure. The returns for investors/service providers are contingent on the successful delivery of the outcomes prescribed in the contract. This gives commissioners the opportunity to pilot new interventions and test novel solutions that they would otherwise be too cautious and risk adverse to test out.[60]

(ii) For service providers – which are often philanthropic or charitable groups –

SIB contracts open up new sources of stable and predictable revenue. This allows providers to spend less time fundraising and more time focusing on their core competencies: serving vulnerable populations in need. Furthermore, in the case of SIBs, it mitigates the financial risk associated with designing and implementing novel delivery models by introducing private capital upfront.

Of course, given they are taking on the financial risk, investors need robust investment propositions in order to commit their capital. That is why SIBs that have attracted capital at scale have generally focused on proven interventions delivered by parties with a track record of delivering those interventions.[61]

In the US and Australia, however, a range of de-risking structures have been deployed in SIBs to allow investors to choose the most appropriate risk-return profile and attract more interest from investor communities. These include tiered capital structures and guarantees, where investors with a deep understanding of the target group and outcomes provide downside protection to attract less familiar investors.

58 OECD, *State of Play.* Link.

59 Bridges Ventures Better Outcomes, *Better Value: The Evolution of Social Impact Bonds in the UK.* Link.

60 Policy Research Innovation Research Unit, *An Evaluation of Social Impact Bonds in Health and Social Care.* Link.

61 OECD, *State of Play.* Link.

This was exemplified by The Benevolent Society SIB in New South Wales, which is an intensive family support programme designed to keep children with their families where safe, avoiding their being consigned to the care system (which, as in the UK, tends to have extremely poor outcomes for the children involved).

‘The programme was targeting a 40% decrease in days of incarceration, at which level it would generate savings to the Commonwealth of Massachusetts that offset the cost of delivering services’

Two classes of bonds were offered to attract the range of capital needed to make up the AUD $10 million sought. The low-risk tier (Class P) was capital-protected, while the high-risk tier (Class E) was subject to 100% loss of principal if the performance improvement from the programme was less than 5%. However, as befitted the higher risk Class E investors were taking, they stood to make a higher return – up to 30%, as opposed to the maximum 10% for Class P investors.

In this case, Class E investors were not providing capital protection for Class P investors. Rather, the transaction was structured so that the cash flow was channelled to protect capital, supported by a portion of upfront investment from the New South Wales Treasury. Those investors with the most confidence in the project and its likely outcomes could take the greatest risk, whereas those who were more cautious still had a way to contribute to this desirable programme.

In the US, the Juvenile Justice Pay for Success SIB established junior ($3 million) and senior ($9 million) loan tranches. In this example, the risk was inverted – the higher risk investors stood to gain less in the event of success than the lower-risk investors. This may seem unfair – but the explanation is that the higher-risk investors were investing on a philanthropic rather than commercial basis. The programme was targeting a 40% decrease in days of incarceration, at which level it would generate savings to the Commonwealth of Massachusetts that offset the cost of delivering services.[62] At this target rate, the lower-risk investor, in this case Goldman Sachs, would be repaid plus a base annual interest rate of 5%, while the higher-risk investor, in this case the Kresge Foundation and Living Cities, would be repaid a base annual interest rate of 2%.[63] Goldman’s commercial muscle enabled the scheme to be applied on a larger scale – but it still only made a profit if the scheme worked. This shows the different levels of innovation that can be brought to SIBs to encourage greater levels of interest from investor groups and therefore enable more interventions to be generated.

SIBs can institutionalise good habits

One of the least discussed advantages of OBC approaches is the positive influence they can have in terms of institutionalising good habits, by helping those involved learn from outside skills and new experiences. Even in cases where they do not come to fruition, or are not successful, the collaboration between stakeholders can generate a wider and better understanding of the relevant policy area or target cohort, which can be applied to other forms of intervention. Many service providers commented that the process of engaging in an SIB improved their internal systems and had positive spillover effects for their other programmes.[64]

62 Bridges Ventures and Bank of America Merrill Lynch, *Choosing Social Impact Bonds: A Practitioner’s Guide*. Link.
63 Bridges Ventures and Bank of America Merrill Lynch, *Choosing Social Impact Bonds: A Practitioner’s Guide*. Link.
64 Ibid.

Some of this mutual learning is informal, but another key advantage of SIBs is their contribution to the evidence base on social services, stimulating mutual learning.

The Community Corrections Performance Incentives Act in California, discussed above, generated a 33% increase in the reported use of evidence-based practice between 2010 and 2011.[65] It was a similar story with the Connecticut Family Stability Pay for Success project. This was so successful at improving provision for parents with young children who had substance abuse issues that the Department for Children and Families implemented agency-wide performance improvement initiatives to scale the approaches developed and apply them to other areas.[66]

> **‘The Community Corrections Performance Incentives Act in California, discussed above, generated a 33% increase in the reported use of evidence-based practice between 2010 and 2011’**

In the UK, too, the Fair Chance Fund was intended not only to support its young, homeless beneficiaries in the short term, but to stimulate long-term learning on what interventions were most effective. Despite the local differences between all seven providers in the Fund, each project demonstrated some key commonalities that were central to success:

i) A key worker approach – intensive holistic support delivered through an identified key worker who provided a single point of contact to guide the young person from the start to the end of their homeless journey

ii) A housing-led approach – whereby acquiring stable and secure accommodation was seen as a foundation for progression towards education, training and employment outcomes

iii) A three-year duration – critical for working with a target group for whom longer-term support was essential

This SIB was welcomed in the sector not just for its results, but for expanding our understanding of service delivery in a way that would not otherwise have been funded.[67]

This is not an isolated example. The Mental Health and Employment Partnership (MHEP), set up in 2015, was made deliberately open so that more commissioners can use it again over time as new budgets for outcome payment become available.[68] This created the capacity to scale successful interventions and replicate them across other parts of the country, while providing a significant UK-based evidence set for other commissioners to consider the impact and effectiveness of their own policies and plan.

SIBs can deliver greater accountability and transparency

As payments are triggered by outcomes, SIBs and other forms of OBC have a level of accountability that is not found in other forms of public service delivery. The

65 KPMG, *Better outcomes for Public Services*. Link.

66 Harvard Kennedy School, *Conneticut Family Stability Pay for Success*. Link.

67 Department for Communities and Local Government, *Qualitative Evaluation of the London Homelessness Social Impact Bond: Final Report*. Link.

68 Social Finance, *Five Years, 25 Partnerships, £25 Million: How We Helped 1,000 People with Mental Health Problems Find a Job*. Link.

link between financial returns and user outcomes means that, in order to validate the outcomes for which investors/service providers will be paid, data is collected much more frequently than with traditional contracting approaches. The robust data collection and the regular performance reviews enable commissioners to build better knowledge about what makes a successful intervention and what elements worked best, which can of course be applied to other approaches.

‘Interviewees for evaluations of the NHS Trailblazer SIBs reported that more outcomes data was collected in the SIB-funded projects than in their previous work within the sector, which was contracted through traditional methods’

For example, during interviews for a 2019 DCMS-commissioned report on SIBs, commissioners reported they had developed useful skills in finance through working with SIBs, which in turn had increased their willingness to consider ‘innovative’ forms of commissioning in the future.[69] This had a hugely positive impact on improving the design of future SIBs, but also on influencing other approaches to public service delivery.

Similarly, interviewees for evaluations of the NHS Trailblazer SIBs reported that more outcomes data was collected in the SIB-funded projects than in their previous work within the sector, which was contracted through traditional methods.[70] The data collected included activities such as weekly phone calls to clients as well as regular recording of frontline staff interactions with clients.

SIBs can unlock future savings by investing more upfront

One of the greatest virtues of the OBC approach is that it can deliver upstream savings to government by investing in preventative outcomes. Analysis of the Government’s Life Chances Fund SIB shows that for every £1m committed by central government, £3.6m was generated in terms of positive outcomes.[71]

There are multiple specific examples, but one of the most arresting is the large number of adolescents who still grow up in residential care homes. The social outcomes for these children are in many cases worse than children who grow up in foster care, and it’s also a much more expensive solution.[72] Yet while local authorities recognise this, it has proven difficult to address, not least because social workers’ budget structures often make it hard for them to unlock upfront investment.

The Therapeutic Foster Care SIB was launched in Manchester, Birmingham and Cardiff in response to this challenge. These therapeutic programmes invested additional resources in moving challenged adolescents into stable foster placements, where they would enjoy drastically better life outcomes – which also saved the local authority substantial sums over time. A special effort was made to recruit suitable carers with the necessary skills, and these carers were paid above the usual rate to reflect the challenging nature of the work. The programmes also dedicated resources to working in partnership with social work teams, proactively assisting them to target potential beneficiaries.

69 Department for Digital, Culture, Media and Sport and Ecorys, *A Study into The Challenges and Benefits of Commissioning Social Impact Bonds in the UK, and the Potential for Replication and Scaling: Final Report.* Link.

70 Policy Innovation Research Unit, *Evaluation of the Social Impact Bond Trailblazers in Health and Social Care.* Link.

71 Department for Digital, Culture, Media and Sport and ICF Consulting, *Evaluation of the Life Chances Fund.* Link.

72 Bridges Ventures, *Better Outcomes, Better Value: The Evolution of Social Impact Bonds in the UK.* Link.

7. The challenges for outcomes-based approaches

Given all of the advantages outlined in the previous chapter – not to mention the successful precedents both in Britain and overseas – you would think that SIBs and other outcomes-based approaches would already be entrenched at the heart of government.

But the picture is, sadly, more mixed. SIBs can and do have an enormously important role to play. But the lesson of the past decade is that we need to get them right in order to improve their performance, attract new stakeholders, and advance their influence in the delivery of social services. In this chapter, we evaluate some of these past problems and explain how they can be addressed.

SIBs can suffer from transparency issues

One of the main lessons we have learned since the first SIBs were brought in is that there is a high learning curve for potential stakeholders when designing and developing them. This is made much steeper by the challenges with data transparency in the market. It is true that SIBs generate valuable data, and innovative new policy approaches. But service providers often have no incentive to share their learning beyond the stakeholders directly involved in the SIB contract.[73] This lack of available data on the impact of SIBs has major implications for the market's development.

> **'Goldman Sachs reported that the contracts for the Massachusetts Juvenile Justice SIB, one of the largest in the world, took 1,100 hours of consultant time to establish'**

Transparency issues act as a barrier to replication because they blocks project teams from learning what has worked and what hasn't in the past. This limits the ability to make improvements to the design of future interventions and makes it difficult to build a business case if there is limited information to inform decisions. It also has an impact it has on stakeholders' ability to develop the necessary skills, which is partly why SIBs have been criticised for sometimes failing to deliver on the promised levels of innovation, flexibility and performance improvement.[74]

Designing and developing an SIB project is a resource-heavy, time-consuming process. While it can lead to greater levels of innovation, the multi-stakeholder structure is also resource-intensive and can have a large impact on cost, especially when setting up the SIB. For example, Goldman Sachs reported that the contracts

73 Eleonora Harwich, Alexander Hitchcock and Elaine Fischer, *Faulty by Design: The State of Public-Service Commissioning*. Link.

74 Stephen Sinclair, Neil McHugh and Michael Roy, *Social Innovation, Financialisation and Commodification: A Critique of Social Impact Bonds*. Link.

for the Massachusetts Juvenile Justice SIB, one of the largest in the world, took 1,100 hours of consultant time to establish.

A large part of the problem is that, since learnings or templates are seldom shared, each new project must start from scratch rather than building on past models. This failure to share data with the market forces project teams to 'reinvent the wheel' each time they design a new project.[75] This has huge implications for the viability of SIBs as alternatives to other forms of contracting: local authorities in particular already face significant capacity challenges and often do not have the resources for such an undertaking.

> **'This failure to share data with the market forces project teams to 'reinvent the wheel' each time they design a new project'**

As a result of these challenges – the failure to share (or sometimes even retain) performance data, and the failure to build infrastructure to streamline their development – SIBs tend to require high levels of intermediary support across the entire lifecycle of a project. This creates additional costs which can often prohibit their use by commissioning organisations that are already operating under constrained budgets.[76]

SIBs can demand greater commissioning capacity

We have already touched on the limited understanding of SIBs among policymakers and Whitehall officials. But another crucial group with a restricted ability to deliver SIBs is commissioners themselves. Despite enthusiasm from different governments in the past, there has been a failure to develop the necessary expertise among potential stakeholders to encourage buy-in to the market – partly due, as mentioned above, to a lack of transparency within the sector, which deters the dissemination of expertise.

As a result, capacity-building such as training first-time commissioners and teaching them about the long-term benefits of SIB interventions is essential for implementing, replicating and scaling SIB projects.[77] However, commissioners have raised concerns over their lack of understanding of the technical components involved in an SIB, as well as the benefits of using the model. A survey found that 40% of commissioners lacked the understanding required to launch an SIB project.[78] SIBs will never become become a mainstream part of the commissioning process, and live up to initial expectations, if only a limited number of key players understand the model and have the skills needed to design and deliver SIB contracts.

Compounding this problem, commissioners have reported that they lack the time and resources to learn about – and develop the skills for – SIBs.[79] While grant funding has been allocated through the Life Chances Fund to employ outside specialists and other intermediaries (of up to £30,000 per SIB project) similar resources have not been

75 Eleonora Harwich, Alexander Hitchcock and Elaine Fischer, *Faulty by Design: The State of Public-Service Commissioning.* Link.

76 Tim Jefford, *Reflecting on the First Children's Social Impact Bond.* Link.

77 Department for Digital, Culture, Media and Sport and Ecorys, *A Study into The Challenges and Benefits of Commissioning Social Impact Bonds in the UK, and the Potential for Replication and Scaling: Final Report.* Link.

78 Ibid.

79 OECD, *State of Play.* Link.

available to commissioning organisations. This must be remedied in order to build the necessary internal knowledge base within the market.

The impact of this limited understanding among commissioners is all the more acute given the risk-averse culture of the public sector which often leads commissioners to 'fall back on repeating processes that have not caused problems in the past'.[80] For SIBs and other OBC approaches to become part of a commissioner's toolkit, the model needs to inspire enough confidence to encourage commissioners to go against this instinct and support more innovative models of service delivery instead.[81] In order to do so, more effective commissioner training and knowledge-sharing is required.

'The interim evaluation report for SIB projects supported via the Life Chances Fund illustrated the current inexperience of the market'

The interim evaluation report for SIB projects supported via the Life Chances Fund illustrated the current inexperience of the market. The majority of applicants interviewed had not previously been involved in an SIB, showing that they remain in a fledgling phase of development. More positively, it was noted that the majority 'would be interested in exploring SIB-based opportunities in the future'.[82] This willingness will be important in trying to overcome the 'high learning curve' that has been identified as a requirement when designing and developing SIBs.[83]

SIBs can be lengthy to develop and require extensive resources and skills to manage

The length of time it takes to develop an OBC contract compared to a 'fee for service' approach makes the task of maintaining engagement levels and managing key stakeholder relationships all the more challenging.[84]

The Life Chances Fund's interim evaluation report found that it took 21 months on average for contracts to be agreed and approved, with an additional six to eight months before service delivery commenced, for an overall average of 27 to 29 months.[85] Maintaining the engagement of key parties over such a long period can quickly lead to an uncoordinated effort and breakdown in communications – and given the involvement of multiple stakeholders, losing the engagement of just one can undermine the entire project. Failure to manage these relationships is often identified as the main reason why an SIB project fails to launch.

For those projects which do prove sustainable, managing the process is highly resource-intensive – and as discussed above, usually relies extensively on skills that the public sector is not yet necessarily equipped for.

80 Eleonora Harwich, Alexander Hitchcock and Elaine Fischer, *Faulty by Design: The State of Public-Service Commissioning*. Link.

81 Department for Digital, Culture, Media and Sport and Ecorys, *A Study into The Challenges and Benefits of Commissioning Social Impact Bonds in the UK, and the Potential for Replication and Scaling: Final Report*. Link.

82 Department for Digital, Culture, Media and Sport and ICF Consulting, *Evaluation of the Life Chances Fund*. Link.

83 James Ronicle, Tim Fox and Neil Stanworth, *Commissioning Better Outcomes Fund Evaluation: Update report for commissioners*. Link.

84 Policy Research Innovation Research Unit, *An Evaluation of Social Impact Bonds in Health and Social Care*. Link.

85 Chris Dayson, Alec Fraser and Toby Lowe, *A Comparative Analysis of Social Impact Bond and Conventional Financing Approaches to Health Service Commissioning in England: The Case of Social Prescribing*. Link.

The challenges posed by the resource-intensive nature of SIB development are felt more acutely by local authorities, who often lack the capacity to handle such large projects. This pressure is only growing because of the trend towards localism in SIB contracts, devolving decision-making to those closer to the ground. To compensate, there has been an increasing reliance on consultants to fill the skills gap – but this deprives the public sector of the ability to learn and develop. This can act as an additional barrier to internal capacity-building, as well as meaning that public sector organisations find it harder to benefit from the experience of past interventions and experiments in their future work.

The savings from SIBs can be hard to quantify

The high transaction costs associated with setting up and delivering an SIB can often deter commissioners, who tend to be motivated by short-term cashable savings rather than the long-term cost reductions which most SIBs target.

‘As discussed already, due to the highly complex structure of an SIB contract, the better-performing projects tend to rely on intermediary figures or specialist organisations to develop and manage projects’

The Fair Chance Fund compared the cost of interventions versus the estimated cost savings and social value in the final year of evaluation.[86] The report found that in five of the eight case studies analysed, the projects already showed a positive balance (i.e savings and social value exceeded costs). However, the reverse was true for the remaining three. This demonstrates the varied results SIBs achieve in terms of short- and medium-term balance sheets – partly because the impact of early intervention is often not felt immediately, and partly because SIBs require extensive administrative costs to deliver.

As discussed already, due to the highly complex structure of an SIB contract, the better-performing projects tend to rely on intermediary figures or specialist organisations to develop and manage projects.[87] The high cost of these services means that SIBs are often only worth pursuing if significant savings are easily identifiable – savings great enough to cancel out additional administrative expenses not found in traditional contracting methods. This limits SIBs to policy areas that can prove quantitative measures of success, which does not always go hand in hand with social interventions: many social problems do not lend themselves to quantitative analysis and do not present a potential for cost savings. Therefore, issues that are difficult to measure can be overlooked by SIB projects. And of course the reliance on specialists and intermediaries means the commissioning organisations do not always gain the capacity and understanding to improve their work in future.

86 Ministry for Housing, Communities & Local Government, *Evaluation of The Fair Chance Fund: Final Report.* Link.

87 Department for Digital, Culture, Media and Sport and Ecorys, *A Study into The Challenges and Benefits of Commissioning Social Impact Bonds in the UK, and the Potential for Replication and Scaling: Final Report.* Link.

There is a perception that investing in SIBs is high-risk and low-reward

The occasional headlines about SIBs letting the rapacious private sector pillage the social security system are all the stranger given that the returns expected from the majority of such projects are in the single digits. However, this limited return itself means that SIBs are seen as too limited to engage with by much of the investor community when stacked against the risk of their investment.

‘The limited potential for investor returns was evident in evaluations of the Peterborough SIB, which found that at least a 7.5% reduction in reoffending was required before investors received any payout at all’

The limited potential for investor returns was evident in evaluations of the Peterborough SIB, which found that at least a 7.5% reduction in reoffending was required before investors received any payout at all. In order to achieve a rate of return comparable with a regular bond market, a reduction of at least 10% was needed. This places the return well below market rate and makes the risk far greater than the reward for investors.

As a result, though professional investors and fund managers have become more dominant in recent years, the size of the market is still small compared with the wider SII sector. As a result, SIBs have historically attracted impact-first investors willing to use their position in the market to test the model and provide proof of concept.

To widen the range of funding sources, SIBs need to innovate in order to entice a larger pool of finance-first investors.

SIBs can be a hard investment to get buy-in for

Whilst some empirical information is publicly accessible, a fundamental challenge for the market has been the lack of transparency over the returns made by incumbent investors in SIB projects. This has had major implications for the willingness of other investors to build a business case, or to assess the risk-reward ratio associated with the investment opportunity.

Previous governments have attempted to encourage more transparency in public service contracting by signing up to the open contracting standard. However, this does not appear to be enforced during the negotiating stage of SIB contracts.[88] Consequently, the only way to get more visibility over returns is if investors choose to share the information themselves, which has seldom been done.

One sector expert notes that while there is an appetite for more openness over returns to investors, incumbent SIB investors are generally unwilling to provide this for commercial sensitivity reasons.[89] This has obvious implications for the market’s development and has led to a limited investor pool, which in turn has been identified as a problem for the market’s potential to scale.

88 Nigel Ball Interview, 9th March 2021.
89 Nigel Ball Interview, 9th March 2021.

8. Transitioning to an outcomes-focused approach

Given the challenges described in the previous chapter, which have held back the development of SIBs and other outcomes-based approaches, it is clear that key lessons need to be applied in order to scale the model into something that works better for government, and for the stakeholders involved.

One of the biggest challenges, however, has been successive governments' lack of commitment to the principle of an outcomes-based focus. In 2011, David Cameron launched Big Society Capital to transform the social investment market, and piloted the world's first ever SIB. But the potential for transformative change and a shift in focus towards outcomes by the government machine was never properly delivered on.

> **'Out of the roughly £230bn a year the government spent on 'human services' like healthcare, children's services and rehabilitation, only about £3bn per year involved any kind of payments for outcomes, and only about £20m of that was delivered through an SIB structure'**

As we recover from the pandemic, the moment is right to implement a new programme of modernisation that approaches public spending and service delivery through the prism of outcomes and results. To manage that process successfully, we recommend a number of innovations should be applied to answer the concerns raised above.

Review departments' spending and identify opportunities for outcomes-based approaches

Even by 2016, when outcomes-based approaches were at their most popular within government, their actual influence was still minimal. Out of the roughly £230 billion a year the government spent on 'human services' like healthcare, children's services and rehabilitation, only about £3 billion per year involved any kind of payments for outcomes, and only about £20 million of that was delivered through an SIB structure.[90]

In the wake of the Spending Review, therefore, each department should review all spending to find areas it can make better use of outcomes-based principles and SIBs. Departments should commit to publishing a report which sets out: 1) what it intends to do to achieve value for money and improve the effectiveness and efficiency of interventions; 2) what level of influence SIBs and other outcomes-based approaches have already had on spending and the delivery of services; 3) how this has worked in practice; 4) the reasons why SIBs and OBC have struggled to grow in influence; and 4) a plan for how the department will overcome these hurdles.

90 Bridges Ventures, *Better Outcomes, Better Value: The Evolution of Social Impact Bonds in the UK.* Link.

Change the name of SIBs to reflect their true nature and purpose

As discussed above, a key factor contributing to the confusion around SIBs is the misleading language and terminology. SIBs are not as complex as they sound. First, they are not bonds, but operate more like an equity instrument. The notion that SIBs are bond has created a narrow focus on KPIs and short-term profit that fails to account for the wider impact of such interventions.

The definition of success therefore needs to be broadened beyond the expected savings to focus on how SIB contracts can bring innovation to challenging policy areas, thereby improving public service delivery more widely, and how SIB contracts facilitate a mutually beneficial cross-sector partnership between key stakeholders.

‘The Centre for SIBs was first established in the Cabinet Office as part of the Social Investment Finance Team in 2012, launching the £20 million Social Outcomes Fund that year’

Elevating the narrative in this way would help the wider community to better understand the true nature of an SIB and its actual purpose: to generate better outcomes through a flexible and more accountable approach to service delivery that defers capital risk, enables innovation and rewards improvement.

We therefore argue that SIBs should formally change their name to Social Outcomes Partnerships. This name more accurately describes the nature and function of these contracts and will help rectify the confusion and alleviate the suspicion that often surrounds them.

Build knowledge and expertise across Whitehall

The Centre for SIBs was first established in the Cabinet Office as part of the Social Investment Finance Team in 2012, launching the £20 million Social Outcomes Fund that year. The unit has since moved to the civil society team in DCMS, but it still has responsibility for providing strategic direction for SIBs in government.

To transform the influence of this unit on government spending and the delivery of services, it should expand its focus to drive outcomes-based approaches, including SIBs, throughout every department. The scope of SIBs and other OBCs goes beyond the remit of DCMS due to the model's potential to: i) innovate service delivery across multiple departments; ii) establish cross-departmental partnerships; and iii) tighten controls on public spending.

For this reason, the Centre for SIBs should be rebranded as the Outcomes Delivery Unit, and moved to the Treasury. This would be a more effective and efficient way to maximise its influence, establish a greater understanding of SIBs and OBCs among Whitehall officials and government ministers, and coordinate inter-governmental department working relationships.

As well as moving the unit to the centre of government, it should be better resourced in order to function as a central information source for commissioners, ministers and other stakeholders. This would remedy a number of the problems which stem from a lack of transparency, as well as provide an additional support framework for novice participants.

As part of this capacity-building exercise, commissioning organisations should commit to building up their internal capacity to plan for and set up outcomes-based projects. This would, in turn, help more SIBs to develop.

> **‘As part of this capacity-building exercise, commissioning organisations should commit to building up their internal capacity to plan for and set up outcomes-based projects’**

Two particular initiatives could strengthen the existing infrastructure of the market and help design better contracts. First, the Treasury, working with the newly created Outcomes Delivery Unit, should seek to improve data collection by establishing a set of defined standards, as well as establish a new open platform for reporting on outcomes. Second, the Outcomes Delivery Unit should lead the expansion of work already done in the homelessness space and apply it to different policy areas to build up the necessary infrastructure that will make developing SIBs a simpler, faster and a more affordable process. This includes creating standard schedules or payment mechanisms, as well as making rate cards and other associated details publicly available in a central library of SIB information.

Build learning and expertise across the SIB market

Outcomes-based approaches like SIBs have helped to promote a culture of performance management, evaluation and continuous improvement in the public sector. The use of established techniques for data collection, monitoring and sharing has enabled projects to identify appropriate target cohorts, establish relevant outcomes and adapt service delivery to ensure continuous and effective support for service users. This focus on performance is both facilitated and encouraged by collaboration and joint decision-making between stakeholders.

However, despite the promise that this evidence-based, data-driven approach offers, many of the potential benefits are not realised in practice.

As outlined above, data which could enable market learning is rarely shared outside the individual project. Stakeholders have suggested several reasons for this, including hesitancy to expose project failures and the resource-intensive nature of gathering evidence, as well as commercial sensitivity meaning that teams are reluctant to give away the secrets of their success. This has slowed the market’s growth, preventing commissioners from building capacity by learning from what has worked and what has failed.

Establishing a culture of transparency and knowledge-sharing across the SIB and OBC markets would enable a greater understanding of results and incentivise participation from novice stakeholders. The GO Lab’s International Network for Data on Impact and Government Outcomes (INDIGO) includes a database aggregating data on SIB projects across the globe. We need a central resource hub, perhaps even INDIGO itself, that can be accessed by active and potential participants to build understanding across the market and minimise the cost and resources associated with setting up an SIB from scratch.

Offer greater transparency on investor returns

Lack of transparency over the returns for investors has helped to create suspicion over the value for money associated with the mechanism, preventing commissioning organisations from learning how to design better outcomes contracts and making it more difficult for potential investors to make a business case for investment.[91]

> **'While there is an appetite for more transparency, incumbent fund managers and service providers remain hesitant about sharing information widely'**

To encourage more openness around outcomes data and returns to investors, the sector would benefit from 'open book accounting' to provide more clarity on how outcomes are established and priced. Under this arrangement, contracts would be open by default, and any sections deemed commercially sensitive would be negotiated on an individual basis during contract negotiations.

While there is an appetite for more transparency, incumbent fund managers and service providers remain hesitant about sharing information widely. Therefore, the Government should set the tone and enforce mandatory transparency. Where central government funding is provided – through either development grants or top-up funding – it should come with the condition that the recipient shares their learnings more freely (taking into account commercial sensitivity). This requirement should apply to all parties to the project (commissioners, providers, investors and advisors/intermediaries), and both for policy-specific funds (such as the Fair Chance Fund or Rough Sleepers SIB Fund) and to any successor to the Commissioning Better Outcomes Fund or Life Chances Fund that might provide support to locally commissioned SIBs.

Build internal expertise in designing SIBs

SIBs are complex, and complicated to design and deploy. As a result, UK SIBs have heavily relied on external consultants to assist throughout this phase. However, this has led to an over-reliance on these external organisations and prevented commissioning organisations from building the necessary knowledge and expertise internally. Furthermore, it has increased costs for commissioners which in turn has discouraged widespread adoption of the SIB model.

To combat this and build internal capacity within commissioning organisations, development funding which is currently made available to individual projects in order to employ external consultants should be redirected to fund internal capacity-building as well. This was first recommended by interviewees of the Life Chances Fund interim evaluation report, who identified internal staffing capacity as a barrier to SIB development.[92]

91 Mildred Warner, *Private Finance for Public Goods: Social Impact Bonds*. Link.

92 Department for Digital, Culture, Media and Sport and ICF Consulting, *Evaluation of the Life Chances Fund*. Link.

Encourage new investors

SIBs have given private investors a genuine stake in the quality of public service delivery for the first time. However, the size and breadth of the UK's investor pool remains small. Currently, SIB investors are primarily made up of local authority pension funds, philanthropic organisations, international institutions and two major fund managers, Bridges Ventures and Big Issue Invest.

'The latest Bridges Fund Management Social Outcomes Fund (which invests exclusively in SIB contracts) was oversubscribed and had to be capped at £35 million due to pipeline constraints'

Though the investor pool is small in the UK, interest in the market remains steady with promising signs of growth. The latest Bridges Fund Management Social Outcomes Fund (which invests exclusively in SIB contracts) was oversubscribed and had to be capped at £35 million due to pipeline constraints. The recent fund launch by Big Society Capital and Schroders was also oversubscribed, with those involved reporting that they could have raised even more money if they had wished to.[93] This is a positive sign of the market's health and reflects a growing understanding that SIBs can offer a steady investment opportunity for socially minded investors.

However, despite this interest, Britain has not yet developed truly dynamic opportunities to attract a wider, finance-first investor community.[94] As we embark on the next phase of SIB or SOP development, the investment opportunity that they provide should be broadened to entice both novice profit-driven investors, as well as socially minded investors.

Following the lead set by the Benevolent Society SIB in Australia, which offered tiered capital structures to attract different types of investors, could open the doors for more pension funds and other institutional investors seeking to diversity their investment portfolios.[95]

Yet for many investors, drafting the contract is the single most important issue. In the past, commissioners have drawn on the template contract from the Centre for SIB to establish the framework. However, there have been several reports that this template does not take into account the specific range of operational obligations and requirements for the particular contracted service. As a result, negotiations are often lengthy, and contracts tend to go through several iterations before being finalised. We therefore need:

(i) Clear, open dialogue at the contracting stage

At this stage, it is essential for commissioners to ensure that investors have a comprehensive understanding of the requirements of the SIB. Securing internal buy-in can be challenging when there is a misunderstanding from colleagues about the SIB's true nature and purpose. Commissioners have raised concerns that it can be difficult to frame SIBs as a short-term, cost-saving mechanism to investors. Furthermore, they

93 Big Society Capital Interview, 14th April 2021.

94 Akinchan Jain, *Five Ways for Social Impact Bonds to Live Up to Their Potential.* Link.

95 Office of Social Impact Investment, Resilient Families: The Benevolent Society Social Benefit Bond. Link.

have reported that investors have been wary to participate and lend their expertise to the everyday operation of the SIB, citing limited capacity as the reason for their hands-off approach.[96] To ensure that investors are fully aware of their obligations from the start, commissioners should keep written documentation of progress and decisions made throughout the SIB process (at both the development and delivery stage) so that any new stakeholders can get acquainted with the process.

(ii) De-risking structures

A range of de-risking structures have been deployed in SIBs, particularly overseas, to allow investors to choose the most appropriate risk-return profile.[97] Capital-tier structures, for example, have helped build the investor pool and scale interventions by providing downside protection to novice or apprehensive investors. Similar mitigating structures could and should be applied more broadly in the UK to help attract new investors.

Democratise Investment in SIBs by making them accessible to new investors

The emergence of a values-driven society has enabled the social investment market to grow to more than £2 billion. Charities and businesses have responded to this by drawing on technologies to open up new channels of investment through crowdfunding. Platforms such as JustGiving and CrowdCube have generated large sums of investment from novice investors who would not otherwise have this opportunity.

‘The emergence of a values-driven society has enabled the social investment market to grow to more than £2 billion’

However, SIBs have not moved in a similar direction and the market remains closed off to everyday investors. Crowdfunding was considered for the West London Zone Collective Impact Bond but never pursued.

Moving forward, opportunities to invest in SIBs should be made available to the ‘crowd’ – in terms of both individuals and businesses.

To open up the market, the Government should consider establishing a public-participation Social Innovation Fund that is accessible to everyone. The Fund would be managed as any other and, similar to Big Society Capital, could run on the principle of match-funding so that it only acts as a support investor. To help generate public interest, tax incentives similar to the Payroll Giving Scheme could be used to entice early take up. Under this approach, while National Insurance contributions would still be paid to the Treasury, investors would not pay any income tax on the amount they invested in the Social Innovation Fund.

96 Department for Digital, Culture, Media and Sport and Ecorys, *A Study into The Challenges and Benefits of Commissioning Social Impact Bonds in the UK, and the Potential for Replication and Scaling: Final Report.* Link.

97 Bridges Ventures and Bank of America Merrill Lynch, *Choosing Social Impact Bonds: A Practitioner's Guide.* Link.

9. Conclusion

This Government has a unique opportunity to reimagine the place of outcomes-based approaches in the control of public spending and delivery of key services. The incredible damage that Covid-19 has done to Britain's economy and society means that the Treasury must look for new ways to deliver more for less.

'The desire for change has been there for decades, but the necessary commitment to finally make the shift away from inputs has been lacking'

Outcomes-based approaches, including SIBs, offer the potential to radically reform the effectiveness of government in this country. The desire for change has been there for decades, but the necessary commitment to finally make the shift away from inputs has been lacking.

The lack of progress made growing the influence of outcomes-based commissioning on public service delivery as well as public spending control is indicative of a system that has not evolved. Performance-led, data-driven approaches have to be the way forward for a government whose country is under such strain.

By shifting focus on to results, with the same level of commitment that Thatcher gave to her programme of outsourcing, this Government can succeed where others have failed and lead the machine of government into age of excellence that is driven by results, innovation and performance improvement.

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