EARLY INTERVENTION FOUNDATION

ADVICE

INTRODUCTION TO SOCIAL IMPACT BONDS AND EARLY INTERVENTION

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Introduction

Background and Context to this Report

The Early Intervention Foundation (EIF) has been established to tackle the root causes of problems for children and young people, rather than waiting to address symptoms once problems are embedded.

We provide advice to Local Authorities, Police and Crime Commissioners, Clinical Commissioning Groups, the voluntary sector and Government on key drivers of poor outcomes for children and young people and what has been shown to work to tackle these. We also explore the challenges that lie behind making those solutions happen on the ground, including issues such as integrated delivery of services, and effective strategic planning.

This report is part of a programme of work that will look at innovative ways of financing Early Intervention. We are interested in exploring new ways of funding Early Intervention as a potentially vital part of the solution to some of the challenges of shifting investment from late to earlier intervention.

The second Allen Report, *Early Intervention: Smart Investment, Massive Savings*, explored in detail a range of opportunities for new ways of investing in Early Intervention, including the establishment of an Early Intervention Fund; Early Intervention growth incentives, boosting the Early Intervention market; and Early Intervention outcomes contracts. It also argues the case for significant culture change underpinning any technical and economic changes.

This report is intended as an outline introduction to some of the existing social investment approaches being used that could have relevance to Early Intervention.

It responds to some of the questions raised by some of EIF's 20 pioneering Early Intervention Places[1], where local agencies raised a need to understand better what is already happening on Social Impact Bonds (SIBs), what considerations need to be taken into account locally when considering drawing in social investment to help support Early Intervention, and what help is available to better understand these.

This report therefore aims to set out in one place the information which may be useful to those wanting to understand the background to SIBs, and some of the challenges and opportunities this form of Innovative Finance offers for Early Intervention. It is intended that ultimately this information will be available as more dynamic content on a series of webpages on our website, www.eif.org.uk.

[1] EIF is working closely with 20 Pioneering Early Intervention Places across the country, including 18 Local authority and 2 Police and Crime Commissioner-led partnerships, to help make Early Intervention a reality throughout all levels of local activity, from governance structures and commissioning, through to programmes and practice on the ground. More information is available at: http://www.earlyinterventionfoundation.org.uk/places

We have started with SIBs as one of the best known forms of innovative financing, which a number of the local authorities and other agencies we are working with have expressed an interest in exploring. We recognise that this is by no means the only model of Innovative Finance of interest, and that many other methods might offer potential to fund Early Intervention in the future. Our programme of work on Innovative Finance will consider these at a future stage, but these are not the focus on this initial report.

There are also a large number of existing resources elsewhere that offer detailed advice, guidance and explanation of different elements of social investment. This report aims not to duplicate this but to summarise in a single, readily accessible source, key information about existing social impact bonds and sources of support on the development of these. It then supplements this with a consideration of the implications, opportunities and challenges for the development of SIBs in the Early Intervention market. Many of the local authorities and other agencies we are working with in our 20 pioneering Early Intervention places have indicated this would be very useful to them in considering their future funding options for Early Intervention.

The report concludes by considering how the work programme that EIF is currently developing on Innovative Finance can add value to the existing knowledge and work occurring around social investment and Early Intervention, and how it will seek to deliver this.

We are extremely grateful for the challenge, advice and comments that have been provided by experts and leading agencies working in the social investment field, and representatives from some of our 20 Pioneering Early Intervention Places, during the drafting of this report.

As our work and knowledge progresses further, and as the social investment market develops, we will build on and update this report. We welcome all further feedback and comments on this report, and input into the future development of this work.

If you would like to comment or contribute please contact ann.griffiths@eif.org.uk.

Social Impact Bonds: Overview

Social Impact Bonds (SIB) have attracted considerable interest, analysis and commentary for a number of years as a potential contributor to the funding of increasingly cash-strapped public services. The 'References and Background Reading' section at the end of this report sets out some of the key reports and sources of information that may be of interest to those wishing to understand in more detail the development of thinking and practice around social investment in recent years.

In the Early Intervention field, many are looking to social investment as a potential innovative way of diversifying funding to allow for an expansion of Early Intervention services without reducing funding to other areas – addressing one of the most challenging aspects of shifting spend to Early Intervention.[2]

One of the best known forms of social investment of interest to public sector agencies and their partners is SIBs. SIBs are a specific type of outcomes-based, or Payment by Results ("PbR") contracting.

As with PbR contracts, SIBs involve a commissioner buying a service from a service provider (usually a Voluntary and Community Sector provider, VCS). Instead of paying for the service upfront, payments are conditional on the achievement of a set of pre-specified, clearly measured, targets for the outcomes the service achieves.

SIBs however are different from a direct PbR contract because they involve bringing in outside (social) investors to finance the provision of the service, rather than having that burden and financial risk placed on the service provider or commissioner.

At the time of writing, we are aware of 22 SIBs worldwide. Of these 15 are in the UK, 2 in Australia, 4 in the US and one in the Netherlands.

The SIBs have been used to fund services that tackle issues such as special educational needs, young people not in education, employment or training (NEETs), adoption, children in care and at the edge of care, homelessness and re-offending. This demonstrates the flexibility of SIBs and their potential as a tool for financing new and promising approaches to the challenges faced by public services.

It is also important to note however that at this stage, established SIBs have aimed to address issues at a relatively late stage of intervention. Nevertheless, the market is now developing quickly and there are considerable opportunities to explore SIB financing of earlier intervention in this rapidly growing field.

The section 'Overview of Existing Social Impact Bonds' gives an overview of the different programmes SIBs have been used to finance and the challenges they have been used to tackle.

[2] See for example G. Allen, 'Early Intervention: Smart Investment, Massive Savings', HM Government, July 2011 – available on https://www.gov.uk/government/publications/early-intervention-smart-investment-massive-savings.

Before this however we set out an overview of the way that SIBs work and are set up, and the sorts of things that commissioners and decision-makers in public services need to bear in mind when considering the potential of SIBs as a way to fund the testing, development or scaling of local Early Intervention.

Social Impact Bonds: Structures and Mechanics

A SIB is a contract in which socially-focussed investors finance the provision of a specific service, programme or series of programmes (normally delivered by VCS or social enterprise organisations), in return for a pay-out, which is dependent on specific outcomes being achieved as a result of the intervention.

In a SIB structure there are a number of key players, including investor(s), commissioners, service providers, and the target population (to receive services).

The money raised from investors will be used to contract with service providers for the provision of the required services. In turn, the service providers will deliver the contracted programmes to the target population. Depending on the achieved outcomes, the commissioner will make the required results-dependent payments, distributed as agreed payouts to the investors. In some structures, the service provider(s) may also receive a bonus for good performance, and/or take on some risk in the event of poor performance.

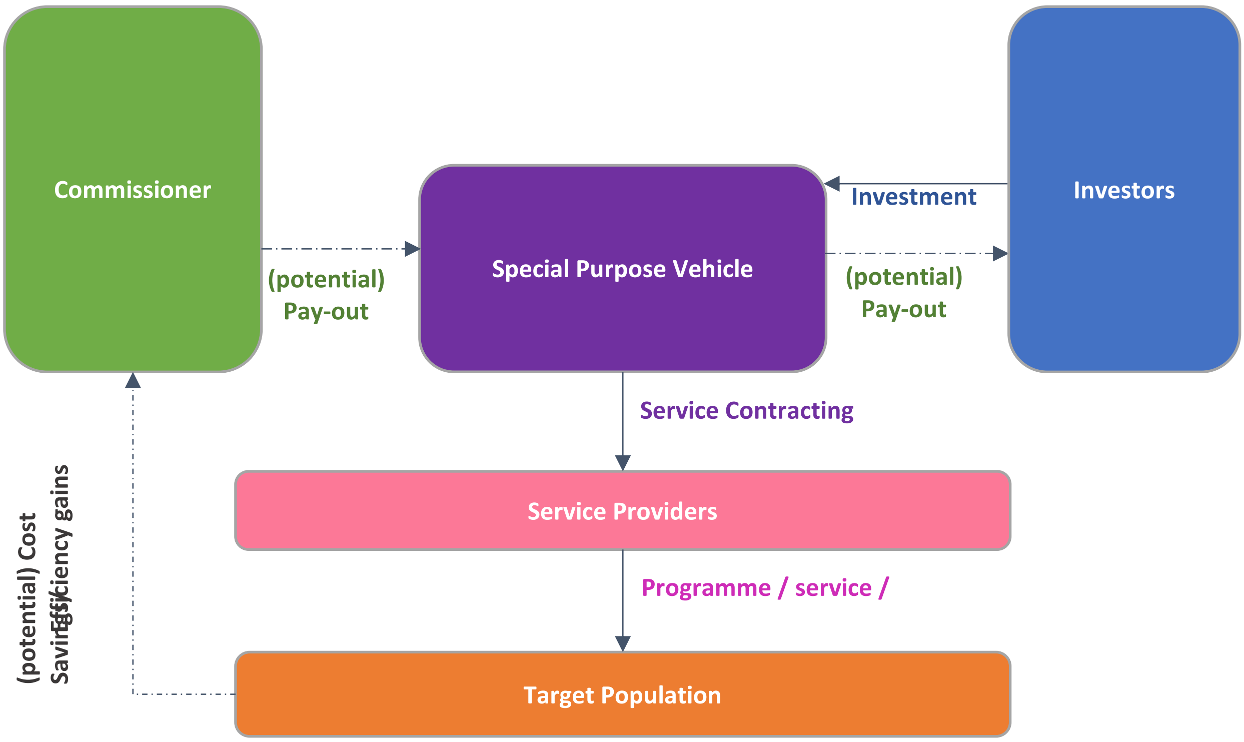
These arrangements and flows of payment may happen directly between investors, commissioners and service providers. However, SIB structures may also include an intermediary, and/or a Special Purpose Vehicle (SPV)[3].

For example, commissioners looking to finance a programme through a SIB may engage an intermediary, an organisation that can provide support to attract funds from investors, design payment structures, and manage the rigorous impact measurement and performance management processes. Intermediaries may also set up an SPV through which investment can be channelled and contracts arranged, providing clarity over the different roles and relationship between parties involved, though at additional cost.

An example of the interaction between parties in a SIB, where an intermediary and SPV is part of the structure, is outlined overleaf.

[3] A Special Purpose Vehicle, or SPV, is a legal entity set up specifically for a particular financial transaction or objective. Further detail on the definition of SPVs can be found in the useful glossary covering this and other frequently used terms, produced by the Cabinet Office Centre for SIBs: http://data.gov.uk/sib_knowledge_box/glossary

Figure 1 – One sort of Social Impact Bond Structure



It is important to note that not all SIBs will follow this structure. Different models, whether contracted directly between investors, commissioners and service providers, or including intermediary bodies, will work better in different situations. As the market evolves, new structures of SIBs may also develop.

The options for different structures need to be explored when developing an initial outline of what a potential social investment approach to tackling a local issue may be. However, there will be a number of considerations that need to be taken into account regardless of the structural model chosen.

Because of the nature of the SIB contract, several things need to be very clearly established in the agreement between the different parties. These things affect what it is viable to consider funding through SIB mechanisms.

The most important of these are:

1. **Target Population:** The SIB contract needs to very precisely specify who the recipients of the contracted services are. A defined and measurable cohort is essential both for the purpose of measuring the impact the service has and as a method of ensuring that the service is provided to the people who need it rather than the people who are most likely to ensure that a payment is triggered.

2. **Target Outcomes:** the success criteria must be precise, objective, clear, and easily measured. Ideally, they will be externally validated. The likelihood of achieving these outcomes, and the importance and value of the impact of these, are fundamental elements of the development and success of a social investment mechanism.

3. **Pay-out Mechanism:** The mapping from the achievement of outcomes to pay-outs for investors' needs to be agreed and documented unequivocally in the SIB contract.

SIB contracts are particularly useful in the flexibility they afford in some contractual aspects. For example, the interaction between intermediary, service providers and target population.

If the SIB has been commissioned to deliver outcomes through tackling a specific problem, rather than to expand a particular specified programme, then – subject to the wording of the contract – the intermediary may be free to alter the composition of services provided, and of the service providers, to ensure the best possible outcomes are achieved.

This flexibility is valuable when dealing with complex issues, or issues where the root to the solution is not clear, where it may not be evident at the time of commissioning exactly which approach will serve the target population and deliver outcomes the best. This is relevant to Early Intervention services, where the needs of populations are varied and wide-ranging, where evidence in some areas is still developing and needs further testing, and where whole-family, and community issues require flexibility in adapting to complex and varying need over time to fully respond in tailored ways that deliver outcomes.

Advantages and Disadvantages of Social Impact Bonds

SIBs offer potential opportunities to fund innovation, testing and scaling of effective approaches to Early Intervention. Social investment could offer the potential to help start to shift investment to earlier support, by introducing new resource to fund interventions that help drive savings in late intervention service spend later on.

There are many attractive aspects of SIBs – not least the fact that only the investors bear the outcomes risk; the local authority, or other lead commissioner, does not have to pay for the services provided if the desired outcomes are not achieved.

However, the decision to go down the route of investigating a SIB also needs to weigh up potential disadvantages and challenges to understand whether this route is really feasible.

There are still significant costs and wider resource requirements associated with the set-up of a SIB, which would need to be part of a cost-benefits assessment of the viability of this route. However, it is important to note that there are an increasing number of sources of financial support to help with this, and it may well be the case that the level of financial assistance available at present could be sufficient to offset the setup, financing and performance management costs of at least some SIBs, providing the programme delivers significant social outcomes.

Most current Social Impact Bond models work on the basis of outcomes achieving both social good and cost savings; investors are generally paid back out of those savings. The scale of savings required to attract investors (potentially around £2m pa by some estimates – and indicated clearly in the examples set out in this report), along with the transaction costs that may make smaller SIBs unviable from a commissioner perspective. Therefore joint working (either across areas or agencies) may be a necessity for some local authorities and partner agencies in areas with small populations and budgets. There also generally needs to be the potential for significant savings (or at least significant outcomes) and subsequent financial reward within a timeframe investors will agree to – often around 3-5 years.

It is also vital to note that beyond the technical and economic considerations, the buy-in and commitment of local decision-makers to a relatively lengthy development and implementation process is vital.

If the implementation of a SIB is to drive a longer term shift in investment to Early Intervention, there must also be a widespread local commitment to the use of a SIB as part of wider systems change, supported by a change in culture and a longer term plan for change and development in the way that local services for children and families are planned commissioned, and delivered.

The potential advantages and disadvantages to SIBs, which need to be weighed up in considering the potential for use of this approach in a local area, are set out in more detail in the table overleaf.

Advantages	Disadvantages / Challenges
Transfer of risk: When commissioning a programme or service, a commissioner runs the risk of spending public money on an intervention which does not deliver the expected outcomes. A SIB lets the commissioner transfer this risk to investors. This ensures better efficiency of spend and allows the commissioner to experiment with more innovative and less established programmes, as a different level of delivery risk may be tolerable for the local authority if financial risk is limited.	**Statutory duties:** The local authority (and other public sector commissioners) are ultimately responsible for the provision of certain statutory services to local residents and service users. A programme commissioned through a SIB which was meant to deliver some of these services, but fails to do so, will leave the local authority with an obligation to find another way to provide these services. In this situation, there would be risk of additional cost, resource required for commissioning, and possible legal implications. In practice it is likely that ongoing monitoring arrangements, and risk management would minimise the likelihood of this situation occurring, but the possibility still needs to be taken into account, and work done to ensure that arrangements are in place to

	ensure statutory duties are met in all circumstances.
<u>Paying for success, not failure:</u> **Given that pay-outs are dependent on the results achieved, SIBs ensure that public money is only spent on successful programmes. For unsuccessful programmes, SIB financing makes sure that public money is not wasted on ineffective services.** **In practice it is also likely that investors, because of their interest in the success of the services/interventions being delivered, will put in great effort to ensure that the anticipated outcomes and benefits are realised, adding resource into solving problems and being flexible in developing new responses to challenges.**	<u>Cost:</u> Under the SIB contract the investors take on the risk of the programme and provide financing. Investors will require to be compensated for both of these aspects. Whilst social investors aim to provide capital at lower than commercial rates, they will still normally expect to be able to earn a positive risk-adjusted return. This makes SIB financing more expensive for the commissioner than if she simply financed the programme herself. However - it is worth noting that due to the shift of risk away from the commissioner to the investors, this is <u>only the case if the programme is successful</u>. Additionally, if the programme delivers wider social outcomes, there may be funding available from central government (Social Outcomes Fund and Commissioning for Better outcomes Fund) to reward these, which may outweigh other costs.
<u>Secure funding:</u> **By raising money from investors through a SIB, the commissioner is certain that (if the programme is successful) the money required to fund the programme will be available for the duration of the SIB. Investors cannot request their money back until a timeframe specified by the contract.**	<u>Development process:</u> The development process of a SIB can be long and resource intensive*. This is partially a reflection of the SIB market still being nascent and developing and can be expected to be reduced as the accumulated know-how expands**. It is also the case that some sorts of SIBs, such as those where an investor and a charity together develop an approach that a local authority can buy into for immediate delivery (or ‘spot purchase’), are available to buy with no SIB development effort required from the commissioner.

Duration of funding/contracting: The SIB contract gives commissioners the opportunity to enter into long-term contracts with service providers. This allows the commissioning of services which may stretch over prolonged periods of time. **Providers in SIBs are often VCS organisations or social enterprises. The opportunity to diversify providers of local services may also be appealing to local commissioners.**	**Scale and duration:** In order to be attractive to investors, a SIB may need to raise several million pounds over its duration in terms of the cost of interventions, with the potential to provide savings significantly above these levels. The scale required means that SIBs are only feasible in some circumstances where sufficient returns are likely to be generated. Savings in 3-5 years is a reasonable expectation; balance of timing of returns and quality is key.
Measurement/efficiency: The requirement for rigorous measurement of impact of the programme forces the commissioner to undertake in-depth analysis of the effectiveness of the programme. This in turn promotes a culture of commissioning programmes proven to work. The end result is a more efficient provision of services. **The ongoing input and monitoring by the external investors who are interested in the success of the services also acts to ensure more rigorous performance management than in many standard commissioning arrangements.** **Social investors will expect to rigorously measure the social impact created by the programme, as well as its financial performance.**	**Rigour of data collection and monitoring:** while this is a positive change, it can take time and effort to deliver the changes in culture and practice required. Capacity building support may be required. Impact measurement is absolutely central – those who are investing will require close monitoring of the outcomes achieved, and the freedom to be able to adapt and adjust inputs, approaches and interventions accordingly. **Good outcome metrics need to be highly objective**, and preferably externally validated. It helps if they are already being collected (enables ease of access to data and ability to identify other statistically similar historical groups). Generally it will be helpful to have a small number of outcomes on which payment is based, demonstrating the social impact desired.

	Another challenge, particularly for Early Intervention, is the need to **specify outcomes metrics on which payments can be made in the short-medium term**, rather than only measures of long term impact.
<u>Additional funding for Early Intervention:</u> By attracting non-public funding, SIBs enable the public sector to raise additional funds for the provision of Early Intervention programmes. **This is achieved, in effect, by using investment to fund the programme, and then accessing the future cost savings generated to repay the investment if the programme is successful.**	**<u>Wider culture and systems change to shift late to Early Intervention</u>**: There still remains a need to make the ongoing case for shifting investment from late to Early Intervention. Social investment can only ever be at most a partial solution to funding Early Intervention. The need for wider culture change and support from the wider system of local (and national) planning, commissioning and delivery to support a shift from late to Early Intervention – and investment to support this – remains vital.
*** The Essex County Council SIB development process took 23 months. For the Greater London Authority SIB the development time was 19 months. However, on the CVAA Adoption SIB, the time lag between the programme being made available to commissioners and the first signed contract was only 2 months.** **Case studies of these SIBs are available in this report.**	
****The Office for Civil Society's Investment and Contract Readiness Fund (http://www.beinvestmentready.org.uk/) provides grants to enable VCS organisations to access support to win contracts and raise investment. SIB development funding is available through the joint Cabinet**	

Office and Big Lottery outcomes funds (Social Outcomes Fund and commissioning Better Outcomes - http://www.biglotteryfund.org.uk/sioutcomesfunds)

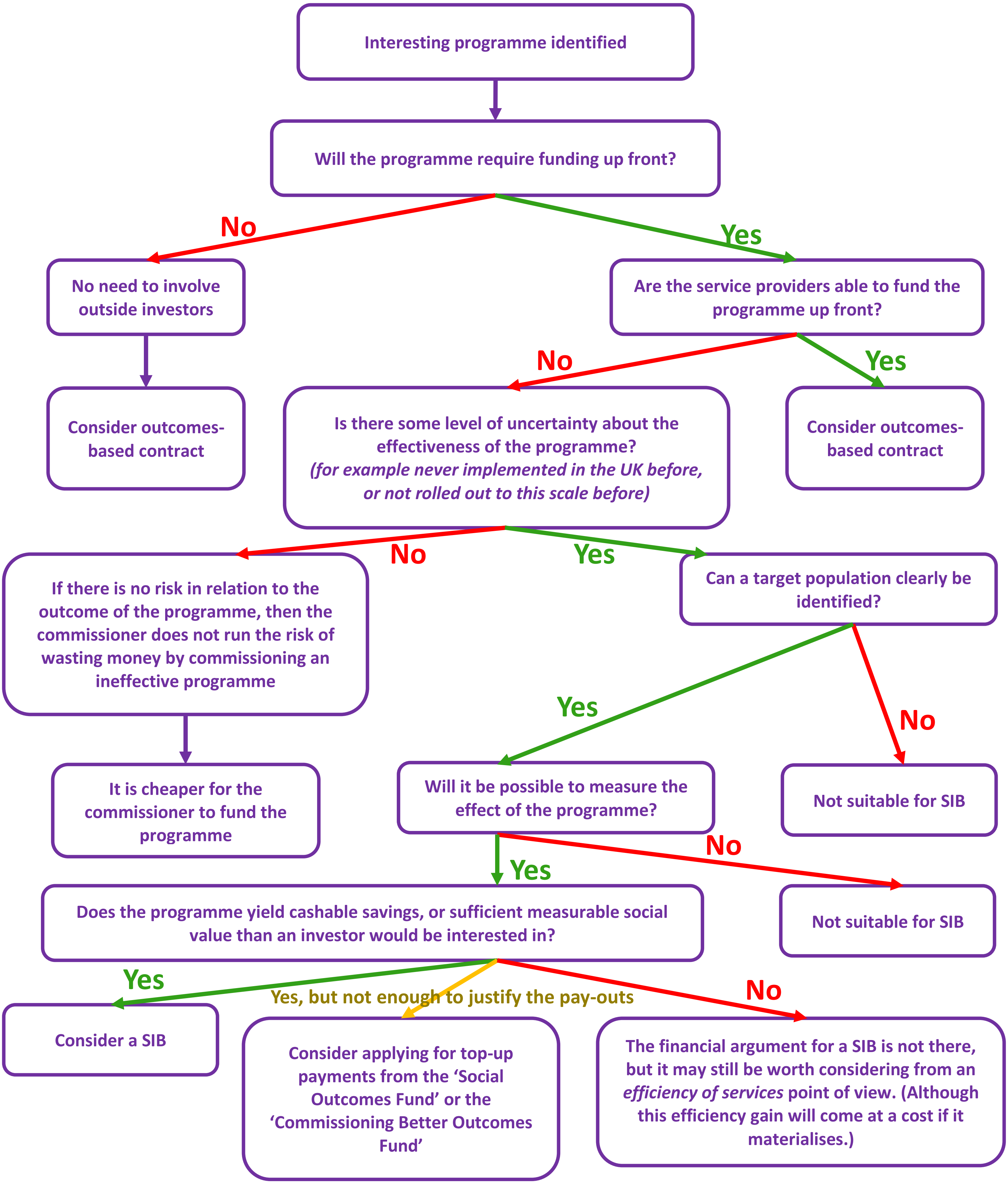
Deciding on a Social Impact Bond

Figure 2 overleaf shows a flow chart of the sorts of considerations local commissioners may need to work through to decide whether a programme or issue merits further investigation for the applicability of social investment to fund its delivery.

This is just one way a local commissioner might start thinking about a SIB. There are also other paths – such as beginning from an expensive problem that does not currently have a solution, and exploring possible cohorts, measures and programmes/services that could address it.

There may also be situations appropriate for considering a SIB beyond those shown in this diagram – such as where it is considered possible that an intervention may deliver improved outcomes through a SIB approach, for example through enhanced performance management and implementation rigour; or potentially even where a commissioner lacks sufficient budget to fund desired early intervention services and wishes to finance it out of future savings generated.

Figure 2 – Social Impact Bond Decision Tree



The Case for Social Impact Bonds in Early Intervention

"In its lifetime, Early Intervention investment will not only repay all of its investors, public and private, but make enduring reductions in public expenditure."[4]

In an environment of shrinking budgets, finding financial headroom to expand Early Intervention efforts can be challenging even when the future benefits and cost savings far outweigh the initial cost.

SIBs allow commissioners to monetise future potential cost savings up front by promising to share some of the expected cost savings with investors. As a result, the larger the future cost savings, the better suited a programme may be for SIB financing. However it is important to note that there are opportunities to use SIBs for services that improve outcomes without such clear cashable savings, if the improvement in outcomes and increased efficiency and effectiveness of services is sufficient to attract investment.

Early Intervention has the potential to change the trajectory of a person's life at a very early stage, enabling the unlocking of significant cost savings and/or revenue increases for society in the long run, improving life outcomes and making significant positive social impact.

There would therefore seem to be significant potential to use SIBs to fund Early Intervention programmes, both to implement new programmes and to expand the reach and scale of already proven programmes.

However, there are some challenges. The benefits of Early Intervention accrue across a range of government bodies at a local and national level. The benefits can take a very long time to manifest fully. Outcomes can be complicated to track over a long period of time as part of complex lives, and attribution of an outcome to a particular intervention requires careful and rigorous evaluation.

EIF believe that it is possible for these challenges to be overcome – these are areas that our workstream on Innovative Finance will explore, linking closely to other work EIF is undertaking on measuring outcomes and evaluation. However these sorts of challenges mean that local authorities and partner agencies considering using SIBs for Early Intervention need to carefully consider the kinds of issues and programmes that there may be to finance using SIBs, and the way that the SIBs are structured.

It is possible that the issue of benefits accruing to a range of agencies can be overcome by commissioners from different fields jointly supporting the set-up of a SIB-funded Early Intervention programme. In this way, while no single commissioner makes enough savings or social impact to merit the SIB, their combined savings and outcomes may.

[4] Page xiv, Second Allen Report, '*Early Intervention: Smart Investment, Massive Savings*'.

Alternatively, the Cabinet Office has set up the Social Outcomes Fund and Big Lottery Fund the Commissioning Better Outcomes Fund, which 'top up' the payments made by the commissioner to reflect that the societal value of a programme may be larger than the value to the commissioner alone.

The challenge of benefits not accruing until far into the future is more difficult to address and will influence both the pay-out structure of the SIB as well as the programmes chosen for SIB funding.

Firstly, it may be worth commissioners considering programmes where at least some of the benefits materialise in the shorter term – like the preschool SIB issued by Utah (see the next section of this report for details about this SIB) where the benefits accrue on a yearly basis from when the child enters school.

Commissioners could also consider opportunities for linking the pay-out to outcomes which are very strong predictors – proxy indicators – of future cost savings or improved outcomes, rather than the ultimate outcomes. This is the case for example in the case of the SIBs commissioned by the DWP Innovation Fund,[5] where outcomes such as improved attendance and attitude to schools, and obtaining qualifications, count as outcomes for young people at risk of being not in employment, education or training (NEET).

The EIF workstream on Innovative Finance will explore these questions and challenges in more detail, and explore a range of possible solutions to how Early Intervention can best be supported by social investment and SIBs.

[5] You can read more about the fund on https://www.gov.uk/search?q=innovation+fund&tab=government-results

Overview of Existing Social Impact Bonds

In considering the possible use of SIBs for Early Intervention, it is worth understanding the overview of existing SIBs in place worldwide.

The lessons from these for Early Intervention will be explored in EIF's ongoing workstream on Innovative Finance, but this section is intended for the use of local authorities and other public and voluntary sector agencies in the meantime, to support the understanding of the existing use of SIBs, and thinking through the possible implications and opportunities for local areas.

In putting these case studies together we have drawn from a number of sources. This means that in some regards, not all of the information here is comparable across different case studies. For example, rates of return are calculated differently in different examples. In considering the possibility of a specific SIB around early intervention, more detailed consideration would need to be given to these aspects and the precise arrangements used in examples to date, and potential sorts of returns required for a local areas' circumstances and intended interventions/approaches. It should be noted that in the UK, investment into SIBs so far has been from social investors, who can access subsidised capital (e.g. from charitable foundations) and aim to provide investment at lower than commercial rates.

Peterborough Social Impact Bond

The Peterborough SIB was the inaugural SIB. It was launched by Social Finance Ltd, and issued by the Ministry of Justice in a bid to finance intensive support to short term male prisoners released from Peterborough Prison and their families. The goal of the programme was to reduce re-offending. While still too early to determine whether the SIB has been a success – the first potential payments are not due until later in 2014 – it did pave the way for SIBs as a financing tool for public sector commissioners.

- Purpose: Reduce re-conviction events amongst short term male prisoners at Peterborough Prison

- Success Criteria: 10% reduction in re-conviction rates compared to similar prisoners across the UK (7.5% when looking at total target population)

- Potential Pay-out: Capped at 13%. Interim pay-out possible after four years, otherwise at maturity

Date (when was it launched?)	November 2010
Maturity (how long will it run for?)	8 years
Size (how much investment was put in?)	£5m
Payment (on what basis will payments be made?)	Depending on success in achieving a reduction in re-conviction rates
Target Population (who is the cohort the intervention is aimed at?)	3,000 short term male prisoners at Peterborough Prison
Benchmark (what is success measured against?)	Similar group across UK
Investors (who has put money in?)	Several charitable trusts and foundations
Payers (where does the money to pay the returns come from?)	Ministry of Justice Big Lottery Fund
Recipients (financing vehicle)	One Service (an organisation created specifically for this SIB, to manage interventions)
Operators (who provides the services?)	Social Finance, Key providers include St Giles Trust and Ormiston Family and Children's Services.

Case study: www.data.gov.uk/sib_knowledge_box/ministry-justice-offenders-released-peterborough-prison; www.socialfinance.org.uk/sites/default/files/SF_Peterborough_SIB.pdf

Department for Work and Pensions – Innovation Fund SIBs

The Department for Work and Pensions ("DWP") established the Innovation Fund to support social investment projects. The fund has been focussed on programmes targeting disadvantaged young people, especially working towards reducing the number of NEETs ('not in employment, education or training').

The fund allocated funding in two rounds through open competition. Payments are triggered by the achievement of specific targets such as employment, qualification obtainment and improvements in behaviour – see boxes below.

The pay-outs are less clearly linked to direct cost savings than often seen in other SIBs. The SIBs issued under the Innovation Fund programme show that it is possible to structure SIBs where the pay-out criteria are not immediately cashable savings, but rather easily measurable outcomes which are strongly linked to future cost savings or social benefits.

Investments in the DWP Innovation Fund commissioned SIBs were dominated by UK SIB investors such as Barrow Cadbury Trust, Big Society Capital, Bridges Ventures, CAF Venturesome, Esmée Fairbairn Foundation and Impetus – Private Equity Foundation.

Round 1

In round one the bidding programmes were required to focus on school years 10 - 13 and young people aged 18 and over. The same pay-out criteria applied to all winning bids and are linked to members of each programme's target population achieving certain qualification milestones.

Round 1 Winning Programmes

Who	What	Where
APM UK Ltd	Support programme for young people	Birmingham
Stratford Development Partnership	Links4Life programme providing mentoring to young people	East London
Indigo Projects Solutions	Living Balance programme giving intensive personal and social development opportunities to young people	Scotland
Nottingham City Council	[Undisclosed]	Nottingham
Private Equity Foundation	ThinkForward programme providing in-school coaches to struggling students	Shoreditch

Triodos Bank	New Horizons programme using a blend of interventions for unemployed youths	Greater Merseyside

Round 1 Pay-outs

Target Group	Outcome	Max. Pay-out
School Years 10 and 11	Improved behaviour at school	800
	Stop persistent truancy	1,300
	First NQF level 1 qualification	700
	First NQF level 2 qualification	2,200
School Years 12 and 13	First employment incl. training	2,600
	Sustained employment (26 weeks)	1,000
	First NQF level 1 qualification	700
	First NQF level 2 qualification	2,200
	First NQF level 3 qualification	3,300
	Completion of ESOL course	1,200
Age +18	First NQF level 3 qualification	3,300
	Starting NQF level 4 qualification	2,200
	First employment incl. training	2,600
	Sustained employment (26 weeks)	1,000
	Completion of ESOL course	1,200

Round 2

Similarly to round 1, all the winning bids in round 2 were subject to the same pay-out criteria (although the criteria differed from round 1). In this round both qualification obtainment as well as changes in attitude can trigger a payment. In round 2 the focus was on children aged 14 and 15, and young people aged 16 and older.

Round 2 Winning Programmes

Who	What	Where
Prevista	Programme supporting 14-15 year-old ex-offenders, substance abusers and gang members	West London
3SC	Programme targeting 14-16 year-olds who struggle with cognitive behaviour issues and low achievement. The programme provides support through project workers and specialist teachers	Cardiff and Newport
T&T Innovation ltd	Teens and Toddlers programme which sees 14-15 year-olds act as role models for vulnerable toddlers	Greater Merseyside
Energise Innovation	Adviza programme providing training, support, mentoring, guidance, and work groups for 14-15 year-olds with troubled or problematic backgrounds	Thames Valley

Round 2 Pay-outs

Target Group	Outcome	Max. Pay-out
Age 14-15	Improved attitude to school	700
	Improved attendance at school	1,400

	Improved behaviour at school	**1,300**
	QCF accredited Entry level qualification	**900**
Age +16	**Improved attitude towards school/education**	**700**
	Basic skills	**900**
	Level 1 NQF or equivalent	**1,100**
	Level 2 NQF or equivalent	**3,300**
	Level 3 NQF or equivalent	**5,100**
	First employment with training	**5,500 (3,500 after 13 weeks, additional 2,000 after 26 weeks)**

Case study: www.data.gov.uk/sib_knowledge_box/department-work-and-pensions-innovation-fund

Essex County Council Social Impact Bond

Essex County Council was the first local authority to use a SIB to commission and finance a service. The SIB was issued to fund the provision of Multi-Systemic Therapy to families where the children are at the edge of care. The intention of the programme is to reduce the number of days at-risk children spend in care.

- Purpose: Provide Multi-Systemic Therapy to prevent children from being placed in care

- Success Criteria: Reduction in days spent in care by the participants compared to a historic data. Investors also measure and report on wider social outcomes such as school attendance / attainment and offending behaviour.

- Potential Pay-out: Success measured on a quarterly basis. Pay-out for a medium performance level will be 8% (internal rate of return). Cap on maximum pay-out.

Date	**November 2012**
Maturity	8 years
Size	£3.1m
Payment	Depending on reduction in care placement days
Target Population	380 11-16 year-olds in or at-risk of entering care
Benchmark	Historic case data
Investors	A number of social investors and charitable foundations, including Bridges Ventures and Big Society Capital
Payers	Essex County Council DfE, DH and DWP
Recipients	Children's Support Services Ltd
Operators	Action for Children Social Finance Ltd

Case study: www.data.gov.uk/sib_knowledge_box/essex-county-council-children-risk-going-care

Greater London Authority (GLA) Social Impact Bond

The GLA SIB involves the Department for Communities and Local Government ("DCLG") who work together with Greater London Authority ("GLA") on an intervention targeted at persistent rough sleepers. The service providers are working with the target population to ensure they better use the services already available to rough sleepers as well as filling in gaps when necessary.

- Purpose: To improve outcomes for persistent rough sleepers

- Success Criteria: i) reduced rough sleeping, ii) move to long term accommodation in the UK, iii) move to accommodation abroad, iv) increased employment, and v) reduction in use of A&E services

- Potential Pay-out: Up to 6.5% per annum, calculated on a quarterly basis depending on success criteria achieved in the quarter

- Innovation: The service providers (primarily St Mungos) invested in the SIB, thereby aligning their incentives with the investors'.

Date	November 2012
Maturity	4 years
Size	£5m
Payment	Depending on success in achieving five metrics
Target Population	831 persistent rough sleepers in London
Benchmark	Database numbers for some metrics, no benchmarks for others
Investors	Service operators and social investors
Payers	DCLG
Recipients	GLA
Operators	St. Mungo's Thames Reach

Case study: www.data.gov.uk/sib_knowledge_box/greater-london-authority-homeless-people

www.socialfinance.org.uk/work/sibs/homelessness

It's All About Me (IAAM) Social Impact Bond

The IAAM SIB, developed by CVAA (Consortium for Voluntary Adoption Agencies) and Baker Tilly, focusses on finding families to adopt difficult to place children and providing these families with therapeutic parenting training. Local authorities can purchase a place on the programme for a child with payments due at the achievement of each of four key milestones.

- Purpose: Use training and support to increase the number of difficult to place children who are adopted.

- Success Criteria: Four milestones: i) child enters programme, ii) child placed with family, iii) 1st anniversary of a placement, and iv) 2nd anniversary of a placement.

- Potential Pay-out: Each time a milestone is achieved a payment is triggered. The total payment per child is no more than £53,600. Investors are paid a 4% annual yield, with any further project surpluses from performance being split 50:50 with the participating Voluntary Adoption Agencies to enhance their service provision to adoptive families.

- Innovation: Participating Voluntary Adoption Agencies share some outcomes risk with investors to ensure that the family breakdown rate remains low.

Date	**July 2013**
Maturity	10 years
Size	£2m (£3.5m increase possible)
Payment	Fixed interest plus outcomes dependent top-up
Target Population	Difficult to place children
Benchmark	N/A
Investors	Big Society Capital Bridges Ventures
Payers	Local Authorities Social Outcomes Fund
Recipients	IAAM Scheme
Operators	IAAM Services, PACT, After Adoption, Adoption Matters North West, Caritas Care, Action for Children, Family Futures

Case study: www.bakertilly.co.uk/publications/Its-All-About-Me.aspx

Further information: http://iaamadoption.org/

Manchester City Council Children in Care SIB

The Manchester City Council (MCC) Social Impact Bond was signed in February 2014. Its aim is to improve outcomes for high need young people aged 11-14 who are looked after by the local authority, either in residential care or in foster placements, who are at risk of entering residential care.

The work has been supported by funding from the Social Outcomes Fund (pays for outcomes on SIBs in areas where an intervention is value for money in terms of total public sector savings, but where no single commissioner generates enough savings to make all of the outcomes payments.)

- *Purpose*: to test and build evidence base for Multi-Dimensional Treatment Foster Care – Adolescents (MTFC-A) on its success in keeping high risk adolescents out of residential care and improving outcomes.

- *Success Criteria*: MCC will make outcome payments for getting and keeping young people out of residential care, as well as for improving their outcomes, such as school attendance, better behaviour and encouraging positive activities.

- *Potential Pay-out*: up to £1800 per week for a young person engaged in the MFTC programme (hence not requiring residential care), in year 1; up to £350 per week for a young person remaining in a family setting, for 2.5 years post-graduation from the programme; up to £9500 for a young person achieving all wellbeing outcomes at graduation and 12 months post completion of the programme. Maximum of £148,600 outcome payment per individual.

- *Innovation*: Direct contract between commissioner and provider. Provider has strong track record of delivering intervention, and has appetite to share some operational delivery risk with the investor. Model also chosen to meet statutory requirements around MCC discharging fostering functions to another provider.

Date	Feb 2014
Maturity	8 years (services delivered over 5 years)
Size	£1.2m
Payment	On the basis of getting and keeping young people out of residential care and improving their outcomes, such as school attendance, behaviour, and positive activities
Target Population	90 (over 5 years) high risk 11-14 year olds in local authority care. Work will begin with 8 in year one and, if successful, to increase this to 16 from year two.
Benchmark	Data on 11-14 yr olds in residential care in 2007 – 2008
Investors	Bridges Ventures
Payers	Manchester City Council Social Outcomes Fund
Recipients	Action for Children (Manchester City Council is directly contracting with the service provider)

Operators	**Action for Children**

Case study: http://data.gov.uk/sib_knowledge_box/manchester-city-council-children-care-sib

Rikers Island Social Impact Bond (US)

New York City ("NYC") was the first place outside of the UK to issue a SIB. This was done to finance a cognitive behavioural therapy programme focusing on personal responsibility education, training and counselling for young offenders at Rikers Island correctional facility. The aim was to reduce reoffending.

- Purpose: Fund a therapy programme to reduce recidivism among young detainees at Rikers Island.

- Success Criteria: A reduction in recidivism of 10% is required for the investor to break even.

- Potential Pay-out: A threshold has to be met for NYC to pay out under the SIB. If this threshold is not met, the guarantor will repay the investor the amount of the guarantee.

- Innovation: First SIB to attract both pure for-profit investors (Goldman Sachs) and pure social investors (Bloomberg Philanthropies). Bloomberg Philanthropies has guaranteed the majority of GS investment (as a grant), substantially reducing their downside risk.

Date	August 2012
Maturity	4 years
Size	$9.6m
Payment	Depending on reduction in recidivism
Target Population	Detainees aged 16-18 at Rikers Island
Benchmark	N/A
Investors	Goldman Sachs
Payers	City of New York
Recipients	MDRC (an independent not for profit education and social policy research organisation)
Operators	Osborne Association Friend of Island Academy
Guarantee	$ 7.2m
Guarantor	Bloomberg Philanthropies

Case study: www.data.gov.uk/sib_knowledge_box/new-york-city-adolescents-departing-rikers-island-correctional-facility

www.mdrc.org//project/social-impact-bond-project-rikers-island?gclid=CIOT0PbJgrsCFUUOwwodkX0A1w#featured_content

Utah High Quality Preschool Social Impact Bond (US)

Utah had experienced success with reducing the need for special education for children by having them participate in a high quality preschool programme to better prepare them for school. To finance an expansion of the programme, the Goldman Sachs Urban Investment Group (UIG) together with the United Way of Salt Lake and J.B. Pritzker formed a partnership to create the first SIB funding early childhood education.

- Purpose: Expand a programme targeting children from low-income backgrounds to better prepare them for school.

- Success Criteria: Each year a member of the target population does not receive special education

- Potential Pay-out: Directly linked to the savings made by the State of Utah. 90% of savings are paid out until capital has been repaid with a 5% interest. 40% of additional savings are paid out to investors.

Date	**August 2013**
Maturity	7 years – intervention for one year, then potential outcomes payments for 6.
Size	Up to $7m
Payment	Depending on reduction in special education
Target Population	Around 600 low income children a year – 3500 over duration of programme.
Benchmark	Children who participate in the preschool programme and score below average on the Peabody Picture Vocabulary Test, assumed to have required specialist education support later on
Investors	Goldman Sachs (senior) J. B. Pritzker (junior)
Payers	State of Utah
Recipients	Way of Salt Lake
Operators	Way of Salt Lake, providing the 'Utah High Quality Preschool Program'

Case study: www.goldmansachs.com/what-we-do/investing-and-lending/urban-investments/case-studies/salt-lake-social-impact-bond.html

http://www.readynation.org/uploads//20130627_PreschoolResultsBasedFinancing201342.ppsx

New York State SIB: 'Increasing Employment and Improving Public Safety' Pay-for-Success program

The New York State SIB was launched in December 2013, and represents the first US state-led SIB. It will pay to provide an employment intervention for 2000 formerly incarcerated individuals, which aims to reduce recidivism and unemployment, and increase public safety as a result. Private sector and foundation investors raised $13.5 million investment – the largest SIB in the world at the time of its launch. This is also the first SIB to use a Randomized Control Trial (RCT) in determining outcome payments.

- Purpose: to scale an employment re-entry programme that has demonstrated success in reducing recidivism and increasing employment of formerly incarcerated individuals

- Success Criteria: number of treatment group members who start transition job; difference between treatment group and control group members in relation to employment and earnings, and number of days incarcerated.

- Potential Pay-out: up to 12.5% annually. Details of payments per person/day for different outcome metrics available in fact sheet linked to below.

- Innovation: First US state-sponsored SIB. SIB offering distributed via wealth management platform; RCT-based outcomes payment mechanism

Date	**December 2013**
Maturity	**5.5 years, 2 phases of service delivery and outcomes observation of 3 years each.**
Size	**$13.5m**
Payment	**For investors to be repaid, the project must reduce recidivism by at least 36.8 days incarceration and/or increase employment by at least 5 percentage points. There are varying levels of payments per individual attaining outcomes across the different aims. $21.5m are available for performance based payments.**
Target Population	**2000 formerly incarcerated individuals who are at a high risk of reoffending**
Benchmark	**RCT evaluation. Backstop historical comparison data also available.**
Investors	**c. 40 investors; first-ever SIB offering distributed via a wealth management platform – Bank of America Merrill Lynch – to qualified institutional and private investors.**
Payers	**New York State (including a US Dept of Labor grant)**
Recipients	**Social Finance NYS Workforce Reentry 2013 LLC**
Operators	**Center for Employment Opportunities (CEO)**
Guarantee	**$1.3m**
Guarantor	**Rockefeller Foundation**

Case study: http://www.budget.ny.gov/contract/ICPFS/PFSFactSheet_0314.pdf

http://www.socialfinanceus.org/what-we-do/select-current-engagements/social-finance-drives-landmark-new-york-state-deal

Newpin Social Benefit Bond (AUS)

The Government of New South Wales have issued two SIBs (called Social Benefit Bonds) aimed at reducing the number of children placed in care. The Newpin SIB funds four centres and an expansion of the Newpin programme which is an intensive support programme focussed on improving parenting.

- Purpose: Expansion of programme which offers support and training for parents to restore families

- Success Criteria: Restoration rate amongst the participants. A restoration rate of 65% is expected.

- Potential Pay-out: Interest rate and capital repayments depend on the achieved restoration rate. Minimum interest rate for the first 3 years. Partial capital protection (varying for different time periods).

- Innovation: Allows for early termination in case of poor performance of the programme.

Date	**March 2013**
Maturity	**7 years**
Size	**Australian $7m**
Payment	**Depending on restoration rates**
Target Population	**Children in or at-risk of going into out-of-home care**
Benchmark	**N/A**
Investors	**[Undisclosed]**
Payers	**Government of New South Wales**
Recipients	**Social Ventures Australia**
Operators	**UnitingCare Burnside**

Case study: www.data.gov.uk/sib_knowledge_box/new-south-wales-government-children-out-home-care

www.community.nsw.gov.au/docs_menu/for_agencies_that_work_with_us/our_funding_programs/newpin_social_benefit_bond.html

www.socialventures.com.au/work/newpin-social-benefit-bond/

The Benevolent Society Social Benefit Bond (AUS)

The Benevolent Society SIB was the second SIB issued by the Government of New South Wales. It funds the Benevolent Society's Intensive Family Support programme which provides intensive family support to families with vulnerable children.

- Purpose: Rollout of the Intensive Family Support programme to reduce the number of children entering care.

- Success Criteria: Reducing the number of children going into care compared to the benchmark.

- Potential Pay-out: Capital protection for the senior tranche, not for the junior tranche. Return of up to 10% for the senior tranche and up to 30% for the junior tranche.

- Innovation: Structured and syndicated by investment banks who also invested in the junior tranche.

Date	June 2013
Maturity	5 years
Size	Senior: Australian $7.5m Junior: Australian $2.5m
Payment	Depending on success in keeping children out of foster care
Target Population	400 families with a child at risk of harm
Benchmark	400 families
Investors	Junior: Benevolent Society, Westpac, Commonwealth Bank of Australia Senior: [Undisclosed]
Payers	Government of New South Wales
Recipients	The Benevolent Society
Operators	The Benevolent Society

Case study:
www.community.nsw.gov.au/docs_menu/for_agencies_that_work_with_us/our_funding_programs/benevolent_society_social_benefit_bond.html

Other SIBs – currently in development or recently launched

Rotterdam

A small SIB was launched in Rotterdam in December 2013. An investment of EUR 680,000 has been raised to fund an intervention to reduce youth unemployment.

The investors are ABN AMRO (a Dutch bank) and the Start Foundation; the Municipality of Rotterdam will pay investors back (yields can reach up to 12% if successful), and Buzinezzclub will provide support to 160 unemployed young people (aged between 17 and 27) with low skills, aiming to help them get into education or work.

Further information: http://societyimpact.nl/nieuws/special-lancering-eerste-sib

Massachusetts

The Massachusetts 'Juvenile Justice Pay for Success (PFS) Initiative' was launched in late Jan 2014, and represents the largest value SIB in the world to date, with $ 27m of investment.

The SIB is aimed at funding the provision of an intensive 4 year programme of outreach, life skills and employment training by Roca Inc., to 929 at-risk young men in the probation system or leaving the juvenile justice system. The goal is to reduce recidivism – a 40% reduction in the number of days the men are incarcerated. If successful, the work will roll out to a further 391 men, to a total of 1320 participants over 9 years.

$ 27m of investment has been committed over 7 years, including a $ 11.7m grant from US Department of Labor, $ 3.3m fees deferred by Roca, $ 9m loan financing from Goldman Sachs Social Impact Fund, and a range of other loans and grants from Foundations and other US social investors. This SIB is not completely guaranteed – some of the investments are at risk. However, Massachusetts will pay 5% annual interest throughout the life of the project to Goldman Sachs, and 2% annually to junior lenders Kresge Foundation and Living Cities.

The gross potential savings for Massachusetts State are estimated to range between $1 - 45m, dependent on the decrease in days of incarceration. Outcomes payments will range from between $0 - 27m.

In addition to this initial SIB, Massachusetts has authorized a further $ 50 million launching PFS initiatives. Work is being considered around chronic individual homelessness and adult basic education.

Further information: https://www.thenonprofittimes.com/news-articles/massachusetts-launches-non-guaranteed-social-impact-bonds/

http://www.bostonglobe.com/business/2014/01/29/state-launches-performance-based-funding-keep-teens-out-jail/CJACWX1IBi6aKJssegjxjK/story.html

http://www.cnbc.com/id/101377537

Ideas in development

There are a large number of opportunities for SIBs being scoped all over the world. The number of SIBs being launched has increased over recent months. It seems likely that 2014 will see several further SIBs launched and developments in the market that could provide significant opportunities for Early Intervention.

While by no means an exhaustive list, we have become aware of ideas and opportunities for SIBs being tested or explored in California[6], Connecticut[7], Israel[8], South Africa[9], Israel, Cardiff[10], Canada[11], New Zealand[12], and Ireland[13], as well as a range of ideas for Development Impact Bonds underway[14]. In South Carolina, work is underway to consider the opportunities for a SIB to fund NFP, a particularly relevant area of development.[15]

As noted separately, in the UK, Social Finance and LGA will work to engage and encourage the development of SIB proposals that could benefit from the £40 million Big Lottery Fund's Commissioning Better Outcomes Fund or the Cabinet Office's £20 million Social Outcomes Fund. See 'Sources of Information and Further Assistance', below.

We will be monitoring the latest developments in the social investment market, particularly those that relate to Early Intervention, and will update the information in this report periodically, to maintain an up to date overview of SIBs worldwide.

[6] Initial funding of $2.5 million has been announced to help incubate and develop potential efforts - https://www.missioninvestors.org/news/25-million-pay-for-success-program-launched-in-california; http://nonprofitfinancefund.org/CaliforniaPFS

[7] http://www.ct.gov/dcf/cwp/view.asp?a=2534&Q=534038; http://connecticutcenter.org/wp-content/uploads/2014/02/Social-Finance-CT-Presentation.pdf

[8] http://www.socialfinance.org.il/overview/

[9] http://www.socialenterprisebuzz.com/2014/02/04/south-africa-explores-social-impact-bonds/

[10] See overview of ideas testing in Cabinet Paper www.cardiff.gov.uk/objview.asp?object_id=27745; decision in minutes here www.**cardiff**.gov.uk/objview.asp?object_id=27902

[11] http://financeforgood.ca/about-social-impact-bonds/social-impact-bonds-in-canada/

[12] http://www.health.govt.nz/our-work/preventative-health-wellness/social-bonds-new-zealand-pilot

[13] http://www.clanncredo.ie/newsdetails.aspx?ref=134

[14] http://www.cgdev.org/page/development-impact-bond-working-group

[15] http://www.rockefellerfoundation.org/uploads/files/a39e8cdf-494f-486e-a8c2-1170c7ffc5c6-rockefeller.pdf; https://www.missioninvestors.org/news/south-carolina-to-launch-social-impact-bond-program-to-improve-maternal-and-child-health; http://www.readynation.org/uploads/db_files/6-25-13%20Presentation%20SC%20SIB%20Feasibility%20Study.pptx

Setting up SIBs: The Process

The process of developing a SIB has five basic stages. The detailed development of a SIB will be more complex, but in outline, a commissioner and the other decision-makers, and intermediary bodies involved, will need to:

1. Identify the issue that a SIB can address (or a programme that seems to offer promise in addressing an issue)

2. Develop the business case for the SIB funding of an intervention(s) to address this issue

3. Procure service providers for the chosen programme(s)

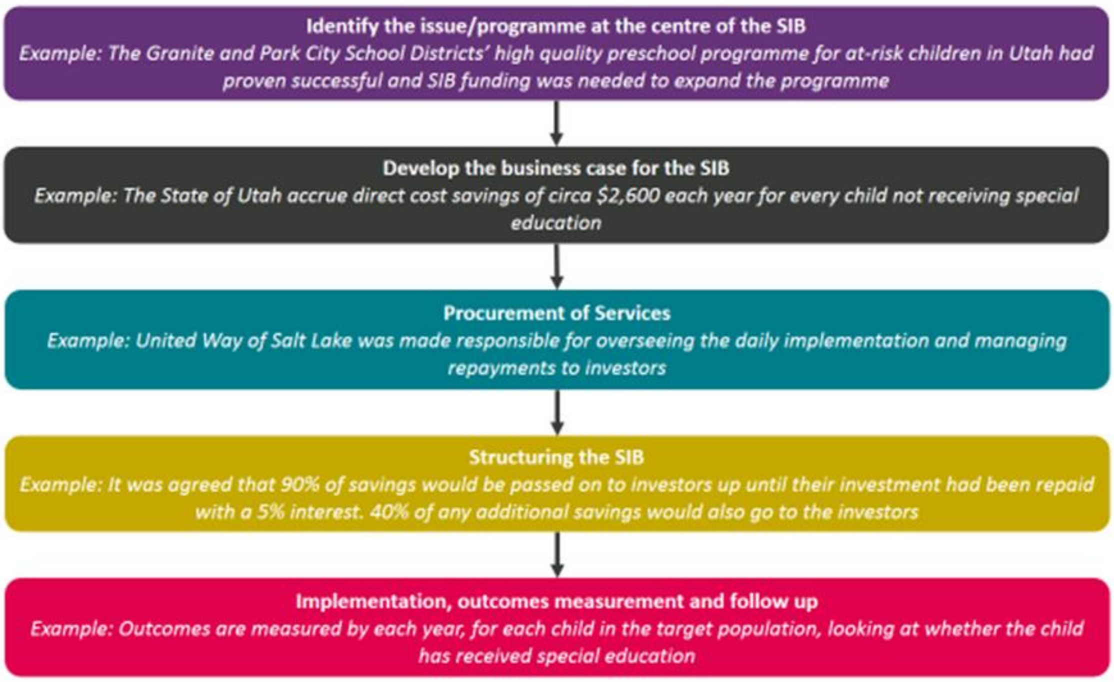
4. Structure the SIB

5. Implement the intervention, measure outcomes and follow up on the programme(s)

Figure 3 depicts a flow diagram of the different steps involved in issuing a SIB. The stages are then explained in more detail below.

NB - In this figure, we have taken the example of the Utah State SIB.

Figure 3 – The Social Impact Bond Development Process



Identification of an Issue or Programme

Commissioning using SIBs gives local authorities a strong additional card in their portfolio of commissioning contracts, but it is not appropriate or applicable to all programmes and interventions.

As previously mentioned, one of the advantages of SIBs is that they allow commissioners to shift the financial risk associated with failure to obtain outcomes to external investors. If the commissioner is very certain about the success of the programme, then the additional costs associated with the risk transfer may be hard to justify and the case for using a SIB may not be strong. (There maybe exceptions to this, if e.g. low risk means low costs of investment, and the possibility of enhanced performance for little extra cost; or if additional investment is needed to help launch or scale programmes for which there would not have otherwise been sufficient funding.)

If the programme is more innovative, a SIB can be a good way of financing it without the risk of wasting public funds.

The following programme aspects are vital to consider when contemplating whether a certain programme or intervention is suitable for a SIB:

- **Cashable Cost Savings:** A key argument for local authority use of SIBs is that they can allow up-front monetisation of a programme's future cost savings.

In the case of SIBs based on repayment from cashable savings generated, an intervention or programme's outcomes need to result in tangible reduced demand for and provision of particular services. This means that there cannot be an ongoing, unmet need which will take up the resources freed up by a programme successfully achieving the desired outcomes in one cohort. This may be challenging, particularly in considering the possible savings from Early Intervention services, which may seem to be long term and spread across multiple services, but must be addressed and worked through if a SIB based around cashable savings is to be developed.

We would like to stress that there are many perfectly good reasons for implementing EI programmes and services which do not lead to cashable cost savings, but which generate improved outcomes, and more efficient public services that can spend money more effectively where it has impact. An example of this is the GLA SIB around rough sleeping in London.

It is also important to note that while savings are the focus of a number of SIBs developed to date, they (and particularly cashable savings), do not have to be the key argument or basis for a SIB.

If sufficiently appealing to attract investment, a SIB could also be about delivering better outcomes more efficiently with existing resources or testing new interventions and only paying if they work. However, the potential budgetary consequences and constraints around SIBs, their funding and the need for repayment need to be taken into account in considering viable options for funding local EI.

• **Measurable Outcomes:** Given the importance of outcomes in calculation of the pay-outs under the SIB contract, it is vital that the outcomes of the programme in question are clearly identifiable and measurable. There are two main reasons for this: a) the commissioning local authority will need to be sure that it is actually getting what it is paying for, and b) to attract any investors, the investors will need to feel comfortable that there is no ambiguity about whether a payment is triggered or not.

• **Measurable Impact:** As well as the local authority commissioner needing to ensure that it is possible to measure whether the desired outcomes are achieved, it must also be possible to say whether these outcomes are the direct, attributable result of the commissioned programme. If this is not the case the commissioner runs the risk of mistakenly paying for a programme which has no effect.

There are several different ways of ensuring this is the case, one of them being to use a control group as a benchmark – as was done in the Peterborough SIB aimed at lowering re-offending rates. By selecting a contemporary comparison group both the commissioner and the investors are shielded against outside factors, such as the state of the economy, influencing the payments under the SIB contract.

• **Target Population:** To be suitable for a SIB contract, the programme must have a target population which can be clearly defined prior to the implementation of the programme. Without a clearly identified target population the commissioner runs the risk that the service provider 'cherry picks' and delivers the services to the people who are most likely to deliver an outcome which triggers a payment rather than the people who are most in need of the service.

Business Case Development

Once a programme has been identified as suitable for a SIB, the next stage is to analyse the feasibility of the programme and develop the business case for the programme. This stage includes scoping out the interventions to be used and the outcomes to be achieved. It also involves an analysis of the economic case for the use of a SIB to finance the programme, so modelling of cash flows and so on.

A detailed discussion of the business case development is beyond the scope of this document, but the section 'Sources for Information and Further Assistance' provides an overview of where additional information can be found.

Procurement

After it has been determined that the SIB is feasible and the outcomes and payments frameworks have been decided on, the commissioner will have to procure the services from one or more service providers. While a discussion of the procurement process is beyond the scope of this paper, a useful guide is available in Social Finance's publication 'A Technical Guide to Commissioning Social impact Bonds' (www.socialfinance.org.uk/resources/guide/technical-guide-commissioning-social-impact-bonds).

Structuring the Social Impact Bond

The 4th stage is to actually develop the contract which governs the SIB, engage with investors to raise the required funding, and contract with the selected service providers. Commissioners do not normally engage the investors directly – it is rather an 'intermediary' or sometimes the provider. Again this aspect of the process is beyond the scope of this document, but details of further resources can be found in section 'Sources for Information and Further Assistance'.

Implementation and Follow-up

After the SIB has been executed there continues to be a role for the commissioner to play. Firstly, given that the pay-outs under the SIB contract are linked to the achievement of certain outcomes, these outcomes need to be tracked. The pay-outs also need to be managed, and towards the end of the life of the SIB/service contracts, a plan for how to continue after the expiry date has to be put in place to ensure that the recipients of the service are not left uncared for.

Lessons learned from implementation of the SIB for wider changes to services, planning and commissioning, and securing long terms shifts in investment from late to Early Intervention, and ensuring that the operation of the SIB is effectively managed in the context of a wider system of services and support for children and families, will require careful management and stakeholder engagement throughout.

Sources for Information and Further Assistance

Organisation	Services Provided	Information Provided
- ATQ Consultants (www.atqconsultants.co.uk)	Support in design of contracts	Guide for commissioners on how to gather data
	Help to prepare business cases	A savings template (.xls format)
	Conducting feasibility studies	Financial model for PbR/SIBs (.xls format)
Bridges Ventures SIB Fund [+] (www.bridgesventures.com)	£14m fund dedicated to investing in SIBs Hands-on support for service providers to structure and deliver SIB contracts	Provides a short overview of what they, as investors, are looking for when assessing SIB investment opportunities Case studies of the 6 SIBs into which Bridges has invested so far
Centre for Social Impact Bonds (Cabinet Office)* (www.gov.uk/social-impact-bonds) (www.data.gov.uk/sib_knowledge_box)	Feedback on SIB proposals	Introductory guide to SIBs aimed at commissioners who are interested in exploring SIBs
	Connects commissioners with external stakeholders to develop SIB ideas	'Knowledge Box'
	Answer questions about the Social Outcomes Fund	Advice on getting started and checking feasibility
	Support and advice for SIB developers	Advice on outcomes and measurement
		Procurement advice
		Case studies
		Unit Cost Data
		Links to further resources
Social Finance and Local	One-on-one advice for	Regional SIB workshops

Government Association (www.local.gov.uk)	any stage of the process from early stage exploration of SIBs to assistance with applications for funding to the Big Lottery Fund's Commissioning Better Outcomes Fund and the Cabinet Office's Social Outcomes Fund (offered by LGA in association with Social Finance)**	
		Webinars about SIB development
		Online tools and guides
		Case studies
New Philanthropy Capital (NPC) (www.thinknpc.org)	Impact measurement	Various reports, including reports about impact measurement
	Analysis of which interventions are best at tackling a specific problem	
	Bespoke research (identify greatest need, scoping potential for intervention, business case assessment etc.)	
Social Finance (www.socialfinance.org.uk)	Feasibility studies	Various guides (both in relation to development and commissioning of SIBs)
	SIB development	Example of a SIB contract (redacted version of the Peterborough SIB contract)
	Capital raising	
	Performance management	
	General support for commissioners thinking about or actively working on SIBs	

Social Outcomes Fund (Cabinet Office) and Commissioning Better Outcomes (Big Lottery Fund http://www.biglotteryfund.org.uk/sioutcomesfunds	Top-up outcomes funding for SIBs in complex areas	Guide on how to submit expression of interest for top-up outcomes funding from the Social Outcomes Fund and Commissioning Better Outcomes
	Development funding (up to £150k per SIB) to support the development of SIBs (e.g. feasibility studies etc.)	
The SIB Lab – Harvard Kennedy School of Government (US institution) (www.hks-siblab.org)	Pro bono technical assistance (US)	Guides to and analyses of SIBs
Third Sector Capital Partners (US institution) (www.thirdsectorcap.org)	Feasibility analysis (US Only, so may be less relevant)	
	Technical assistance with procurement	
	Structuring transactions	
	Fundraising	
	Implementation support	
Triodos Bank (www.triodos.co.uk)	Advice on capital raising through SIBs	
	Placement of SIBs with investors	

Further detail can be found on intermediaries, investors, outcomes funding, advice and guidance, in the Social Finance Directory, available here - http://www.socialfinance.org.uk/directory-sib-service-providers

***Cabinet Office** Centre for SIBs are happy to speak to commissioners from local authorities, as well as service providers to help direct them to the right places (match-making and sign posting) and guide them through the process up to the application for support from the Social Outcomes Fund/Big Lottery's Commissioning Better Outcomes Fund. After the 'expression of interest' stage, the local authority commissioner become eligible for development funding from the Commissioning Better Outcomes Fund.

Contact at Cabinet Office:

Email: sibs@cabinet-office.gsi.gov.uk (this is a shared inbox – any contact made through this email address will be picked up by a member of the Cabinet Office's team and is the best point of entry for initiating a dialog with Cabinet Office about SIBs)

****LGA and Social Finance** are contracted to provide support to SIB developers by Big Lottery Fund. The offering ranges from workshops which provides information about SIBs, how to develop SIBs and how support from Social Outcomes Fund and Commissioning Better Outcomes Fund can be accessed, to one-on-one support, as well as online tools and guides. The advice is focussed on the process from thought to completing the application for support from the Social Outcomes Fund or the Commissioning Better Outcomes Fund.

http://www.socialfinance.org.uk/sioutcomesfunds

sioutcomesfunds@socialfinance.org.uk

\+ **Bridges Ventures** manages the world's first fund dedicated to investing in SIBs. Bridges has made 6 SIB investments so far and plans to invest into at least 10 further SIBs over the next 3 years. The SIB investment team can be contacted via info@bridgesventures.com, and the team is happy to speak to any commissioners or services providers who are interested in SIB development or delivery.

EIF's Workstream on Innovative Finance: Next Steps

There is already a great deal of work occurring to consider and develop the opportunities of social investment and SIBs to help fund and develop public services in the future.

EIF's workstream on 'Innovative Finance' will focus **specifically on the opportunities that new forms of funding offer for the development, testing and scaling of effective Early Intervention services, programmes and approaches.**

In the first six months it will focus on social investment, before moving on to look at wider innovative financing approaches in late 2014.

We will work through with local authority, police and crime commissioner, NHS and VCS partners from our Early Intervention Places, their key concerns, questions and ideas around using social investment and SIBs for Early Intervention. This will include exploring the practical steps and challenges associated with the implementation of the models covered in this initial report on SIBs, when applied to EI. We will convene experts in the field to work through solutions to the challenges, and develop approaches to test in local areas.

Our work will add value to what is already on offer by helping our Early Intervention Places explore specific questions around the extent to which new models of investment can support the shift from spend on acute and crisis services to earlier help and interventions, and convening expert support and advice to scope opportunities in detail for practical implementation. This will also draw in the specialist expertise and knowledge within EIF on outcomes measurement, evaluation, and business case development in relation to EI.

The workstream will not undertake work that is already being pursued elsewhere, and which is not in the remit of EIF, namely:

- advising on or supporting the detailed development of specific social investment mechanisms;
- raising awareness and working through the opportunities of social investment as a mechanism to achieve wider public service reform;
- directly supporting bids for funding.

The next stage of our work will be to run a workshop that explores:

- what lessons can be learned from the existing approaches covered in this report, and being scoped for feasibility in our Places (potentially leading to case studies to supplement this report)
- what opportunities we should focus on for further development, scoping and testing – e.g. identifying outcomes, cohorts, and service areas that might be most viable to explore for applying social investment to EI.

Outputs from this workshop will be available on our website, along with plans for the longer term development of the workstream.

While much of the work will be developed with our 20 pioneering ‘Early Intervention Places’, we welcome interest in involvement from other local authorities and local public sector agencies who are in the process of developing approaches to social investment that may be relevant to Early Intervention. If you would like to find out more or express your interest in being involved, please contact ann.griffiths@eif.org.uk.

Appendix – Funders and Investors

Funders of Social Impact Bond Programmes/Development

Institution	Funding
Social Outcomes Fund (www.gov.uk/government/publications/social-outcomes-fund-how-to-apply)	Set up by Cabinet Office with the aim to grow the SIB market. Focuses on innovation in public services. The fund provides top-ups to new SIBs where the societal benefit is large, but no single commissioner makes sufficient savings to be incentivised to develop a SIB.
Commissioning Better Outcomes Fund (www.biglotteryfund.org.uk/sioutcomesfunds)	Created by Big Lottery Fund, this fund works in parallel with the Social Outcomes Fund, but with a focus on early prevention and enabling people to lead fulfilling lives. There is a single, two stage application process to both the Social Outcomes Fund and Commissioning better outcomes (see previous link). Development funding is also available - see previous links
DWP - Innovation Fund **(www.gov.uk/search?q=innovation+fund&tab=government-results)**	DWP ran an open competition and is now a commissioner of 10 SIBs, targeting young people aged 14 and older.
Investment and Contract Readiness Fund **(www.beinvestmentready.org.uk/)**	Set up by the Office for Civil Society and managed by The Social Investment Business (www.sibgroup.org.uk), this fund provides grants for social ventures to finance contract development or build investment readiness. Applicants must be charities, social enterprises, mutuals etc.

Investors in Social Impact Bonds

Institution	Description
Barrow Cadbury Trust (www.barrowcadbury.org.uk)	Barrow Cadbury Trust has allocated 5% of its endowment (£4m) to social investment. It focuses on promoting social justice and on developing the social investment market. Has invested in SIBs.
Big Issue Invest (www.bigissueinvest.com)	The social investment arm of The Big Issue. Big Issue Invest's focus is on tackling poverty and social inequality. Recently it has launched the Threadneedle UK Social Bond Fund in partnership with Threadneedle Investments. Has invested in SIBs.
Big Society Capital (www.bigsocietycapital.com)	A social investment bank set up by the UK Government with the aim of building a sustainable social investment market. Supports a broad range of areas. Has invested in SIBs.
Bridges Ventures (www.bridgesventures.com)	Fund manager using impact-driven investments. Has a £14m fund dedicated to investing in SIBs in the UK. Has invested in 6 SIBs.
CAF Venturesome (www.cafonline.org)	The social investment arm of Charities Aid Foundation. Has invested in SIBs.
Esmée Fairbairn Foundation (www.esmeefairbairn.org.uk)	Through its Finance Fund Esmée Fairbairn Foundation invests in charities and social enterprises in the fields of the arts, environment, education and learning, and social change. Has invested in SIBs.
Goldman Sachs - Urban Investment Group (www.goldmansachs.com/what-we-do/investing-and-lending/urban-	Group within the investment bank Goldman Sachs which makes investments and loans

investments/index.html)	that benefit urban communities. Has been involved in both the SIBs launched in the US. Focus is on the US. Has invested in SIBs in the US only to date.
Impetus – Private Equity Foundation (www.impetus-pef.org.uk)	Aims at improving the lives and prospects of children and young people who live in poverty. Invests in charities and social enterprises and provides them with management support. Has invested in SIBs.

While the above list of investors is not a complete overview of all investors in SIBs, it gives a good indication that there are a lot of foundations and investors who are interested in investing in SIBs. It also shows that there is an appetite for money from outside the public sector to be used to fund Early Intervention and other public services.

References and Background Reading

We have learned from the following sources, which may be of use to those wishing to understand developments and debates to date on social investment, and existing approaches and guidance available.

Not all of these documents offer guidance or support. Some also offer reflections on lessons learned, ideas and challenges for the future, commentary on closely related issues or debate on specific aspects of existing approaches to social investment.

However, we think they may be helpful for people considering the opportunities and challenges social investment offers for Early Intervention.

This is by no means an exhaustive list of resources and commentary, and we recognise that there are many other sources of credible expertise and guidance on this subject.

We will continue to develop our list of resources as this work progresses.

Cabinet Office Centre for SIBs Website online resources.

LGA, An Introduction to Social Investment

Social Finance, Technical Guide to developing a SIB: Children and Young People

Social Finance, Technical Guide to Developing a SIB and many useful document links

NPC, Best to Invest

Allia, Future for Children Bond: Lessons Learned

NPC, Out of Trouble: Families with Complex Problems

Barclays Wealth, Early Intervention: An Economic Approach to Charitable Giving

Young Foundation, Social Investment in Education

Cabinet Office, Growing the Social Investment Market: 2013 Progress Update

Social Market Foundation, Risky Business: Social Impact Bonds and Public Services

Non-profit Finance Fund (US), Pay for Success Resources (not directly relevant to UK, but interesting tools and commentary)

CLASP (US), SIBs: Overview and Considerations (published Mar 14 – one recent perspective on the latest thinking)

Harvard Kennedy School Social Impact Bond Technical Assistance Lab (US), A Guide for State and Local Governments

Ready Nation (US), Early Childhood Social Impact Finance: Possibilities and Challenges

SSIR, SIB Market: Three Scenarios for the Future

Global Learning Exchange on Social Impact Investing http://gle.iipcollaborative.org/