Better Outcomes, Better Value
The evolution of social impact bonds in the UK
Overview

We’re starting to see evidence that outcomes-focused commissioning can help governments achieve better results.

Traditionally, governments have contracted third-party service providers on a ‘fee for service’ basis – so commissioners prescribe and pay for a particular service that they believe will lead to a desired social outcome. More recently, a number of governments have started to introduce elements of ‘payment by results’ or ‘pay for success’ when commissioning services – so providers only get paid in full if they deliver the desired social outcomes.

Social impact bonds (SIBs) are a tool to help impact-driven providers deliver these ‘outcomes contracts’, by giving them access to project financing and management support from socially-minded investors. For governments, this can broaden the pool of skilled providers and, potentially, increase the chances of the service being successful.

Why now

At Bridges, we raised the world’s first fund dedicated entirely to investing in SIB-funded outcomes contracts. Since 2012, we have directly invested in 13 of these contracts – almost half of the total commissioned by the UK Government to date.

We did so because we believed that a greater focus on outcomes would give providers the flexibility and the incentive to iterate constantly in pursuit of better performance. This, in turn, would stimulate more entrepreneurial solutions to some of our most intractable social problems – something we’ve been looking to achieve through our funds for more than a decade.

It’s now six years since the first SIB-funded outcomes contract was launched in the UK. During this time, the model has continued to evolve, and dozens more SIBs have been developed around the world. But while the concept has attracted lots of attention – both positive and negative – it’s only now that we’re starting to accumulate a body of data about whether this approach can actually work.

From a Bridges perspective, 2015 saw the first three of our SIB-backed programmes complete their original contracts. All three delivered positive social outcomes, helping disadvantaged children re-engage with school, gain new skills and qualifications, and develop greater empathy and resilience. Two of these programmes – both of which came in well ahead of their impact targets – have already been recommissioned for a second iteration (at a lower cost to Government).

In both cases, precisely because the programmes outperformed their outcome targets, investors achieved positive financial returns and used these to support follow-on SIBs.

More importantly, we’re starting to see trends and patterns emerge. Based on what we’ve learned from these early contracts, we have come to believe that:

1. Outcomes contracts have considerable potential to help governments drive positive social change by improving performance, increasing efficiency and re-aligning incentives in existing service provision – not only by facilitating and de-risking innovative new services.

2. There are some key policy areas in the UK where outcomes contracts are already delivering better results – and where there is already strong support from central Government.

3. Outcomes contracts (whether SIB-funded or otherwise) should be designed to provide better value to commissioners than any available alternative. This means pricing them in such a way that unless the programme delivers demonstrably better results than the commissioner could get elsewhere, the return to investors should be zero. We think this Base Case Zero approach (as we call it) is essential in order for this model to succeed at scale.

Why it matters

The UK government alone currently spends more than £23bn a year on what might loosely be termed ‘human services’, from healthcare to children’s services to rehabilitation. About one-third of that total is delivered by third-party providers – but only a tiny proportion (roughly £3bn p/a) involves any kind of payments for outcomes.

Our experience to date suggests that introducing more outcomes-based payment mechanisms within these specific policy areas could help commissioners improve service delivery and get a better understanding of which approaches work best. Over time, this should help governments achieve better value for public money and, most significantly, better outcomes for some of the most vulnerable people in our society. Is that an opportunity we can afford to ignore?

Definitions

By outcomes contract, we mean any contract between a government and a typically external service provider that involves some element of payment for outcomes achieved (sometimes called ‘payment by results’ or ‘pay for success’).

By social impact bond, we mean any arrangement made by an impact-driven provider to access off-balance sheet financing in order to deliver a specific outcomes contract.

By commissioner, we mean any local or central government (or state) official with responsibility for buying service provision (typically from an external provider).

It’s only now that we’re starting to accumulate a body of data about whether this approach can actually work.

A Bridges Impact+ publication

Bridges Ventures is a specialist fund manager focused exclusively on sustainable and impact investment – using commercial investment strategies to help solve some of society’s biggest challenges.

Founded in 2002, Bridges now has almost £600m under management across its growth, property and social sector funds. It became a certified B Corporation in the summer of 2015.

Bridges is committed to maximising the impact of its funds and to growing the investor base in which we operate. We therefore established Bridges Impact+, to equip our internal teams with best practice skills and to leverage that practitioner experience to support a wider range of external clients – from investors to governments to corporations to charities.

Our approach combines research and development of frameworks and products with hands-on advisory services, all rooted in practical experience.

For more information, visit bridgesventures.com.

"Both the CCG and Ways to Wellness had to develop and agree clear, measurable performance indicators that are sufficiently robust to trigger repayment to the investor. Much time has been spent defining and agreeing these. Our outcomes are therefore far more concrete than perhaps they would otherwise have been. It has stretched the clinicians and finance teams, but doing so has allowed us to accept a degree of innovation and a scale of investment that we would have struggled to match, without the discipline that this way of working brings.”

Dr. Guy Pilkington, Chair of the NHS Newcastle Gateshead Clinical Commissioning Group (CCG) Health Service Journal, October 2015
A new kind of commissioning

Governments are experimenting with outcomes contracts (and SIBs) in the hope that it will help and incentivise providers to deliver better services

With a traditional ‘fee for service’ contract, governments typically pay for a particular set of inputs (e.g. personnel on the ground) or activities (e.g. the provision of a particular service) that they believe will lead to a certain societal outcome. As such, the commissioning process tends to favour proven interventions that can be repeated in more or less the same way. The providers concerned usually have relatively little flexibility to adapt or experiment with their service during the contract period – even if the environment in which they are operating changes (as it often does). Nor do they have any real incentive to deliver better-than-expected results.

Many governments around the world are now experimenting with outcomes contracts. Here, some or all of the provider’s fee will be contingent on how successful they are in delivering the specified societal outcomes. Since the commissioner is no longer specifying exactly how the service should be delivered, this gives providers much greater scope to adapt and improve their existing programmes, or to devise a new one – allowing them to react to a changing environment. It also creates a clear financial incentive for providers to deliver better-than-expected results.

Given their payment structure, outcomes contracts typically create a need for working capital to fund the provider’s work. One way to finance this is via a social impact bond (SIB). SIBs are a form of aligned capital where investors’ financial returns are linked directly to the provider’s success in achieving positive societal outcomes. This typically comes from social investors who share the commissioner’s goals, understand the social context and are willing to accept the associated risks – in a way that other sources of private financing may not.

SIB investors can also offer providers hands-on management support (managed by specialist advisors) as providers bid for and deliver outcomes contracts, helping to build their organisational capability.

Critically, this capital and support is available to a wide variety of organisations, regardless of size or structure. This should mean that commissioners can choose from a much broader pool of providers than they would otherwise have been able to, while strengthening the local market – with a view to ensuring that these services are provided by those with the best solutions, not simply those with the deepest pockets. All of these factors should make these contracts more likely to succeed. So for commissioners, the potential value of this approach is not just about transferring financing risk, it’s about improving outcomes, and ensuring that they only pay for the outcomes delivered (the so-called ‘fidelity guarantee’).

THE BEST OUTCOMES CONTRACTS USE STAGGERED PAYMENTS

Based on our experience to date, we believe the most effective contracts incentivise providers to care about the ultimate outcome sought by the government. But in most cases, it will make sense for the commissioner to pay for delivery milestones reached along the way – as long as those milestones are highly correlated with the achievement of that ultimate outcome. This kind of staggered payment mechanism imposes a useful discipline on the provider, driving greater efficiency; it reduces the working capital need, helping to keep costs down; and it gives both commissioner and provider valuable early feedback on how well the service is doing.

For example, in the Manchester foster care SIB, the Government’s ultimate goal is for children to finish their adolescence in stable foster care placements. In order to focus providers on this outcome, no payment is made for recruiting a new family (the so-called ‘fidelity guarantee’). Instead, payments build up gradually over the first year, with the majority (over 50% of the total amount) triggered only if a placement is sustained for at least a full year – since this is highly correlated with placements remaining stable in the longer term. The remainder of the payment is triggered by the longer-term outcomes of improved attendance at school and reduced offending, which signal increased well-being of the children the Government is trying to help.

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UK OUTCOMES-BASED COMMISSIONING, 2010-15

Below are the most significant contracts commissioned by the UK government since 2010 that have involved some element of payment for outcomes. (Those in blue are projects that have been funded, or part-funded, by a SIB structure; the figure quoted represents the maximum outcomes payment available.)

| Year | Contract | Contract Description | Maximum Outcomes Payment
<table>
<thead>
<tr>
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<tbody>
<tr>
<td>2010</td>
<td>HM Prison Peterborough SIB (prisoner rehabilitation): £8m</td>
<td>Prisoner rehabilitation</td>
<td>£8m</td>
</tr>
<tr>
<td>2011</td>
<td>Work Choice (employment for the disabled): £375m</td>
<td>Employment for the disabled</td>
<td>£375m</td>
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<tr>
<td>2012</td>
<td>International aid projects (x2): £28m</td>
<td>International aid projects</td>
<td>£28m</td>
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<tr>
<td>2013</td>
<td>Supporting People (housing support): £100m</td>
<td>Housing support</td>
<td>£100m</td>
</tr>
<tr>
<td>2014</td>
<td>Drug and alcohol recovery pilots: £16m</td>
<td>Drug and alcohol recovery</td>
<td>£16m</td>
</tr>
<tr>
<td>2015</td>
<td>New Homes bonus (building incentives): £3.4bn</td>
<td>Building incentives</td>
<td>£3.4bn</td>
</tr>
<tr>
<td>2016</td>
<td>European Social Fund Support for Families with Multiple Problems (welfare to work): £200m</td>
<td>Multiple problems</td>
<td>£200m</td>
</tr>
<tr>
<td>2017</td>
<td>Work Programme (welfare to work): £3.2bn</td>
<td>Work Programme</td>
<td>£3.2bn</td>
</tr>
<tr>
<td>2018</td>
<td>International aid projects (x15): £405m</td>
<td>International aid projects</td>
<td>£405m</td>
</tr>
<tr>
<td>2019</td>
<td>Wiltshire Council Help To Live At Home (social care): £11m</td>
<td>Social care</td>
<td>£11m</td>
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<tr>
<td>2020</td>
<td>Troubled Families (family support): £480m</td>
<td>Family support</td>
<td>£480m</td>
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<tr>
<td>2021</td>
<td>Youth Contract (youth employment): £16bn</td>
<td>Youth employment</td>
<td>£16bn</td>
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<tr>
<td>2022</td>
<td>DWP Innovation Fund SIBs (x10; youth employment): £30m</td>
<td>Innovation Fund SIBs</td>
<td>£30m</td>
</tr>
<tr>
<td>2023</td>
<td>Essex MST SIB (children in care): £7m</td>
<td>Children in care</td>
<td>£7m</td>
</tr>
<tr>
<td>2024</td>
<td>International aid projects (x4): £1.12bn</td>
<td>International aid projects</td>
<td>£1.12bn</td>
</tr>
<tr>
<td>2025</td>
<td>GLA Rough Sleeping SIBs (x2): £35m</td>
<td>Rough Sleeping SIBs</td>
<td>£35m</td>
</tr>
<tr>
<td>2026</td>
<td>International aid projects (x2): £1.48bn</td>
<td>International aid projects</td>
<td>£1.48bn</td>
</tr>
<tr>
<td>2027</td>
<td>IAAM Adoption SIB: £54k per child</td>
<td>Adoption</td>
<td>£54k per child</td>
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<tr>
<td>2028</td>
<td>Manchester MTCF SIB (therapeutic foster care): £7m</td>
<td>Therapeutic foster care</td>
<td>£7m</td>
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<tr>
<td>2029</td>
<td>Community Work Placements (welfare to work): £203m</td>
<td>Community Work Placements</td>
<td>£203m</td>
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<tr>
<td>2030</td>
<td>Transforming Rehabilitation (prisoner rehabilitation): £3.15bn</td>
<td>Transforming Rehabilitation</td>
<td>£3.15bn</td>
</tr>
<tr>
<td>2031</td>
<td>International aid projects (x3): £279m</td>
<td>International aid projects</td>
<td>£279m</td>
</tr>
<tr>
<td>2032</td>
<td>Chelsea + Westminster smoking cessation SIB: £180k</td>
<td>Smoking cessation</td>
<td>£180k</td>
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<tr>
<td>2033</td>
<td>Bedfordshire Integrated Musculoskeletal Services: £120m</td>
<td>Musculoskeletal Services</td>
<td>£120m</td>
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<tr>
<td>2034</td>
<td>Birmingham Residential Migration SIB (foster care): £6m</td>
<td>Residential Migration SIB</td>
<td>£6m</td>
</tr>
<tr>
<td>2035</td>
<td>Fair Chance Fund SIBs (x7; preventing homelessness): £15m</td>
<td>Fair Chance Fund SIBs</td>
<td>£15m</td>
</tr>
<tr>
<td>2036</td>
<td>Expanded Troubled Families (family support): £200m</td>
<td>Expanded Troubled Families</td>
<td>£200m</td>
</tr>
<tr>
<td>2037</td>
<td>Ways to Wellness Social Prescribing SIB: £10m</td>
<td>Social Prescribing SIB</td>
<td>£10m</td>
</tr>
<tr>
<td>2038</td>
<td>Youth Engagement Fund SIBs (x4; £16m)</td>
<td>Youth Engagement Fund SIBs</td>
<td>£16m</td>
</tr>
<tr>
<td>2039</td>
<td>Shared Lives in Manchester and Lambeth: £2m</td>
<td>Shared Lives SIBs</td>
<td>£2m</td>
</tr>
<tr>
<td>2040</td>
<td>Social Isolation SIB in Worcestershire: £2m</td>
<td>Social Isolation SIB</td>
<td>£2m</td>
</tr>
<tr>
<td>2041</td>
<td>Health and employment partnership SIBs in Staffordshire, Hereford and Trower Hamlets: £2m</td>
<td>Health and employment partnership SIBs</td>
<td>£2m</td>
</tr>
<tr>
<td>2042</td>
<td>Sheffield Integrated Musculoskeletal Services: £200m</td>
<td>Sheffield Integrated Musculoskeletal Services</td>
<td>£200m</td>
</tr>
</tbody>
</table>

Total outcomes contracts c. £15bn in 5 years, of which c. £100m involved a SIB structure

Source: National Audit Office; Local Government Association; Health Service Journal; Bridges’ research

(See p. 12 for a list of some of the local and central UK government departments that have commissioned SIBs)
When outcomes contracts work best

Much of the discussion around SIBs has focused on their role in promoting innovative new services. However, our experience suggests there could be an equally substantial opportunity in improving existing services. Here are five areas in which outcomes contracts are helping governments achieve better results.

**Example: Multi-Systemic Family Therapy (Essex)**

**The problem**
MST is a licensed programme that has proven to be effective in the US, and has already been implemented 35 times in the UK. However, our research found that some previous implementations had struggled to drive referrals; to recruit, train and retain good therapists; and to get buy-in from frontline managers. As a result, they had not been able to fulfill their potential.

**The solution**
New features introduced as part of the SIB-funded programme have included a much greater focus on working pro-actively with social services to offer therapy to all families who could benefit, with a dedicated programme manager recruited for this purpose. There has also been more direct engagement with families who were reluctant to get involved. This has helped to drive better, more consistent delivery of the programme and fund the recruitment of an additional ‘trainer’ therapist to work in partnership with social work teams – thereby creating a feedback loop that helps to drive quality improvements.

**Example: Fair Chance Fund Homelessness SIBs**

**The problem**
For some young homeless people, the current structure of homelessness services does not always support them into long-term sustainable housing and independence. That’s because the majority of funding follows the accommodation rather than the beneficiary – creating some perverse incentives.

**The solution**
The solution is to create a stronger incentive to work in the best interest of the young person. The solution is to bring together multiple stakeholders to tackle complex issues. Employing new roles such as a ‘performance analyst’ hired to track subsequent progress and an ‘evolution analyst’ to assess the need for welfare payments over time.

**Example: Social Prescribing (Cardiff)**

**The problem**
Providing effective care for patients with long-term health conditions (LTCHs) such as diabetes, heart disease and asthma is one of the world’s biggest health care challenges. In the UK, people with LTCHs account for around 70% of the total health and care spend. Supporting patients to better manage and/or mitigate their conditions can reduce the burden on the National Health Service (NHS) and may also help beneficiaries back into the workforce.

**The solution**
To ensure lower therapist turnover, the programme aimed at delivering a tangible reduction in reoffending rates by providing a range of support services to short-sentenced male prisoners when they were released from HMS Peterborough – including help with addiction, family troubles and mental health conditions. There was a sharp focus on building up more sophisticated data reporting systems, to enable better monitoring of the effectiveness of particular interventions and sharing of information between different service providers.

**Example: Therapeutic foster care**

**The problem**
Reconviction rates among recently-released prisoners are typically high – a negative cycle that carries high societal costs (not to mention the actual costs associated with imprisonment). However, there was no established method of supporting short-sentenced prisoners upon their release from prison with a specific view to reducing the likelihood of them reoffending.

**The solution**
The One Service, which was launched in 2010, was the world’s first ever social impact bond-funded programme. Developed by Social Finance, the programme aimed at delivering a tangible reduction in reoffending rates by providing a range of support services to short-sentenced male prisoners when they were released from HMS Peterborough – including help with addiction, family troubles and mental health conditions. There was a sharp focus on building up more sophisticated data reporting systems, to enable better monitoring of the effectiveness of particular interventions and sharing of information between different service providers.

**Example: Fair Chance Fund**

**The problem**
A number of adolescents still live in residential care homes – usually as a result of family breakdown followed by multiple breakdowns of foster care placements. While these outcomes for these children are in many cases much worse than for children brought up in a foster family – and it’s also a much more expensive solution for the state. But while many local authorities have started to address this, it has proven difficult to address in practice; partly because of the difficulties of finding suitable foster carers, and partly because of the difficulties of engaging consistently and successfully with social work teams to make longer-term placement plans.

**The solution**
Senior therapists support the carer (e.g. teachers and youth workers) and paid them above the usual rate, to reflect the challenges of the placements. Specialised therapists support the carer and child across the placement; and further support comes from mentors who have themselves previously made the transition from residential care. Crucially, the programmes also make use of a team of dedicated ‘trainers’ therapist to work in partnership with social work teams, and proactively assisting them to target suitable children who could benefit from this kind of long-planned transition into permanent placements.

**Example: Multi-Systemic Family Therapy (Essex)**

**The problem**
Despite the clear evidence of MST’s effectiveness in the US, and the programme’s proven success in the UK, there had been few visible signs of progress in many areas in which outcomes contracts are helping governments achieve better results.
Key policy areas for outcomes contracts

Governments currently allocate a tiny proportion of their budgets to outcomes contracts. They have scope to do much more, particularly in ‘human’ services.

CURRENT UK GOVERNMENT SPEND ON OUTCOMES CONTRACTS

The UK Government spends about £230bn of its £730bn annual budget on ‘human’ services (education, health, social services, children’s services etc.).

About £80bn of this £230bn is externally delivered – but just £3bn of this is allocated to outcomes contracts.

Only about £20bn of this £3bn is delivered via a SIB structure.

There is a sizeable addressable market here. In the UK, the Government currently spends about £230bn a year – almost a third of its annual budget of £730bn – on delivering ‘human services’ (to include healthcare, children’s services, education, social work, employability, culture and so on; see diagram, above). Although precise figures are hard to come by, we estimate that about £80bn of this total is delivered by third-party providers, largely on a ‘fee for service’ basis.

Not all of that spend will be appropriate for outcomes contracts (for instance, where it applies to statutory services that have to be delivered in a certain way). But given that the Government commissioned about £15bn of outcomes contracts across the whole of the last parliament – an average of just £3bn per year (a fraction of which was linked to SIBs) – there is still plenty of scope for the Government to experiment with commissioning services on an outcomes (rather than ‘fee for service’) basis, to see whether it might drive better results.

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On the previous pages, we described five different opportunities for commissioners to consider using outcomes contracts to drive impact. Our diverse portfolio of SIBs has also taught us that, in any of these situations, there are three features that must be in place for outcomes contracts to work most efficiently and effectively:

1. The ability to define a specific cohort (e.g. children in residential care or adults with long-term health conditions)
2. Positive outcomes that can be defined and measured objectively (e.g. qualifications reached or entry into employment)
3. The ability to place a value on these outcomes (which generally requires reference to a tangible baseline/counterfactual)

In conjunction with the five areas of opportunity, these three required features provide a useful lens to help us identify specific issues where an outcomes-based commissioning approach has the potential to drive better outcomes and/or better value-for-money.

On the opposite page, we outline four particularly promising policy areas that, in our experience, exemplify one or more of the opportunities identified on p. 4–5 – and also possess the three required features.

POTENTIAL ROLES FOR SIBS IN FOUR KEY GOVERNMENT POLICY AREAS

PREVENTING CHILDREN FROM BECOMING NEET

- Health and social care providers can play an important role here by acting as a mechanism to combine their budgets and co-ordinate their activities for combined benefit – as is happening with Ways to Wellness in Newcastle, or the Reconnections SIB in Worcestershire. So helping patients to deal with long-term conditions (e.g. diabetes) will be a major focus.

- The introduction of SIBs for dealing with complex homeless clients has really enabled a long-term focus on the individual and the specific interventions needed to help them turn their lives around. This is very hard to achieve with more traditional commissioning tied to accommodation or the provision of a defined service. The feedback I’ve received shows that SIBs have really freed up voluntary sector agencies to do what they always wanted to do to help their hardest-to-help homeless clients.

- Preventing children from becoming NEET (not in education, employment or training) has really improved their life chances, while also potentially saving the state significant sums in benefit (and other associated) costs over time. The UK Government’s experience with the DWP Innovation Fund (which was predicated on the idea that we need new ways to re-engage those at risk of becoming NEET) has suggested two things: one, that such interventions are most effective at an early age; and two, concentrating on the development of greater resilience and self-confidence might be more effective (in both the short- and medium-term) than the traditional focus on simple careers support.

- In the UK, where the Government is trying to drive closer alignment between health and social care provision (and reduce the burden on our over-stretched health service) there are likely to be areas on the boundary between the two where various stakeholders have an interest in a particular outcome, and a role to play in achieving it – but where it’s not clear who should pay. Outcomes contracts can play an important role here by acting as a mechanism to combine their budgets and co-ordinate their activities for combined benefit – as is happening with Ways to Wellness in Newcastle, or the Reconnections SIB in Worcestershire. So helping patients to deal with long-term conditions (e.g. diabetes) will be a major focus.

About £80bn of this £230bn is externally delivered – but just £3bn of this is allocated to outcomes contracts.

Only about £20bn of this £3bn is delivered via a SIB structure.

Source: Bridges research
The evolution of the SIB model

SIBs are already getting more efficient. If applied to existing services and priced to offer better relative value, they can enable better outcomes at real scale.

SIB-funded programmes have already had a powerful positive impact on the lives of thousands of vulnerable young people and adults. We believe that millions more could benefit in the future, helping society to address some of its most intractable social issues. But in order for this to happen, the model will need to evolve in three important ways – the early signs of which we’re seeing already.

1. Greater efficiency

The early UK SIBs were initiated and managed by intermediaries – notably Social Finance, which developed the first SIB in Peterborough. This model played an essential role in catalysing a nascent market, supporting Government and providers throughout the design and execution process. It will continue to be useful for any market developing a SIB for the first time.

Inevitably, these early SIBs took a long time to develop, were complex in structure, and incurred a range of transaction costs. However, the pioneering work done in creating new standards and upskilling the key parties is now bearing fruit.

For the Department for Work & Pensions’ Youth Connect made substantial adjustments to its programme during its first outcomes contract (p. 10), this enabled it to submit a bid based on a proven model second time around, increasing value-for-money to Government.

As commissioners and providers gain a richer understanding of how to design and deliver outcomes contracts well, it is fostering greater confidence on both sides. As a natural corollary of this, the role of intermediaries is changing. Rather than needing advisors to ‘make the market’, as was the case in the early days, the key parties involved can simply draw on specialist advice if and when they need it (see diagram, p. 9). This more efficient model can prevent potential conflicts of interest, speed up development times and reduce costs.

2. Broader application

Many early SIBs focused on untested new interventions (the ‘Innovate’ of our five opportunity areas) Effectively plot schemes, aimed at generating new outcomes and therefore without an existing baseline in terms of price or performance – SIBs of this kind tend to be small-scale, with payment mechanisms based on a complex control group.

Outcomes contracts – and therefore SIBs – will continue to be a powerful tool for innovators; the most successful may even prompt a paradigm shift in the way we tackle big social challenges.

In these situations, rather than expending substantial amounts of time and money identifying and tracking a control group, commissioners can use their understanding of the money they currently spend on the value they currently generate (in other words, their ‘best available comparable option’) as their baseline. This enables them to price outcomes in a way that’s most useful to providers, who then have the flexibility to adapt and evolve their models throughout the programme. Such contracts can be rolled out on a much greater scale – improving efficiency, cutting costs and reaching more beneficiaries.

3. Better relative value

Ultimately, SIBs – and outcomes contracts more generally – will only succeed at scale if they allow commissioners to achieve better, more or cheaper outcomes than any alternative approach (either internal or external). And if there is indeed a substantial opportunity for outcomes contracts in improving performance in situations where commissioners already have a targeted spend, we see a powerful implication for how SIB contracts should be priced going forward.

Some of the early SIBs were priced on the logic that the eventual cost to the government need only be cheaper than the cost of doing nothing to address the target social issue. In the much more typical situation, where the government is already doing something (or is aware of ways in which it could do something) we see the potential for a higher bar: simply put, commissioners should only ever pay extra for SIB-funded programmes if they’re getting something extra in return. If they’re not – if the SIB fails to deliver demonstrably better results than the government’s ‘best available comparable option’ – then the additional cost to the government (including the return to investors) should always be zero. We believe this Base Case Zero model is critical to the future of SIBs.

There is a substantial opportunity for outcomes contracts in improving existing services, i.e. in helping commissioners achieve better results in situations where they already have a targeted spend.

HOW THE UK SIB MARKET HAS MATURATED SINCE 2010

The early SIBs were typically initiated, designed and managed by intermediaries

The availability of SIBs could become increasingly helpful for commissioners as the model evolves

For the more recent SIBs, the commissioner has typically chosen the provider (and investors) via an open procurement process, with each party drawing on specialist advice where necessary

Conclusion: Better outcomes, at scale

Based on our experience to date, we believe outcomes contracts have huge potential as a tool to help governments improve the provision of existing services, as well as experiment with new service models.

The growing interest in outcomes-based commissioning globally is, in itself, a positive development. But we also believe the availability of SIBs will become increasingly helpful to commissioners. A key goal for most governments is to build local provider markets and encourage the voluntary, community and social enterprise sector to take on more public sector contracts. By providing access to additional capital and support, SIBs help to facilitate that – enabling these organisations to play an increased role in addressing the tough social issues that they understand so well.

SIB-funded outcomes contracts are already delivering promising results in areas like homelessness, children’s services and youth employment. But they still account for just a fraction of the £20bn the UK spends every year on ‘human’ services like these. As the model becomes more efficient, and as the universe of possible applications expands, these contracts can play a much greater role in helping governments deliver better value for public money – and better solutions to some of our toughest societal challenges.

The availability of SIBs could become increasingly helpful for commissioners as the model evolves
Case Study: Career Connect

Career Connect was able to adapt its intervention in response to feedback from the early months of delivery, ultimately surpassing its outcomes targets.

ABOUT THE PROGRAMME

In 2011, the Department for Work & Pensions, Cabinet Office and Ministry of Justice established the £30m Innovation Fund, with the aim of improving outcomes for disadvantaged young people who were NEET (not in education, employment or training) or at risk of becoming so. Providers would be paid according to their success in:

- re-engaging participants with school
- helping them achieve qualifications
- supporting them into sustained employment

In 2012, Liverpool-based charity Career Connect was selected by the Innovation Fund to deliver a programme that would be assessed against these outcomes. Career Connect identified three groups of young people on Merseyside whose outcomes were diverging most sharply from their peers: young offenders, those in or leaving care and those with learning difficulties. The average outcome rate of these groups was considerably higher than the national average (21% vs. 16%).

The programme (‘New Horizons’) – which ran for three years until April 2015 – received upfront financing and ongoing support from Bridges Ventures and other investors via a social impact bond. Its target was to work with 3,928 young people on Merseyside – targeting 4,270 positive outcomes against a ‘rate card’ (the Government’s own assessment of what each of these outcomes was worth in financial terms).

The intervention was delivered through a range of Resilience Coaching Programmes, which includes the use of an online ‘Mental Toughness’ diagnostic tool. Once assessed, the young people received one-on-one resilience coaching focusing on the particular challenges faced by each young person (as identified through the Mental Toughness assessment).

Alongside this, Career Connect designed and delivered an NVQ Level 1 qualification in Personal Effectiveness to eligible school-age participants. The course, delivered predominantly through group sessions over a 13-week period, focuses on developing the young person’s interpersonal skills and encouraging a greater understanding of their abilities. Career Connect found that the course leads to better school engagement, improved well-being, higher career aspirations and better employability.

THE PROGRAMME MADE FOUR KEY CHANGES OVER TIME

At the end of the first year, detailed management information showed that some aspects of the programme were extremely effective, and others less so. With a standard ‘fee for service’ contract or grant agreement, it would have been difficult for Career Connect to alter the design of the programme. However, outcomes-based contracts enable greater flexibility, and so the delivery team were able to use what they had learned to make informed decisions to change aspects of the programme and improve results.

- Better management information: Career Connect appointed a dedicated performance manager, and strengthened its management information systems in order to track data more accurately. This extra level of rigour helped Career Connect identify opportunities and make better informed decisions, facilitating the evolution of the programme over time.
- Focused on earlier intervention: Coaches found that supporting younger children to re-engage with education was likely to be more impactful over the long-term than providing CV and employment support to participants who were already NEET. As a result, the intervention was re-focused to achieve better supporting the younger cohort towards education outcomes, and away from targeting better employment outcomes for older participants.
- Improved product offering: For 14-16 year olds, the original focus had been on coaching with no target qualification. Data showed that this was not achieving the hoped-for results. So Career Connect developed a specialised Level 1 course intended to improve resilience and engagement, which could be delivered via more structured group sessions within the school. Following a change in Government legislation that obliged children without employment to ‘participate’ in education or training for an extra year, Career Connect also designed a specific employability course to help 16-year-olds at risk of becoming NEET.
- More in-house service delivery: Results showed that Career Connect’s in-house delivery was more effective than using a wide supply chain of service providers. So it focused its investment on this method of delivery, increasing the number of coaches for young people.

Key Changes: The programme delivered excellent value-for-money for Government

The New Horizons programme ran until April 2015 (though outcomes were tracked for a further six months afterwards). During the contract period, it worked with 4,222 young people to deliver 6,044 positive outcomes.

The table below illustrates the value to government delivered by the programme (according to the outcome values in the latest Innovation Fund Round 2 rate card).

<table>
<thead>
<tr>
<th>Outcomes delivered</th>
<th>Price per outcome paid by Government (£)</th>
<th>Total paid by Government (£k)</th>
<th>Value of outcome delivered to Government (£)</th>
<th>Total value delivered to Government (£k)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Improved school attendance</td>
<td>1,315</td>
<td>671</td>
<td>1,145</td>
<td>1,400</td>
</tr>
<tr>
<td>Improved school behaviour</td>
<td>1,779</td>
<td>552</td>
<td>982</td>
<td>1,300</td>
</tr>
<tr>
<td>National Vocational Qualification Level 1</td>
<td>1,870</td>
<td>441</td>
<td>825</td>
<td>900</td>
</tr>
<tr>
<td>National Vocational Qualification Level 2</td>
<td>728</td>
<td>1,452</td>
<td>1,057</td>
<td>3,300</td>
</tr>
<tr>
<td>Sustained employment for 13 weeks</td>
<td>198</td>
<td>1,924</td>
<td>381</td>
<td>3,500</td>
</tr>
<tr>
<td>Sustained employment for 26-weeks</td>
<td>154</td>
<td>740</td>
<td>114</td>
<td>2,000</td>
</tr>
<tr>
<td>Total Outcomes</td>
<td>6,044</td>
<td>-</td>
<td>4,504</td>
<td>-</td>
</tr>
</tbody>
</table>


In October 2015, Career Connect’s New Horizons programme was selected as the ‘Social Investment Initiative of the Year’ at the 2015 Charity Times awards. The category was designed to recognise an investment vehicle that has proven highly advantageous to the sector within a long-term framework, opening up opportunities to the sector and promoting sustainable development.*

IN 2015, CAREER CONNECT WAS RECOMMISSIONED TO DELIVER A SECOND SIB

Last year, Career Connect became one of the first two SIB providers in the world (alongside Teens & Toddlers) to be recommissioned to deliver a second programme: ‘Unlocking Potential’, which was commissioned as part of the Department of Work and Pensions’ Youth Engagement Fund. However, this time, it was co-commissioned by a number of Local Authorities (Liverpool, Wirral, St. Helens, Halton, Sefton) who had seen the success of the first programme.

When commissioning the second programme, the Government was able to use the lessons learned from the Innovation Fund to adjust the rate card, based on its improved understanding of the relative value of the different outcomes. Nonetheless, Career Connect was confident enough in its new and improved intervention to submit its ‘Unlocking Potential’ bid at a substantial discount to the rate card.

The lessons of the first tender process also allowed Government to reduce development time substantially relative to the Innovation Fund process (which in turn reduces costs):

<table>
<thead>
<tr>
<th>Process features</th>
<th>First tender</th>
<th>Second tender</th>
<th>Third tender</th>
</tr>
</thead>
<tbody>
<tr>
<td>SIB Commissioner + Contract name</td>
<td>DWP Innovation Fund round 1</td>
<td>DWP Innovation Fund round 2</td>
<td>DWP Youth Engagement Fund</td>
</tr>
<tr>
<td>Time to design competition</td>
<td>&gt; 6 months</td>
<td>4 months</td>
<td>2 months</td>
</tr>
<tr>
<td>Time from launch to invitation of tender</td>
<td>4 months</td>
<td>3 months</td>
<td>3 months</td>
</tr>
<tr>
<td>Time from tender to choosing winning bid</td>
<td>5 months</td>
<td>4 months</td>
<td>3 months</td>
</tr>
<tr>
<td>Time from winning bid chosen to programme launch</td>
<td>2 months</td>
<td>2 months</td>
<td>2 months</td>
</tr>
<tr>
<td>Total</td>
<td>&gt;17 months</td>
<td>13 months</td>
<td>10 months</td>
</tr>
</tbody>
</table>

* In 2015, Career Connect’s New Horizons programme was selected as the ‘Social Investment Initiative of the Year’ at the 2015 Charity Times awards. The category was designed to recognise an investment vehicle that has proven highly advantageous to the sector within a long-term framework, opening up opportunities to the sector and promoting sustainable development.

David Howard, Operations Director, Career Connect

I have learned how to deal with stress and how to react with several dilemmas at the same time. I have also learned how to work in a team and help others.

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Investors have encouraged - and at times required - us to provide data at an almost granular level. There has been a real process of learning in that: we’ve been able to capture exactly what’s working, where it’s working, and why.

I have learned how to deal with stress and how to react with several dilemmas at the same time. I have also learned how to work in a team and help others.
## Our Investments

*Bridges’ funds have so far invested in 13 Social Impact Bonds across the following policy areas:*

<table>
<thead>
<tr>
<th>SOCIAL ISSUE</th>
<th>SIB PROJECT</th>
<th>COMMISSIONER(S)</th>
<th>PROVIDER(S)</th>
<th>ARRANGER/ MANAGER</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>YOUTH EMPLOYMENT</strong></td>
<td>Innovation Fund Community Links</td>
<td>Department for Work &amp; Pensions</td>
<td>Department for Work &amp; Pensions</td>
<td>Tridos Bank</td>
</tr>
<tr>
<td></td>
<td>Innovation Fund Career Connect</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Innovation Fund Teens and Toddlers</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Youth Engagement Fund Career Connect</td>
<td></td>
<td></td>
<td>Tridos Bank</td>
</tr>
<tr>
<td></td>
<td>Youth Engagement Fund Teens and Toddlers</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>CHILDREN’S SERVICES</strong></td>
<td>Essex Family Therapy</td>
<td>Essex Centre for Children</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Manchester Treatment Foster Care</td>
<td>Manchester Treatment Foster Care</td>
<td>Manchester Treatment Foster Care</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Team Parenting Foster Care</td>
<td>Team Parenting Foster Care</td>
<td>Team Parenting Foster Care</td>
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<tr>
<td></td>
<td>IAAM Adoption</td>
<td>IAAM</td>
<td>IAAM</td>
<td></td>
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<tr>
<td><strong>HOMELESSNESS</strong></td>
<td>Fair Chance Fund St Basils</td>
<td>Department for Communities and Local Government</td>
<td>Department for Communities and Local Government</td>
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<td></td>
<td>Fair Chance Fund Depaul</td>
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<td></td>
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<tr>
<td></td>
<td>Fair Chance Fund Fusion Housing</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>HEALTH &amp; SOCIAL CARE</strong></td>
<td>Ways to Wellness</td>
<td>Ways to Wellness</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

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### Acknowledgements

We are grateful for the continued support of the investors in our Social Sector Funds, without whose generous backing none of this would have been possible. They include:

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- Omidyar Network
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- The Generation Foundation
- 3i
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- the European Investment Fund
- Great Manchester Pension Fund
- Merseyside Pension Fund
- Deutsche Bank
- The Prince of Wales’s Charitable Foundation
- Trust for London
- The Highwood Foundation

We would also like to thank Freshfields Bruckhaus Deringer for their ongoing legal support for social impact bonds.

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Want to know more about SIBs?

In the UK, there are a number of additional resources available to local or national Government officials who are interested in learning more about the commissioning of SIB-funded outcomes contracts.

A helpful starting point is the Cabinet Office’s ‘Centres for Social Impact Bonds’, which can be found at: data.gov.uk/sib_knowledge_box/

Or you can contact the Bridges SIB team via +44 20 3780 8000, or info@bridgesventures.com.