

CLIENT BRIEFING on the Government's pilot 'Social Impact Bond' December 2009

This briefing explores the question:

What use is the Social Impact Bond (SIB) to CLIENT in the financing of and delivery of its services in the future?

Introduction

The Social Impact Bond is a specific social finance device that will be tested next year in Peterborough and the West Midlands. This pilot presents two questions for CLIENT.

Firstly, is it worth CLIENT attempting to be part of the Peterborough pilot where it has a presence running the local DIP? Secondly, how will CLIENT respond to more outcome-driven financing models? This is in view of the fact that they are likely to become more prominently as the public purse tightens in years to come.

This paper introduces the SIB concept and informs the above two questions leaving it for the senior management team to determine what next steps to take.

Context in brief:

- Government is planning to pilot 2 SIBs from April 2010 one in Peterborough and another in the West Midlands
- SIBs are a financing mechanism that aim to release funding from the consequential costs of social problems and devote these resources to prevention and early intervention
- The idea is being researched and pitched into government by Social Finance UK¹
- The idea is under development at present. If approved the 2 pilots will have to be put in place fast. Readiness to participate, as well as competence to deliver, will thus be relevant to who is at the table in the first instance
- CLIENT will have its contracts, funding and delivery agreements with commissioners influenced by the thinking behind social impact bonds in future years irrespective of these 2 pilot schemes. Alongside other third sector providers, impact-driven finance and investment will become more widespread and, in time, more sophisticated than the current rather blunt and patchy approaches by commissioners

¹ Social Finance is a private sector organisation that aims to find new and better financing solutions. It is highly influential in the policy community and has researched this idea extensively. It brings together social investors with providers.

What are SIBs

Social Impact Bonds are based on a commitment from government to use a proportion of the savings that result from improved social outcomes to reward non-government investors that fund early intervention activities.² SIBs are based on a contract with government that identifies 3 key factors:

- **The success metric** – or the performance measure. E.g. the re-offending rate for short-sentence offenders
- **The target population** – the specific group who will be covered. E.g. offenders in a given area over 18 leaving prison after a sentence of less than 12 months
- **The value of success** – the amount returned to investors for the achievement of a given outcome. E.g. a financial return being paid to the investor based upon a proportion of the costs that would otherwise be incurred by the Clientminal justice system of re-offending

In time SIBs can be applied to a range of activities particular those where the hypothesis is that early intervention, intensive early intervention, or preventative activities reduce future consequential costs. For instance this could include these kinds of activities amongst others:

- Reducing residential placement costs by investing in foster care
- Reducing acute hospital costs by investing in community-based care
- Reducing the costs incurred in pupil referral units by investing in better home/school services
- As well as reducing re-offending rates through targeted interventions amongst low-tariff offenders

Of course the argument that early intervention and prevention works is not new. However what is new is the idea that public finance is designed to incentivise and encourage these outcomes 'upstream', rather than incentivise and finance activity further 'downstream' where social problems are worse. At the present time the system is burdened by such perverse incentives. One example is a financing system that rewards young people offending in order to get prison-based detoxification programmes. It is also perverse that public services are rewarded with increased finances on the basis of having failed whilst not being rewarded with additional resources for having succeeded. Even where commissioners put in place partial outcomes-based there is rarely an incentive to exceed outcomes as the commensurate reward does not come with the package. Providers are not able to exceed outcomes and incur marginal costs without the marginal increase in income. Furthermore over simplistic outcomes-based funding can encourage providers to cherry pick the clientele with whom

² From *Social Impact Bonds Rethinking Finance for Social Outcomes*, Social Finance, August 2009

they are more likely to succeed thereby freezing out those most in need from getting help.

Why are SIBs being proposed

The biggest driver is the enormous costs falling on the state of social problems and the apparent lack of success in solving these problems.

For instance the 40,200 adults leaving prison each year after having served less than 12 months get little if any resettlement support. 83% go on to re-offend within 2 years whilst the figure is 94% amongst the under 21s³.

The neatness of the SIB approach is that it releases already existing financial flows into more effective preventative and early intervention approaches. The idea is that it incentivises 'doing better things' rather than focussing on 'doing things better'.

Advantages and disadvantages to CLIENT of funding through a social impact bond mechanism

Advantages:

- CLIENT would be seen to at the forefront of something that is genuinely driven by innovating improved outcomes
- The model should be longer term with contracts in the region of 5 years being proposed
- If social investment comes with the package then CLIENT can concentrate on effective delivery 100% of the time and not be distracted from this by on-going contract management and re-specification issues
- There is genuine potential to develop more resources for preventative and early intervention activities both in terms of working capital to develop new programmes (from social investors) and to fund ongoing work that is effective (through government outcome payments)

Disadvantages:

- The SIB model may get bunched together with outcomes-based funding and efficiency savings initiatives especially by poorly informed commissioners. So there is a risk that CLIENT is helping to develop a funding mechanism that involves either greater financial risk or the acceleration of a 'more for less' economies approach. However this risk can be mitigated at the contract negotiation stage.

³ Ibid 2

- Right now there is a risk of the initiative being overly associated with labour policy people such as The Young Foundation (Geoff Mulgan) and Mathew Taylor at the RSA. Conversely the policy formulation is with social city investor people without such party connections. Presently we do not know if this model is less favoured by the Opposition. We can only assume it will roll-over post election finance especially as whoever is in control will be looking for any initiative that might deliver better value and effectiveness.

Who are the players

Right now the SIB idea has had a top policy team housed by Social Finance UK working on the idea for 18 months.

A proposal is being considered by Government at the present time (Ministry of Justice, Communities and Local Government, with some input from the Treasury). A decision is expected at any time on the precise shape of a pilot in Peterborough and in the West Midlands.

Key people include:

Social Finance – Toby Eccles; Emily Bolton; Geoff Beech working on the policy team.

Policy credits listed in the Social Impact Bond paper also include:

- Allen and Overy; Edmond Curtin (Cadwallader, Wickersham and Taft) – City and Global law firms
- Martin Brookes (New Philanthropy Capital)
- Christopher Eggerton-Warburton (Lions’s Head Global Partners) – investment bankers
- The Indigo Trust – one of the Sainsbury family trusts
- Geoff Mulgan (The Young Foundation)
- Rob Owen (St. Giles Trust) - a Clientminal justice services provider that has received some venture philanthropy capital⁴ from Impetus. Impetus is a ‘venture philanthropy’ style funder
- The Prime Minister’s Council for Social Action – an advisory body of influential third sector leaders and policy makers
- Mick Ridge (Frontier Economics) – an economics consultancy
- Arthur Wood (Ashoka) – A social finance organisation

⁴ ‘investment’ and ‘capital’ and terms loosely used to describe funding that third sector organisations need or receive that enables them to build up their services, develop their services and ideas or/and have access to working capital. More often than not these sums are revenue, non-balance sheet funds rather than capital in the accountancy sense. This is because, more often than not, the third sector requires ‘investment’ in knowledge, capacity and people more so than buildings and other capital items.

Communities and Local Government (CLG) – Helen Evans

Peterborough City Council (a Unitary Council) – Bob Footer, Head of Youth Justice

Other related government initiatives

There are a collection of initiatives, being mostly lead by CLG, that are related in terms of re-focussing government spend and return on spending. These include:

- 'Total Place' – redefining spending into whole activities rather than through set departments or agencies. Pilots are happening in Birmingham around early intervention in working with children; Durham around Housing; and Leicestershire around substance misuse and alcohol.
- 'Asset Transfer' – transfer of local government building into third sector ownership
- Various pooling of budgets including through Comprehensive Area Assessments
- Reducing the number of revenue streams and the numbers of PIs by which local areas are judged
- Social Enterprise Investment fund in health services that is trying to incentivise different ways of provider health based services and encouraging professional-driven 'spin-outs' from health trusts
- Commissioning only PCT's which has resulted in some areas of more services being tendered

What is not known

We do not know when the government will sign up to the implementation of the pilots. Nor do we know the precise contractual arrangements and risk investment to yield ratio that will be on offer to invited providers. This will be determined by Social Finance once the pilots are given the green light.

Next steps

The Chief Executive and the Consultant have had contact with two people from Social Finance who are leading this initiative. They are familiar with CLIENT, its work and its interests.

Next will be a response to the guidance once the pilots get the go-ahead.

Whatever the progress is with these pilots CLIENT will need to prepare itself for funding systems that move more towards outcomes-based approaches.

Notes on other things happening in Peterborough

Peterborough may have been picked because it is the site of a new prison.

Peterborough received a £350,000 cash injection in June 2009 to tackle teenage Clientme. It will be spent on after school patrols and street-based youth work. This is mentioned as it may be taking some of the attention of the youth justice team putting it in place.

Peterborough CC and NHS Peterborough scored adequate in the Care Quality Commission Annual Performance Assessment. In December 2009 they were identified as one of 8 councils on notice to improve adult services. Though this may appear tangential it may affect how the authority Directors and senior managers respond to proposals such as an SIB.

Note on CLIENT and Peterborough/Cambridgeshire matters:

- Runs Peterborough DIP and Cambridge Street Services
- Employs 1100 plus people in services across England and Wales
- Turnover 42 million in 2008/9

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