DRAFT FINAL REPORT

SOCIAL INVESTMENT
SOCIAL IMPACT BONDS
AND PUBLIC SERVICE DELIVERY

A UNISON RESEARCH PROJECT

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SOCIAL FINANCE RESEARCH PROJECT

1 About this Research Project

1.1 Background to this Research Report

This research report covers policies, mechanisms and instruments which have been developed to support and encourage the financialisation of public service delivery, especially using private investment through social investment and social impact bonds (SIBs). Though these are highly significant developments, they are rarely explained or reported. Their aim is that delivery of public services – especially for services supporting those who are socially excluded and least able to speak for themselves – become a mechanism for providing returns to private investors.

More than £1bn of funds from dormant bank accounts (mostly from the dead people under Labour's Dormant Bank Accounts Act 2008) and from the National Lottery have been used to subsidise and encourage private investment in public services. Largely through lack of public awareness and public accountability, through their contribution to 'outcome payments' these funds form the basis of 'dividends' to private investors.

1.2 Methodology for this Research

Though academic articles have sought to examine social finance, SIBs and their operation, few have sought to explore their motivation and in depth operation as shown in this report.

The author has made 33 Freedom of Information Requests to Local Authorities, Clinical Commissioning Groups, the Cabinet Office, National Lottery, Government Departments, project sponsors and managers. Though replies are varied, none specify payments made to SIB promoters, advisors or intermediaries, despite these transaction costs often being substantial. Similarly, none have been able to comment on time and resources contributed by local authority and public sector staff to set up, implement or evaluate these proposals. Without these two expenditures, as shown in examples below, FoI responses showing total outcome payments and investor contributions do not represent the full costs of SIB delivery. Section 5 below describes in detail the operation of examples of SIBs in England, Scotland and Wales, which highlight problems in their origins, concepts, funding and operation.

2 Main Research Project

2.1 Putting a Valuation on Social Activity

The workings and implications of the financialisation of government and public service delivery rarely enter public discourse, and are little recognised or understood. As shown throughout this research report, SIBs represent another step towards using private funds and financialisation, as explained by Kotz (Kotz, David M, 2008, p. 4):

> *"Perhaps the best, and most inclusive, definition is given by Epstein (2005, 3): "...financialization means the increasing role of financial motives, financial markets, financial actors and financial institutions in the operation of domestic and international economies."……As securities became tradable, financial markets arose in which the status of owner or creditor could be bought and sold" .*

One of the first advocates of "social policy bonds" insisted that development of a secondary market was "critical to the operation of the SPB mechanism" (Horesh, Ronnie, 2000, p. 40) since "many bond purchasers will want, or need, to sell their bonds before redemption" and "other groups of active investors, who will have greater expertise in performing these later processes, must be given an incentive to use their expertise to accelerate attainment of the targeted objective". This securitisation process is still the aim of many SIB proponents. Though not publicised, there is already a Social Stock Exchange in London with regional outposts in Exeter, Glasgow and Liverpool (Social Stock Exchange, 2017).

Big Society Capital, as the Government's social finance wholesaler, which is described below, has a 42% shareholding in the Social Stock Exchange and £1.2mn equity investment "to develop market infrastructure which will connect social impact businesses with investors looking to generate social or environmental change as well as financial returns from their investment" (Big Society Capital, 2016).

2.2 Social Investment and Social Impact Bonds under Labour

As shown throughout this research report, from 2000 onwards, under New Labour and the Coalition Governments there has been a small group of individuals as the driving force behind social investment and SIBs, which culminated in the establishment of Big Society Capital (BSC) in 2012 as the Government's 'wholesale social investment bank' (Daggers and Nicholls, 2016, p. 3):

> *"BSC came into being as the consequence of more than a decade of work by a group of individuals on both the inside and outside of government. This work was undertaken by a committed and persistent group of individuals through a variety of initiatives. Many of these individuals were well established in their own fields, were powerful and well connected and, in some cases, had influence at the highest levels of British politics. It is important to emphasise from the outset the importance of this group in the success of creating BSC"*

Their operations were often shielded from public observation (Daggers and Nicholls, 2016, pp. 3, 4)

> *"Their persistence and influence ensured that the objective of founding a social investment wholesale bank was pursued successfully, despite considerable obstacles along the way.*

> *"This case reveals the development of Big Society Capital as something of a 'secret history' by focussing on the individuals, sets of relationships and pivotal events that led to its establishment…".*

As shown below in Section 3, there are ongoing complaints about a lack of transparency in the operations of Big Society Capital and its stimulation and promotion of social investment.

2.3 Social Investment Task Force

Under Gordon Brown as Chancellor in April 2000, the first step of the group mentioned above, led by Sir Ronald Cohen, Chairman of Apax Partners, a founding father of the venture capital industry in the UK and a notable philanthropist, was setting up the Social Investment Task Force (SITF). Brown sought a re-assessment of the role of finance and economics in community development and specifically asked the SITF to undertake (SITF, 2000, p. 2):

> *"An urgent but considered assessment of the ways in which the UK can achieve a radical improvement in its capacity to create wealth, economic growth, employment and an improved social fabric in its most under-invested, that is to say its poorest, communities".*

Increased private investment in 'social equity' was recommended in the Cohen SITF's first report in 2000 (SITF, 2000, p. 13):

> *"Grants from local authorities and other public sector bodies and from charitable sources play an essential role in providing the start-up funds and "social equity" needed to build organisations and support activities that cannot otherwise be funded. However, when they are the sole or primary source of funds, they have encouraged a culture of over-dependence, which can stifle enterprise and even crowd out other finance options".*

This first SITF report also laid foundations for social investment and SIBs under later Labour and Coalition Governments (SITF, 2000, p. 24):

> *"The funding that intermediaries could facilitate might include the following:*
>
> - *programme-related investment from charities and foundations*
> - *private sector investments*
> - *local and national Government funding*

Following the first report, one of the first SITF initiatives was setting up Bridges Ventures as a Community Development Venture Fund in 2002, with £20mn matched investment from the Government. As shown below, alongside Social Finance, another intermediary set up by Cohen, Bridges was destined to become an industry leader in social investment and SIBs.

2.4 Futurebuilders Programme

The Futurebuilders Programme which followed in 2004 was a Government initiative to provide repayable loans to social organisations and to create a culture among them more favourable to external loans. But the initial consortium of organisations administering the programme found few organisations with an appetite for loans, so failed to meet its targets. The second Futurebuilders' delivery contract was awarded to Adventure Capital Fund (ACF). ACF was succeeded by Social Finance, set up by Cohen in 2007 as a social finance intermediary. Social Finance became a leading SIB exponent, and responded more favourably to political pressure to move Futurebuilders funding into social projects (Daggers and Nicholls, 2016, pp. 6, 7):

> *"As a result, the money was distributed in much higher volumes, but many commentators felt that the relaxed terms undermined the core purpose of Futurebuilders, which was to build the capacity of the social sector to take on repayable finance"*
>
> *"Despite these shortcomings, Futurebuilders, together with the wider work of the SITF, ensured that a culture of repayable finance became familiar to at least some portion of the social sector, and that policymakers had some awareness of what is and is not effective in encouraging such culture change".*

Above all, the Futurebuilders Programme, despite resistance from many third sector organisations, helped to lay the foundations for social investment and SIBs through its encouragement of a loan culture.

2.5 Commission on Unclaimed Assets

Cohen's next initiative was to set up the Commission on Unclaimed Assets in 2005, by bringing together "a group of experts from the banking, finance, consumer protection, and social sectors to work in partnership with the Treasury, the Department of Communities and Local Government, and the Home Office" (Daggers and Nicholls, 2016, p. 7). Without any public scrutiny of these activities, he appointed five out of nine CUA members from his Social Investment Task Force, so that its report in 2007 echoed SITF reports (Daggers and Nicholls, 2016, p. 8):

> *… the CUA put forward a more detailed set of ideas than had previously been published for a wholesale financial institution set up to serve the social sector – a 'social investment bank'. … It would, instead, make co-investments into these intermediary bodies, building the variety and capacity of intermediaries and, ultimately, increasing the supply of capital to the social sector overall."*

Among members of Cohen's Commissions was Ed Mayo, later to become Chief Executive of Cooperatives UK. Mayo was also a member of Cohen's Social Investment Task Force.

2.6 Gordon Brown's 2007 Council on Social Action

Alongside these developments, an important but much neglected report from David Freud on "Reducing Dependency, Increasing Opportunity: Options for the Future of Welfare to Work", in 2007 sought to shift more Annually Managed Expenditure from the £37bn spent on working age benefits into £420mn of Departmental Expenditure Limit programmes to support claimants into employment. Freud's Report formed the basis for the Work Programme, to be delivered using private 'prime contractors' and payment by results. He also paved the way for Universal Credit and SIBs (Freud, 2007, p. 67). This highly political context for promoting payment by results as a basis for SIBs is frequently overlooked. Freud later became a Conservative member of the House Lords and a Conservative Government Minister.

Building on Freud's Report, Cohen's well placed relationships ensured progress elsewhere. In July 2007, Gordon Brown was persuaded to set up a Council on Social Action, with a support team dominated by secondees from Accenture. Again, Social Finance was involved (Community Links and Cabinet Office, 2007, p. 21):

> *"Following a series of meetings with colleagues from across Whitehall, the third sector and the City, further work is now being taken forward by Social Finance in partnership with a range of economists and investment bankers"*

The Council's first year report explained SIBs in more detail (Community Links and Cabinet Office, 2007, p. 21):

> *"SII (Social Investment Intermediaries) could then seek investment from socially-oriented investors that have an interest in ensuring the defined outcomes. …..in the event that the interventions are successful, they will make a return on their investment".*
>
> *"Reflecting their pioneering status, it is likely that early bonds would be financed by sophisticated institutions that are driven by the potential social impact as well as being better able to quantify the risks of the transaction".*

Another Council of Social Action report further developed this concept. "(S)ocial investors could be persuaded to take on implementation risk (the risk that given interventions will genuinely improve social outcomes) that has previously been borne by government" (Robinson et al., 2008, p. 24). This concept was based on notions that delivery of public service outputs can be measured for investors (Chiapello, 2015, p. 25):

> *"…one of the most entrenched fantasies is the idea that social impact could be reduced to a single indicator that would enable investors to choose quite simply between a range of proposals. Instead of considering only risks and returns, they could simply add a third metric, social impact (Morgan 2012)"*

Two years later, Social Finance, using its previous experience from the delivery contract for administering the Futurebuilders Programme, was already explaining how SIBs might work in practice (Social Finance, 2009, p. 7):

> *"… Social Impact Bond investment will fund a flexible portfolio of locally-tailored interventions that address the target outcome. Social Impact Bond funded interventions will be coordinated and aligned with existing provision in order to leverage maximum social change".*

2.7 Dormant Bank Accounts Act 2008

Cohen's Commission on Unclaimed Assets recommended the transfer of unclaimed bank accounts to a new entity, the Reclaim Fund. To implement these recommendations, after continued lobbying, in 2008 the Government introduced the Dormant Bank Accounts Act. Though dormant bank account funds had been earmarked for youth work and financial inclusion, the Government focused entirely on their use to set up a social investment wholesale bank, so that this would be enabled without any need for Government funding. In its December 2009 Pre Budget Report, the Treasury spelled this out very clearly (HM Treasury, 2009, pp. 88, 89):

> *"The Social Investment Wholesale Bank will aim to leverage in investment for organisations with social impact from a wide range of sources and improve their access to finance. The Bank will also aim to increase financial inclusion by supporting Community Development Finance Institutions and credit unions and contribute significantly to innovation in public service delivery".*

> *"To fund its initial capitalisation, the Government announces its intention to commit up to £75mn of the funds expected to be released through the Dormant Accounts Scheme in England… for the establishment of a Social Investment Wholesale Bank, subject to the final volume of funds available for distribution in England".*

Alongside the Pre Budget Report, Labour's December 2009 White Paper "Putting the Frontline First" laid more foundations for SIBs (HM Government and Byrne, 2009, p. 31):

> *"Social Impact Bonds attract non-government investment into their activities, with returns generated from a proportion of the related reduction in government spending on acute services….. have the potential to unlock an unprecedented flow of social finance. By focusing reward on outcomes, organisations are incentivised to develop innovative interventions to tackle social problems"*

2.8 Cohen's Final Task Force Report

All this shows that by 2010, Cohen and his colleagues had been successful in laying out all the necessary foundations for social investment and SIBs. His Task Force Final Report to Gordon Brown in April 2010 made even more substantial claims for using private money to deliver public services (SITF, 2010, p. 16):

> *"The scale of this opportunity is significant. If just 5% of the £65.6bn of capital in UK philanthropic foundations, and, over time, 0.5% of institutionally managed assets in the UK, were devoted to social investment, this would unlock over £5.5bn of financing for social projects. … Taken together, these four sources – philanthropic foundations, institutionally managed assets, grant funding and individual savings accounts – could generate £14.2bn for social investment"*

The SITF Report also promoted SIBs (SITF, 2010, p. 19):

> *"The SIB will play a crucial role in building the necessary market infrastructure. In so doing, it should build on existing organisations wherever possible, but it must also aim to boost the overall capacity of the market to generate investment opportunities".*

The first SIB was introduced by New Labour at Peterborough in April 2010, with Social Finance as a leading intermediary (Nicholls and Tomkinson, 2013). A later contribution emphasises the Government's motives (Maier and Meyer, 2017, p. 7):

> *"This mechanism becomes tilted if governments have strategic and political interests in SIBs per se. …: SIBs are basically supportive of governmental welfare-spending, but combine this with a risk-shift to private investors and a promise of market-like incentives"*

Cohen had been a prominent Labour donor and a previous Liberal Parliamentary Candidate. From 2000 onwards under Gordon Brown as Chancellor and Prime Minister, Cohen and his colleagues had built a framework for social investment and SIBs. His next step was to ensure that progress was continued with the election of a new Government in May 2010.

3 Social Investment and Social Impact Bonds under Coalition and Conservative Governments

3.1 Cohen Turns to the Conservatives

Anticipating a change of government, by early 2010 Cohen was already lobbying Conservatives. As a result, for the May 2010 General Election, the Conservative Party Election Manifesto mapped out a role in the reform of public service delivery for a Big Society Bank (Conservative Party, 2010, pp. 37, 38):

"We will strengthen and support social enterprises to help deliver our public service reforms by creating a Big Society Bank, funded from unclaimed bank assets, to provide new finance for neighbourhood groups, charities, social enterprises and other non-governmental bodies.

"We will work with local authorities to promote the delivery of public services by social enterprises, charities and the voluntary sector".

In 2010 the new Coalition Government invited Cohen and Nick O'Donohoe to design a strategy further to develop the UK social investment market. O'Donohoe had been head of global research for the JP Morgan Investment Bank and had worked on impact investing with the Rockefeller Foundation and the Global Impact Investing Network (Daggers and Nicholls, 2016, p. 11). Cohen and O'Donohoe's work formed the basis of the Government's White Paper in February 2011 "Growing the Social Investment Market", repeating arguments almost word for word from Cohen's final SITF Report (Cabinet Office and HM Government, 2011, p. 30):

"We will examine financing options for working with the private sector and social ventures on Payment by Results, for example through more Social Impact Bonds,[8] taking into account learning from a pilot scheme in Peterborough on prisoner re-offending'.

3.2 Setting up Big Society Capital

Though the Government was required to follow an open tendering process for setting up the Big Society Bank, ministers and civil servants in control of this process wanted the team they had already been working with to be awarded the contract – namely Cohen and O'Donohoe (Daggers and Nicholls, 2016, p. 11):

"If they received multiple proposals the process would become much more complicated. The Government therefore minimised the chances of any other groups becoming aware of the opportunity to submit a proposal by ensuring the tender was not widely promoted or advertised"

In May 2011, Cohen and O'Donohoe submitted their proposal for the operating principles, objectives, roles and structure of the Big Society Bank (Daggers and Nicholls, 2016, p. 13):

"It was also at this stage that O'Donohoe and Cohen appointed themselves as CEO and Chairman of BSC (Big Society Capital), respectively. They also made their first appointments, including Caroline Mason as Chief Operating Officer, so that a small core team of staff could begin to put everything in place"

(Caroline Mason's role is most significant when six years later, as shown below, in evidence to the House of Lords Select Committee on Charities, her view was that social investment had only a limited role in social provision).

From the beginning, the Big Society Bank – or Big Society Capital (BSC), as it became known - used Cohen's and O'Donohoe's contacts among social investment financial intermediaries, with some investments agreed even before BSC was set up (Daggers and Nicholls, 2016, p. 13):

> *"They were desperate to be able to announce that by the end of June they had approved a couple of investments… So money was committed before the organisation formally existed".*

BSC's structure had been written by Cohen and O'Donohoe (Daggers and Nicholls, 2016, p. 17):

> *"This governance structure was highly innovative – no exact equivalent was known in the UK at the time – and the team of people involved in creating BSC's structure was aware that they were doing so without clear precedent. Furthermore, the governance structure created an unusual relationship with government. BSC had been incubated by government and bore the stamp of the Conservative Party's political agenda in its name, yet its governance structure separated it formally from the control of policy makers"*

Though BSC would receive £400mn from the Reclaim Fund from dormant bank accounts, it was also necessary to secure the support and £200mn further funds from four High Street 'Merlin Banks'. (Under the 'Project Merlin' rules Barclays, HSBC, Lloyds and RBS had agreed with the Government adjustments to their banking processes following the 2008 financial crisis). Through significant pressure from these banks for more commercial returns, BSC later described its target rate of return as 4 to 6%. But, as shown later, this risk averse strategy hampered the development the social investment market (Daggers and Nicholls, 2016, p. 24):

> *"Relations between BSC and the social sector were, at times, tense. Several interviewees commented that problems were exacerbated by the profile of the staff team at BSC: many of them came from a finance background and did not have a deep understanding of how the social sector worked. BSC was sometimes interpreted as hostile and distant from the sector it was supposed to serve by some"*

3.3 Cohen Spreads His Gospel

Apart from setting up BSC, there was increasing pressure on the National Lottery to support social investment and SIBs. The Lottery already hosted an 'interim committee' which had invited proposals for BSC funding before it had been set up (Daggers and Nicholls, 2016, p. 14). A year later, Cohen wrote about considerably larger sums of private money to invest in social activity, provided that this was made attractive to private investors (Cohen and Sahlman, 2013):

> *"We believe we are on the threshold of a major change not unlike the early days of the modern venture capital industry.*

> *"We live in a world awash with capital — some $200 trillion in financial assets according to McKinsey & Company. …. If we can create instruments — like social impact bonds — that can deliver a financial return of about 7%, a high social return and limited downside risk, then we can meet two needs. We can provide reasonable returns that are uncorrelated with equity markets and attract capital to entrepreneurs who can develop innovative and effective ways of improving the fabric of our society"*

Eve Chiapello describes these "powerful forces" (Chiapello, 2015, p. 25):

> *"This invention might be of no consequence if it were not carried by powerful forces that promote it tenaciously and more broadly convey the idea that measuring the ''social impact'' of organisations is important for planning public action and the donations market (Alix and Baudet 2013). …. The United Kingdom put ''impact investing'' on the G8 agenda (G8 Social Impact Investment Forum 2013). ''To leverage this momentum and move the social impact investment market towards global scale and sustainability''.*

3.4 Resistance to Big Society Capital

Criticism of BSC's lack of success in promoting social investment reflect its origins in original drafts of Cohen and O'Donohoe (Goggin and Small Change, 2015):

> *"Engaging with Big Society Capital on social investment issues is often challenging as the organisation's roots lie in venture capital and investment banking principles, rather than the values and ethos of the third sector".*

> *"The Big Society Group was established, not for profit, in order to use funds from dormant bank accounts to deliver societal benefits…. In other words, it is using money that belonged to ordinary members of the public who are ultimately, therefore, BSC's primary stakeholders".*

More recent comments continue to echo BSC's limited success (Litchfield, 2019):

> *"By way of comparison, the third sector took up around £730m of social investment in the year ending 2017, but £22bn in grants and donations during the same period.*

> *"Moreover, Big Society Capital estimates that 1,100 charities and social enterprises accessed social investment in 2017. This is an impressive increase from the early days, though this represents a take-up by less than 1% of third sector organisations annually and a much smaller percentage still by the broader social sector (which the NCVO almanac estimates at over 400,000 organisations).*

> *"So should BSC be charging 4 to 5%? … why should the wholesaler be aiming to make a commercial return, given that it was founded with a windfall of dormant assets intended for the good of the social sector?*

3.5 Minimal Public Awareness or Accountability

This research report contends that many of these developments have only been enabled because there is minimal public understanding of the increasing role of private funding and financialisation in the delivery of public services, especially when much of this has been driven by a small well connected group allowed to operate in a context of deliberately reduced public awareness. Maier and Meyer are realistic (Maier and Meyer, 2017, p. 3):

> *"Very few voters even know what a SIB is. Even fewer voters will be informed about the details of a particular SIB contract. Specific information about SIBs, for example about their transaction costs, is never made public though it might be of interest for taxpayers".*

Since many SIB projects use private or third sector agencies to deliver public services, it is also remarkable that there has been little trade union resistance to SIBs. As shown later in Section 5, some SIB projects are of questionable public and social value, since few evaluations have compared their performance with mainstream delivery.

A unique opportunity for greater accountability was missed by the House of Lords Select Committee on Charities, during its hearings between July and December 2016.

On Tuesday 25 October 2016, Caroline Mason as Chief Executive of Esmee Fairbairn Foundation, one of the UK's largest independent foundations, referred to "an unspoken expectation that philanthropic capital will come in to take that risk on the outsourcing of public services" and continued "we do not feel that underwriting statutory risks and costs or private sector risks and costs is a particularly good use of philanthropic capital" (House of Lords Select Committee on Charities, 2016a). Despite her previous role as Chief Operations Officer and her involvement with Cohen and O'Donohoe in setting up Big Society Capital, she was not asked any questions on this. Her written evidence to the Committee was equally significant (Esmeee Fairbairn Foundation and House of Lords Select Committee on Charities, 2017, p. 405):

> *"As a major social investor ourselves, we welcome the growing interest in social investment, but not to the detriment of or separately to, grant funding. Social investment is not for everyone. It is a very useful tool in the funding mix alongside grants, trading revenue, contract revenue, asset leverage. It requires a sustainability of business model that excludes many in the charity sector, both due to their size (83% of charities have income less than £100,000 – NCVO), or due to the nature of their work (eg campaigning and advocacy groups).*

> *" The focus of support to date for social investment has been mainly complex and expensive financing structures such as venture style funds and SIBs/outcomes financing to the detriment of other types of simpler social investment products such as retail platforms, retail savings products (ISAs etc) balance sheet lending, charity bonds and basic financing support for co-ops, social enterprises, social businesses and charities" .*

Just as significant was evidence to the House of Lord Select Committee from Social Finance, which coordinated the Peterborough SIB and is involved in many other SIBs. The Chair of Social Finance spoke dramatically about social investment difficulties for smaller third sector organisations: "The sub-£150,000 marketplace needs subsidy…."I think it is no different from mainstream investment; the valley of death of investment is £50,000 up to £250,000 for normal commercial businesses." (House of Lords Select Committee on Charities, 2016a). He was not asked any questions. On Tuesday 29 November 2016, the Chief Executive of Big Lottery, which administers the Commissioning Better Outcome programme for supporting SIBs, was not asked a single question (House of Lords Select Committee on Charities, 2016b). When the Chair of Big Society Capital spoke of £15mn in SIBs, he was not asked any questions about this.

After six months of receiving oral and written evidence, including from major players in social investment and SIBs, the Committee's Final Report was bland. Without questioning their fundamentals, the strongest criticism on SIBs from the Committee was "The expectations placed upon Social Impact Bonds have yet to materialise and we believe the Government's focus on them has been disproportionate to their potential impact…..While the Government should redouble its efforts to make them work better, future public funding should be reoriented towards financial products with application to a wider range of charities and beneficiaries" (House of Lords Select Committee on Charities, 2017, p. 86).

4 The Claims Made for Social Investment and SIBs

4.1 How the Social Impact Bond Works

In his final Task Force Report, Cohen sought to explain how the social investment and SIB markets work (SITF, 2010, p. 18):

> *"The SiB focuses on specific deep-rooted social problems that are a significant cost to the taxpayer (for example: re-offending by short-sentence offenders; acute hospital admissions for elderly patients; at-risk children placed into local authority care). …. If the programmes are successful and deliver positive social outcomes, the demand for acute services will drop and a proportion of the cost savings made will be paid out to SiB investors".*

He continued with big claims for SIBs (SITF, 2010, p. 19):

> *"This new financing instrument:*

- *enables preventative work to be funded at scale – The SiB provides longer term private investment to fund early intervention that addresses the root causes of social issues.*

- *fosters innovation – The investment return is based on successful social outcomes of social, not for-profit service provision.*

- *enables locally-based solutions – The SiB funds service provision through a portfolio of social sector organisations".*

Local government finance organisations such as CIPFA continue to repeat Cohen's arguments in their guidance on alternative service delivery models. "Social impact bonds (SIBs) allow governments to try out new social services on a no-win, no-fee basis, bringing in non-government investors to provide funding and transfer risk" (CGMA and CIPFA, 2018, p. 14).

The Government Outcomes Laboratory describes SIBs (Government Outcomes Lab, 2019a):

> *"impact bonds are outcome-based contracts that incorporate the use of private funding from investors to cover the upfront capital required for a provider to set up and deliver a service. The service is set out to achieve measurable outcomes established by the commissioning authority (or outcome payer) and the investor is repaid only if these outcomes are achieved. Impact bonds encompass both social impact bonds and development impact bonds".*

SIBs involve various combinations of inputs and outputs, with the roles of 'SIB actors' examined in more detail in Section 5. All SIBs involve an 'outcome payer' (in many cases a Government Department or Big Lottery), a service provider (usually from the third sector) and investors, who provide upfront funding (Government Outcomes Lab, 2019a):

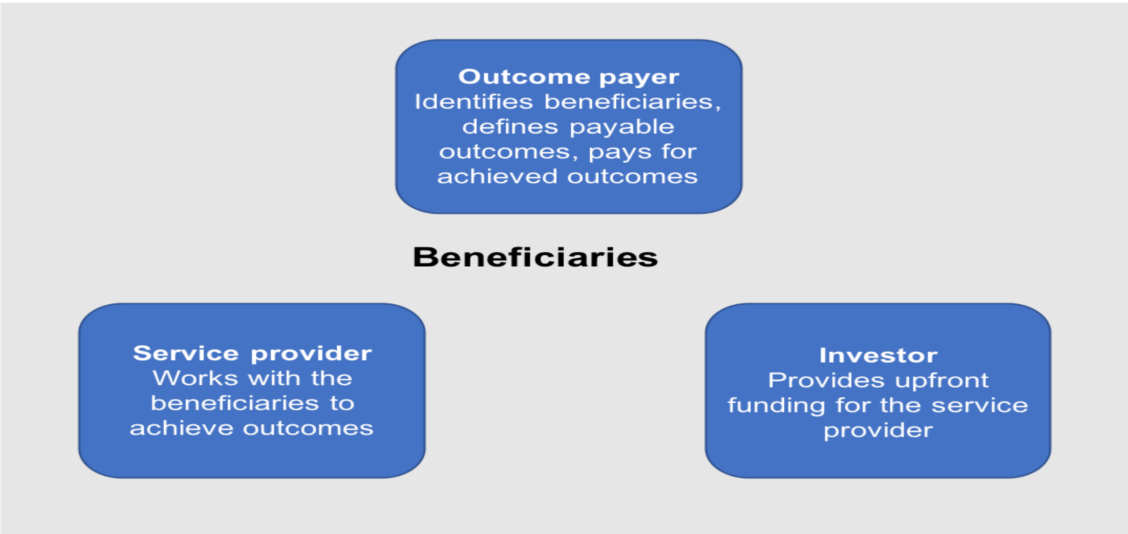

Figure 4.1 SIB Basic Structures

4.2 Subsidy and Social Investment

Based on projections by Cohen, Big Society Capital and various Government Departments, there has been a proliferation of myths about private investors' excitement and willingness to invest their own money in the growth of social activity and public services. But the reality shows the necessity for heavy subsidies, including underwriting by bigger foundations which testified before the House or Lords Committee, or through Government programmes.

The current UK 'SIB market' is still small and worth an estimated £153mn (maximum contract value), less than 1% of the estimated £15bn market for UK Payment by Results contracts (Floyd, 2017a, p. 3). To subsidise social investment and SIBs there has so far been a total of £1.06bn from the main programmes funded by Government Department and Big Lottery. (Floyd, et al., 2017, p. 22), through 120 social investment intermediaries (Floyd, 2017b).

So the Government and Big Lottery SIB subsidy is bigger than actual SIB external investment (Floyd, 2017a, p. 21):

> *"a conservative estimate of the total subsidy provided to the SIB market between 2010 and 2016 (£45mn) exceeds an optimistic estimate of the total investment by socially motivated investors (£39 million). Every £1 invested in a UK SIB has been supported by at least £1.15 of government money.*
>
> *"An alternative way of viewing the figures is that every £1 of the £153,472,000 spend on SIB contracts has been supported 29p of subsidy".*

In addition, as presented to the House of Lords Committee, there is significant support from foundations. CAF Venturesome has made investments of more than £40mn in 500 charities and social enterprises. The Esmee Fairbairn Foundation, the largest trust, has £45mn invested in 120 projects (Floyd, et al., 2017).

As shown below in Section 5, limited initial evaluations of Cabinet Office and Big Lottery SIB support programmes show the critical role of central Government funding in providing around 50% of SIB total project costs, with the SIB commissioner providing the other 50% (Ecorys Research and Consulting, 2017, 2016a, 2016b). So far, most "new private investment" has come from those trusts and foundations which have been persuaded by Government, with little from 'high net worth private investors". Without underwriting and guarantees, there is little private investor appetite.

In a 2018 Final Evaluation Report on nine health and care 'Trailblazer SIBs' in Sandwell and Birmingham, East Lancashire, Leeds, Manchester, Newcastle, Shared Lives in Lambeth and Manchester, Thames Reach and Worcester, most finance was from organisations primarily 'philanthropically or socially minded,' with "little evidence that the opportunity to invest in the Trailblazer programmes was perceived by more commercially minded private investors as offering a sufficiently attractive new investment opportunity (Wilson 2014)" (Fraser et al., 2018, p. 134).

"During the three-year evaluation which covered the early period of the Trailblazers, in most cases the bulk of the payments to investors came from central government and Big Lottery rather than from local commissioners. The role of subsidies for outcome payments is amplified in Section 5 below. Only one of the Trailblazers reported having made any cashable savings during the evaluation period as a result of the SIB-financed interventions. (Fraser et al., 2018, p. 1). "A large proportion of these outcome payments (where relevant) were typically paid not by local commissioners from savings generated by client outcome improvements but by central government and national charities such as the Big Lottery on a variety of cases in most Trailblazers" (Fraser et al., 2018, p. 142).

Effectively, these so far show that local authorities and others view a Government or National Lottery contribution as matching their own funds, with SIBs seen as just another Government funding programme, for which the Government may also initially pay for feasibility studies.

4.3 SIB Assessments and Evaluations

Few evaluations or assessments compare SIB delivery with mainstream or in house provision. "We have found that very few UK SIB programmes have yet been subject to impact evaluation, and that some are not subject to any evaluation. PbR innovations are adopted nationally before the pilot has been evaluated (sometimes even before the pilot has been concluded)". "The US, like the UK, provides insufficient evidence to allow us to be sure the approach is worthwhile. Only three evaluations have been published to date" (Albertson et al., 2018, p. 111)

From a review of 58 papers and 48 methodologies, further Policy Evaluation Research Unit reviews are not encouraging. "Of the 46 papers reviewed 29 relate to PbR programmes, 15 to SIBs and one covers both a PbR programme and a SIB (Ministry of Justice 2014). ……. Four papers were published in peer reviewed journals, the remainder are 'grey literature' reports, the majority of which are published by the UK government departments that commissioned them … The majority of papers (37) are primarily implementation evaluations that use either exclusively qualitative methods (typically semi-structured interviews and reviews of project documentation) or a mix of qualitative and quantitative methods (typically a survey of service providers or service users combined with semi-structured interviews) (Fox and O'Leary, 2017, p. 5).

"These evaluations typically rely on existing, administrative data sets and often report challenges in accessing data or the poor quality of the data sets they are able to assemble prior to analysis …" (Fox and O'Leary, 2017, p. 6). This experience of poor evaluation and lack of comparison with mainstream in house delivery is also shown in more detail below in SIBs described in Section 5 of this report.

4.4 Policy Entrepreneurs and Transaction Costs

When they proclaim innovation through venture capital as a route to more effective public spending, the role of intermediaries and evaluators who act as SIB policy entrepreneurs, advisers and SIB supply side drivers is often overlooked. It is almost impossible to ascertain the actual costs of most SIBs, since their transactions costs are commercially confidential. In responses to 33 Freedom of Information requests, the author has been told constantly that this information cannot be given.

After setting up the Peterborough and London Homelessness SIBs, UK policy entrepreneurs like Social Finance now work with the University of Utah and others on US projects. After providing initial feasibility studies, agencies and intermediaries advising and promoting SIBs frequently become the implementing agency for the SIB they have promoted. In both the US and UK, a policy community is emerging. In the UK this includes Newcastle University's Business School, London Universities' Policy Innovation Research Unit (PIRU) and Manchester Metropolitan University's Policy Evaluation Research Unit (PERU). Many in academia now provide regular updates and blogs to enhance their reputation as evaluators and intermediaries.

As shown earlier, despite continued public funding and subsidy, in both the UK and US there has been minimal public evaluation. However, in the US, the Government Accountability Office conducted an initial limited examination of SIBs, on how these were structured and what role the US Federal Government might play. Its findings expressed much more caution than the House of Lords Select Committee (United States Government Accountability Office, 2015, p. 64,65):

> *".. a government's costs of implementing a PFS project, which can include investor returns, management fees, and evaluation costs, can be high, so the government must decide whether potential benefits outweigh these costs…In practice, investors whose return on investment is contingent on positive results may prefer projects that are based on rigorous evidence of success and may avoid innovative approaches that have not been rigorously tested".*

5 What SIBs Cost and What They Do

This Section examines a cross section of SIBs in detail, showing their funding, modes of operation and claims made by their promoters. Where external evaluations and assessments are relevant, these are also shown. Though this research report sought to provide examples from England, Scotland, Wales and Northern Ireland, most are from England since there are only two Department of Work and Pensions Innovation Fund SIBs in Scotland and Wales and none in Northern Ireland.

5.1 Examples of SIBs

5.1.1 West London Zone Collective SIB

Centre for Cities sums up the unique funding model for this SIB (Clayton et al., 2017):

> *"The West London Zone (WLZ) aims to help support students to remain engaged and motivated through their education – and promote inclusive growth through the prevention of exclusion… The Zone brings together multiple commissioners to support a broad range of positive outcomes for children and young people, having established that multiple organisations were providing support but that it was not sufficiently coordinated".*

> *"The WLZ was initially piloted with £600,000 of support from a group of six foundations/trusts with additional support from Big Lottery Fund for pilot phase.*

Incentives were given to schools (Erskine et al., 2018, p. 20):

> *"… One of the ways WLZ secured buy-in from the schools was to promote the shared expense of the service, for example 'You put £1,000 in and we'll bring £3,000'"*

For this SIB, a pilot between July 2015 and August 2016 cost £560,000 for setup and delivery to 118 children (Dartington Social Research, 2016, p. 3). The conclusion was (Dartington Social Research, 2016, p. 6):

> *"While we were pleased that 32% of the children we could fully assess reduced their risk factors during the course of the pilot, that meant that 68% did not change or increased their risk factors. We cannot yet directly attribute the positive changes to WLZ, and we cannot say that those that went backwards might have declined further if they had not participated in WLZ".*

Despite weaknesses shown in this evaluation from difficulties in measuring what the WLZ SIB actually accomplishes, there are now total projected outcome payments for this SIB of £2.6mn over 63 months (Erskine et al., 2018, p. 3). An In Depth Review for the Commissioning Better Outcomes fund shows (Erskine et al., 2018, pp. 8, 14, 25):

> *"WLZ is still developing how it works with the local partners and the relationship between the intervention and measured outcomes is largely untested".*

> *"… In practice, WLZ has found that the current approach is, first, difficult to explain fully to stakeholders because it is so complex, making it more challenging to secure buy-in for the model. Second, the approach of monitoring actual progress from baseline (rather than any amount of change or passing a threshold) does not work that well in practice and there are limitations in how appropriately this links with payments".*

Apart from an initial grant from the London Borough of Chelsea and Kensington, the WLZ SIB project received in February 2015 a Commissioning Better Outcomes £150,000 grant for setup and development costs (Erskine et al., 2018, p. 18), followed by a further underwriting grant of £150,000 from City Bridge Trust and UBS (Erskine et al., 2018, p. 18). Bridges Fund Management provided £350,000 in up front investment (Erskine et al., 2018, p. 12). In addition, in March 2015 solicitors Bates, Wells and Braithwaite provided legal advance (Erskine et al., 2018, p. 18). Centre for Cities provides a summary (Clayton et al., 2017):

> *"…. if the WLZ achieves successful outcomes for 300 pupils that will unlock £3 million of funding. WLZ has used local authority investment to leverage funding from other stakeholders. Local authorities and schools both provide a third of WLZ funding, the philanthropic sector provides a fifth, while central government and the Big Lottery Fund make it the remainder"*

All this shows that, following a pilot with uncertain results, a projected £3mn has been earmarked for a project which has so far not been fully evaluated, and which lacks any comparison with delivery by teachers and mainstream support staff.

5.1.2 Life Chances Fund – DFN Move Forward (Think Forward) SIB

In 2011, private equity company Impetus created ThinkForward for "successful school to work transitions". The Trustees of the DFN Charitable Foundation, which are also promoting this SIB, are mainly bankers and lawyers. Starting in 2018, for a projected period of 60 months with support from the Government's Life Chances Fund (DCMS and Big Lottery), this SIB project envisages total potential Maximum Outcomes Payments of £1,683,000. It claims to provide high quality care for 358 young people aged 14 to 25 with mild to moderate learning disabilities.

The project engages parents and staff with 1:1 coaching and careers advice and guidance, including work based insight days, skills workshops and work experience. The project aims to support evidenced based approaches to support those most at risk of becoming NEET (DFN Think Forward Data Template, 2018):

> *"…..Multi-stakeholder engagement is at the heart of the project and it will drive systemic change whereby parents will increase their aspirations and schools and employers will have increased capacity to support young people more effectively".*

> *"The process for enrolment has been informed by ThinkForward's existing robust process which is recognized for its focus on those most at risk of being NEET. Following their pilot, they will primarily be targeting young people from Year 11 onwards".*

But despite these claims from DFN, the evaluation of the ThinkForward pilot is highly critical (Sheffield Hallam University and University of Essex, 2018, p. 1,2):

> *"The pilot found no positive impact on unauthorised absences or GCSE scores amongst students that took part in the programme.*
>
> *"The costs of ThinkForward are high in comparison to other interventions, with a cost of £2426.50 per pupil per year during the pilot. Although, the costs of the intervention have since been reduced, and schools often do not pay for the entire intervention themselves, the high cost could make recruiting schools to a large school-level trial expensive.*
>
> *"The pilot also provided initial evidence on whether ThinkForward was likely to be effective at raising attainment. It found no evidence of promising results for improving Key Stage 4 attainment, reducing absences or changing attitudes towards further and higher education.*
>
> *Because of the low impact estimates and relatively high cost, Education Endowment Foundation (EEF) is unlikely to pursue ThinkForward as a cost effective way to improve attainment".*

The project also uses ThinkForward's own work skills unrecognised 'BTEC alternative' school qualification. All this means that up to £2mn will be used to fund a project devised by a private equity company to deliver an unaccredited qualification. There is little evaluation so far of whether this outsourced delivery compares with mainstream in house delivery or whether funds are being used effectively.

The author recalls the experience of the Utah SIB in the United States, where funding from Goldman Sachs was used for pre school education. Despite minimal risk, Goldman Sachs was well rewarded (Tse and Warner, 2018, p. 7):

> *"In the first cohort, 595 students attended preschool, 110 were deemed at-risk, but only one actually used special education in kindergarten (United Way of Salt Lake, 2015). Goldman Sachs was paid for almost the entire cohort—an unprecedented level of impact for a preschool program (Popper, 2015)".*

"Though demonstrating to the state legislature that preschool is good for children, the SIB handed over a massive amount of money to investors and has generated negative press about its usurious pricing structure (Popper, 2015)" (Tse and Warner, 2018, p. 9). The US Office of Government Accountability issued a "health warning" (United States Government Accountability Office, 2015, p. 65):

> *"By undertaking a PFS (Pay for Success or SIB) project to implement a program that is known to be successful, a government could be taking on extraneous costs for little or no benefit"*

The FoI response from DCMS shows that £683,000 has been given from the Life Chances Fund and £1mn from the DFN Charitable Foundation, so that £1.683mn represents maximum outcome payments under the SIB. The maximum paid to deliverers for each individual is £13,000. No information has been provided for "amounts of fees and payments to advisors and intermediaries for set up, development and implementation costs and other payments".

5.1.3 Pan London Rough Sleeping SIB

The 'core intervention period' for this SIB was from November 2012 to October 2015, with a final 'payment tail' year for outcomes to be recognised. The SIB targeted 830 'entrenched rough sleepers with complete needs'. The Ministry of Housing and Local Government contributed £2mn and Greater London Authority £1mn towards outcome payments. With further investment, maximum payments of £4.8mn were shared between St Mungo's and Thames Reach, the two charities which delivered the SIB. But a detailed analysis of the London Rough Sleeping SIB shows its fragile business case (Cooper et al., 2016a, p. 70):

> *"The business case stated that, "We have been unable to identify a robust evidence base linking interventions with realistic expectations of outcome improvements" (Social Finance, 2012b, p. 15). Nonetheless, three models of interventions are set out in the business case (Social Finance, 2012b)"*

Cooper et al complain that much of the feasibility study assumes that clients are "homeless individuals deemed to be consuming a disproportionate amount of resources (Crow & Smykla, 2014; Culhane & Kuhn, 1998; Culhane, Metraux, & Hadley, 2002; Department for Communities and Local Government, 2012; National Audit Office, 2005) (Cooper et al., 2016b, p. 66). The Combined Homelessness and Information Network (CHAIN) database records information about rough sleepers in London and is the source of SIB's "feasibility criteria" (Cooper et al., 2016b, p. 70). This shows that "52% of rough sleepers are non-UK citizens (Fitzpatrick, Pawson, Bramley, & Wilcox, 2011, p. 58). 28% of homeless are from EU countries (Department for Communities and Local Government, 2012)".

London Rough Sleeping SIB deliverers have worked with the UK Borders Agency to return service users to their country of origin. "Outreach teams from charities St Mungo's, Thames Reach, and Change, Grow, Live (CGL) conduct regular joint "visits" with Immigration Enforcement officers, as often as fortnightly in central boroughs. Freedom of Information (FOI) responses show 141 such patrols organised by the GLA and 12 London Boroughs last year." Understandably, this has generated interest and publicity across London. "Charity bosses say their role is to persuade non-UK rough sleepers to leave "voluntarily". But the FOI figures show that detention and enforced deportation is more common; in any case, so-called "voluntary" departures are carried out under the threat of force" (Corporate Watch, 2017).

Mungo's has strong financial motives in all this since they had to invest in their own SIB (Cooper et al., 2016a, p. 76)

> *"In spite of Social Finance's efforts, St Mungo's became the largest investor in its own SIB. As mentioned, it set up a wholly owned subsidiary called Street Impact Ltd., paying in £237,000 share capital. Alongside the St Mungo's investment, four investors agreed to loan £650,000 funds in total".*

5.1.4 Essex Children's SIB

Launched in 2012 and projected for 8 years, this Children's Social Care Multi Systemic Therapy (MST) SIB was commissioned by Essex County Council, using Action for Children as its deliverer. It targets 380 11 to 16 year olds and claims to be "an evidence-based programme to deliver family therapy in the home through highly qualified therapists over 3 to 5 months with the aim of keeping families together and avoiding out-of-home care".

The Freedom of Information response shows that Essex County Council has contributed £7.2mn – which is the maximum projected for outcomes payments to Action for Children. Having raised £3.1mn, external investment is coordinated through Big Society Capital, Bridges Fund Management, Social Ventures Fund, Charities Aid Foundation, King Badouin Foundation, Tudor Trust, Barrow Cadbury Trust and Esmee Fairbairn Foundation. Social Finance is the coordinator and advisor. The method of assessment and evaluation is not known.

"The contract and its negotiation then resulted in the Social Impact Bond operating as an anti-market device, ruling out competition by establishing exclusivity of service to MST and Action for Children over the course of the Social Impact Bond"(Neyland, 2018, p. 500). "This uneven distribution of capacities to calculate seemed to result in certain parties (such as the investors) being able to forecast the future with certainty." The ability of the local authority to calculate the future with any certainty also seems to have been limited, with their projections of cashable savings later questioned as the SIB began operating (Neyland, 2018, p. 503).

To ensure that 380 11 to 16 year olds remained with their families, external investors raised £3.1mn and Essex County Council has contributed £7.2mn (Neyland, 2018, p. 503):

> *"As a result, Essex County Council faced what a former UK Treasury advisor called 'a double spend' problem: having to maintain children's services for cases where MST was not suitable or failed and having to make frontloaded payments to investors. The double spend was absent from the local authority's projected costs".*

The Interim and Summative Evaluation of this Essex MST SIB were ambivalent. Neither compared this SIB with mainstream delivery (Sin, 2016, 2014). Though the Summative Final Evaluation was highly technical, it included (Sin, 2016):

- *Despite intentions, it has not been possible to conduct a robust quantitative comparison of the outcomes of the Essex SIB with other SIBs or MST services.*

- *There was a high turnover of MST therapists, including a need to send two to the United States for training.*

- *Essex County Council (ECC) spending more on SIB payments at this stage than planned for – nervousness re LA funding cuts, despite overall cap.*

- *Cannot firmly conclude whether the SIB impacts on outcomes.*

- *Some additional costs have been incurred because the SIB was innovative: unlikely to be incurred to same extent elsewhere.*

- *ECC has incurred costs over and above the SIB expected costs.*

5.1.5 Cornwall Frequent Attenders (Addaction) SIB

The Government Outcomes Lab offers a basic summary (Government Outcomes Lab, 2019b):

> *"Starting in 2018 and projected for a period of 60 months, supported by the Life Chances Fund (Cabinet Office) Cornwall County Council seeks to provide support for 705 adults aged 18 to 70 with drug/alcohol issues and additional complex issues (including mental ill health, physical health problems or homelessness). Investment management is by Big Issue Invest and £0.4mn capital has been raised. The SIB seeks to engage with people to reduce A & E attendance".*

The Cornwall FoI response is more detailed (Cornwall Council, 2019):

- *Amount of funding contributed or to be contributed by Life Chances Fund (DCMS and Big Lottery Fund) Total amount of £763,594 over the 7 years of the scheme.*

- *Amount of funding contributed or to be contributed by Cornwall County Council The total amount of funding projected to Addaction is £1,418,104 over the 7 years.*

- *Amount of funding contributed or to be contributed by Big Issue invest, Numbers for Good and other external investors and advisers. Drawdown from Big Issue Invest of up to £329,594.*

- *The total amount of funding projected to Addaction, including Life Chances Fund, of £2,181,698. The payments to Addaction are because Addaction have a contract with the Council to deliver alcohol and drug treatment, prevention, education and rehabilitation services for the population of Cornwall and the Isles of Scilly for over 2,700 adults and young people every year. We are holding back £240,000 of the contract price to pay for outcomes achieved through this Social Impact Bond.*

The FoI Response continues "We have not made an assessment of staff and resources provided to set up, develop or implement this project, as it is business as usual for the Drug and Alcohol Action Team to make bids and deliver projects" (Cornwall Council, 2019). Though the SIB will be assessed ultimately by Manchester Metropolitan University, these are very large sums of funding, averaging more than £3,000 per beneficiary, with no assessment about whether this is the best way forward.

5.1.6 DWP Innovation Fund, Cardiff and Newport (3SC Capitalise) SIB

The only examples of SIBs in Scotland and Wales are under the DWP Innovation Fund (Department for Work and Pensions and Government Social Research, 2018, p. 5):

> *"the Innovation Fund (IF) pilot, a £30million programme delivered between April 2012 and November 2015 to support young people aged 14 or over who were considered disadvantaged or at risk of disadvantage. The IF pilot was comprised of ten projects, which were commissioned in two rounds (Round One started in April 2012 while Round Two commenced operation in November 2012) and used a Social Impact Bond (SIB) model".*

Starting in 2012 for a period of 42 months and supported by the DWP Innovation Fund Round Two, this Cardiff and Newport SIB project involved Dyslexia Action and Include (subsidiary of Catch22 and other organisations, including Big Society Capital.

Using a "black box" approach, this SIB sought to provide support and advice to 700 young people aged 14 to 15 from becoming NEET or already NEET, using "a more extended period of personal and skills development and the encouragement of mental resilience in dealing with challenges and difficulties faced; and an ongoing process of goal setting and progression facilitation" The project used cognitive behaviour intervention and support to address poor literacy and academic achievement. This consisted of specialist literacy teachers delivering support to pupils with dyslexia and basic skills issues, alongside a team of project workers who provide motivation and personal development coaching, and interventions to address behavioural and truancy problems.

The only information provided by the FoI Response is that "The value of the 3SC Capitalise contract at award was £1,967,400". Though the Department holds this information, it will not release this under Section 43 of the Freedom of Information Act. Though overall Innovation Fund evaluation is shown below, it has not been possible to find an evaluation specifically for this project in Cardiff and Newport.

5.1.7 DWP Innovation Fund, Perth YMCA SIB

Similar to the Cardiff project, starting in 2012 for a period of 36 months, this project involved Perth YMCA as a provider, with Aberfeldy Church of Scotland, a regional development organisation, local businesses and individuals as investors.

Using a "black box approach", this SIB sought to provide support and advice to 1,000 young people aged 14 to 24 from becoming NEET or support those already NEET (Government Outcomes Lab, 2018a):

> *"Interventions display a wide diversity in terms of participant age range, in and out of school provision and the balance between one to one and group work… Despite these differences, there are also commonalities between projects including: time spent on initial marketing, recruitment and engagement; an intense initial process of working with each participant to achieve a positive shift in 'mind-set'; a more extended period of personal and skills development and the encouragement of mental resilience in dealing with challenges and difficulties faced; and an ongoing process of goal setting and progression facilitation".*

The support package included confidence building, training, employment placements in social enterprises and links to employers, delivered at the premises of Perth YMCA, at community venues and schools' outreach. Projects were left to their own discretion to decide how they would tailor approaches to achieve outcomes according to the expertise of providers and in response to local circumstances and needs.

The only information given in the FoI Response is that "the value of the Indigo (Living Balance) contract at award was £1,175,270".

5.1.7.1 Overall Innovation Fund Evaluation

Though no separate or individual evaluation has been carried out for these above individual DWP Innovation Fund SIBs, evaluations for the Innovation Fund as a whole have not been favourable. "No projects were allowed to fail and investors went to considerable lengths to support and capacity build providers that were struggling to generate sufficient outcomes for financial viability, although the risk of incurring losses was clearly high" (Department of Work and Pensions, 2014, p. 28). "(T)he bidders can "pick and mix from this list" and they can propose the payments associated to each proxy outcome (Center for Social Impact Bonds, 2013)" (Arena et al., 2016, p. 932). Though the Quantitative Evaluation of Innovation Fund used recognised Impact Assessment and Social Return on Investments methods, its findings have not been supportive (Department for Work and Pensions and Government Social Research, 2018, pp. 67, 68, 69):

> *"One year after starting the IF pilot, the proportion of participants who were in school or college and the proportion in a paid job were both reduced, suggesting a negative impact of the pilot (more young people would have been in education or employment had they not participated in the IF)"*
>
> *"Therefore, supporting participants towards the achievement of qualifications higher than NQF level 1 seems to have been very limited in reality, and some projects may have 'traded' the most ambitious individual outcomes (achievement of higher-level qualifications) with softer ones (improvement in attendance and attitude towards school among programme participants).*

> *"The impact results imply that most of the scheme's positive outcomes would have been achieved even if the scheme had not existed, and in some cases that programme participants achieved poorer outcomes than the comparison group. Based on these considerations, the real SROI ratios would be below one, suggesting that the IF did not achieve value for money overall or at an aggregate level"*

5.1.8 Hillingdon CCGs End of Life SIB

Hillingdon Hospitals' NHS Trust End of Life Care Strategy 2017-2020 provides a background for this SIB (Hillingdon Hospitals NHS Foundation Trust, 2017, p. 3)

> *"In 2014 47% people died in hospital. In 2015 54% Hillingdon Borough residents died in hospital. The use of acute services in last year of life is substantial – 30% of all hospital inpatients are in the last year of life. 20% of all people in the last year of life are admitted to hospital at least five times in that last year. In 2015, 11% of all patients in Hillingdon CCG had three or more admissions in the last 90 days of their lives. This is the highest rate in the NWL STP footprint, and substantially higher than the national average of 7%".*

For 36 months, this SIB aims to reduce hospital admissions for 1000 beneficiaries and to enable more to die at home (Government Outcomes Lab, 2018b):

> *"Your Life Line 24/7 is a single point of access (SPA) and palliative overnight nursing service (PONS) that works in collaboration with all clinical care providers involved in aspects of end of life care within Hillingdon to ensure improved co-ordination, communication and liaison with teams in all settings relating to current care planning and delivery. ….. This includes both telephone advice and trained nurses who are able to rapidly provide a visit to a patient when this is required. The SIB aims to prevent avoidable hospital admissions and help palliative patients to die in a place where they feel most comfortable".*

Social Finance, with its background described in sections of this research report above, assisted in setting up this SIB (Social Finance, 2018a):

> *"The primary metric being measured by the service is the number of deaths in usual place of residence for service users. The current baseline is set at 38%; the aim is for 65% of service users to die in their preferred place of death. Additionally, the service will look at A&E visits and non-elective admissions for Hillingdon patients. There will also be a focus on the qualitative data we receive, including feedback from carers and families on their experience of the service".*

> *"The Care and Wellbeing Fund is investing £1.87mn into Hillingdon CCG to provide the service for 3 years. Hillingdon CCG, if all outcomes are met, will pay back the cost of the service plus a small programme management fee. The CWF will receive top-up funding from the Commissioning Better Outcomes Fund equal to approximately £420k".*

The Care and Wellbeing Fund receives £12mn from Big Society Capital and Macmillan Cancer Support. The FoI Response is not very comprehensive (Mallinder and NHS North West London Collaboration of Clinical Commissioning Groups, 2019, p. 2)

> *"Outcome payments to the Social Finance Incubator are based on achievement of agreed Key Performance Indicators (KPIs). These fluctuate year to year and total outcome payments cannot be forecast at this time. The maximum outcome payment that could be due at the end of the service pilot is the operating cost of the service. Assuming the pilot operates for the maximum 3 year period, this would be £1.9mn".*
>
> *"The project will be evaluated according to agreed KPIs that show a quantifiable change in the number and proportion of patients dying in usual place of residence and with fewer patients dying in hospital being the primary KPI".*

Social Finance has a model 'End of Life Care Integrator' with which it is now working with CCGs across England to provide these services (Social Finance, 2019a):

> *"Currently, 350,000 people with palliative care needs die each year in England, equivalent to c.1% of the population*
>
> *"The EOLC Integrator provides development support and upfront investment to support the development and delivery of improved community-based end of life care services. In return, CCGs and the wider system would be expected to closely collaborate in co-designing and commissioning the service and to share savings in acute care.*

As an example, North Middlesex NHS Hospital Trust operates a similar SIB for with Haringey CCG, with maximum outcome payments of £82,500 over 2.5 years (Social Finance, 2018b):

> *"The Advance Care Plan Facilitator supports care home staff to discuss their residents wishes for their end of life care. …Outcome payments are based on reductions in non-elective admissions from each of the care homes. The rate of admissions is compared to the 2016/17 baseline to calculate payments.*
>
> *"The Care and Wellbeing Fund is investing £55,000, and £15,000 grant funding, into Haringey CCG to provide the service for 2.5 years. Haringey CCG, if all outcomes are met, will pay back the cost of the service plus a small programme management fee.*
>
> *"Admissions across the two care homes reduced by 9% in the first year".*

There are three End of Life Care Incubator SIBs operating in adjacent or neighbouring CCG areas in London – Hillingdon, Haringey, and Waltham Forest – all on very similar terms. Social Finance is involved in all of these. Since there are other similar SIBs operating across England, including Worcester Reconnections.

As shown in Section 6 below, following interviews with key SIB administrators which beyond doubt show their understanding, experience and expertise in SIBs, this research report questions why these services need SIBs, with a conclusion that they be provided in other ways.

5.1.9 Improving HIV Treatment Social Impact Bond

This SIB works with HIV service providers to provide "innovative interventions" to increase HIV testing and improve access to HIV treatment for 1250 beneficiaries over 72 months. £1mn capital has been raised. The Commissioning Better Outcomes Fund contributes to outcome payments. Elton John Aids Foundation describes this SIB project (Elton John Aids Foundation, 2017):

> *"The partnership will work with HIV service providers including Voluntary and Community Sector Organisations in identifying ways of utilizing additional resources to commission innovative interventions to increase HIV testing in high risk groups as well as improving access to HIV treatment and retention in care that are specifically targeted to the needs of the local population.*
>
> *"The project will be initially funded by private investors such EJAF, other foundations, and impact investing funds"*

Delivery organisations include King's College Hospital, University Lewisham Hospital, South East Lambeth Health Partnership (GP Federation), One Health Lewisham (GP Federation), Southwark GP Federation (GP Federation) NAZ (voluntary organisation) focusing on Latin American communities), Metro (voluntary organisation) focusing on LGBT communities.

A Lambeth Borough Council FoI response has not been forthcoming. A more sympathetic hearing has been received from Elton John Aids Foundation. Since various London Boroughs, Big Lottery (Commissioning Better Outcomes Fund) and the NHS are all closely involved in this project, this research report again raises questions about why there is a need for SIB involvement. There is undoubted expertise used throughout this project – without a need for external investment.

SUMMARY OUTLINE OF CROSS SECTION OF SIBS

Title of SIB	Beneficiaries	Months	Govt Funding £mn	Local Authority Commissioner £mn	Average Indiv Payments	Investor £mn
Newcastle Rough Sleeping MHLG pays Newcastle based on outcomes Newcastle then pays provider (Changing Lives)	168	42	£ 1.54	£ 0.30	£9,000	Big Issue Invest
London Second Rough Sleeping MHLG pays GLA based on outcomes GLA pays provider St Mungos/Thames Reach	350	42	£ 2.00	£ 1.00	£8,600	
Cheshire West Fostering Better Outcomes Chesire pays outcomes to Core Assets	30	60	£ 0.94	£ 3.42	£ 145,000	Bridges
Essex County Council Multi Systemic Therapy Essex funds most outcome payments	380	96		£ 7.20	£ 27,000	£ 3.10 BSC, Bridges, CAF
Hillingdon CCG End of Life Care Care and Wellbeing Fund to be repaid by CCG	1860	36		£ 1.90	£ 1,021	Care and Wellbeing Fund
West London Zone Big Lottery, Cabinet Office, Local Authorities	606	63	£ 3.00		£ 5,000	Bridges Fund Management
DFN Move Forward DFN/Think Forward is deliverer	358	60	£ 0.68		£4,730	£1.00 DFN

Figure 5.1 Showing Basic Calculations for Varieties of SIBs

5.2 Private Investment in Mainstream Programmes

Alongside promotion of SIBs, other external advisers and policy entrepreneurs encourage private and third sector providers to supplement or replace mainstream publicly delivered programmes. As an example, the Education Endowment Foundation has produced guidance on using the Pupil Premium (Education Endowment Foundation, 2019, p. 6):

> *"Schools may need to consider who is primarily responsible for their Pupil Premium spend to ensure it is someone best placed to lead whole school improvements to teaching and learning".*

This guide to the Pupil Premium also promotes other services being offered, including the Aspire Education Trust, the Resource Schools' Network and Sutton Trust. The guide recommends a 'tiered approach to Pupil Premium spending, including Teaching, Targeted Academic Support and Wider Strategies – which are all provided by the Trust. Social investment may be used to supplement the Pupil Premium.

Similar funding is available to support local authorities seeking to convert their Children's Departments into Trusts. Birmingham, Sandwell, the London Boroughs of Kingston and Richmond, Slough, Worcestershire and Doncaster are either examining or have set up trusts or companies for delivering Children's Services. A recent report by healthcare consultancy Laing Buisson has projected that continuing pressures on local authorities to produce good outcomes for children against background of shrinking budgets opens the door to large-scale contracting out of services which may attract investors. This Children's Services Market Report analysed the state of the marketplace in children's care (Blackburn and LaingBuisson, 2017):

- *"authorities trying to provide high-quality services for children while maintaining value "is expected to drive forward more dynamic contract partnerships between local authorities and large independent sector providers".*

- *"there was "momentum" towards outcomes-based delivery supported by payment by results and that the children's social care market was at a scale and maturity "that makes it increasingly attractive to investors".*

- *"The appeal of the sector is clear to market analysts – a sizeable market, an outsourcing of provision to the independent sector, increasing demand and a lack of supply… with the ability of the best providers to attract the talent to deliver the highest quality services, be they teachers or foster carers"*

Social Finance is also pressing its case for 'Integrated Local Networks' based on Primary Care as neighbourhood 'integrators of care, "leading the drive to enhance population health and personalise services, rather than just overseeing the expansion of primary care" (Social Finance, 2019b, p. 4):

> *"there may be a role for socially motivated investors in supporting innovation within primary care delivery and elements of preventative care. NHS grant programmes could also benefit from taking a more explicit 'investment approach' to the management of such funding"*

Social Finance provides a summary of its activities with CCGs, as reported above (Social Finance, 2019b, p. 10):

> *"Over the last four years, Social Finance has been working in partnership with local health and social care systems to support the growth of preventative and community-based care. Using socially motivated external investment or public money, we have supported the development of around twenty organisations and programmes which aim to contribute to the objectives of the Long Term Plan.*
>
> *"Many involve outcome-based contracts, and therefore the return on investment is dependent on achieving a pre-defined improvement in people's health and wellbeing and/or a reduction in the use of acute or other services. ….Many of these will involve social investment from various lenders and providers rather than delivery by mainstream staff."*

The ground is shifting all the time. Under the VCSE (Voluntary, Community and Social Enterprise) Health and Wellbeing Fund 2017-2018 the Department of Health is offering up to £300,000 for funding social prescribing "generally understood to be an intervention through which people are supported to access non-medical services in the community". This is based on a pilot project in the southwest, with the South West Academic Health Science Network and five local authorities, whose report includes "investor-led outcomes-based commissioning with VCSEs, where a social investor or group of investors work in partnership with a commissioner to develop a new intervention model commissioned using an outcome based contract". Alongside this, under the "Health as a Social Movement" programme, NESTA, New Economics Foundation and the Royal Society of Arts were part of a £700,000 project to create six "health vanguard sites". Members of these "social movements" are "people managing chronic health conditions or adhering to complex medication regimes, the people who have grievances with the status quo and can translate them into inspirational visions of a better life and society".

All of these provide the entry points for policy entrepreneurs and social financial intermediaries. The combined effect of these and other initiatives from various Government Departments is that all the time, local communities are being conditioned to provide more services for themselves, so that third sector approaches with external investment might be favoured.

6 The SIB Skillset and Global Growth

In typical SIBs, as shown in Figure 5.1 above, the Cabinet Office Social Outcomes Fund, Big Lottery's Commissioning Better Outcomes Fund or contributions from Government Departments, ranging from Work and Pensions and Housing and Local Government, fund a large part of outcome payments. In many of these Social Finance has an advisory role. During a 'market testing period', Social Finance or another intermediary may seek sums between £50,000 to £100,000, sometimes prefaced by Government programmes for feasibility studies. Examples above show CCGs carrying out similar End of Life Care SIBs, local authorities conducting Rough Sleeping SIBs and other public authorities using similar SIBs for social prescribing or keeping family units together. Interviews below confirm that there is enough expertise within the NHS and local authorities to set up or commission similar services without recourse to Social Finance, SIBs or returns to private investors and foundations.

One interviewee confirmed that once a SIB has been operating, then there is usually sufficient experience to generate a second (SIB Administrator II, 2019):

> *"The SIB effectively de risks and underwrites the first year of operation. There is also the possibility of pulling in information from other databases and sources. Though the onus is on the provider, the SIB provides for a period of testing the market.*
>
> *"So after the first SIB we know what works. When Bridges asked us whether we wanted more from them, we told them we were OK. But though a SIB might provide funding for three to four years, the one adjustment I would like to see is being able to stop the SIB earlier when we know it's not working. There should be provision for stopping the SIB".*

This interview also confirmed that expertise lies with the SIB administrator and coordinator rather than the investor. In the second London Rough Sleeping SIB, with a reduced number of 320 clients there is only £0.25mn external investment from Big Issue Invest and CAF Venturesome. SIB administrators pressed for one third of clients from London Boroughs and two thirds from the London CHAIN database. Another feature of these London SIBs and others has been their ability to match and gather data from other departments.

This report's findings about difficulties in accessing funding and the attraction of subsidies on offer is confirmed elsewhere. In February 2018, Traverse (previously OPM and Dialogue by Design) surveyed all English local authorities on outcome based commissioning and SIBs. 32 of 153 responded - a 21% response rate. Of these, 53% (17) had one or more SIBs. They used SIBs for Children's Social Care (76%), Education (35%) 29% used SUBs in Adult Social Care and 18% for Public Health. The survey found that while 100% using SIBs were driven by a desire to improve outcomes, 71% were motivated by 'saving money' and 65% by the subsidy offered to outcomes top-up payments from central government (including the Commissioning Better Outcomes Fund and Life Chances Fund) and thus 'cost avoidance' (Sin, 2018):

> *"When we probed into the types of outcomes that commissioners are paying for, the majority are paying for a 'reduction in the use of specific services paid for by the local authority' (82%). This compares with 59% paying for the 'improved wellbeing of target beneficiaries'. This reaffirms wider observations in the UK that SIBs have been seen by many as a mechanism for generating 'savings' because of the severe spending cuts being experienced by local authorities since 2010"*

Interviews with SIB Administrators confirm that SIBs offer funding where none other is available (SIB Administrator I, 2019):

> *"The SIB enables access to funding which isn't there currently under public sector bodies and enables services to be as flexible as they want to be. Rather than being tied to particular payment mechanisms, you can adapt what you want to achieve for the people you're working with".*

Even if in five years' time, with double the current number of 70 UK SIBs, there might still be opportunities for SIBs (SIB Administrator I, 2019):

> *"If SIBs transitional or exploration phase and if we can't draw down from budgets, why not work in partnership with someone who does have resource.*
>
> *More and more complex problems are emerging so that the SIB acts as a replacement for previous cuts in public funding. Problems are becoming more and more complex in response to constant cuts".*

Other SIBs work, not through the expertise of investors and advisors but through relationships which are built up during the SIB (SIB Administrator III, 2019):

> *"The relationship between the coordinator and providers means that providers, if necessary, can provide other services, including mental health user support. With the SIB having taken out the risk, and with money from the Ministry for outcome payments, we can offer more flexible delivery".*

Though investors sometimes ask additional questions, interviews have confirmed the significance of gathering information for payment by results which might not otherwise have been collected. The impact evaluation for the first London Rough Sleeping SIB shows that payment by results had a more significant effect than SIB investors (Spurling and Department for Communities and Local Government, 2017, p. 8):

> *"While the findings from the impact evaluation are very positive, and clearly show that the intervention was effective against key outcomes, they do not necessarily prove that social investment and payment incentives drove the results. This is because it was not possible, within this impact evaluation, to disentangle the effect of the social investment model from the intervention service. However, the qualitative evaluation suggests that the Payment by Result (PbR) element of the SIB contract had a greater impact on the providers than the investors' involvement".*

SIB administrators were also asked whether, if other flexible funding mechanisms were on offer, SIBs might still represent the only way to support their different form of SIB delivery (SIB Administrator I, 2019):

> *"No – it's one of range of funding options. But most funding options currently are so limited that if we want to achieve something, if you want to commission funding in response to specific need, not great deal of funding out there. Don't know other funding streams. Public funding has been cut. SIB money is acting as a replacement. The SIB was opportunity to develop a role to do something specifically to address needs of vulnerable individuals identified".*

These findings confirm that continuing pressure for SIBs' expansion comes from external sources. In the Traverse local authority survey, 35% 'neither agreed nor disagreed' whether SIBs worked well. While 29% were 'unsure', equal proportions (18%) 'agreed' and 'disagreed'. Despite this ambivalence, 59% of local authorities that currently implement SIBs felt that they would implement more in future. 53% from local authorities not using SIBs thought their local authority would do so in future. Their reason behind all this was financial challenges surrounding public service (Sin, 2018).

Interviews for this research report have confirmed that expertise for a SIB 'skillset' resides largely with those administering SIBs, so that Social Finance, Bridges Fund Management, Big Issue Invest and other investors are ventriloquising, reiterating and benefiting financially from the experience and expertise of SIB coordinators and administrators. Apart from 47 UK SIBs, Social Finance is involved in 26 in the United States , 10 in Australia, 11 in the Netherlands, 4 in Canada, 5 in France, 3 in Israel, 4 in Portugal, 3 in Japan, 1 in South Africa, 2 in Finland, 2 in Belgium, 1 in Uganda, 1 in The Cameroon, 3 in Germany, 2 in New Zealand, 2 in South Korea, 1 in Sweden, 1 in Switzerland, 1 in Argentina, 1 in the Congo, 1 in Austria and 1 in Peru (Social Finance, 2019c). Encouraged, endorsed and expanded by a host of academic conferences, seminars, evaluators and policy entrepreneurs, as described in Section 7 below, this global growth of a 'SIB industry' is fed by 'social innovation' funds from host governments, profiting from expertise garnered from SIB administrators in the UK.

7 Role of Government Outcomes Laboratory

7.1 The Government Outcomes Lab as Policy Entrepreneur

Analysis in Section 6 above shows that in depth external evaluation of what works in SIBs and what practice might be replicated elsewhere. But instead of evaluation of "what works", as shown below, the Government Outcomes Laboratory continues to hold seminars extolling the benefits and virtues of SIBs. Len Blavatnik, the philanthropic funder of the Outcomes Laboratory is not uncontroversial (Pendleton and Bloomberg, 2019):

> *"Two years ago, a professor of government and public policy at the University of Oxford's Blavatnik School of Government, established through a £75mn pound gift ($115mn at the time), quit in protest of the patron's support for Trump's inaugural committee.*
>
> *"The controversies have stung Blavatnik and stymied attempts to distance himself from the political entanglements of old colleagues. He was bothered that lawmakers were probing Mnuchin's decision to lift sanctions against Rusal and his connections to Blavatnik, according to a person who asked not to be identified sharing private information.*
>
> *"Blavatnik finds the insinuations hurtful and he's proud of his heritage, the person said. He even named his super-yacht Odessa, after his place of birth".*

However, instead of evaluating or assessing past and currently operational SIBs, often, as described above, in very similar fields, 'case studies' published by the Outcomes Lab show its operations as a policy entrepreneur. The Lab offers a 'toolkit' for setting up SIBs (Government Outcomes Lab, 2019c). This summary of the Lab's Social Outcomes Conference, with most presentations from the 'SIB industry' of intermediaries, academics, evaluators and assessors, epitomises its role as a policy entrepreneur (Government Outcomes Lab, 2019d):

> *"At this year's Social Outcomes Conference, we welcomed over 220 delegates from across the world to the Blavatnik School of Government in Oxford. Our delegation included leading academics from the Harvard Kennedy School and Sorbonne University in Paris, senior officials from the European Commission, the Ministry of Economy in Chile, and the White House Office for Management and Budget in the US. We also hosted social innovators from Portugal, development finance experts from Japan, and frontline practitioners from the UK. The conference offered a unique space to draw together a multitude of perspectives, experience and expertise".*

This Outcomes Lab Conference now features in the regular annual calendar of SIB and Impact Conferences which includes Newcastle University's London Business School Conference each September, University of Rome's "La Sapienza" Social Impact Conference in December, and conferences at the Harvard Government Performance Lab and Sorensen Impact Center Innovation Summit at the David Eccles Business School at the University of Utah. A survey of papers and seminars shows growing numbers of 'global academics' anxious to promote the reputation of their universities as SIB evaluators, assessors and policy entrepreneurs.

7.2 HE Research Funding

In the UK, an academic policy entrepreneur role is exacerbated by the Research Excellence Framework (REF), which provides £1bn of 'mainstream quality research funding' for HE Institutions (Higher Education Funding Council for England, 2019). Within the REF scoring framework 'research impact' counts as 25% of overall scoring. Impact is defined as "an effect on, change or benefit to the economy, society, culture, public policy or services, health, the environment or quality of life, beyond academia". Within a 'REF Impact Template' a UK HE institution can display its influence on government policy based on its promotion of SIBs. The REF is carried out every six or seven years, with the next REF exercise in 2021.

8 CONCLUSION

This research report has sought to demonstrate that policies for development of social finance and SIBs have been promoted by a group of well heeled, well connected individuals and intermediaries with backgrounds in financial services. They played a key role in setting up the Social Investment Task Force, the Commission on Unclaimed Assets, the Dormant Bank Accounts Act and SIBs under Gordon Brown as Chancellor and as Prime Minister.

After these Labour foundations had been laid, David Cameron became Prime Minister and Coalition and Conservative Governments pressed ahead with Big Society Capital as a Social Investment Wholesale Bank. Additional support came from the Cabinet Office, Government Departments, Big Lottery, trusts and foundations. Some of the latter have publicly questioned their expected role in social finance risk bearing. Since most of these developments took place beyond the public gaze, a major opportunity for raising public awareness was neglected by the House of Lords Select Committee on Charities during its hearings in 2016 and its report in March 2017.

Following this, with ongoing subsidies for outcome payments and funding for feasibility studies, this report and the Traverse survey (Sin, 2018) show that SIBs are sought, not for more effective service delivery, efficiency savings or funding innovation, but more as replacement funding in times of austerity.

While interviews have shown the need for some initial project underwriting, for many projects, especially where expertise and experience is already available, this could be provided by Government Departments or local authorities' inviting bids to various innovation funds, without the need for SIBs, social finance intermediaries or policy entrepreneurs.

It logically follows that in the same way that a small group of well connected individuals laid foundations for social finance and SIBs, these same financial interests, especially Bridges Fund Management, Social Finance and others, continue their promotion. As part of a growth industry of well connected intermediaries they cultivate myths about SIBs – that they save public money, are more effective and efficient than mainstream delivery, generate innovation and reduce risk. Limited evaluations show that these are rarely achieved.

This report concludes that it is largely widespread public ignorance and lack of awareness which is responsible for the perpetuation of SIBs and social finance.

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