

Value creation, cost-benefit and public service innovation in Social Impact Bonds — The potential and limitation of new contractual relationships

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Introduction

Value for Money, Cost Effectiveness, Evidence based Policy Making (EBPM) have increasingly become common languages in modern public management world. Public services have been in great demand under aging population, changing needs for quality of life and emerging complicated social issues. On the other hand, governments undergo fiscal constraint, increasing demand for accountability and transparency by tax payers. Thereby, governments are required to manage public services commissioning in more efficient way and based at evidence. In terms of commissioning, outcome based commissioning or Payment by Results (PbR) approach has been adopted more and more in commissioning public services.

Social Impact Bonds (SIBs) have been considered as part of PbR since the first SIB in the world was launched in the UK. In fact, SIB structure is characterized as contractual relationship in which multi-stakeholders create partnerships and seek for social impact. Nevertheless, SIBs cannot be identified as conventional PbR model. Most distinguished difference from conventional PbR is SIBs utilizing private capital and project finance method. SIBs can be interpreted as “SIBs combine some component of results-or performance-based financing and public-private partnerships, which have been used to fund public services for many decades” (Gustafsson-Wright, Gardiner and Putcha 2015: 2). Nicholls and Tomkinson also define SIBs as “ a set of contracts, the basis of which is an agreement by government to pay investors for an improvement in a specific social outcome once it has been achieved” (Nicholls and Tomkinson 2015: 336).

As such, SIBs can be understood as a one form of payment by results (PbR) with using private capital provided by social investors². Social investors provide money to cover up-front cost of the program. In exchange for the contribution, commissioners (governments) pay out principal plus a performance related return for investors if the pre-defined outcomes are achieved.

SIBs have been increasingly recognized as vehicles for public service innovation around the world since the first SIB was launched in the UK in 2010.

On the other hand, SIBs have drawn not only enthusiasm but also criticism over the actual impact and limitations. Some authors regarded SIBs as not agent in causing social innovation but marketing of the third sector organizations or financializing of public policy.

In this paper, we focus on not just financial or fiscal effect but value creation, cost-benefit in broad sense and innovation aspects of SIBs. In terms of analytical framework, we focus on not each of stakeholders but also inter-organizational relations in SIBs. Thereby, we examine implication for public services and limitation of SIBs considering the inter-organizational relations.

In our research method, we conduct survey of 153 local authorities in England. We also conduct case studies about Essex SIB and London Homeless SIB (Street Impact). Because SIBs

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² Social investors may include private funders, foundations, trusts, social bank or philanthropic individual investors.

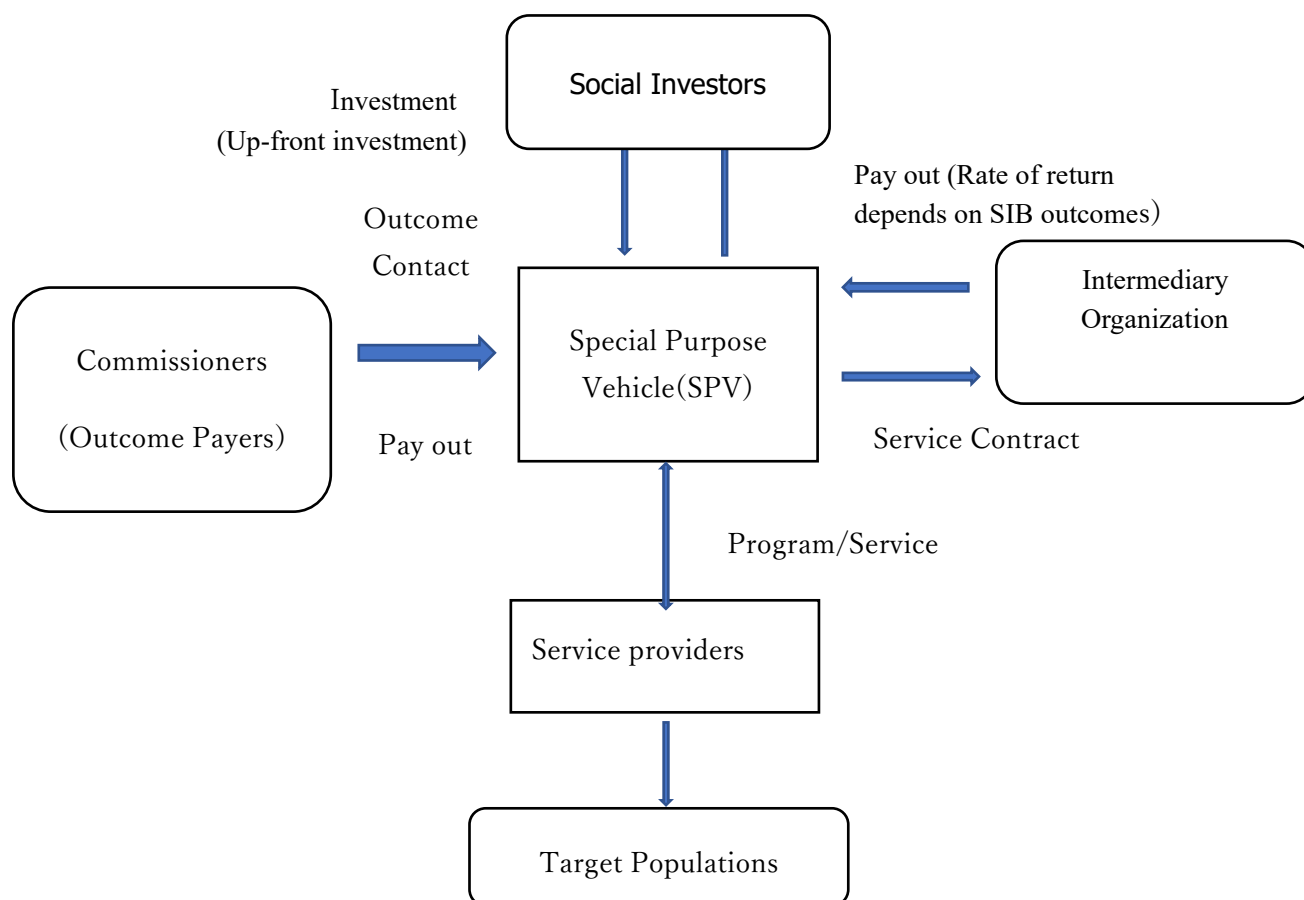
have been most developed in the UK and more and more academic literature has treated the UK SIBs including challenges as well as the potential.

Typical Structure of SIBs

In terms of outcome based commissioning, under conventional government contract regime, governments as commissioners pay for the output of services provided by service providers such as charities or social enterprises. In addition, in conventional contracts, payment by government is generally made to service provides after they have completed delivery of contracted services. It means that service providers should demonstrate the evidence for the output of the delivery of services. It also means that service providers are required to finance the operation cost for the delivery of services by themselves before the payment by governments.

In contrast, in SIB contracts, government pay not output but the outcome of services provided. It means that service provides of SIB program are required to demonstrate the clear evidence for the attainment of outcomes. On the other hand, in SIB contacts, service providers are paid upfront to deliver the intervention services by social investors. In most typical structure of the SIB contract, it is composed of different stakeholders such as service providers, social investors, outcome payers(government), intermediaries (See Figure 1). In typical SIB contact, an intermediary or special purpose vehicle(SPV) issues the bond to investors and subcontracts with service providers.

Figure 1. Social Impact Bond Structure



One of key features of SIBs is the complexity of partnership. SIB models tend to be composed of three core partners and other partners (see table1).

Table 1. partners in SIB models (OECD 2016:13)

●Core partners
Commissioners (governments as outcome payers) who are outsourcing a service and pay when agreed outcomes are achieved.
Investors who provide finance usually through a special purpose vehicle.
Service providers who deliver the service to the end user or client.
○Other partners
Intermediaries that may structure the deal, manage the relations between partners and the service providers' performance.
Evaluators who verify that the outcomes have been achieved.


As for the use of the term “bond” in SIBs, SIBs cannot be regarded as “bond” in commonly used definition in financial circles. In principle, SIBs have not any fix-income security like bonds. In addition, the return is contingent on attainments of agreed outcomes in SIBs. In this sense, SIBs can be regarded as not debt investment but a kind of equity investment.

Main types of SIB contractual relationships

SIBs share key features as described in the previous section. However, in contract structure, there is no single unified type in current SIBs. In fact, SIB structures tend to be diversified. According to Bridges Ventures, emerging SIBs can be classified into three main structures (See table 2). The classification of the three different types are related to level of outsourced performance management. That is, in case of “Direct” type of SIB, service providers have capability and capacity to robustly manage service delivery data collection in relation to desired outcomes (Bridges Ventures 2014:19). Due to the confidence in such capacity of service provider, service provides can contract with government as an outcome payer and also can receive investment from investors directly. Compare to the “Direct” type, in other “Intermediate” and “Managed” types, service providers tend to lack the performance management related capacity. Thereby, in other two types, performance management support needs to be built into the SIB.

Furthermore, there are two general models as an individual transaction impact bond for one outcome payment contract or as an impact bond fund for multiple outcome payment contracts around the same social issues (Gustafsson-Wright, Gardiner and Putcha 2015:9). In the latter type, governments set up SIB fund and a rate card is issued that establishes the payment per individual outcomes (Gustafsson-Wright, Gardiner and Putcha 2015:9).

Table 2. Three emerging SIB structures (Bridges Ventures 2014: 20)

	Contract management	Performance management	Who originated the social impact bond?	Who is the investor backing?	<p style="text-align: center;">LOW</p> <p style="text-align: center;">Level of outsourced performance management</p> <p style="text-align: center;">HIGH</p> 
Direct	Delivery contract between outcomes payer and service provider. Investment into service provider to finance delivery contract, with returns linked to successful delivery of outcomes.	Within service provider	Service providers and investors working with government or donor	Service providers	
Intermediated	Delivery contract between outcomes payer and investor-owned special purpose vehicle (SPV) which contracts service provider(s).	Commissioned by SPV			
Managed	Delivery contract between outcomes payer and prime contractor (often an intermediary) or prime contractor-owned SPV which contracts service provider(s).	Provided by prime contractor	Prime contractor working with government or donor	Prime contractor	

SIBs' contractual relationship and PbR

SIBs are a subset of payment by results (OECD 2016:4). In response to the increasing pressure to achieve social outcomes with limited resources, governments have sought for value for money in the delivery of public services. In this context, new type of contract mechanism called as Payment by Results (PbR) have been prevailed in government commissioning. The underlying principle of PbR is that providers are paid according to the outcomes which they achieve, as opposed to the activities they undertake (NCVO 2014:6).

As for the term “result”, Pollitt and Bouckaert(2000: 98-128) distinguish four levels of results such as “operational results”, “results as process improvements”, “results as system improvement” and “results as the realization of vision.” PbR contracts tend to focus on “operational results” which is most concrete sense of “result” and quantifiable. The operational results embrace aspects of inputs, outputs, outcomes and impacts. All the aspects are closely linked to cost-effectiveness. In terms of validation of such operational results, collecting all performance and cost data is required (Pollitt and Bouckaert 2000: 106).

As such, PbR can be seen as a contract based at cost-effectiveness. Furthermore, PbR implicates transferring risk from government to service providers. PbR seeks greater performance and efficiency from providers, increased transparency of resources spent on public services, and reduced risk to commissioner and to tax payer funds(NCVO 2014 : 6-7). That is, one of the key intentions of PbR is to transfer financial risks to the provider market, away from the commissioning body (NCVO 2014: 10).

SIBs share key features of PbR as mentioned above. In SIBs, transparency of resources spent on services is expected to increase and risk of government is expected to reduce. However, one of main differences of SIBs from existing PbR contracts is social investors' involvement in SIB contractual relationship. “SIBs are a form of aligned capital where investors' financial returns are linked directly to the provider's success in achieving positive social outcomes” (Bridges Ventures 2016: 2). In principle, financial risk in SIB model is transferred from government to social investors. Social Finance (2015) indicates some important distinguishing features when compared with a standard PbR models as following (Social Finance 2015: 8-9).

- The provider organization is not required to take delivery risk.
- External capital used to fund the service, from investors who have a combined social and financial interest.
- The investors have a mechanism to hold the delivery providers to account.

To be accurate, in “Direct SIB” model (table 2), service providers also take financial risk when they cannot achieve outcomes. As such, risk transfer models of SIB have been diversified in recent years.

SIBs' contractual relationship and “Counterfactual ”

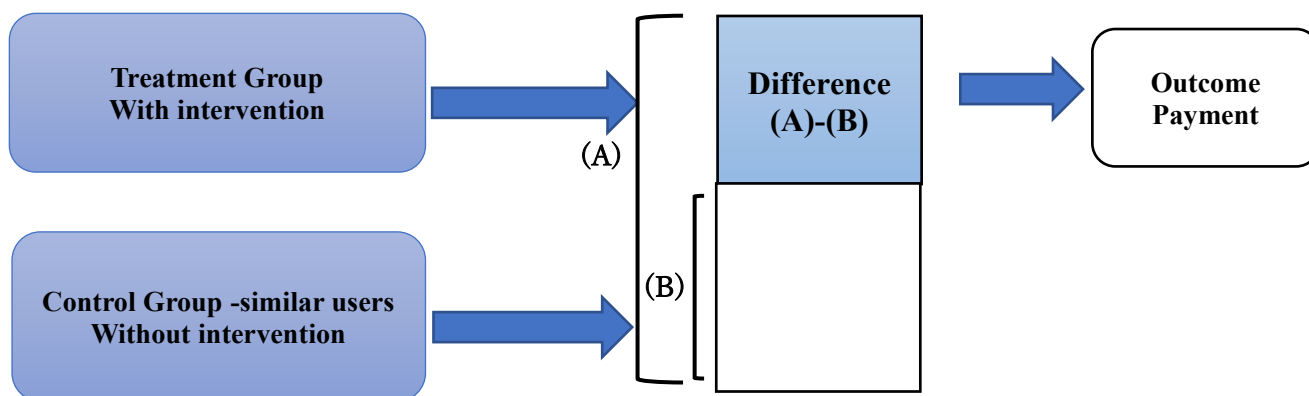
In SIB models, payments from the commissioners are triggered by the achievement of particular outcomes. These payments reward the positive difference the intervention makes. Thus, in the outcome evaluation, the outcome of the intervention is compared to an estimate of what would have been without the intervention. The estimate is sometimes referred to as the “counterfactual”. “Counterfactual” can be defined as “the situation under investigation as it hypothetically would have been if the same participant had not been exposed to the program intervention” (Weiss 1998: 329).

To estimate the counterfactual, usually outcomes with a different group of people with similar characteristics who have not received the intervention are compared. That is, in typical way,

outcomes of the treatment group (intervention group) are compared to those of the control group (comparison group). By identifying the difference with using comparison between treatment group and control group, outcome change that can be attributed uniquely to a program intervention is inferred (See Figure 2). The pure outcome is regarded as the program impact. SIBs are occasionally called as “outcome contracts” or “outcome based commissioning”. It means that outcome or the difference caused by the intervention is indispensable elements of the contract. If the difference is not proved by the valid data or overestimated, the contract will turn out to be failure.

As mentioned above, measurement of this difference or impact will trigger payments. So that, government as an outcome payer is required to ensure the evidence for outcome payment. On the other hand, social investors desire the evidence for the difference caused by the investment. In this context, service providers are expected to demonstrate the capacity for data management and performance management .

Figure 2 Difference : With-Without Intervention (counterfactual)



Narratives of Social Impact Bonds

SIBs are new trend of public private partnerships in which private sector organizations tend to take more risks. In contrast, financial risk of government tends to be reduced and transferred to private partners. More importantly, SIBs have been argued from the view of social innovation. In reality, SIBs appear to encourage social innovation through some of their structural aspects- particularly through coordination and integration of services (OECD 2016: 11).

In recent years, the literature treats implications and challenges of SIBs. For instance, Rangan and Chase refer to the difficulty in aggregating social benefits and correlating them with cost savings (Rangan and Chase 2015). In order to attract private capital, the service intervention needs to demonstrate not just impact but also aggregated cost savings that can be measured and traced to the budgets of clearly identified government departments (Rangan and Chase 2015: 31). They also fear that there could be a retraction from those social issues where outcomes are hard to pin down and successful interventions are hard to identify in the rush to quantify costs and benefits (Rangan and Chase 2015: 30).

In relation to this fiscal cost saving model and from institutionalization perspective, more radical criticism has been indicated. For instance, according to Lake (2015: 77), the aim of SIBs with using the monetization of outcomes is to reduce the cost of government programs rather than the substantive effect on the underlying problem. He considers SIBs as part of Financialization of Urban Policy.

From marketization or commercialization perspective, Joy & Shields insist that SIBs may represent a form of charity that happens to make money for private sector investors rather than a more holistic preventative social program (Joy & Shields 2013: 49).

In terms of comparison to existing service delivery model from cost-effectiveness perspective, there has been very little rigorous counterfactual comparison of SIBs versus alternative methods of finance to deliver the same services to the same type of users (Fraser, Tan, Lagarde and Mays 2016: 13).

From the point of view focusing on quality or system of public services, SIBs tend to focus on achieving social outcomes rather than continuity of service outputs (Edmiston and Nicholls 2017: 14). Namely, “SIB payment metrics are constructed based on the assumption that social outcomes achieved through service interventions are lasting, and can therefore be justified in light of the prospective cost savings they accrue to public sector over time” (Edmiston and Nicholls 2017: 15). Nevertheless, in most cases, continuity of service delivery has not been secured.

Research Method

In our study, we used both qualitative and quantitative research method. In terms of qualitative research, we conducted semi-structured interviews with two cases such as Essex SIB³ and London Homelessness SIB (“ Street Impact”)⁴.

In addition to qualitative case studies, we conducted quantitative and comprehensive survey of England’s Local Authorities on Outcomes Commissioning and Payment by Results. This analysis covers the period from 6th February 2018 to 22nd February 2018. Local Authorities include County Council, Unitary Authority, Metropolitan District and London Borough⁵. This LA Survey was implemented by OPM in London in collaboration with Meiji University.

³ We had interviews with an officer at Essex County Council and a program manager at Action for Children in 2013 and had interview with an officer at Cambridge Council, program manager at Action for Children and a manager at Bridges Ventures in 2017.

⁴ We had interviews with managers at St Mungo’s in 2014 and 2017.

⁵ We sent questionnaires to 153 LAs and received 21 complete responses. Two responses were incomplete.

Case Studies

Case Studies on Essex SIB – Children at risk of going into care

In Essex, the first local authority led social impact bonds in the UK was launched in 2012. Essex has had a higher number of young people in care than both the national average and statistically comparable local authorities as well as a predominance of older adolescents in care. Care placement costs are high, ranging from £ 20,000 to £ 180,000 per year per individual.

Table 3 shows the outline of the structure, outcome metrics, impact measurement and main activities. Essex SIB addresses young people on the edge of care or custody. The SIB supports a total of 380 children and family in 20 cohorts. The aim is to divert at least 110 children from care. Most unique aspect of the Essex SIB is its intensive evidence based intervention called as Multi-Systemic Therapy. In Essex SIB, the service delivery is for 5 years and evaluation is over 3 years. Tracking outcomes is for over 8 years.

In terms of the benefits for Essex county council (local authority), new funding mechanism and new innovative service can be introduced. In addition, failure risk will be transferred from local authority to investors.

As for another distinction of Essex SIB, social outcomes are classified into two categories, that is, primary outcomes which trigger to payment and secondary outcomes which are measured but do not trigger payment. Such outcome metrics is not just based at cost saving model. Stipulating secondary outcomes are not connected to the payment for investors but can contribute to avoid dampening service providers' incentive. Local government officer whom we has interview with also referred to considering outcomes which are not directly related to the payment. Because resolution of social issues is more important for them,

The primary outcome metric for the cohort is the average number of care days saved and is compared to the control review figure at the end of each measurement quarter. The control review figure is the average number of care days spent in care by a comparable group of children over a 30-month period. The value of outcomes payments per care placement day saved corresponds to a share of the cost to the local authority of care placement for this group of young people. The total value of outcome payments made over the term of the contract is subject to a cap of £7.1 million.

In terms of the challenge, possible conflict between the rigorous systemic intervention and innovation and “implementation risk” was indicated by OPM as the independent evaluator of Essex SIB (OPM 2014). In fact, “the rigidity of the MST model and the flexibility of the SIB may sometimes conflict” (OPM 2014: 32). This problem was also identified when we had an interview with a MST specialist who are engaged in program management in Essex and other cities. MST is a licensed program, so that the MST has strict requirements around fidelity (OPM 2014: 32). In relation to this, more importantly, we also identified implementation risk that OPM report mentioned in our interview with an officer at Essex County Council in September 2013. In fact, at early stage, it took long time for frontline workers such as social workers to understand what MST was and what type of service users it is appropriate for (OPM 2014:31). It can be regarded as implementation risk. That is, for successful implementation of the program, it is important for individuals with a role in implementing the intervention to share understanding about new intervention and work together. Nevertheless, implementation risk has been paid less attention compared to financial risk.

In terms of innovation, MST seems to be innovative approach for existing social services during the program is operating. However, in Essex County Council, MST approach has not been introduced into similar service area. Because new manager at the local authority does not like the approach. It means that SIB's impact has been still limited and cannot bring the service delivery system change.

Table 3 Outline of Essex SIB

Location	Contract Duration
Essex	Eight years (Contract signing in November 2012)
Intervention	
Essex SIB was issued to fund the provision of intensive therapeutic support called as MST (Multi-Systemic Therapy) to families where the children are at the edge of care. The intention of the intervention is to reduce the number of days at- risk children spend in care.	
Stakeholders	
Commissioner	Essex County Council
Investors	Bridges Ventures, Big Society Capital, Barrow Cadbury Trust, Tudor Trust, Esmee Fairbairn Foundation, King Baudouin Foundation, Charities Aid Foundation, Social Ventures Fund
Service providers	Action for Children
Intermediary	Social Finance UK
Independent evaluator	OPM
Outcomes	
Primary outcome	<ul style="list-style-type: none"> ●Reduction in aggregate care days spent
Secondary outcome	<ul style="list-style-type: none"> ●Youth Offending ●Improved attainment, increased attendance, stability of specialist placements ●Health and wellbeing
Impact measurement method and counter factual	
Historical data comparison	
Outcomes will be compared to historical case file of 650 cases with data tracked over 30 months	
Cohort	
A total of 380 children (11 to 16 years old)/families in 20 cohorts over its five-year intake period	
Investment (Upfront capital)	Saving to the Commissioners
£ 3.1m	£ total 10.3 m (Project savings of £ 17.3 gross with a £ 7m cap on outcome)

Source: Gustafsson-Wright, Gardiner., and Putcha.(2015) and Centre for Social Impact Bonds
 Website: https://data.gov.uk/sib_knowledge_box/essex-county-council-children-risk-going-care

Case Study on London Homeless SIB —Street Impact

Social impact bond for tackling Homelessness problems in London named as “The Street Impact” was delivered by St Mungo’s⁶. St Mungo’s is one of the UK’s leading homelessness charities . The Street Impact was four years program designed to address rough sleeping among an entrenched group of rough sleepers in London. The core intervention period lasted from November 2012 to the end of October 2015. The Street Impact was commissioned by the Greater London Assembly(GLA) and funded by the Department of Communities and Local Government (DCLG)(See table 4). Social investors provided the upfront investment needed for St Mungo’s to deliver intervention 415 rough sleepers in central, north and west London.

The Street Impact raised £650,000 from external investors and St Mungo’s invested another £250,000. St Mungo’s also established an SPV and holds financial risk. The largest external investor was the social lender CAF Venturesome, which put in £250,000. Another £130,000 came from a smaller charitable foundation, and the remainder came from four private investors. All investors except Venturesome asked to remain anonymous.

The money was spent on funding the early stage of a payment-by-results contract to alleviate homelessness. The project was expected to cost about £2m to run, and if St Mungo’s hits all its targets, it would receive up to £2.4m from the Greater London Authority.

Once the first payments were received, the money was used to finance the remainder of the project. Once the project made a profit, it made repayments to external investors. Those investors received interest payments of between 5 and 8 per cent a year. The charity received all remaining profit.

In terms of outcome metrics and data collection, the target outcomes include achieving sustained accommodation, reduction in visits to A&E hospital departments, supporting people into volunteering or work, or reconnections overseas. In the Street Impact, the data as evidence of outcomes from which the SIB cohort and the comparison groups were identified comes from the CHAIN database⁷ (DCLG 2017a: 13). CHAIN is used to capture demographic details of homeless people, information such as their past experience of institutions (prison, care etc.), as well as other outcomes , including stays in accommodation and reconnections. In Street Impact, outcome data of SIB cohort (treatment group) and that of comparison group from 2010 and 2011 was compared with using CHAIN data base. The comparison group data was historical data. However, Each SIB cohort member was matched to the comparison group members with using “Propensity Score Matching method”. It means that Street Impact considered counterfactual by using more rigorous impact measurement method. The Street Impact also used qualitative and process evaluation (DCLG 2017b) as well as impact evaluation (DCLG 2017a).

As for the performance of the SIB, the results show that, when compared to a well-matched comparison group, the intervention brought positive impact on the whole. However, in terms of the degree of achievement, each of five outcomes differed. Reduction in rough sleeping was under-performed below the baseline measure (Ronicle, Stanworth, Hickman and Fox 2014: 41; DCLG 2017b: 39). Other outcomes such as settled accommodation and reconnection were achieved above target level. However, there was no data about health-related outcome such as Reduction in use of accident and emergency services. Because Health institution (Health and Social Care Information Centre) required specific consent from each of the cohort before the data could be shared. As a result, enough data was not gained. It can be regarded as implementation risk.

According to managers of St. Mungo’s, they can ensure voice in crucial decision-making by playing investor’s role and taking financial risk. Some outcomes were difficult to attain for them. However, they could benefit from flexibility under multi-outcomes frameworks. Because decrease of payment related to under-performed outcomes can be compensated by payment related to higher

⁶ At early stage of the Street Impact, St Mungo’s has merged with Broadway and were operating as “St Mungo’s Broadway” However, have now reverted to “St Mungo’s”(DCLG 2017b: 7).

⁷ CHAIN stands for the Combined Homelessness and Information Network. It is commissioned and funded by the Mayor of London and managed by St Mungo’s.

performed outcomes. In another word, the flexibility of multi-outcomes payment model enables cross-subsidization. St Mungo’s is currently engaged in other homeless SIBs. In the new SIBs, health related outcomes such as mental health, alcohol and drug misuse related outcomes are included in outcome metrics and payment model. Because commissioners recognized difficulty in setting reduction of number of rough sleepers as key outcome, considered result of Street Impact. In fact, many rough sleepers suffer from mental illness, alcohol or drug misuse.

Table 4. Outline of Street Impact

Location	Contract Duration	
London, Greater London	36 months (Contract signing in November 2012)	
Intervention		
A program that aims to get people off the streets and into stable accommodation, thereby increasing prospects of employment or training and stabilizing health. Participants have individual intervention plans, personalized budgets, and personal navigators responsible for connecting them with the most appropriate programs for their circumstances. In comparison to existing services, the approach is much more flexible and provides a more focused, longer-term relationship with a single advocate.		
Stakeholders		
Commissioner	Department for Communities and Local Government(DCLG), the Greater London Authority(GLA)	
Investors	CAF Venturesome, the Orp Foundation, and other individuals	
Service providers	St. Mungo’s Broadway	
Intermediary	Triodos Bank UK (advise on structure, raise capital) There is an SPV which holds the risk of program underperformance.	
Outcomes (Five outcomes)		
<ul style="list-style-type: none"> ●Reduction in rough sleeping ●Move to settled accommodation sin the UK ●Reconnections to accommodation abroad ●Volunteering/National Vocational Qualification (NVQ) level 2 qualification. ●Reduction in use of accident and emergency services 		
Impact measurement method and counter factual		
Historical comparison and validated administrative data with using propensity score matching [CHAIN, National Health Service Hospital Episode Statistics, other outcomes evidenced by providers and audited by the Greater London Authority]		
Cohort		
415 persistent rough sleepers (individuals sleeping without shelter) in London		
Investment (Upfront capital)	£0.65 million (senior investors)	£0.237 million(St, Mungo’s)

Source: Gustafsson-Wright, Gardiner., and Putch.(2015) and Centre for Social Impact Bonds
 Website: https://data.gov.uk/sib_knowledge_box/essex-county-council-children-risk-going-care
 Department for Communities and Local Government (2017)

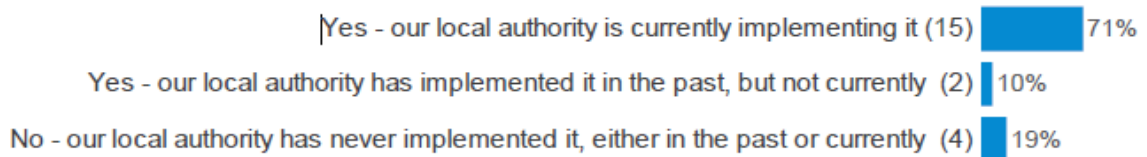
Local Authority Survey

■ Use of outcome based commissioning and payment by results

Respondents were asked if their local authority implemented outcome-based commissioning, including Payment by Results (PbR) either currently and/or in the past.

Almost three quarters (71%) of respondents reported that their local authority is currently implementing outcome based commissioning. Only 10% of respondents said that they have implemented it in the past but are not currently using the model. This needs to be interpreted with caution as it is likely that there is a self-selection bias, with those local authorities that have more experience of such commissioning being more likely to have responded to this survey.

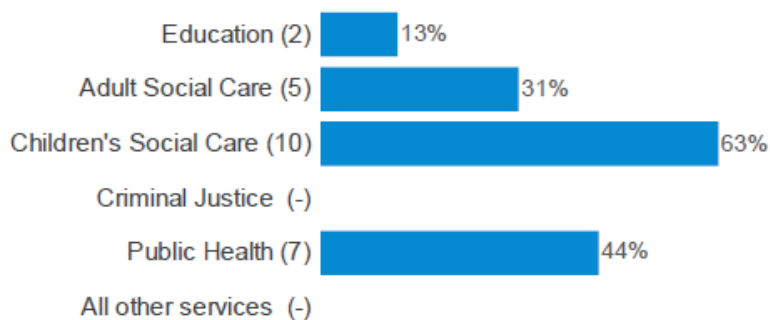
Has your local authority implemented outcome based commissioning, including Payment by Results (both currently and/or in the past)?



■ Use of outcome based commissioning/payment by results by service area

Outcome based commissioning is most commonly being used in Children's Social Care (63%), but is also widely used in Public Health (44%) and Adult Social Care (31%). It is less commonly used in Education (13%), while no respondents reported using it in Criminal Justice or all other services.

What service areas has outcome based commissioning/payments by results been adopted in?

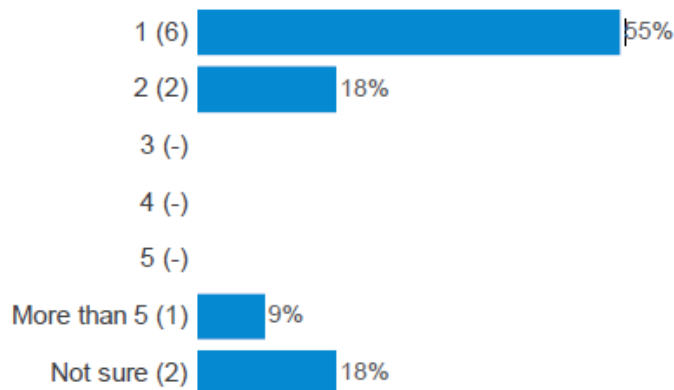


■ Use of SIBs

Just over half of respondents say that their local authority is currently implementing SIBs (52%), and the remaining 48% say their local authority has never implemented one. Again, this finding has to be interpreted against the context of likely self-selection bias.

For those who are currently implementing one, most have only been involved in one (55%).

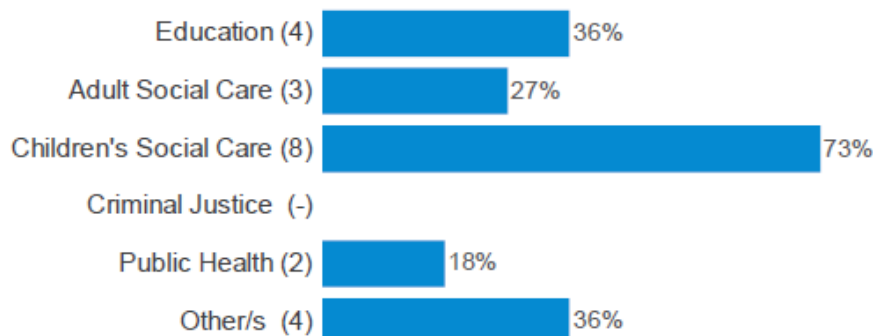
How many SIB's has your local authority been involved in?



SIBs are most commonly used in Children's Social care (73%), but just over a third (36%) had used them in Education and Public Health. 27% had used them in Adult Social Care, and 18% for Public Health. Similar to outcomes based commissioning/payment by results, they have not been used in Criminal Justice, although one respondent notes that their local authority is looking at using SIBs in this service area.

There are therefore interesting commonalities and differences between this specific form of outcomes contracting and outcomes based commissioning more generally. For example, in both cases, children's social care accounted for most of the cases. However, the preponderance of SIBs in education over adult social care and public health is a notable difference from general outcomes based commissioning.

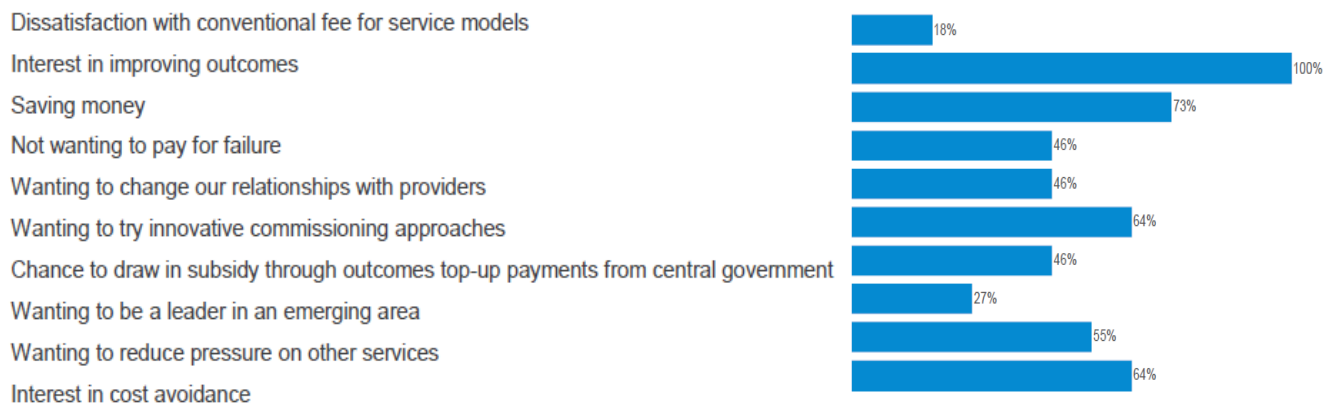
What service areas are/have been covered by the SIB(s)?



■ Rationale for and characteristics of SIBs

100% of those currently using SIBs said that this was driven by a desire to improve outcomes, which is not surprising as SIBs are an instrument that specifically focuses attention and innovation on outcomes. Other common reasons for introducing SIBs include saving money (73%) and a chance to draw in subsidy through outcomes top-up payments from central government (such as through the Commissioning Better Outcomes Fund and the current Life Chances Fund), and cost-avoidance (64%).

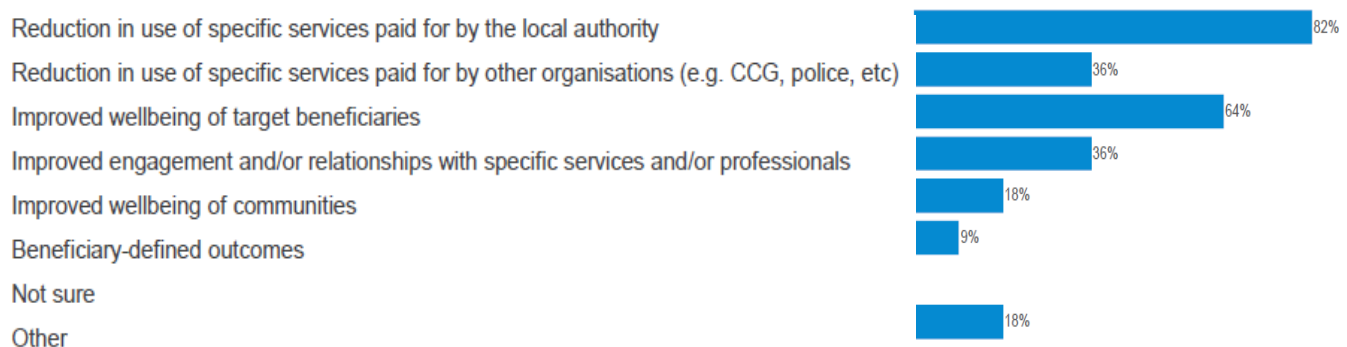
What was your local authority's rationale for introducing SIBs?



■ Effectiveness of SIBs

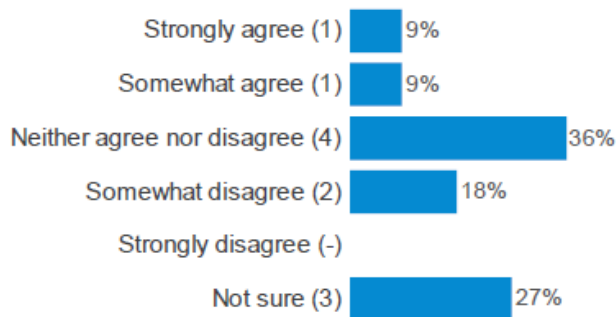
Respondents were asked what types of outcomes their local authorities were paying or had paid for in the past. The majority of local authorities implementing SIBs were paying for a reduction in the use of specific services paid for by the local authority (82%), and almost two thirds (64%) were paying for the improved wellbeing of target beneficiaries. This reaffirms wider observations that in the UK, because of the severe spending cuts being experienced by local authorities since 2010 (which will persist in years ahead), SIBs have been seen as a mechanism for generating savings.

What types of outcomes are your local authority paying for/or have paid for?



Most respondents (63%) felt neutral, or unsure that SIB contracts in their local authority work well, while equal amounts (18%) agree and disagree. This is qualitatively different from their perceptions about the functioning of outcomes based commissioning/payment by results in general, which tends to be more positive.

To what extent do you agree with the following statement: “SIB contract(s) in my local authority work well”?



When people thought that SIB contracts didn’t work well, reasons given included that SIBs are relatively unknown and difficult to communicate to stakeholders. However, despite uncertainty around their effectiveness, 55% of respondents felt that their local authority will implement more SIBs in future.

Do you think your local authority will implement more SIBs in the future?

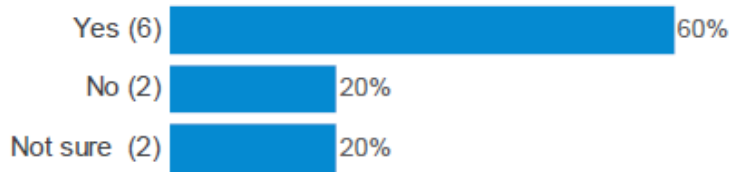


Respondents cited the fact that local service providers struggle to engage with SIBs, and a lack of confidence pricing outcomes appropriately as the main reasons why SIBs may not be used in future (40%).

■ Previous use of SIBs

Respondents were asked as to whether their local authority had used SIBs in the past. 60% of respondents indicated that local authorities had explored SIBs in the past, across various services including Children’s Services (33%), and Public Health (33%), and Adult Services (17%). One had explored implementing SIBs in customer services, and one in drug and alcohol misuse. None have explored using SIBs in Education or Criminal Justice.

Has your local authority explored SIBs in the past?

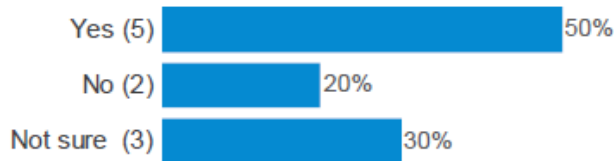


The most common reasons for a local authority not to have pursued a SIB are a lack of a business case, and difficulty in determining pricing and payment (43%). Difficulty in determining pricing and payment, and providers not being ready to engage with this kind of commissioning also played a role (29%). A minority (14%) had chosen not to pursue a SIB because it was complex and expensive, or had failed to secure internal buy in.

Future use of SIBs

50% of respondents whose local authorities are not using SIBs think they will do so in future, and 30% are unsure. Only 20% say their local authority would not use SIBs in the future.

Do you think your local authority may explore SIBs in the future?



Local authorities were most likely to explore using SIBs in Adult Services (80%), but may also look at using them in Children’s Services (40%). They are less likely to explore the use of SIBs in Criminal Justice or Public Health.

Most respondents (62%) think that demand for SIBs will rise over the next five years, while only 15% expect demand to remain the same or fall. When asked to give a reason for their choice, responses included:

- “Due to the underlying pressure to move towards outcome payments vs revenue. SIBs will be one feature with derived demand from the demand for PbR”
- “Increasing pressure on local government finances; need to find new ways of commissioning & sourcing upfront funding; the evidence base from growing SIB market will create momentum”
- “Managers find it hard to plan long term as their budgets change annually”

This set of findings may be compared with those for outcomes based commissioning/payment by results more generally, where respondents similarly felt that there will be more of such contracting

approaches in the future. However, in the case of SIBs, we have noted previously that respondents have tended to be less positive about their experiences of implementing SIBs compared to outcomes based commissioning/payment by results more generally. It may therefore be the case that while most anticipate greater demand for SIBs in the future, there may be more of a sense of being compelled to do so due to continuing financial pressures rather than due to more positive motivations.

Conclusion

SIBs are result driven contracts called as PbR. As mentioned above, results can be distinguished into four levels of results such as “operational results”, “results as process improvements”, “results as system improvement” and “results as the realization of vision” (Pollitt and Bouckaert 2000: 98-128). SIBs seem to be based at “operational results”. Operational “results” can be seen in the traditional budget (Pollitt and Bouckaert 2000: 100). For sure, in SIBs, critical outcomes as result are quantified and directly linked to cost saving. Nevertheless, as case studies and previous studies examined, results in SIBs can be interpreted in broader sense including process improvement and system improvement. In fact, according to case studies, implementation risk, tension between existing workers and disagreement with public health institution are beyond improvement of individual outcomes. In order to address such issues, improvements of both process and system are needed. In another word, improvement of interorganizational relations between stakeholder organizations is required to mitigate implementation risk in SIBs.

From interorganizational perspective, “institutionalization risk” should be considered in addition to implementation risk. According to “New Institutionalism” of organizational studies’ view, institutionalization can be defined as “the process by which actions are repeated and given similar meaning by self and others” (Scott and Davis 2007: 260). In fact, in SIBs, the more service providers assume the contractual framework under government led cost saving pressure, the more organizational behaviors of service providers seem to be resemble each other. Such homogenization of behaviors under institutional pressure has been referred to the concept, “institutional isomorphism”⁸ (DiMaggio and Powell 1991).

In SIBs model, selecting outcomes is usually done from view of correlating them to cost saving. However, local authorities are interested in not only cost saving but also improvement outcomes of public services as the result of the survey showed. In fact, in Essex SIB, measured outcomes included ones which are not directly linked to cost saving. In new homeless SIBs, targeted outcomes also include kind of “outputs” such as access to health services. It means that partnership-oriented SIBs such as Essex SIB and St. Mungo’s SIB can have flexibility in designing outcome metrics and implementation. If bureaucratic control becomes dominant in interorganizational relation among SIB stakeholders, created value will be integrated into fiscal value such as cost saving. In this context, service provider’s incentive for innovation will decline. Partnership working is crucial in to avoiding such institutionalization.

Finally, cost-benefit should be considered in designing and implementing SIBs. However, benefit or social benefit is not necessarily cost-saving benefit for government. Social benefit can include added value or increasing income by getting job and externality.

⁸ DiMaggio and Powell classified institutional isomorphism into three types, that is (1) coercive isomorphism that stems from political influence and the problem of legitimacy, (2) mimetic isomorphism resulting from standard responses to uncertain, (3) normative isomorphism, associated with professionalization (DiMaggio and Powell 1991: 67).

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