

Potential and Limitation of Social Impact Bonds in the UK from Fiscal View and Social Value Perspectives

Ichiro TSUKAMOTO

Professor of public management,
School of business Administration, Meiji University,

tsukamoi@meiji.ac.jp

Academic Visitor, Said Business School,
University of Oxford (August 2017-March 2018)

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1. RESEARCH AGENDA

The research interest:

Social Impact Bonds : **outcome based commissioning** with using **private capital**

The research agenda: To examine **the potential of social impact bonds(SIBs) for bringing out innovation** in public service delivery and **its limitation of fiscal cost saving model**

2. CONCEPTUAL FRAMEWORK AND RESEARCH METHODS

The Conceptual Framework:

- ✓ To examine on **social outcomes created by SIBs** from social, economic and fiscal value views
- ✓ To focus on **outcome metrics and impact measurements** used in SIB schemes
- ✓ To examine organizational change of service providers from focusing on ***institutionalization and Quasi-Marketization*** (Edmiston and Nicholls 2017)

The research methods: The review of existing literature and case studies with using semi-structural interviews

*In this presentation, focusing on Essex SIB case(Conducted interviews on September 2013 and September 2017)

3-1. WHAT IS SOCIAL IMPACT BONDS(SIBs)?

- “Social impact bonds (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).

3-2. WHAT IS SOCIAL IMPACT BONDS ?

- SIBs can be understood as a one form of **payment by results (PbR)** with using **private capital provided by private investors**. Investors provide money to cover **up-front cost of the program**.
- ← different from existing commissioning models:
 - **Payment** for not output but **outcome**
 - plus **using private capital** (like “equity”)
- In exchange for the contribution, commissioners (governments) pay out **principal plus performance related return** for investors if **the pre-defined outcomes are achieved**.

3-3. WHAT IS SOCIAL IMPACT BONDS

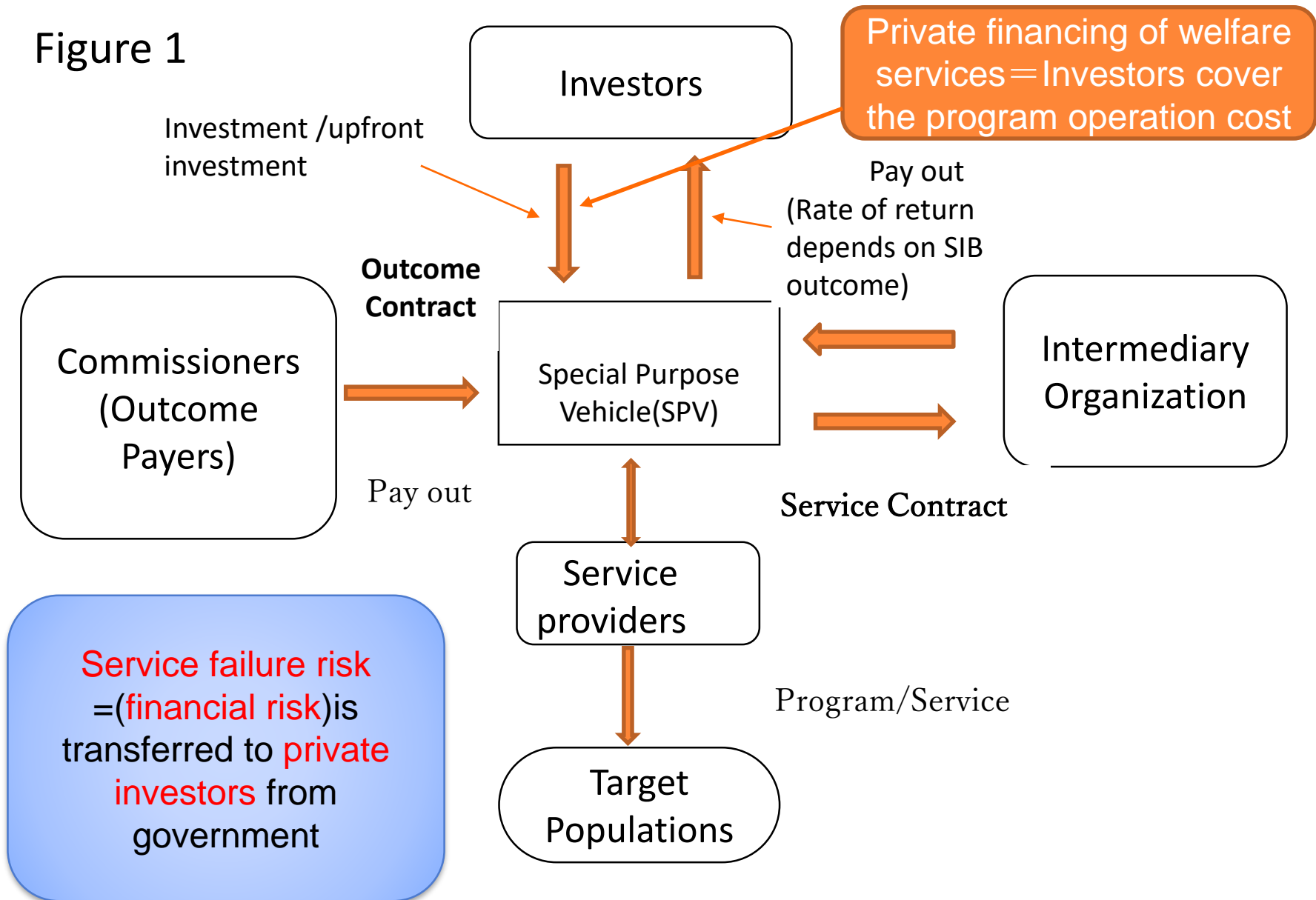
- In most typical structure, the **SIB contract** is composed of different stakeholders such as **service providers, social investors, outcome payers(government), intermediaries** (See Figure 1).

- However, the structures have been diversified.

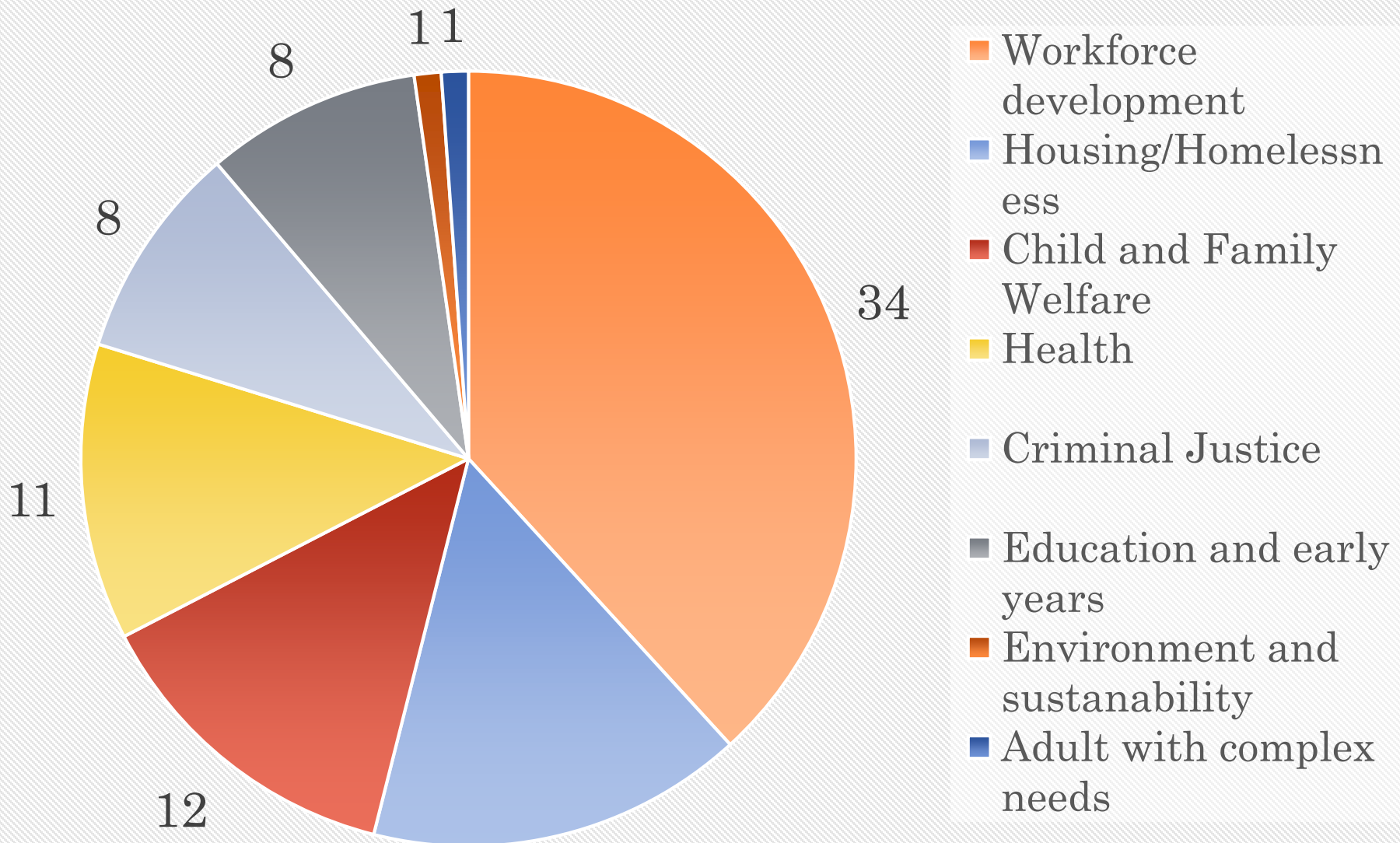
In addition to the stakeholder, in most cases, independent third sector evaluation agencies are involved in order to assure transparency and accountability of the results and evaluation methods.

ONE TYPICAL EXAMPLE OF SOCIAL IMPACT BONDS STRUCTURE

Figure 1



Distribution among sectors



<http://sibdatabase.socialfinance.org.uk/>

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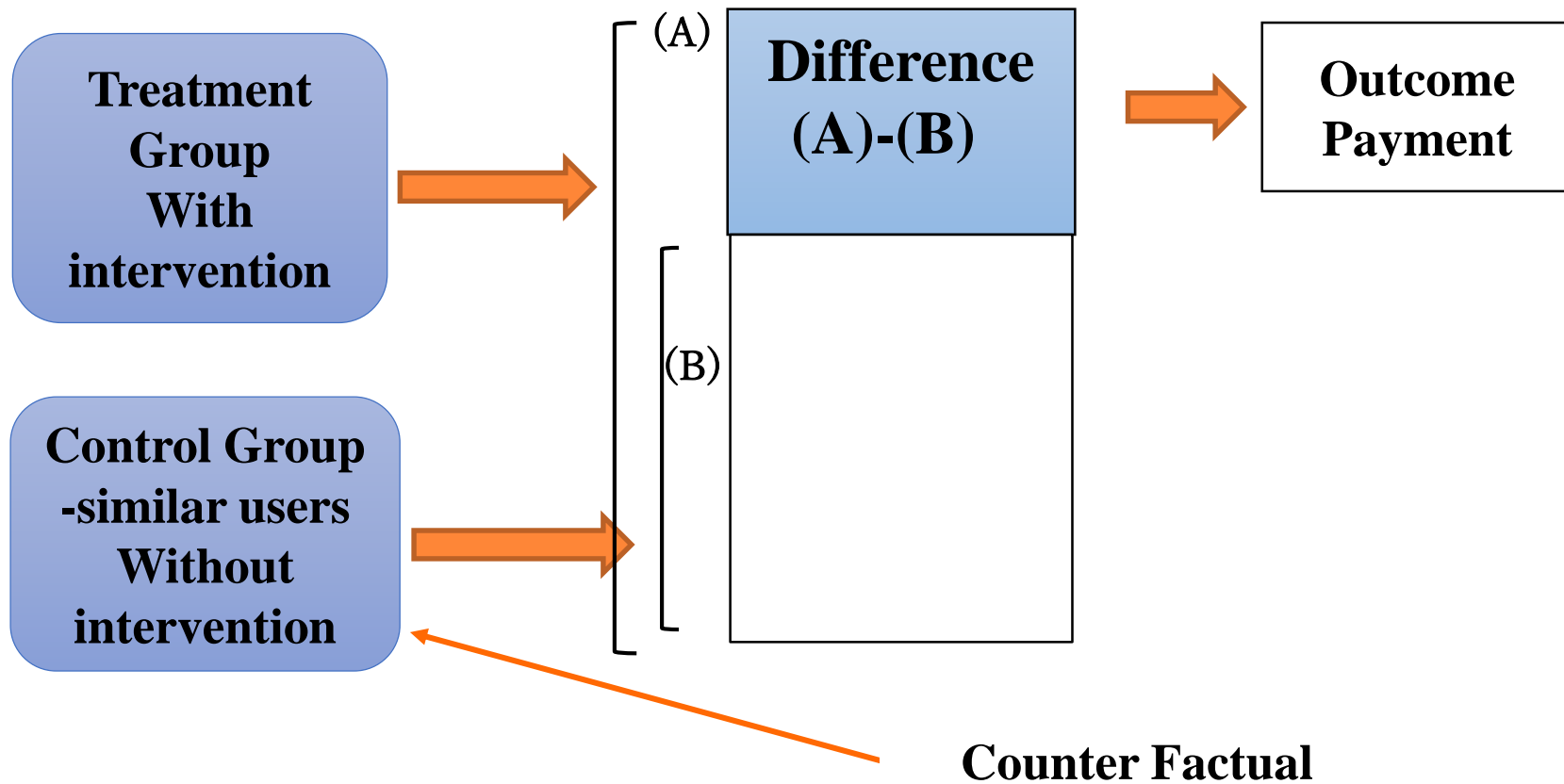
Of total 89 SIBs in the world

4-1. SIB AND IMPACT MEASUREMENTS

- SIB is outcome based commissioning and financing model → **Impact measurement is core element**
- impact measurement can be defined as
“an evaluation that makes a **causal link between program or intervention and set of outcomes.**”
- In impact measurements, it evaluates pure outcomes which **has causal relation** to the intervention. Thus, **counterfactual** data is needed in order to compare the results caused by the intervention.

4-2. SIB AND IMPACT MEASUREMENTS: DIFFERENCE: WITH-WITHOUT INTERVENTION

Figure 2.



4-3. SIB AND IMPACT MEASUREMENTS

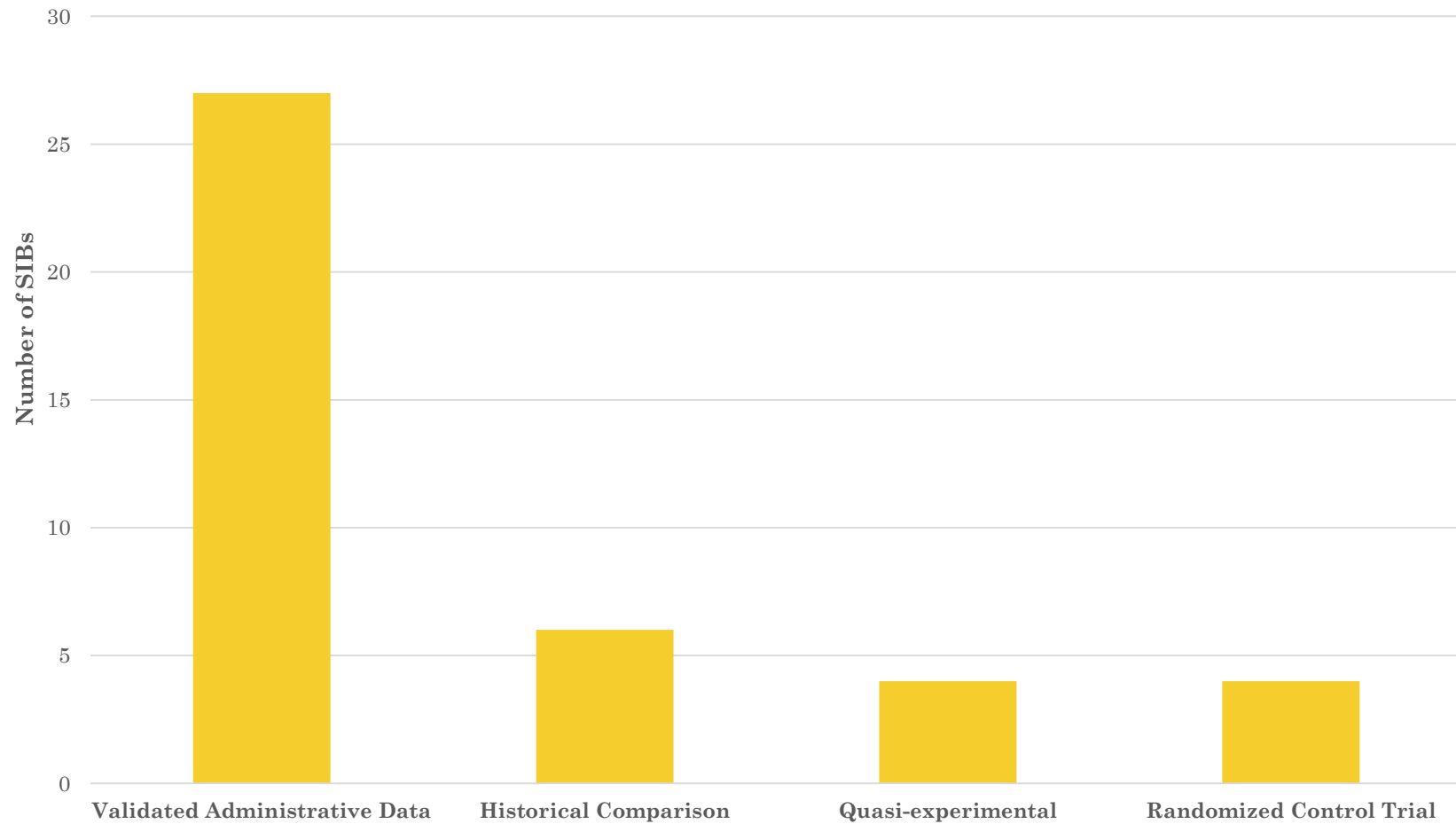
DIFFERENT TYPE OF EVALUATION METHODS

- Trustworthy outcome metrics needs **rigorous impact measurement**.
- In SIB practices, different approaches to impact measurement methods have been adopted although **cost-benefit logic are commonly employed**.
- For instance, Gustafsson-Wright, Gardiner and Putcha(2015:20) classified evaluation methods into **4 types** such as (1) **validated administrative data**,
(2) **historical comparison**, (3) **quasi-experimental**,
(4) **randomized control trial(RCT)**.

4-4. SIB AND IMPACT MEASUREMENTS

EVALUATION METHODS USED IN SIBS

Figure 3. Evaluation Methods Used in SIBs

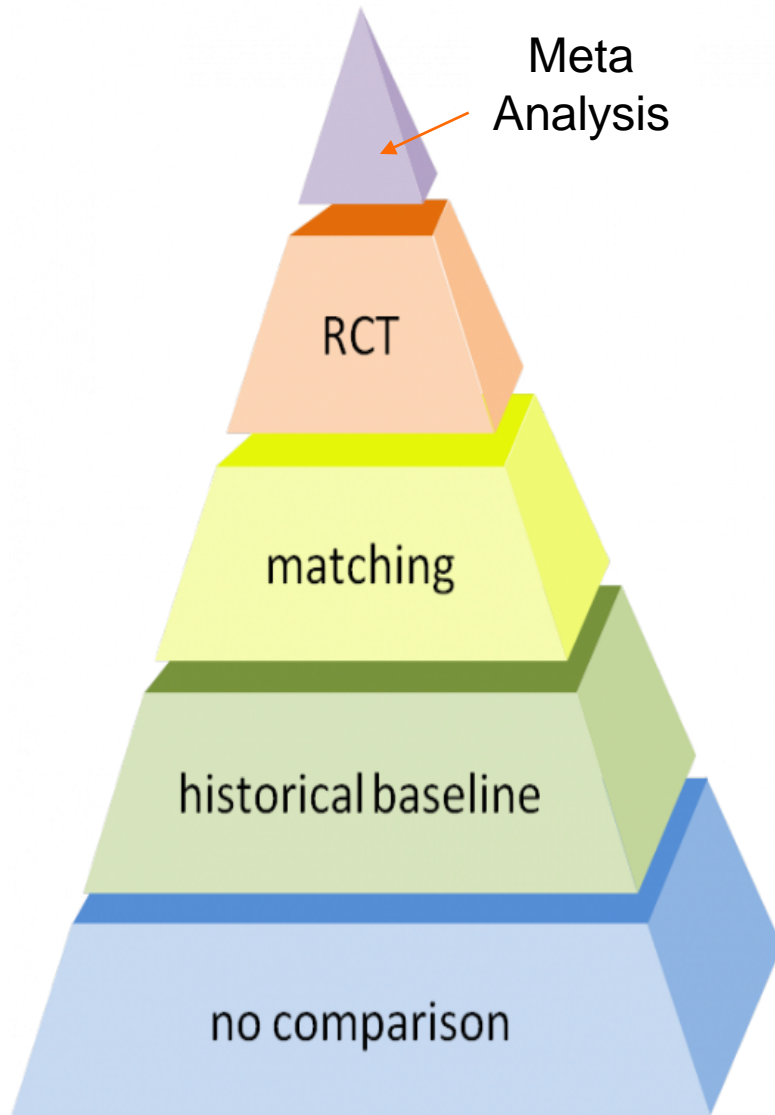


4-5. SIB AND IMPACT MEASUREMENTS

VALIDITY OF EVALUATION

- The evaluation method adopted in the SIB affects its **validity, transparency** and **accountability**. In another word, evaluation methods underpin the degree of the success of the SIB.
- In evaluation theories and practices, “ hierarchy of evidence” (Sackett 1989; Evans 2003) or ranking evidence has been of concern in discussions about validity of the evaluation.

FIGURE 4. HIERARCHY OF EVIDENCE



a set of randomised control trials - results can be compared within and between more than one replicated randomised interventions

randomised control trial (RCT) – where participants are randomly assigned into the intervention or comparison group

propensity score matching - each individual in the intervention is matched to at least one individual not in the intervention

historical baseline – the intervention cohort is compared to its own prior outcomes or prior outcomes of similar cohorts

no comparison –outcomes trigger payments as evidence is presented

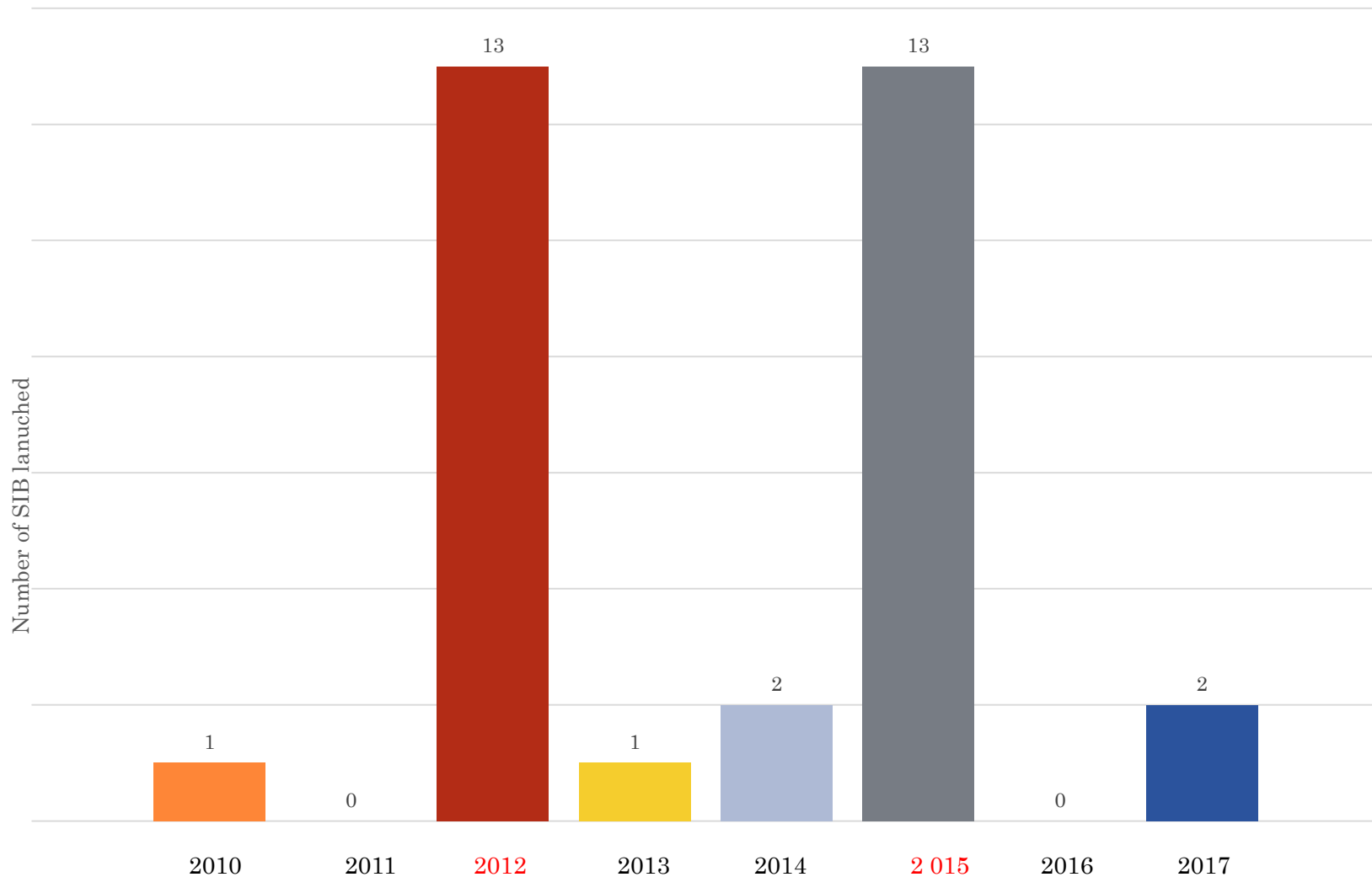
5. DIVERSIFICATION AND STANDARDIZATION OF IMPACT MEASUREMENTS

- Evaluation methods used in SIBs, have been diversified in the world. It is true of SIBs in the UK. However, examining SIBs which were launched between 2010 and 2014, 19 cases (**83 per cent**) of the total (n23) used entirely **validated administrative data** for the impact measurements. Quasi-experimental method was used by just first SIB pilot.
- Interestingly, RCT has never been used in the UK in contrast to the US SIBs. Such tendency has not changed since 2015.

6-1. RAPID INCREASE OF SIBS AND GOVERNMENT SUPPORTS: GOVERNMENT FUNDING

- As Figure 5 shows, **the rapid increase of SIBs in 2012 and 2015 was triggered by strategical government funding** such as Innovation Fund and Life chance fund.
- Because, in some cases, central government received more benefit than local authorities by the cost saving. For instance, Social Outcome Fund (SOF) was designed to address one of the main problems holding up the growth of Social Impact Bonds(SIBs): the difficulty of aggregating benefits and savings which accrue across multiple public sector spending ‘silos’ in central and local government. The government fund such as SOF will provide a ‘**top-up**’ **contribution to outcomes-based commissions** jointly working with Commissioning Better Outcome (CBO) Fund.

FIGURE 5. NUMBER OF SIBS LAUNCHED IN EACH YEAR 2010-2017



6.-2 RAPID INCREASE OF SIBS AND GOVERNMENT SUPPORTS: CENTRAL GOVERNMENT SUPPORT

- Central government has provided **not only financial support but also enabling or capacity building support** for key players such as local commissioners. Government has strategically built infrastructure for designing and implementing SIBs. It includes **different toolkits such as unit cost database , cost-benefit analysis (CBA)guidance** (HM Treasury, Public Service Network and New Economy 2014), evaluation guidance and *The Green Book* (HM Treasury 2011).
- **These database and guidance** has been developed with **the aim of designing and implementing outcome metrics and impact measurement**. Such government engagement is relevant to PbR which requires more performance management, data management, impact assessment rather than process assessment.

7-1. STANDARDIZATION OF EVALUATION

- Such context of promoting **shared understanding of key concepts and methods of impact measurements by central government** can be seen as “**standardization**”.
- In our understanding, standardization of impact evaluation does not mean unification of the different evaluation methods into one method. Instead, standardization means **dissemination of common language and guideline** for designing and implementation of impact evaluation in investment including SIBs.
- Standardization can enable SIB model to be **more trustworthy and transparent**. In fact, prior to the guidance published by government departments, the Working Group on Impact Measurement published a report named as “Measuring Impact” in order to provide guideline for impact measurement to impact investors (Social Impact Investment Taskforce 2014).

7-2. STANDARDIZATION OF EVALUATION

- In relation to this, G8 Social Impact Investment Forum agreed that impact assessment system would be a key driver of social invest market growth and also shared standards were crucial to the accelerated development of the market (Cabinet Office 2013: 12).
- The Impact Measurement Working Group pinpointed seven guidelines as follows(Figure 6). According to the working group, these guidelines can form a good foundation for any impact measurement frame work.

7 Guideline		Description
Plan	Set goals	Articulate the desired impact of the investments
	Develop Framework & Select Metrics	Determine metrics to be used for assessing the performance of the investments
Do	Collect & Store Data	Capture and store data in a timely and organized fashion
	Validate Data	Validate data to ensure sufficient quality
Asses	Analyze Data	Distill insights from the data collected
Review	Report Data	Share progress with key stakeholders
	Make Data-Driven Investment Management Decision	Identify and Implement mechanisms to strengthen the rigor of investment process and outcomes

7-3. STANDARDIZATION OF EVALUATION: GOVERNMENT RATE CARD APPROACH

- Current government funding such as innovation fund have established **outcome based pricing model** called as “**Rate Card**”. The model can be regarded as one form of PbR. Its pricing is based at **estimating fiscal cost** for improvement of individual **outcome** and also **Willingness to Pay (WTP)**.
- More concretely, in innovation Fund, DWP will pay the investors or intermediaries **solely on the basis of outcomes achieved**. The service providers receive **funding** from the investors or intermediaries **to cover their delivery costs**. DWP pays for **one or more outcomes per participant** which can be linked to **improved employability**. A definitive list of outcomes and **maximum prices** DWP was willing to pay shows Figure 7.

DWP: RATE CARD

Nature of Outcome	Maximum Price of Outcome
Improved attitude towards school	£700
Improved behaviour	£1300
Improved attendance	£1400
Entry Level Qualification	£900
NVQ level 1 or equivalent	£1100
NVQ level 2 or equivalent	£3300
NVQ level 3 or equivalent	£5100
Entry into employment	£3500
Sustained Employment	£2000

8-1. DISCUSSION: PREVIOUS STUDIES

- In recent years, the literature treats such challenges SIBs have faced. For instance, Rangan and Chase refers to the difficulty in **aggregating social benefits** and **correlating them with cost savings** (Rangan and Chase 2015).
- 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).

8-2. DISCUSSION: PREVIOUS STUDIES

- In relation to this **fiscal cost saving or pricing model**, 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**. =institutionalization
- Furthermore, 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). =marketization

8-3. DISCUSSION: PREVIOUS STUDIES

- In terms of comparison to existing service delivery model, there have 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).

8-4. DISCUSSION: PREVIOUS STUDIES

- More importantly, 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.

9-1. CASE STUDY: ESSEX SIB

Location	Contract Duration
Essex	Eight years (Contract signing in November 2012)
Intervention	
<p>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 spent in care.</p>	
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

9-2. CASE STUDY: ESSEX SIB

Outcomes	
Primary outcome	● 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 counterfactual	
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)

10-1 CONCLUSION : THE POTENTIAL FOR VALUE CREATION

Under the SIB contractual framework, different players such as investors, government (commissioners) and service providers can **share the risk and benefits** more clearly,

••• can share **social value, common language** (such as outcome metrics) and **performance management processes** in order to collectively seek for social impact

Such effects can be related to **building capacity** for performance management and strengthening **transparency** of results of investing public services (**Value for Money**).




10-2 CONCLUSION: THE LIMITATION

Its evaluation or measurement is based at **impact evaluation** rather than **process evaluation**. In addition, expected outcomes are **monetized in Fiscal Cost Saving view and Value for Money**.

In another word, SIBs tend to face **institutional** and **quasi-marketisation** pressure.

For sure, measurement seems to be underpinned by **cost-benefit logic**. Nonetheless, impact measurements used in SIB in the UK cannot be seen as **cost benefit analysis** in its genuine meaning.

Because outcomes are intentionally **narrowed by restricting to those with direct causal relations to fiscal cost saving**. Social benefits are also restricted to those **at individual service user's changes level**. In another word, **social benefits beyond individual users' benefit** such as **externality** tends to be overlooked.



10-3. CONCLUSION: THE LIMITATION

Second, Standardization is also needed for fostering trustworthy and transparent evaluation.

However, such standardization has been accelerated by government.

Institutionalization or **institutional isomorphism** can occur due to government led standardization.

If institutionalization progresses excessively, it can undermine flexibility or incentive for social innovation.

Conflicts between institutionalization and social innovation can occur. (Cream skimming or cherry-picking may happen)



10-4 CONCLUSION: THE LIMITATION

Third, the key concepts of evaluation such as **impact**, **outcome**, **cost** should be redefined from the point of view with considering **social value**, **economic value** and **fiscal value**. For sure, at present, investing tend to be devoted to **increase of fiscal value** .

So that dominant impact measurement is based at **fiscal cost-effect relations**.

However, social investors or tax payers seems to be interested in **social and economic value beyond fiscal value**. Considering such impact investors, existing concepts and evaluation framework should be redefined.

Finally, even if impact measurement is mainly used, **process evaluation** should be considered. Because such comprehensive approach(considering process and outcomes) can contribute to avoid **implementation risk**.

