

SOCIAL IMPACT BONDS 2.0?

# **PEOPLE DESERVE BETTER – THAT’S THE KEY POINT ABOUT SIBS**





**The first Social Impact Bonds were launched about ten years ago. Much has happened since. Economic and social upheavals followed the 2008 financial crisis. Then came the COVID-19 pandemic.**

**These events compounded new and increasing social needs including ageing populations, the rise of long-term health conditions such as diabetes, high rates of unemployment for young people, a mental health epidemic, plus loneliness across the generations and homelessness. This transformed landscape makes now a timely moment to think again about Social Impact Bonds and their future development.**

**This series of briefings on the future of Social Impact Bonds has been produced by the Policy Evaluation and Research Unit at Manchester Metropolitan University and the Price Center for Social Innovation at the University of Southern California. The series editors are Professor Chris Fox and Professor Susan Baines from the Policy Evaluation and Research Unit and Professor Gary Painter from the Price Center for Social Innovation.**

# PEOPLE DESERVE BETTER – THAT’S THE KEY POINT ABOUT SIBS

*Freedom to deliver for marginalised groups – and accountability for that improvement – are vital qualities that SIBs can offer to develop public services that do not work well enough.*

**Tim Gray** designed the first, highly influential, homelessness SIB. Here, he highlights what really matters in this outcomes-based tool.

I was involved in developing the first homelessness Social Impact Bond (SIB). It was in London, where homelessness is most acute, and it was targeted at persistent rough sleepers. Its development is instructive about how we might consider SIBs and their future. We should recognise their value in providing bespoke, accountable, improved services for groups of people who deserve a much better, targeted approach than they have experienced in the past.

Back in 2010, I was a homelessness advisor in what was then the Department for Communities and Local Government. Under Grant Shapps, it sought to make some impact in this field, partly by using SIBs, in the wake of the Peterborough SIB’s pioneering work on the rehabilitation of offenders.

We started by talking to lots of homelessness organisations such as St Mungo’s, Look Ahead and Thames Reach. Crucially, there was a data base on homelessness in London – CHAIN – which highlighted a key problem. People were accessing services, but that was not preventing them from returning onto the streets.

## THE CHALLENGES OF HOMELESSNESS

It was clear that hostels have a genuine dilemma. Managers must consider the interests of everyone in a hostel. So, if a resident becomes a troublemaker or has issues that affect everyone else, then it may be difficult not to evict them. These people are also most likely simply to leave and it is certainly difficult to engage with them, either on or off the streets. Yet these are the very people whom services most need to work with, because they are the chronic rough sleepers. How could we incentivise the system to focus on these people specifically?

We didn’t simply dream up the outcomes in Whitehall. It is important to consult the field. This helps you to assess the appetite among providers to try out new approaches and it ensure that outcomes are workable and don’t lead to perverse incentives. It also aids understanding about the levels of risk that social investors may accept. There can be a tension in SIBs between what a commissioner wants to achieve and the outcomes that social investors think are achievable. If a programme is too ambitious, then no-one invests or delivers.

## PERU Policy Evaluation & Research Unit

The Policy Evaluation and Research Unit at Manchester Metropolitan University is a multi-disciplinary team of evaluators, economists, sociologists and criminologists. We specialise in evaluating policies, programmes and projects and advising national and local policy-makers on the development of evidence-informed policy. We have a long-standing interest in social investment and Social Impact Bonds. See [www.mmuperu.co.uk](http://www.mmuperu.co.uk) for details of relevant publications.

## USC Price Sol Price Center for Social Innovation

The Sol Price School of Public Policy at the University of Southern California is a leading urban planning, public policy, public administration and health policy and management school. The Sol Price Center for Social Innovation is located within the School and develops ideas and illuminates strategies to improve the quality of life for people in low-income, urban communities.

**‘We acknowledged that more money needed to be spent on this group of people. They deserved better than they had experienced.’**

Nevertheless, it’s really important that real change is signified by the outcomes that are paid for.

Our goal went beyond just reducing rough sleeping. We also wanted to provide outcomes that lasted. So, for example, we paid for finding people sustained accommodation outside the hostel system, and for people to gain and keep employment. Also, although we certainly didn’t want people sent off to sleep rough in Poland, reconnecting people with their home country and accommodation might help some who would never be able to get settled immigration status in the UK. So, we paid for outcomes that successfully reintegrated some people into their home country. The SIB also aimed to reduce chaotic engagement with healthcare, so we paid for reduced attendances at A&E.

### **THE KEY STRENGTHS OF SIBS**

This SIB moved away from the notion of cashable savings, a feature of the Peterborough SIB and an issue that has dogged SIBs. We acknowledged that more money needed to be spent on this group of people. They deserved better than they had experienced. The impact bond was designed not, as a first principle, to save money. Rather, the SIB was intended to ensure that funding was spent effectively to achieve what this difficult-to-reach group needed. At the very least, it would be better than spending in ways that clearly had not worked well previously.

I don’t know of a better way to work with people who are hard to help than using the ingredients in an outcome-based tool such as a SIB. It gives providers enough money to work well with a particular group and the freedom to adapt their approach to them. Providers are not constrained by having to offer services that may be inappropriate. There are incentives to do what works and there is strict accountability, based on measured outcomes that must be achieved. My experience is that people do feel pressure to find ways to achieve the goals. They are also liberated by the flexibility of a SIB: it helps them to do the job to the best of their abilities.

### **THE FUTURE AND SIBS**

Do SIBs – or other forms of outcomes-based contracts (OBCs) – offer a way forward? Not always. Sometimes, if a SIB has shown how to make a

system work better than before – or demonstrated the effectiveness of a particular methodology – then there may be no need to pay for another one, next time. The answer, in those circumstances, may be to capture the learning and apply it more broadly, funded by more conventional means.

This teasing out of active ingredients – and the sharing of learning – has, as in other cases of pilots, not been a strength of the SIBs’ programme. There is a real issue about funding something for a period of time, showing that it works well, and then not continuing with it. Government should be better at collecting and disseminating best practice and encouraging local commissioners to take up practices that work – something that is difficult in a situation where the funding of local services is under increasing strain.

Nevertheless, there are also circumstances where commissioning for outcomes is inherently better, because there isn’t always a specification or a methodology that works for everyone. Sometimes, services really do need to be tailored to individuals in order to be most effective. Outcomes-based commissioning, if properly designed, is well suited to addressing these situations.

Paying for outcomes drives performance and accountability. Not having to follow a detailed specification allows for the flexibility and innovation that’s needed to meet the individual requirements of people who can be hard to help, and where it may be necessary to try different approaches if things don’t work out first time. We know that success can spring from strengths-based approaches, working across service boundaries, collaboration and determination. It is difficult to “specify” these features but you can create the conditions that support them: SIBs at their best can really do that.

I see a continuing role for SIB funding where it is vital for third sector providers to put the client first, and where the social investor can help by shielding these organisations from financial risk. The successful history of SIBs for rough sleepers, and hard-to-help, young homeless people – both in London and then further afield – suggests that they should be used further in this area. Elsewhere, conventionally funded services do not always work well, notably around mental health, as well as children and young people transitioning out of statutory care. The care and education of children excluded from school is another field that is ripe for innovations that can spring from a SIB-funded approach.

### **CHALLENGES FOR CENTRAL GOVERNMENT**

Central government should think about two issues that prevent us from making the most out of learning – and what could be gained – from SIBs. Both relate to funding and commissioning.



First, spending cycles – which never outlast five years of government and can be as short as one year – make it difficult to sustain payment for outcomes beyond a short period. This means that SIBs funded by government tend to be pilots or one-off initiatives. To run a sustainable programme, the target group will, typically, need to be worked with for more than one year. There will also have to be new recruits to the programme each year. Additionally, meaningful outcomes take time to achieve.

The second issue is the difficulty local commissioners have in procuring services in a way that allows providers to bid for contracts on the basis of outcomes. Contracts are traditionally let on the basis of how well the proposed service meets a specification. This requires suppliers to describe tightly what they will do to meet that specification. However, this approach is anathema to the flexible approach required to deliver an outcomes-based contract well. It is possible, in principle, to commission services on the basis of outcomes, but commissioners still find this complicated. Such tendering processes have, so far, mostly only been issued where a central government top up fund is involved.

As a result, we don't yet know if outcomes-based providers, working with social investors,

**'The impact bond was designed not, as a first principle, to save money but to make sure that it was spent effectively to achieve what this difficult-to-reach group needed.'**

could compete on a level playing field with more conventional bids, because traditional procurement doesn't allow them to tender for available contracts. A challenge for the Government is to find ways to encourage local commissioners – when letting new service contract – to include an option for providers to bid who wish to be paid for outcomes. This could mean, for example, that the full contract price would be paid only if a minimum number of outcomes had been achieved and that a lower sum would be paid if the service achieved less. This innovation would allow more mainstream services to be delivered as OBCs if the terms offered were favourable to commissioners, and by extension, favourable to service users being supported to achieve better outcomes.

In conclusion, there is still much to explore in the efficacy of SIBs and other forms of outcomes-based commissioning. We should recognise the part that SIBs and other OBC programmes can play in improving public services with respect to marginalised populations. They bring freedom and accountability to providers keen to do a better job. This strength should not be obscured by the noise and controversy they generate around the secondary issue of drawing on investor capital.

**Tim Gray** is an independent consultant specialising in advice on homelessness and on social impact bonds (SIBs). He has worked on homelessness, supported housing and related issues for over 30 years, working for central and local government, housing associations and the voluntary sector.

Tim Gray recently wrote 'Employment and homelessness in the context of the new economy following Covid-19', published by the Centre for Homelessness Impact.

[https://uploads-ssl.webflow.com/59f07e67422cdf0001904c14/5f69bb4cc2178efbae6ad003\\_CHI%20Employment%20policy%20paper.pdf](https://uploads-ssl.webflow.com/59f07e67422cdf0001904c14/5f69bb4cc2178efbae6ad003_CHI%20Employment%20policy%20paper.pdf)

The author(s) developed this paper with a collaborative writer, Jack O'Sullivan, from Think O'Sullivan Ltd  
[www.think-osullivan.com](http://www.think-osullivan.com) / [jack@think-osullivan.com](mailto:jack@think-osullivan.com)

**The Policy Evaluation and Research Unit**

[www.mmuperu.co.uk](http://www.mmuperu.co.uk)

 [@mmupolicyeval](https://twitter.com/mmupolicyeval)

**Sol Price Center for Social Innovation**

<https://socialinnovation.usc.edu>

 [@USCPriceCSI](https://twitter.com/USCPriceCSI)

April 2021