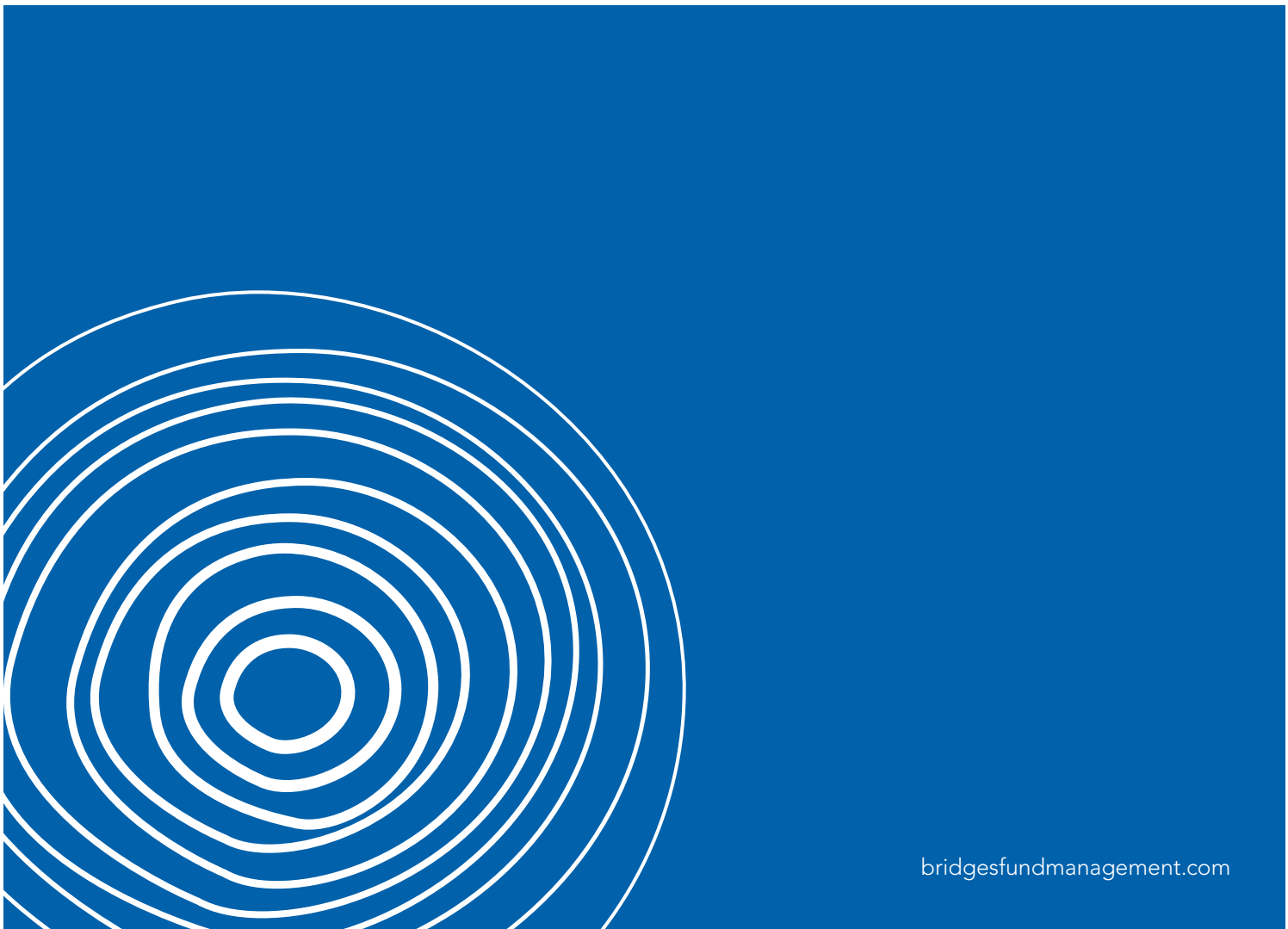


# Better Outcomes, Better Value

The evolution of social impact bonds in the UK



# Contents

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Overview	03
A new kind of commissioning	04
When outcomes contracts work best	06
Key policy areas for outcomes contracts	08
The evolution of the SIB model	10
Case Study: Career Connect	12
Our Investments	14

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“Both the CCG and Ways to Wellness have had to develop and agree clear, measurable performance indicators that are sufficiently robust to trigger repayment to the investor. Much time has been spent defining and agreeing these. Our outcomes are therefore far more concrete than perhaps they would otherwise have been. It has stretched the clinicians and finance teams, but doing so has allowed us to accept a degree of innovation and a scale of investment that we would have struggled to match, without the discipline that this way of working brings”

*Dr. Guy Pilkington, Chair of the NHS Newcastle Gateshead Clinical Commissioning Group (CCG) Health Service Journal, October 2015*

## A Bridges Impact+ publication

Bridges Fund Management is a specialist fund manager focused exclusively on sustainable and impact investment – using commercial investment strategies to help solve some of society's biggest challenges. Founded in 2002, Bridges now has almost £600m under management across its growth, property and social sector funds. It became a certified B Corporation in the summer of 2015.

Bridges is committed to maximising the impact of our funds and to growing the wider industry in which we operate. We therefore established Bridges Impact+, to equip our internal teams with best practice and to leverage that practitioner experience to support a wide range of external clients – from investors to governments to corporations to charities. Our approach combines research and development of frameworks and products with hands-on advisory services, all rooted in practical experience.

For more information, visit [bridgesfundmanagement.com](http://bridgesfundmanagement.com).

# Overview

## We're starting to see evidence that outcomes-focused commissioning can help governments achieve better results

Traditionally, governments have contracted third-party service providers on a 'fee for service' basis – so commissioners prescribe and pay for a particular service *that they believe will lead to a desired social outcome (or outcomes)*.

More recently, a number of governments have started to introduce elements of 'payment by results' or 'pay for success' when commissioning services – so providers only get paid in full *if they deliver* the desired social outcomes.

Social impact bonds (SIBs) are a tool to help impact-driven providers deliver these 'outcomes contracts', by giving them access to project financing and management support from socially-minded investors. For governments, this can broaden the pool of skilled providers and, potentially, increase the chances of the service being successful. (p. 2-3)

### Why now

At Bridges, we raised the world's first fund dedicated entirely to investing in SIB-funded outcomes contracts. Since 2012, we have directly invested in 17 of these contracts – almost half of the total commissioned by the UK Government to date. (p. 12)

We did so because we believed that a greater focus on outcomes would give providers the flexibility and the incentive to iterate constantly in pursuit of better performance. This, in turn, would stimulate more entrepreneurial solutions to some of our most intractable social problems – something we've been looking to achieve through our funds for more than a decade.

It's now seven years since the first SIB-funded outcomes contract was launched in the UK. During this time, the model has continued to evolve, and dozens more SIBs have been developed around the world. But while the concept has attracted lots of attention – both positive and negative – it's only now that we're starting to accumulate a body of data about whether this approach can actually work.

From a Bridges perspective: 2015 saw the first three of our SIB-backed programmes complete their original contracts. All three delivered positive social outcomes, helping disadvantaged children re-engage with school, gain new skills and qualifications, and develop greater empathy and resilience. Two of these programmes – both of which came in well ahead of their impact targets – have already been recommissioned for a second iteration (at a lower cost to Government).

In both cases, precisely because the programmes outperformed their outcome targets, investors achieved positive financial returns and used these to support follow-on SIBs.

More importantly, we're starting to see trends and patterns emerge. Based on what we've learned from these early contracts, we have come to believe that:

1. **Outcomes contracts have considerable potential to help governments drive positive social change by improving performance, increasing efficiency and re-aligning incentives in existing service provision** – not only by facilitating and de-risking innovative new services. (p. 4-5)
2. **There are some key policy areas in the UK where outcomes contracts are already delivering better results** – and where there is already strong support from central Government. (p. 7)
3. **Outcomes contracts (whether SIB-funded or otherwise) should be designed to provide better value to commissioners than any available alternative.** This means pricing them in such a way that unless the programme delivers demonstrably better results than the commissioner could get elsewhere, the return to investors should be zero. We think this **Base Case Zero** approach (as we call it) is essential in order for this model to succeed at scale. (p. 8-9)

### Why it matters

The UK government alone currently spends more than £230bn a year on what might loosely be termed 'human services', from healthcare to children's services to rehabilitation. About one-third of that total is delivered by third-party providers – but only a tiny proportion (roughly £3bn p/a) involves any kind of payments for outcomes. (p. 6)

Our experience to date suggests that introducing more outcomes-based payment mechanisms within these specific policy areas could help commissioners improve service delivery and get a better understanding of which approaches work best. Over time, this should help governments achieve better value for public money and, most significantly, better outcomes for some of the most vulnerable people in our society. That's an opportunity we cannot afford to ignore.

#### Definitions:

By **outcomes contract**, we mean any contract between a government and a (typically external) service provider that involves some element of payment for outcomes achieved (sometimes called 'payment by results' or 'pay for success').

By **social impact bond**, we mean any arrangement made by an impact-driven provider to access off-balance sheet financing in order to deliver a specific outcomes contract.

By **commissioner**, we mean any local or central government (or state) official with responsibility for buying service provision (typically from an external provider).

.....  
**It's only now that we're starting to accumulate a body of data about whether this approach can actually work**  
.....

# A new kind of commissioning

*Governments are experimenting with outcomes contracts (and SIBs) in the hope that it will help and incentivise providers to deliver better services*

With a traditional 'fee for service' contract, governments typically pay for a particular set of inputs (e.g. personnel on the ground) or activities (e.g. the provision of a particular service) that they believe will lead to a certain societal outcome. As such, the commissioning process tends to favour proven interventions that can be repeated in more or less the same way. The providers concerned usually have relatively little flexibility to adapt or experiment with their service during the contract period – even if the environment in which they are operating changes (as it often does). Nor do they have any real incentive to deliver better-than-expected results.

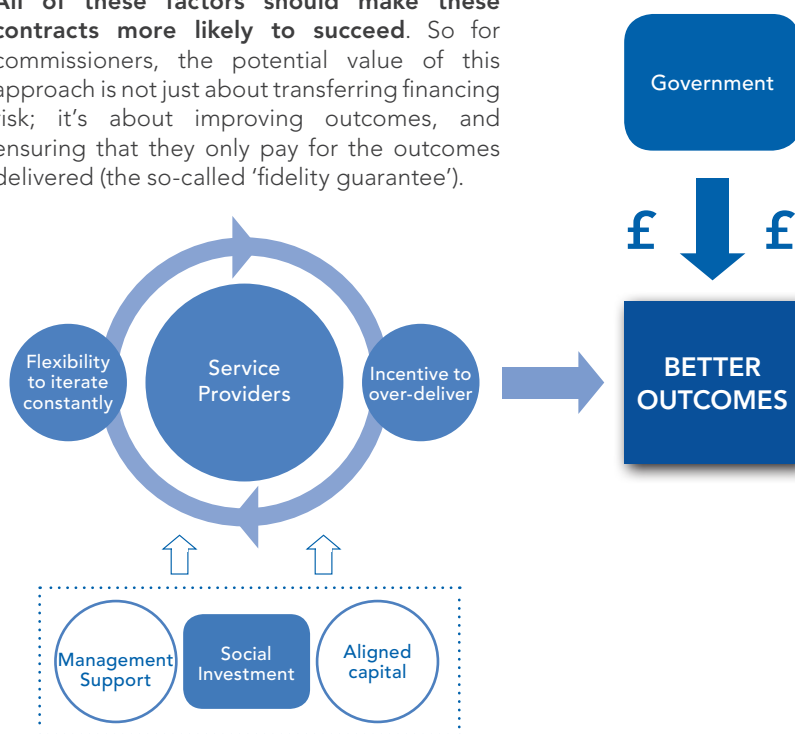
Many governments around the world are now experimenting with outcomes contracts. Here, some or all of the provider's fee will be contingent on how successful they are in delivering the specified societal outcomes. Since the commissioner is no longer specifying exactly how the service should be delivered, **this gives providers much greater scope to adapt and improve** their existing programmes, or to devise a new one – allowing them to react to a changing environment. **It also creates a clear financial incentive for providers to deliver better-than-expected results.**

Given their payment structure, outcomes contracts typically create a need for working capital to fund the provider's work. One way to finance this is via a social impact bond (SIB). **SIBs are a form of aligned capital where investors' financial returns are linked directly to the provider's success in achieving positive social outcomes.** This typically comes from social investors who share the commissioner's goals, understand the social context and are willing to accept the associated risks – in a way that other sources of private financing may not.

**SIB investors can also offer providers hands-on management support** (either directly or via specialist advisors) as providers bid for and deliver outcomes contracts, helping to build their organisational capacity.

Critically, this capital and support is available to a wide variety of organisations, regardless of size or structure. This should mean that **commissioners can choose from a much broader pool of providers than they would otherwise have been able to**, while strengthening the local market – with a view to ensuring that these services are provided by those with the best solutions, not simply those with the deepest pockets.

**All of these factors should make these contracts more likely to succeed.** So for commissioners, the potential value of this approach is not just about transferring financing risk; it's about improving outcomes, and ensuring that they only pay for the outcomes delivered (the so-called 'fidelity guarantee').



## THE BEST OUTCOMES CONTRACTS USE STAGGERED PAYMENTS

Based on our experience to date, we believe the most effective contracts incentivise providers to care about the ultimate outcome sought by the government. But in most cases, **it will make sense for the commissioner to pay for delivery milestones reached along the way – as long as those milestones are highly correlated with the achievement of that ultimate outcome.** This kind of staggered payment mechanism imposes a useful discipline on the provider, driving greater efficiency; it reduces the working capital need, helping to keep costs down; and it gives both commissioner and provider valuable early feedback on how well the service is doing.

For example, in the Manchester foster care SIB, the Government's ultimate goal is for children to finish their adolescence in stable foster care placements. In order to focus providers on this outcome, no payment is made for recruiting a delivery team of therapists or foster carers; nor do providers receive significant payment for the initial foster placement. Instead, payments build up gradually over the first year, with the majority (over 50% of the total amount) triggered only if a placement is sustained for at least a full year – since this is highly correlated with placements remaining stable in the longer term. The remainder of the payment is triggered by the longer-term outcomes of improved attendance at school and reduced offending, which signal increased well-being of the children the Government is trying to help.

## UK OUTCOMES-BASED COMMISSIONING, 2010-17

Below are the most significant contracts commissioned by the UK government since 2010 that have involved some element of payment for outcomes. (Those in blue are projects that have been funded, or part-funded, by a SIB structure; the figure quoted represents the maximum outcomes payment available)

“Setting outcomes gives us permission to think differently. People are hugely innovative and creative if given the opportunity”

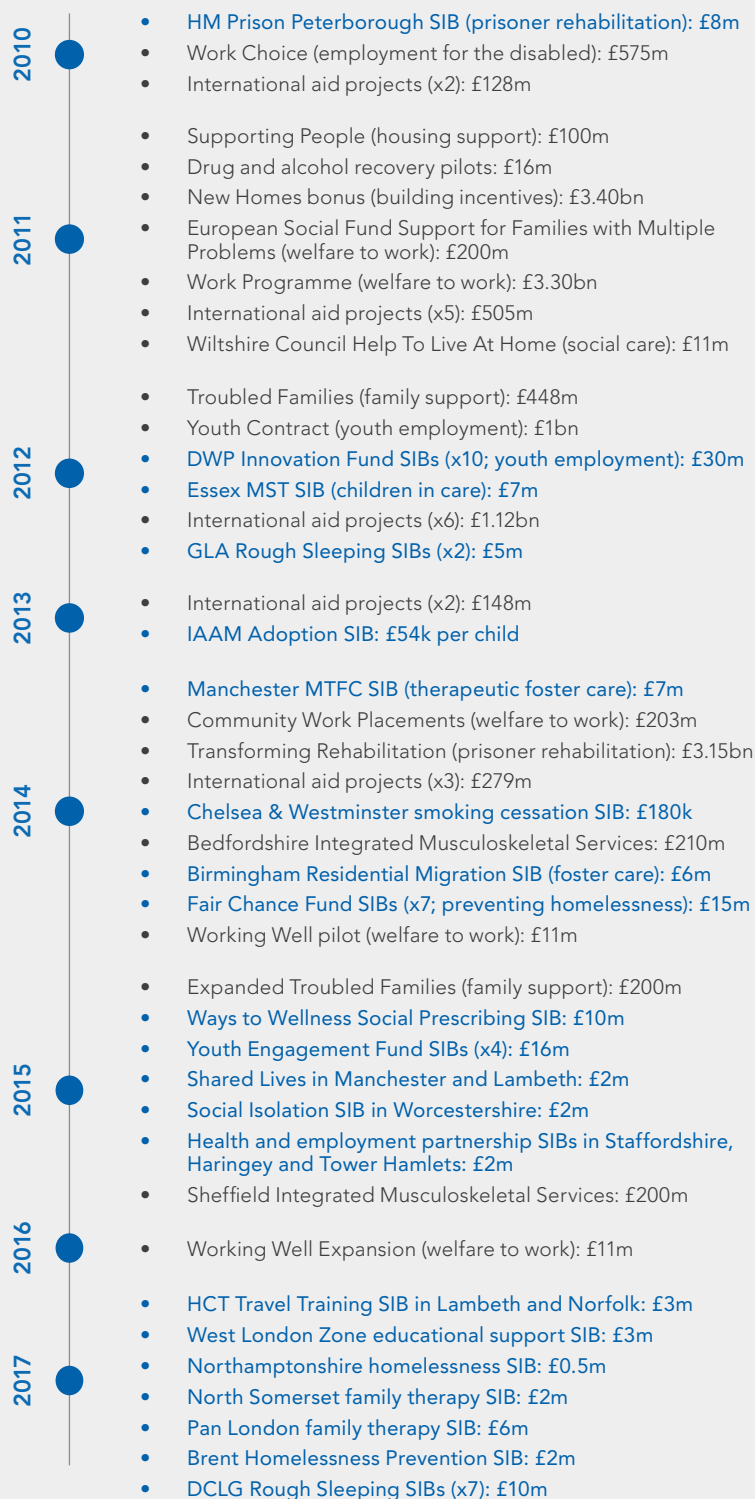
*Service provider,  
DWP Innovation Fund*

“The areas of added value to date include the continual engagement of investors, beyond the initial investment; the added layer of support from the board, including the flexible use of funding to achieve defined outcomes; pragmatic decision-making; and a rigorous information and reporting system focused on outcomes”

*Extract from the independent report on the Essex MST SIB by the Office for Public Management, 2015*

“The programme got off to a slow start – to the extent that if we had been paying for it via a normal contract, we would probably have given up and cancelled it. But the SIB structure meant we were able to give it more time; the provider and their investors persevered, and now the team is delivering fantastic outcomes for some of our most troubled young people”

*Sarah Henry, Head of Intelligence and Performance, Manchester County Council, on the MTFC SIB*



➔ Total outcomes contracts c. £15bn in 5 years, of which c. £100m involved a SIB structure

*Source: National Audit Office; Local Government Association; Health Service Journal; Bridges' research*

(See p. 12 for a list of some of the local and central UK government departments that have commissioned SIBs)

# When outcomes contracts work best

Much of the discussion around SIBs has focused on their role in promoting innovative new services. However, our experience suggests there could be an equally substantial opportunity in improving existing services. Here are five areas in which outcomes contracts are helping governments achieve better results:

## IMPROVE

Drive better results from existing services

**Example: Multi-Systemic Family Therapy (Essex)**

### *The problem*

MST is a licensed programme that has proven to be effective in the US, and has already been implemented 35 times in the UK. However, our research found that some previous implementations had struggled to drive referrals; to recruit, train and retain good therapists; and to get buy-in from local social workers. As a result, they had not been able to fulfill their potential by offering therapy to the maximum possible number of families.

### *The solution*

New features introduced as part of the SIB-funded programme have included a much greater focus on working pro-actively with social services to offer therapy to all families who could benefit, with a dedicated programme manager recruited for this purpose. There has also been more direct engagement with families who were reluctant to get involved. This has helped to drive better, earlier referrals, which tends to make the intervention more effective. To ensure lower therapist turnover, the programme adjusted the role slightly to attract well-qualified staff, expedited staff training and funded the recruitment of an additional 'trainee' therapist to the team – thus ensuring that there was always a 'therapist in waiting'. Crucially, there was also additional investment in post-therapy support, with a 'performance analyst' hired to track subsequent progress and an 'evolution fund' established, which can provide discretionary grants to families. Together, these changes have already brought about a substantial improvement in results, helping the MST teams on this programme to work with a significantly higher number of families than would otherwise have been possible.

## ALIGN

Correct perverse incentives created by previous policy

**Example: Fair Chance Fund homelessness SIBs**

### *The problem*

For some young homeless people, the current structure of homelessness services does not always support them into long-term sustainable housing and independence. That's because the majority of funding follows the accommodation rather than the beneficiary – creating some perverse incentives. Accommodation providers are typically paid for giving beneficiaries a bed. Although many providers and local authorities do support the young people in their accommodation to build their skills and move on, the system offers them no opportunity to carry on supporting those more chaotic individuals who cannot hold down the accommodation. As such, this particularly vulnerable group is left unsupported, leading to poorer life outcomes – including higher rates of homelessness. Equally, those in supported accommodation are disincentivised from leaving it (because they'd receive less support), from getting a job (because supported housing rents are often high), or from moving into the private rented sector (because this can reduce their chances of securing a social housing tenancy).

### *The solution*

With these outcomes contracts, the funding follows the beneficiary, not the accommodation. Providers have the opportunity to work with and help beneficiaries over a long period of time (up to three years), regardless of where they're sleeping – so they can support the young person flexibly and ensure that housing options help rather than hinder beneficiaries' progression. The payment mechanism also rewards employment, so providers have a strong incentive to support beneficiaries into education or jobs. This ought to give beneficiaries a better chance of achieving full independence over time.

## CO-ORDINATE

Bring together multiple stakeholders to tackle complex issues

**Example: Ways to Wellness Social Prescribing SIB**

### *The problem*

Providing effective care for patients with long-term health conditions (LTCs) such as diabetes, heart disease and asthma is one of the world's biggest health care challenges. In the UK, people with LTCs account for around 70% of the total health and care spend. Supporting patients to better manage and/or mitigate their conditions can reduce the burden on the National Health Service (NHS) and may also help beneficiaries back into the workforce. But the NHS cannot easily fund this kind of community-based social care, which comes under the remit of local authorities; while local authorities have little incentive to invest in preventative health services when the financial benefits accrue elsewhere.

### *The solution*

Ways to Wellness is an innovative seven-year scheme in Newcastle West. Based on the concept of social prescribing – using non-medical interventions to achieve improved patient self-care, with support from dedicated 'Link Workers' – it is funded by the NHS but brings together a group of 18 local GP practices (who refer relevant patients) and a number of local voluntary sector providers (who deliver services that help with getting active, following complex drug regimens, developing positive relationships, and so on). The outcomes focus has allowed the programme to be 'co-commissioned' by the NHS, the National Lottery and the UK Cabinet Office, in recognition of the broad social benefits that accrue right across the public sector. The project aims to prove that outcomes will be delivered for all the stakeholders involved – by reducing the burden on local social care services and primary care facilities, and by reducing the need for welfare payments over time.



## UNLOCK

Unlock future savings by investing more up-front

**Example: Therapeutic foster care (Manchester/ Birmingham/ Cardiff)**

### The problem

In the UK, a large number of adolescents still grow up in residential care homes – usually as a result of family breakdown followed by multiple breakdowns of foster care placements. The social outcomes for these children are in many cases much worse than for children brought up in a foster family – and it's also a much more expensive solution for the state. But while many local authorities recognise this, it has proven difficult to address in practice; partly because of the difficulties of finding suitable foster carers, and partly because of the difficulties of engaging consistently and successfully with social work teams to make longer-term placement plans. Social workers' budget structures often make it hard for them to unlock heavier up-front investment, even if it will generate long-term savings.

### The solution

These therapeutic programmes invest additional resource in moving challenged adolescents into stable foster placements where they will enjoy better life outcomes – in the knowledge that this will save the local authority substantial sums over time. A special effort has been made to recruit suitable carers: the programmes sought out new carers with relevant skills (e.g. teachers and youth workers) and paid them above the usual rate, to reflect the challenging nature of the placements. Specialised therapists support the carer and child across the placement; and further support comes from mentors who have themselves previously made the transition from residential care. Crucially, the programmes also dedicate resource to working in partnership with social work teams, and proactively assisting them to target suitable children who could benefit from this kind of long-term planned transition into permanent placements.

## INNOVATE

Trial new solutions; transfer financial risk of failure

**Example: Peterborough – One Service**

### The problem

Reconviction rates among recently-released prisoners are typically high – a negative cycle that carries high societal costs (not to mention the actual costs associated with imprisonment). However, there was no established method of supporting short-sentenced prisoners upon their release from prison with a specific view to reducing the likelihood of them reoffending.

### The solution

The One Service in Peterborough, launched in 2010, was the world's first ever social impact bond-funded programme. Developed by Social Finance, the programme aimed at delivering a tangible reduction in reoffending rates by providing a range of support services to short-sentenced male prisoners when they were released from HMP Peterborough – including help with addiction, family troubles and mental health issues. There was a significant focus on building up more sophisticated data reporting systems, to enable better monitoring of the effectiveness of particular interventions and sharing of information between different service providers.

Since there was no equivalent programme to use as a baseline comparison, performance was assessed by comparing reconviction rates to a comparable cohort of prisoners at other prisons. Initial signs were promising: the first 1,000 prisoners supported had an 8.4% lower reconviction rate than the comparator cohort. However, partly as a result of these positive indicators, the Ministry of Justice subsequently launched a nationwide roll-out of support services to short-term offenders; as a result, the One Service came to an end early, to be replaced by this new service.

## Outcomes-Based Contracts

### Social Impact Bonds

- + Widen provider pool
- + Provide aligned capital
- + Access ongoing support



Multi-Systemic Family Therapy, Essex



Combating homelessness, Fair Chance Fund



Social Prescribing, Ways to Wellness

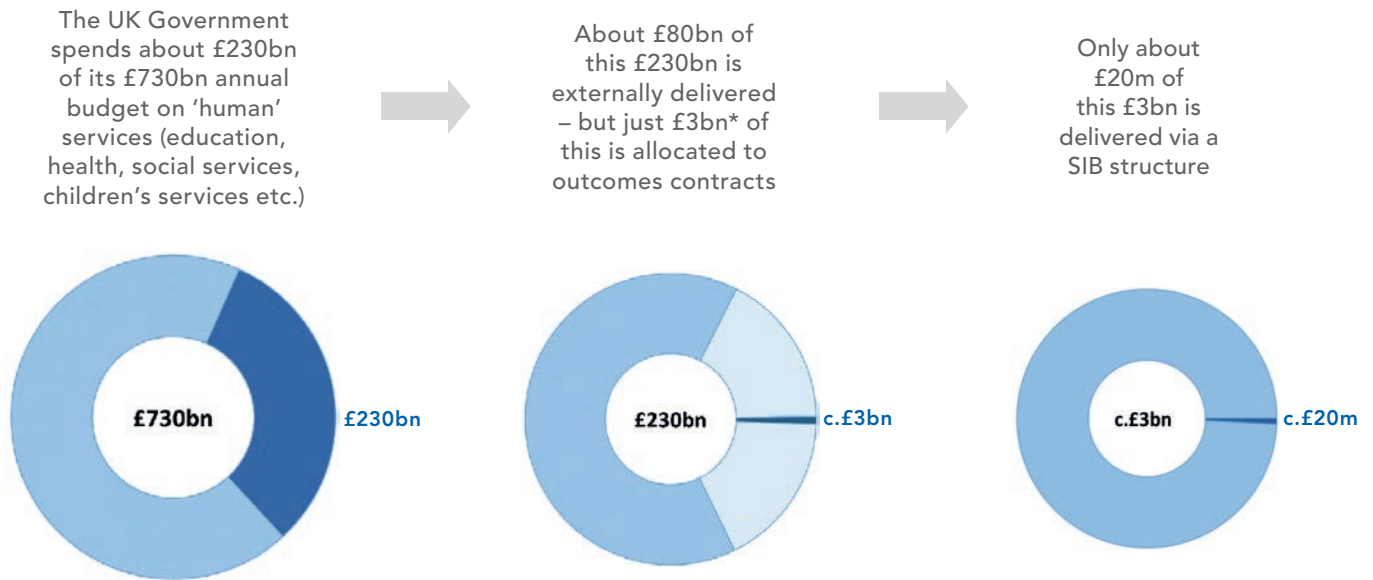


Therapeutic Foster Care, Birmingham

# Key policy areas for outcomes contracts

Governments currently allocate a tiny proportion of their budgets to outcomes contracts. They have scope to do much more, particularly in 'human' services

## CURRENT UK GOVERNMENT SPEND ON OUTCOMES CONTRACTS



Source: Bridges research

On the previous pages, we described five different opportunities for commissioners to consider using outcomes contracts to drive impact. Our diverse portfolio of SIBs has also taught us that, in any of these situations, there are three features that must be in place for outcomes contracts to work most efficiently and effectively:

- 1. The ability to define a specific cohort** (e.g. children in residential care or adults with long-term health conditions)
- 2. Positive outcomes that can be defined and measured objectively** (e.g. qualifications reached or entry into employment)
- 3. The ability to place a value on these positive outcomes** (which generally requires reference to a tangible baseline/counterfactual)

In conjunction with the five areas of opportunity, these three required features provide a useful lens to help us identify specific issues where an outcomes-based commissioning approach has the potential to drive better outcomes and/or better value-for-money.

**There is a sizeable addressable market here.** In the UK, the Government currently spends about £230bn a year – almost a third of its annual budget of £730bn – on delivering 'human services' (to include healthcare, children's services, education, social work, employability, culture and so on; see diagram, above). Although precise figures are hard to come by, we estimate that about £80bn of this total is delivered by third-party providers, largely on a 'fee for service' basis.

Not all of that spend will be appropriate for outcomes contracts (for instance, where it applies to statutory services that have to be delivered in a certain way). But given that the Government commissioned about £15bn of outcomes contracts across the whole of the last parliament – an average of just £3bn per year (a fraction of which was linked to SIBs) – there is still plenty of scope for the Government to experiment with commissioning services on an outcomes (rather than 'fee for service') basis, to see whether it might drive better results.

On the opposite page, we outline four particularly promising policy areas that, in our experience, exemplify one or more of the opportunities identified on p. 4-5 – and also possess the three required features.

There is plenty of scope for the Government to experiment with commissioning services on an outcomes (rather than 'fee for service') basis, to see whether it might drive better results

\* Annualised figures based on spending during the last Parliament, 2010-2015



## POTENTIAL ROLES FOR SIBs IN FOUR KEY GOVERNMENT POLICY AREAS



Preventing children from becoming NEET (not in education, employment or training) hugely improves their life chances, while also potentially saving the state significant sums in benefit (and other associated) costs over time. The UK Government's experience with the DWP Innovation Fund (which was predicated on the idea that we need new ways to re-engage those at risk of becoming NEET) has suggested two things: one, that such interventions are most effective at an early age; and two, concentrating on the development of greater resilience and self-confidence might be more effective (in both the short- and medium-term) than the traditional focus on simple careers support.

*Cf. Career Connect, Community Links, Teens & Toddlers\**

IMPROVE

UNLOCK

CO-ORDINATE



Looked-after young people are among the most vulnerable people in our society – and a weighty responsibility for local authorities. The benefits (both personal and financial) of enabling these children to grow up in a family home are very clear and easily quantifiable; but many local authorities have struggled to resolve the many challenges. Hence there is an extremely compelling argument for investing in interventions like therapy for troubled families, supported adoption for at-risk young children and therapeutic fostering for young people in care.

*Cf. IAAM, Birmingham, Essex, Manchester*

UNLOCK

IMPROVE

ALIGN



Homelessness has been a persistent challenge in the UK; but many initiatives have not had the desired effect. In part, this is because the traditional approach of funding bed spaces with support attached has not worked for some more chaotic individuals who need a longer-term, more flexible approach. One promising approach, currently being trialled via outcomes contracts, is to focus on the individual beneficiary over a longer period of time, wherever they are living, and to help them address some of the root causes of their homelessness – whether that's to do with addiction or mental health or education/training.

*Cf. Depaul, St Basils, Fusion Housing*

ALIGN

IMPROVE

CO-ORDINATE



In the UK, where the Government is trying to drive closer alignment between health and social care provision (and reduce the burden on our over-stretched health service) there are likely to be areas on the boundary between the two where various stakeholders have an interest in a particular outcome, and a role to play in achieving it – but where it's not clear who should pay. Outcomes contracts can play an important role here by acting as a mechanism to combine their budgets and co-ordinate their activities for combined benefit – as is happening with Ways to Wellness in Newcastle, or the Reconnections SIB in Worcestershire. So helping patients to deal with long-term conditions (e.g. diabetes) will be a major focus.

*Cf. Ways to Wellness*

CO-ORDINATE

INNOVATE

UNLOCK

“The introduction of SIBs for dealing with complex homeless clients has really enabled a long-term focus on the individual and the specific interventions needed to help them turn their lives around. This is very hard to achieve with more traditional commissioning tied to accommodation or the provision of a defined service. The feedback I've received shows that SIBs have really freed up voluntary sector agencies to do what they always wanted to do to help their hardest-to-help homeless clients”

*Tim Gray, Department for Communities & Local Government commissioner  
(2 x London Rough Sleeping SIBs (2012) and 7 x Fair Chance Fund SIBs (2014))*

\* See p. 12 for a list of all the SIBs backed by Bridges

# The evolution of the SIB model

*SIBs are already getting more efficient. If applied to existing services and priced to offer better relative value, they can enable better outcomes at real scale*

SIB-funded programmes have already had a powerful positive impact on the lives of thousands of vulnerable young people and adults. We believe that millions more could benefit in the future, helping society to address some of its most intractable social issues. But in order for this to happen, the model will need to evolve in three important ways – the early signs of which we’re seeing already:

## 1. Greater efficiency

The early UK SIBs were initiated and managed by intermediaries – notably Social Finance, which developed the first SIB in Peterborough. This model played an essential role in catalysing a nascent market, supporting Government and providers throughout the design and execution process. It will continue to be useful for any market developing a SIB for the first time.

Inevitably, these early SIBs took a long time to develop, were complex in structure, and incurred a range of transaction costs. However, the pioneering work done in creating new standards and upskilling the key parties is now bearing fruit.

For the Department for Work & Pensions’ Youth Engagement Fund, the commissioner was able to get from initial design to programme launch much more quickly than for the Innovation Fund (p. 11). Similarly, **as providers are given more freedom to constantly evolve their delivery, they are finding new ways to deliver better outcomes at lower cost.** For example, Career Connect made substantial adjustments to its programme during its first outcomes contract (p. 10); this enabled it to submit a bid based on a proven model second time around, increasing value-for-money to Government.

As commissioners and providers gain a richer understanding of how to design and deliver outcomes contracts well, it is fostering greater confidence on both sides. As a natural corollary of this, the role of intermediaries is changing. Rather than needing advisors to ‘make the market’, as was the case in the early days, the key parties involved can simply draw on specialist advice if and when they need it (see *diagram*, p. 9). **This more efficient model can prevent potential conflicts of interest, speed up development times and reduce costs.**

## 2. Broader application

Many early SIBs focused on untested new interventions (the ‘Innovate’ of our five opportunity areas). Effectively pilot schemes, aimed at generating new outcomes – and therefore without an existing baseline in terms of price or performance – SIBs

of this kind tend to be small-scale, with payment mechanisms based on a complex control group.

Outcomes contracts – and therefore SIBs – will continue to be a powerful tool for innovation; the most successful may even prompt a paradigm shift in the way we tackle big social challenges.

But in the near term, we think **there is also a substantial opportunity in improving existing services;** i.e. in helping commissioners achieve better value in situations where they already have a targeted spend (either by achieving better outcomes for the same spend, the same outcomes for less spend, or more outcomes for more spend but at a lower cost per outcome).

In these situations, rather than expending substantial amounts of time and money identifying and tracking a control group, commissioners can use their understanding of the money they currently spend on the value they currently generate (in other words, their ‘best available comparable option’) as their baseline. This enables them to price outcomes in a way that’s most useful to providers, who then have the flexibility to adapt and evolve their models throughout the programme. **Such contracts can be rolled out on a much greater scale** – improving efficiency, cutting costs and reaching more beneficiaries.

## 3. Better relative value

Ultimately, **SIBs – and outcomes contracts more generally – will only succeed at scale if they allow commissioners to achieve better, more or cheaper outcomes** than any alternative approach (either internal or external). And if there is indeed a substantial opportunity for outcomes contracts in improving performance in situations where commissioners already have a targeted spend, we see a powerful implication for how SIB contracts should be priced going forward.

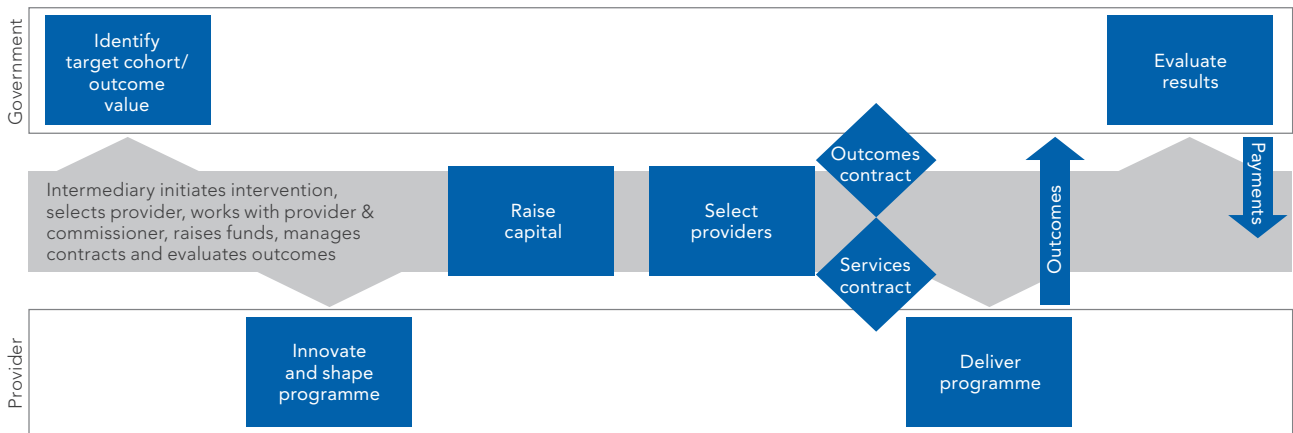
Some of the early SIBs were priced on the logic that the eventual cost to the government need only be cheaper than the cost of doing nothing to address the target social issue. In the much more typical situation, where the government is already doing something (or is aware of ways in which it could do something) we see the potential for a higher bar: simply put, **commissioners should only ever pay extra for SIB-funded programmes if they’re getting something extra in return.** If they’re not – if the SIB fails to deliver demonstrably better results than the government’s ‘best available comparable option’ – then the additional cost to the government (including the return to investors) should always be zero. We believe this **Base Case Zero** model is critical to the future of SIBs.

There is a substantial opportunity for outcomes contracts in improving existing services, i.e. in helping commissioners achieve better results in situations where they already have a targeted spend

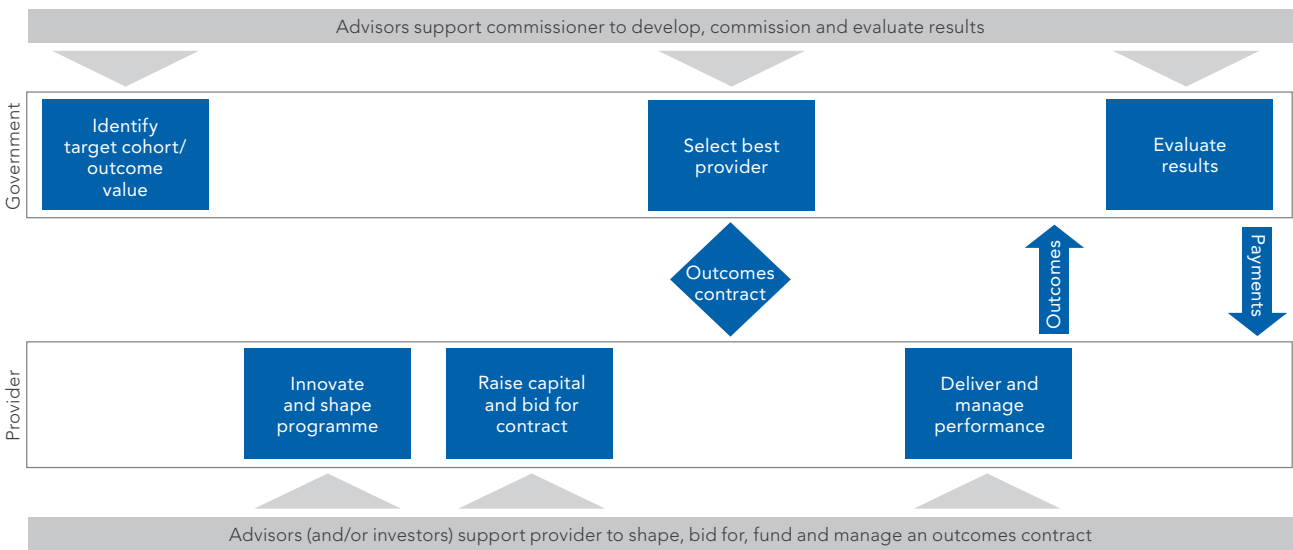
If the SIB fails to deliver demonstrably better results than the Government’s ‘best available comparable option’, the additional cost to the government should always be zero

## HOW THE UK SIB MARKET HAS MATURED SINCE 2010

*A small number of the early SIBs were initiated, designed and managed by intermediaries*



*Since then the model has evolved: a commissioner will now typically choose the provider/investor via an open procurement process, with each party drawing on specialist advice where necessary*



### Conclusion: Better outcomes, at scale

Based on our experience to date, we believe outcomes contracts have huge potential as a tool to help governments improve the provision of existing services, as well as experiment with new service models.

The growing interest in outcomes-based commissioning globally is, in itself, a positive development. But we also believe the availability of SIBs will become increasingly helpful to commissioners. A key goal for most governments is to build local provider markets and encourage the voluntary, community and social enterprise sector to take on more public sector contracts. By providing access to additional capital and support, SIBs help to

facilitate that – enabling these organisations to play an increased role in addressing the tough social issues that they understand so well.

SIB-funded outcomes contracts are already delivering promising results in areas like homelessness, children’s services and youth employment. But they still account for just a fraction of the £200bn the UK spends every year on ‘human’ services like these. As the model becomes more efficient, and as the universe of possible applications expands, these contracts can play a much greater role in helping governments deliver better value for public money – and better solutions to some of our toughest societal challenges.

**The availability of SIBs could become increasingly helpful for commissioners as the model evolves**

# Case Study: Career Connect

*Career Connect was able to adapt its intervention in response to feedback from the early months of delivery, ultimately surpassing its outcomes targets*

## ABOUT THE PROGRAMME

In 2011, the Department for Work & Pensions, Cabinet Office and Ministry of Justice established the £30m Innovation Fund, with the aim of improving outcomes for disadvantaged young people who were NEET (not in education, employment or training) or at risk of becoming so. Providers would be paid according to their success in:

- re-engaging participants with school
- helping them achieve qualifications
- supporting them into sustained employment

In 2012, Liverpool-based charity Career Connect was selected by the Innovation Fund to deliver a programme that would be assessed against these outcomes. Career Connect identified three groups of young people on Merseyside whose outcomes were diverging most sharply from their peers: young offenders, those in or leaving care and those with learning difficulties. The average NEET rate of these groups was considerably higher than the national average (21% vs. 16%).

The programme ('New Horizons') – which ran for three years until April 2015 – received up-front financing and ongoing support from Bridges Fund Management and other investors via a social impact bond. Its target was to work with **3,928 young people** on Merseyside – targeting **4,270 positive outcomes** against a 'rate card' (the Government's own assessment of what each of these outcomes was worth in financial terms).

The intervention was delivered through a range of Resilience Coaching Programmes, which includes the use of an online 'Mental Toughness' diagnostic tool. Once assessed, the young people received one-on-one resilience coaching focusing on the particular challenges faced by each young person (as identified through the Mental Toughness assessment).

Alongside this, Career Connect designed and delivered an NVQ Level 1 qualification in Personal Effectiveness to eligible school-age participants. The course, delivered predominantly through group sessions over a 13-week period, focuses on developing the young person's interpersonal skills and encouraging a greater understanding of their abilities. Career Connect found that the course leads to better school engagement, improved well-being, higher career aspirations and better employability.

## THE PROGRAMME MADE FOUR KEY CHANGES OVER TIME

At the end of the first year, detailed management information showed that some aspects of the programme were extremely effective, and others less so. With a standard 'fee for service' contract or grant agreement, it would have been difficult for Career Connect to alter the design of the programme. However, outcomes-based contracts enable greater flexibility, and so the delivery team were able to use what they had learned to make informed decisions to change aspects of the programme and improve results:

- **Better management information:** Career Connect appointed a dedicated performance manager, and strengthened its management information systems in order to track data more accurately. This extra level of rigour helped Career Connect identify opportunities and make better informed decisions, facilitating the evolution of the programme over time.
- **Focused on earlier intervention:** Coaches found that supporting younger children to re-engage with education was likely to be more impactful over the long-term than providing CV and employment support to participants who were already NEET. As a result, the intervention was re-focused to achieve better supporting the younger cohort towards education outcomes, and away from targeting better employment outcomes for older participants.
- **Improved product offering:** For 14-16 year olds, the original focus had been on coaching with no target qualification. Data showed that this was not achieving the hoped-for results. So Career Connect developed a specialised Level 1 course intended to improve resilience and engagement, which could be delivered via more structured group sessions within the school. Following a change in Government legislation that obliged children without employment to 'participate' in education or training for an extra year, Career Connect also designed a specific employability course to help 16-year-olds at risk of becoming NEET.
- **More in-house service delivery:** Results showed that Career Connect's in-house delivery was more effective than using a wide supply chain of service providers. So it focused its investment on this method of delivery, increasing the number of coaches for young people.

.....  
“I have learned how to deal with stress and how to react with several dilemmas at the same time. I have also learned how to work in a team and help others”  
.....  
.....

*Course participant, Career Connect*

.....  
“Investors have encouraged - and at times required us - to provide data at an almost granular level. There has been a real process of learning in that; we've been able to capture exactly what's working, where it's working, and why”  
.....

*David Howard, Operations Director, Career Connect*  
.....

## THE PROGRAMME DELIVERED EXCELLENT VALUE-FOR-MONEY FOR GOVERNMENT

The New Horizons programme ran until April 2015 (though outcomes were tracked for a further six months afterwards). During the contract period, it worked with 4,222 young people to deliver 6,044 positive outcomes. The table below illustrates the value to government delivered by the programme (according to the outcome values in the latest Innovation Fund Round 2 rate card).

	Outcomes delivered	Price per outcome paid by Government (£)	Total paid by Government (£k)	Value of outcome to Government (£)*	Total value delivered to Government (£k)
Improved school attendance	1,315	871	1,145	1,400	1,841
Improved school behaviour	1,779	552	982	1,300	2,313
National Vocational Qualification Level 1	1,870	441	825	900	1,683
National Vocational Qualification Level 2	728	1,452	1,057	3,300	2,402
Sustained employment for 13 weeks	198	1,924	381	3,500	693
Sustained employment for 26-weeks	154	740	114	2,000	308
<b>Total Outcomes</b>	<b>6,044</b>	-	<b>4,504</b>	-	<b>9,240</b>

\* Cf. [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/212328/hmg\\_g8\\_factsheet.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/212328/hmg_g8_factsheet.pdf)



In October 2015, Career Connect's New Horizons programme was selected as the 'Social Investment Initiative of the Year' at the 2015 Charity Times awards. The category was designed to recognise "an important social investment initiative that has proven highly advantageous to the sector within a long-term framework, opening up opportunities to the sector and promoting sustainable development".

## IN 2015, CAREER CONNECT WAS RECOMMISSIONED TO DELIVER A SECOND SIB

Last year, Career Connect became one of the first two SIB providers in the world (alongside Teens & Toddlers) to be recommissioned to deliver a second programme: 'Unlocking Potential', which was commissioned as part of the Department of Work and Pensions' Youth Engagement Fund. However, this time, it was co-commissioned by a number of Local Authorities (Liverpool, Wirral, St. Helens, Halton, Sefton) who had seen the success of the first programme.

When commissioning the second programme, the Government was able to use the lessons learned from the Innovation Fund to adjust the rate card, based on its improved understanding of the relative value of the different outcomes. Nonetheless, Career Connect was confident enough in its new and improved intervention to submit its 'Unlocking Potential' bid at a substantial discount to the rate card.

The lessons of the first tender process also allowed Government to reduce development time substantially relative to the Innovation Fund process (which in turn reduces costs):

Process features	First tender	Second tender	Third tender
<b>SIB Commissioner + Contract name</b>	<b>DWP Innovation Fund round 1</b>	<b>DWP Innovation Fund round 2</b>	<b>DWP Youth Engagement Fund</b>
Time to design competition	> 6 months	4 months	2 months
Time from launch to invitation of tender	4 months	3 months	3 months
Time from tender to choosing winning bid	5 months	4 months	3 months
Time from winning bid chosen to programme launch	2 months	2 months	2 months
<b>Total</b>	<b>&gt;17 months</b>	<b>13 months</b>	<b>10 months</b>





## Want to know more about SIBs?

In the UK, there are a number of additional resources available to local or national Government officials who are interested in learning more about commissioning SIB-funded outcomes contracts.

A helpful starting point is the Cabinet Office's 'Centre for Social Impact Bonds', which can be found at: [data.gov.uk/sib\\_knowledge\\_box/](https://data.gov.uk/sib_knowledge_box/)

You can connect with the Bridges SIB team on +44 (0) 20 3780 8000, or [info@bridgesfundmanagement.com](mailto:info@bridgesfundmanagement.com)

Read case studies of SIB projects that have been successfully commissioned and executed at: [betteroutcomesbettervalue.org](https://betteroutcomesbettervalue.org)

Access the latest research on SIBs at the Government Outcomes Lab at: [golab.bsg.ox.ac.uk/](https://golab.bsg.ox.ac.uk/)

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