USING COLLABORATION TO UNLOCK SOCIAL IMPACT BONDS

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For all of us who live in the world of policy and practice in the public services, the ever-present challenge is finding new and smarter ways to use our increasingly pressured resources.

The budgetary impact on the public sector following the 2007 global financial crisis really began to be felt around 2009.

It is now 2014 and, while we read about recovery in the economy, this feels very much like a ray of sunshine that is shining solely on the private sector. In the meantime, the public sector is continuing to review its services, restructure its staffing and build new alliances to deliver better outcomes by sharing services where possible.

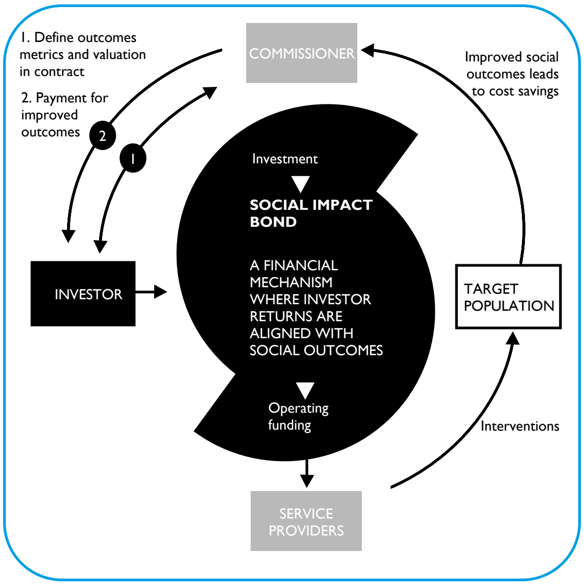
However, we need to look further than using our own resources better. We need to look at ways of bringing in finance from non-traditional sources.

What Are Social Impact Bonds?

'Social impact bonds are an example of what we call "disruptive innovation" – an idea that shatters status quo thinking – and have the potential to transform the social sector by offering an innovative way to scale what works, bring in new funding flows, and break the cycle of need for crisis-driven services[1]'

Social Impact Bonds (SIB) were set up to provide an innovative way of attracting new finance to support initiatives that provide measurable benefits for individuals and communities facing a social issue such as vulnerable children, youth unemployment, crime, drug and alcohol misuse, mental health and so on.

A SIB is a way of financing an outcomes-based contract, a type of *payment by results,* in which, typically, commissioners from the public sector set out their commitment to pay for significant improvement in social outcomes for a defined group of individuals or cohort.



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SIBs are measured based upon their social return and therefore require a robust approach to setting baseline data. Not all social issues will lend themselves to this approach and the feasibility stage needs to establish that the essential characteristics exist for a SIB development. These are:

- High demand
- High cost
- Poor current outcomes

The UK's first SIB was established in 2010 in Peterborough and was designed to reduce the level of re-offending after leaving prison. Early indications suggest encouraging results with a 6% drop in re-offending compared with a 16% increase nationally.

[1] Kippy Joseph, Associate Director, Rockefeller Foundation, 2013.

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How does a SIB work?

A SIB seeks private investment which is used to fund interventions which are delivered by service providers with a proven track record in their field.

Investors receive a return based upon improvement in the identified social outcomes, although if no measurable improvements can be demonstrated, investors may potentially lose their investment. The diagram on the previous page shows a typical SIB structure.

In this way SIBs remove the risk to the public purse if outcomes fail to materialise, whilst providing up-front funding for prevention and early intervention services.

For private sector investors, the returns can be substantial if the outcomes are achieved. In addition, the scope for new innovations is much greater, because the focus is on outcomes, not simply maintaining existing practices and services.

The savings potential of outcomes from a SIB funded intervention must be more than the cost of delivering both the intervention and the costs associated with the SIB, including the return to investors.

Identifying demonstrably cashable savings that are attributable to the outcomes achieved ensures that the SIB proposition is self-financing and does not require additional budget consideration.

SIBs: Collaboration as the key to success

Whilst the opportunities of a SIB approach to financing interventions and achieving social outcomes are many, take-up has been slow. There are many reasons why this may be the case, however some of the more common issues include:

- Clear definition of the social issue – is it focused and clear?
- Identifying the cohort – what is the exact population, its characteristics, its needs?
- Setting up the appropriate delivery vehicle
- Sharing data
- Clarity of purpose and outcomes
- Legal and financial frameworks

A SIB is, by its nature, a collaborative approach that brings together commissioners, service providers, investors, the target population and a range of other stakeholders. All of the issues presented above require a degree of collaboration and trust, for example in data sharing, vision building, resourcing support, managing delivery and communicating with investors.

SIBs present the public sector with an exciting tool to transform existing services and create new approaches by bringing in external finance rather than relying on ever-diminishing budgets.

There are many technical skills that we need to draw upon in order to make SIBs live up to their undoubted potential, however their ultimate success will rest upon how effectively we can work together and deliver true social innovation. That will only be unlocked, through collaborative working.

Further reading….

Please contact me on peter@evidentconsulting.co.uk if you are interested in this complex area of work. I have recently submitted bids for SIBs to Treasury.

In addition you may like to read *Joseph, K. (2013). Social Innovation Acceleration: Building the Social Impact Bond Ecosystem. Published in Partnership with Forbes for the 2013 Skoll World Forum,* and visit these websites:
http://www.socialfinance.org.uk/work/sibs
http://data.gov.uk/sib_knowledge_box/