Department for Communities and Local Government

Commissioning Social Impact Bonds (SIBs)

Learning from the Qualitative Evaluation of the London Homelessness Social Impact Bond

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The London Homelessness Social Impact Bond (SIB) was a four year programme administered by the Greater London Authority and commissioned in 2012 to transform outcomes for entrenched rough sleepers. A qualitative process evaluation of the SIB was commissioned by the Department of Communities and Local Government (DCLG).[1] This short briefing paper provides key learning from that evaluation, for the design, development and commissioning of SIBs in general (not restricted to SIBs focused on homelessness).

What is a SIB?

A SIB is a funding structure for payment by results (PbR) contracts. In PbR the provider only receives payment for outcomes achieved, and the risk of failure is transferred from the commissioner (who only pays for results) to the provider. In a SIB, social investors provide the upfront running costs and thus the risk is transferred to them from the provider, for a financial return. This enables voluntary, community and independent sector (VCIS) organisations to deliver a PbR contract without placing their own resources at risk.

Why consider commissioning a SIB?

SIBs are likely to work best when there are clear, measurable outcomes that the commissioner is seeking to achieve; there is limited evidence about what works; and the commissioner is seeking to do things differently, noting that innovation in public services can transform social outcomes but also involves a degree of risk. A SIB can enable new interventions to be trialled where the commissioner only pays for success; and a VCIS organisation, which is likely to be closer to service users and value rather than profit based, to compete for and deliver the contract. Social investors are motivated by a blended return of social outcomes and financial return. Because SIBs are relatively new they may bring additional commissioning costs and these should be accounted for within the overall budget for the intervention. As SIBs mature as an investment product, transaction costs can be expected to decrease.

How do you commission a SIB?

A SIB requires three core elements, each with different stages: the first step is to design the model and outcome-based PbR contract; the second is to commission a VCIS provider to deliver an intervention, which may be backed by social investment; the third is to manage the contract

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[1] 'Qualitative Evaluation of the London Homelessness Social Impact Bond: Final Report'

Designing the intervention model

A SIB can be used to trial innovation: taking an intervention with promising early evidence to scale; trialling an intervention that has proven successful in other contexts in a new locale or targeting a new service user group; or designing a new model for an entrenched social problem (as was the case with the London SIB). The intervention model should be based on detailed research and because the evidence base will be variable, consultation with stakeholders can help sense-check the proposed design. However, the intervention model should not be a service specification. This will be developed by providers in response to the outcome-based contract.

Designing the PbR contract

The PbR contract should have a small set of clearly defined outcomes. A number of resources are available to support good design in PbR contracts and assist with outcomes pricing for the final metrics.[2]

Commissioning the SIB

Market testing is an important stage in sense-checking the proposed model with specialist VCIS providers. It also provides the necessary opportunity to raise awareness of the commissioning and test the appetite for the planned contract. When commissioning, a competitive dialogue approach can be effective as it enables an initial short list of potential providers to be identified and then engaged in discussion about the contract which can help to refine it. Consideration should be given to whether contracts require prime providers with supply chains; or single providers.

Securing Social Investment

As well as market testing with providers, awareness raising activities with social investors can similarly raise awareness of the intended contract and market-test the proposed outcomes contract and investor appetite for involvement. Smaller VCIS organisations are likely to require assistance in brokering agreements with social investors, who need to be confident in a provider’s ability to deliver the outcomes. Social investors should be required to make agreements in principle during the contract bidding stage. A small number of short-listed organisations means investors can commit some resources to this stage with more confidence of provider success. Investors will only undertake full due diligence and make final investment decisions once the contract has been awarded and this should be built into timescales.

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[2] For example, see the SIB Knowledge Box at https://data.gov.uk/sib_knowledge_box/knowledge-box and the Government Outcomes Laboratory at http://golab.bsg.ox.ac.uk/

SIB contract structures

A Special Purpose Vehicle (SPV) can be used to hold the contract and performance manage the provider(s). For contracts with single providers the additional resources required by an SPV may not be cost effective. Whether an SPV is the most appropriate structure should be given careful consideration.

The importance of data

Data is central to PbR and SIBs. The commissioner needs absolute confidence that outcomes have been met. Checking the validity of outcome claims is resource-intensive, hence why a small number of clearly defined metrics is helpful. Before SIBs are commissioned, data systems and data sharing agreements must be in place. One advantage of an SPV is that it performance manages the contract. Without one, providers will need to performance manage and capacity for this must be included in their delivery models.