

## **U.S. Senate Budget Committee hearing on Social Impact Bonds (SIBs)**

UK Experience of designing, commissioning and implementing SIBs

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### **Background**

The UK Government is committed to Social Justice - which we equate to the prevention of welfare dependency, and to the equipping of people with the support and tools needed to turn their lives around. The Government's Social Justice Strategy can be found at <https://www.gov.uk/government/publications/social-justice-transforming-lives>. Social Investment, and the greater use of Social Impact Bonds (SIBs), is an integral part of that strategy. SIBs can unlock new funding streams for tackling social disadvantage; create opportunities for local level delivery through voluntary and community organisations; and improve delivery performance by only paying for results and bringing greater business disciplines through the involvement of private sector investors.

The UK social investment market has seen rapid growth but remains relatively small (around £200m in 2010<sup>1</sup>). Its potential, however, is great. UK charitable investment and endowment assets alone account for nearly £95 billion. If just 5 per cent of these assets, 0.5 per cent of institutionally managed assets and 5 per cent of retail investments in UK Individual Savings Accounts (ISAs) were attracted to social investment, it would mean unlocking around £10 billion of new finance capacity.

The UK Government is committed to grow this nascent market and has made significant progress through:

- the establishment of Big Society Capital, the world's first social investment institution, with up to £600m to invest in this market and a mission to provide wider support for the market.
- the introduction of the MoJ Peterborough Pilot, the world's first Social Impact Bond;
- the establishment of the Cabinet Office led Centre for SIBs, including the introduction of two Outcome Funds, to support potential SIBs from concept through to implementation;
- the implementation of the £30 million DWP Innovation Fund (IF);
- and the introduction of social investment tax relief for individuals investing in SIBs.

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<sup>1</sup> *Cohen R et al, 2010, Social Investment Ten Years On, Final report of the Social Investment Task Force.*

## SIBs in the UK

There are currently 15 SIBs in the UK, with over 50 in the development pipeline. These cover policy areas including troubled families and children in care, unemployment, housing and homelessness, criminal justice, health, drug addiction, and education.

Ten of the current 15 SIBs were implemented due to the introduction of the DWP's £30 million 'Innovation Fund;' a pilot initiative aimed at supporting and testing social investment projects for disadvantaged teenagers. The Innovation Fund has three main objectives:

- to deliver support to help young people aged 14 years and over who are disadvantaged, helping them participate and succeed in education or training and thereby improve their employability, reducing their longer term dependency on the welfare state;
- to test the extent to which the IF generates benefit and other wider social and fiscal savings;
- and to support the development of the social investment market and build the capacity of smaller delivery organisations.

### The IF payment model

A key element of the IF is the 100% payment by results model, with DWP as the commissioner, only paying for outcomes with a proven link to improving the chances of a young person entering and sustaining future employment. The maximum amount paid for each outcome represents a value to the taxpayer, based on a proportion of three year benefit savings. This value takes into account an assessment of "deadweight" levels (comparing the usual educational achievement rates for a disadvantaged group and the performance of a significantly less disadvantaged group). The outcome 'rate card' is as follows<sup>2</sup>:

Table 1: DWP Rate Card

<b>Outcome</b>	<b>Maximum Payment (British Pounds)</b>
Improved attitude towards schools	£700
Improved behaviour	£1300
Improved attendance	£1400
Entry level qualification	£900
NVQ <sup>3</sup> level 1 or equivalent	£1100
NVQ level 2 or equivalent	£3300
NVQ level 3 or equivalent	£5100
Entry into Employment	£3500
Sustained Employment	£2000

<sup>2</sup> Round two Rate Card

<sup>3</sup> NVQs (National Vocational Qualifications) are work based awards that are achieved through assessment and training in England, Wales and Northern Ireland. They range from level 1 upwards in terms of difficulty. At particular levels they are equivalent to academic qualifications.

A key distinction from other SIBs is that the IF uses proxy outcomes and an individual level (as opposed to a cohort) payment approach. The outcomes, such as addressing truancy rates and obtaining educational qualifications, are based on the premise that they are likely to lead to future employment. However, given that employment is some way off for these young people, investors would not have been willing to wait four or more years for these savings to occur and get a potential return on their investment; intermediate outcomes and individual outcome payments made the proposition more attractive to bidders and enabled a cash flow to be generated almost immediately. It also made the SIBs quicker and easier to implement by keeping the payment model as simple as possible.

## **The Market**

In order to stimulate and expand the social investment market, the IF was commissioned via an open competition. Despite the innovative nature of SIBs and the relative immaturity of the market, the market responded well to this and ten SIBs were implemented as a result, with six going live in April 2012 and a further four in November of the same year.

The IF has demonstrated that the potential investor market is large and diverse. It attracted a range of investors including dedicated Social Funds, small, medium and large businesses, high net worth individuals, as well as local people in the community. The motivations behind investing range from philanthropy to viewing the IF as a potential source of profit – but regardless of where they fall on this spectrum, they share the common goal of improving the lives of disadvantaged young people in the UK.

## **Nature of provision and progress to date**

Independent evaluation<sup>4</sup> confirms that the projects are recruiting and supporting a broad range of disadvantaged young people with multiple risk factors ranging from truancy and disengagement from school, to learning difficulties and poor literacy and numeracy. The barriers to re-engagement and progression displayed by young people are equally widely spread and range from issues of poor self-esteem and lack of self-confidence through to motivational, emotional and behavioural difficulties.

At the heart of the IF model is the education system, with schools as the main referral route and gateway to provision. Schools have fully engaged and have bought into the IF, with demand outweighing supply. Research evidence shows that young people on the programme are engaged, motivated and value the support they receive.

The IF is delivered primarily through the voluntary and community sector and progress has been very encouraging so far. Up to the end of October 2013,

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<sup>4</sup> The Innovation Fund pilots qualitative evaluation: Early implementation findings by Insite Research and Consulting, published on the 30th April 2014

the IF SIBs have supported 10,700 young people who have achieved 8,000 outcomes relating to education and employment. This is up from 6,100 starts and 1,800 outcomes up to the end of March 2013. Over the three year contract period we expect up to 17,000 young people to be supported in turning their lives around.

Investors, intermediaries and delivery bodies have also been found to be working well together to make the IF a success. They believe that this initiative is making a real difference to the lives of young people. The social investment and funding model has been a key driver of behaviours and has focused attention on generating starts and tracking individual participants towards the achievement of outcomes. The interests of all parties in ensuring the projects are successful and the need to generate cash-flow for continued delivery to be sustained, has led to careful and pro-active performance management which has driven up performance.

### **Building on the UK Experience**

Overall the UK experience to date has been positive and there are a number of lessons learned which will help the UK and other countries take SIBs forward, in particular:

- identifying social problems which social investment is well placed to address – those where localised solutions and the voluntary and community sector are needed; and where social and fiscal savings can be identified and measured
- keeping it simple by avoiding overly complicated payment models
- cutting across Government Departmental boundaries to ensure a cross-government commissioning and funding approach which scales up SIB models
- stimulating and growing the market place by commissioning SIBs via a competitive tender approach
- engaging the market early to ensure they have enough time to develop and submit proposals
- fully evaluating SIB models in order to build on 'what works' and build a credible evidence base going forward

The Innovation Fund is subject to comprehensive and independent evaluation, including an impact assessment, Social Return on Investment strand and qualitative research with stakeholders. The findings will be published through a series of DWP research reports. Further summary information about social investment and the Innovation Fund can be found in the accompanying annex to this paper.