An introduction to social investment

Introduction

In recent years social investment has emerged as a new source of funding for addressing complex social problems. For local authorities, this is not just an opportunity to bring in additional funding, but to do so in a way that creates a focus on innovation, outcomes and performance management that has the potential to fundamentally change the way that public services are delivered.

A number of the organisations already using and exploring the potential of social investment are local authorities as they have substantial scope to bring in new funding for outcomes-based, preventative services. Some of the most promising areas of consideration are those where there is a pressing need for interventions which can help commissioners to manage future demand and improve people's lives, such as children's services and the integration of social care and health.

To contribute to this new area of opportunity the Local Government Association (LGA) and Social Finance collaborated to explore the role of social investment in helping councils to improve outcomes while reducing costs.

This pamphlet is designed as an introduction to social investment and provides a summary of some of the ways it can help local authorities to adapt to a period of increasing demand and decreasing budgets. It is also intended to start a conversation about the role of social investment in wider systems change, such as Whole Place Community Budgets, across the local public sector which we will continue over the coming months.

What is social investment?

Social investment is where capital is provided for social benefit as well as financial returns. It includes investment in organisations whose purpose is to create a positive change in society, such as charities and social enterprises.

Social investors are motivated to invest in projects that will achieve positive social outcomes, and are often willing to trade off the level of financial return they usually seek based on the scale of social impact. Investment can take different forms, from debt finance to equity or hybrid finance. Equity and hybrid finance typically involves investors taking on risks, such as implementation and performance risks, that public commissioners may wish to transfer.

What is the social investment market?

The market is still relatively small – around £200 million was invested in 2011-12 according to the Government – but it is growing and already offering a range of ways of financing social purpose organisations and contracts. Recent examples include social investors providing the working and risk capital required for organisations to enter into payment-by-results contracts to help disadvantaged young people into employment and training, and providing growth and project funding for a range of social enterprises in the fields of transport, social care and training.

Some investments seek to achieve financial returns at the market rate whilst others offer financial returns below what they would receive on the open market in return for the social impact created through the investment – so-called ‘blended value’ investments. Each opportunity tends to be considered on its own merits.

Who are the investors?

There are growing numbers of charitable trusts and foundations, individuals, mainstream banks and institutional investors either currently investing, or contemplating investing, in this market. These investments might be direct or organised through intermediaries who connect investors and organisations seeking capital either by establishing social investment funds or arranging investments.

The Government is committed to supporting the development of the social investment marketplace, most notably through Big Society Capital, a wholesale provider of finance bank that started operating in 2012. Big Society Capital has two roles: as a ‘funder of funds’, investing in funds and lending to intermediaries so that they can in turn invest on to social purpose organisations; and as a ‘market builder’, investing in infrastructure (such as impact measurement) to help the market develop. Big Society Capital has a directory of potential investors (www.bigsocietycapital.com/finding-the-right-investment). At the time of writing, over 30 social investment intermediaries in England were listed.

Social impact bonds

One of the main ways of channelling social investment into public services is via social impact bonds (SIBs). A SIB is a contract with a public sector commissioner in which it commits to pay for improved social outcomes. On the basis of this contract, investment is raised from socially motivated investors. This investment is used to pay for a range of interventions to improve social outcomes. If social outcomes improve to an agreed level or measurement, investors will receive payments from the commissioner, potentially supplemented by contributions from outcomes funds such as those run by the Cabinet Office or Big Lottery Fund. These payments repay the initial investment plus an agreed financial return. The financial return is dependent on the degree to which outcomes improve.

Social impact bond objectives

The SIB approach – using an outcomes contract funded by social investment – is designed to access additional sources of finance focused on improving social outcomes. SIBs focus on funding preventative and early intervention programmes which tackle the underlying causes of specific social problems. Incentives are aligned across public sector commissioners, external investors and service providers, all of whom are acting to achieve a set of jointly agreed improved outcomes.

The main objectives of a SIB are to:

- align public sector funding more directly with improved social outcomes
- increase the pool of capital available to fund prevention and early interventions
- enable a broad diversity of service providers to collaborate
- provide greater certainty over revenue streams for effective service providers
- encourage a more rigorous approach to performance management including objective measurement of outcomes which contributes to building a broader evidence base for what works.

Social impact bonds in the UK so far

The first social impact bond was launched in September 2010. The Ministry of Justice entered into a contract with a partnership of investors to reduce re-offending among those leaving Peterborough Prison. On the back of this contract, the social impact bond secured nearly £5 million of social investment to fund a number of service providers to support ex-prisoners by helping them to find a home and job, addressing family problems or tackling addiction. Payment will only be made back to investors if re-offending falls.

At the time of writing, more than a dozen SIBs have launched, covering a wide range of social issue areas. These have included SIBs which will work to prevent young people becoming Not in Education, Employment, or Training (NEET), help children on the edge of or in the care system and support rough sleepers in London.

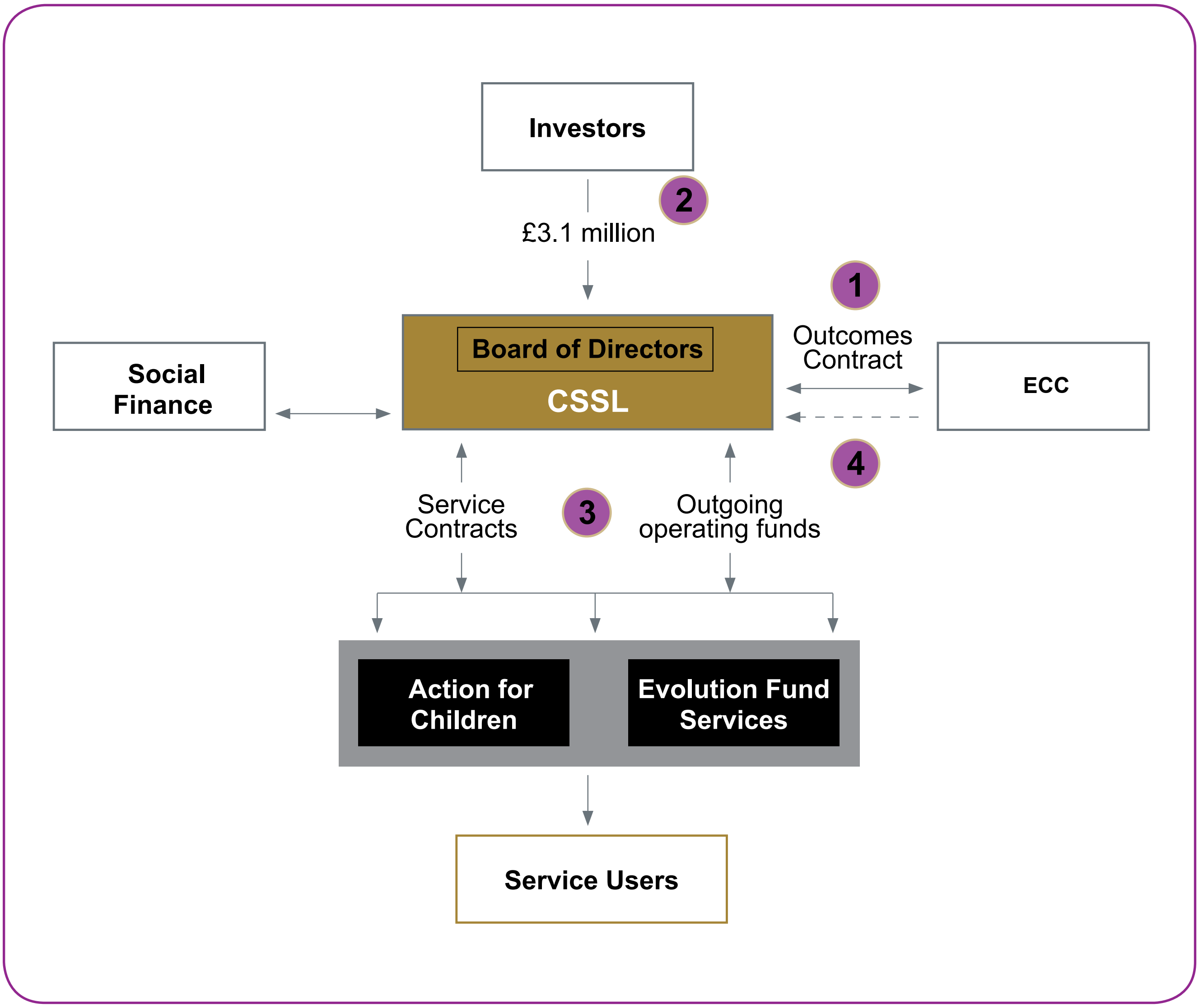
Case study – Essex vulnerable children SIB

The Essex 'children on the edge of care' SIB was the first local government SIB in the UK. Social Finance raised £3 million from social investors to fund work with adolescents on the edge of care in Essex. The Essex SIB focuses on 11-16 year-olds at the edge of care or custody in Essex, with the objective of providing support in order that the young people can safely remain at home with their families, with the aim of substantial improvements in their lives.

The core intervention funded by the social impact bond is multi-systemic therapy (MST). MST is a five month intervention to equip families to manage future crisis situations and thereby deliver a change that's sustainable over the long term. The social impact bond will fund two MST teams to provide a county-wide service in Essex, which will work with around 380 young people and their families over the life of the programme.

The key metric on which outcome payments are made is the saving in aggregate care placement days for each MST cohort, benchmarked against a historical comparison group. This outcome will be measured by tracking care days saved over a 30 month period for each individual referred, starting at beginning of the MST service. The social impact bond will seek to capture other key outcome metrics to measure the broader improvement in social outcomes for young people receiving the interventions. These will include school attendance, offending and measurements of emotional wellbeing. Funders of the programme costs make a financial return on their investment if it is successful, with the size of return dependent on the level of success, but could lose their entire investment if it isn't.

Structure of Essex SIB



1. Children's Support Services Ltd (CSSL) and Essex County Council (ECC)
2. Investors fund CSSL
3. Funds released to service providers according to Service Provider Agreement
4. ECC returns a % of savings from reduced cost of care placements

SIB Investors

King Baudouin Foundation
Esmée Fairbairn Foundation
Barrow Cadbury Trust
The Tudortrust
Charities Aid Foundation
Bridges Ventures
Big Society Capital
Social Venture Fund

When should social impact bonds be considered?

There is a growing consensus that the focus of commissioning should look to shift from the delivery activity to the achievement of outcomes. Commissioning for outcomes can encourage greater innovation in services and help to direct resources to preventative activities to address problems before they become entrenched. Social impact bonds were developed as a way of financing this move to outcomes-based commissioning. In particular, they enable organisations in the voluntary and community sector without large reserves or access to finance to deliver outcomes-based contracts because investors bear the risk and provide working capital required for such an approach.

However, SIBs, and social investment in general are not always relevant. There will be many services where it is still more appropriate to fund on the basis of activity rather than outcomes. In particular, in some services there may be few opportunities or benefits associated with transferring risk to an independent provider or investors.

If commissioners are looking to shift contracting to the basis of outcomes for the primary purpose of encouraging better performance within an existing approach, it is probably not necessary to explicitly consider the role of investors. The existing providers should be able to cover service costs through their own reserves. Risk transfer will typically be lower and service providers will feel more comfortable taking these risks themselves. In these instances, a social impact bond is not required.

In practice, there will be a spectrum of outcomes-based commissioning approaches where investors bear more or less of the risks involved. There is no absolute point at which a social impact bond is needed and other types of outcomes-based contracts are inappropriate. The issue for commissioners is the extent to which it is important to stimulate better delivery by paying on the basis of outcomes and the likelihood that external investors will be required to share the risk of achieving these outcomes.

Social impact bonds in local government

The remit of local authorities includes a number of areas where there is potential for social impact bonds to take a preventative approach which improves outcomes and provides a more cost-effective model of service delivery. In all of these areas, commissioners are already starting to explore social impact bonds. There is scope for a number of such contracts to develop over the next few years in the following areas.

Adult social care

- Accommodation for adults with learning disabilities
- Reducing social isolation in the older population
- Integrating health and social care, for instance through the better management of long-term conditions.

Children's services

- Preventative services for children on the edge of the care system
- Support to improve foster care and adoption for children in care system.

Youth offending, drugs and alcohol services

- Preventative services for young people at risk of entering the criminal justice system
- Helping people tackle drug and alcohol addiction.

Housing

- Support to reduce or prevent homelessness and rough sleeping.

Developing and commissioning social impact bonds

There are a number of important stages that are typically involved in developing a social impact bond. While not all may be applicable in every instance, our experience has shown that it is worth undertaking these activities in order to successfully launch a high-quality SIB. The diagram below summarises the key stages of development. For more detailed guides see the Social Finance website for a Technical Guide to Commissioning Social Impact Bonds[1] and A Technical Guide to Developing Social Impact Bonds.[2]

1 http://www.socialfinance.org.uk/sites/default/files/technical guide_to_commissioning_social_impact_bonds.pdf
2 http://www.socialfinance.org.uk/sites/default/files/sf_svc_guide.pdf

ASSESS THE SERVICE AREA THAT NEEDS RESHAPING

Discussion as to whether an outcomes contract (which could be a SIB) or other options is the best way to commission services.

OUTPUT

Agreement to explore social investment options as part of the service redesign

DEFINE THE SOCIAL ISSUES

Data analysis to understand population trends and cost pressures.
Stakeholder engagement to understand strategic objectives.

OUTPUT

Defined target population.

Engaged commissioner(s)

OUTPUT

Indicative outcome metrics to ensure success of intervention(s)

DEFINE OUTCOME METRIC(S)

Research on desired outcomes for target population.

Assessment of measurement attribution options

DEFINE INTERVENTION(S)

Needs assessment of target population.

Research on interventions to meet these needs.

OUTPUT

Intervention(s) to be funded by SIB.

STAKEHOLDER ENGAGEMENT

OUTPUT

Commissioner(s), Service Provider(s) and Investotor(s) satisfied with project and eventual outcome.

VALUE-FOR-MONEY CASE

Financial model to assess potential savings as a result of the intervention(s)

OUTPUT

Outline business case to be approved by commissioner(s)

PROGRAMME DESIGN

Detailed operating plan and due diligence on potential service providers for SIB-funded service.

Finalisation of outcomes measurement and payment framework.

OUTPUT

Term(s) sheet to form the basis of a SIB contract.

Final business case.

PROCUREMENT

For the SIB-funded service

OUTPUT

Provider for SIB-funded service.

CONTRACTING

Develop SIB contract.

Government arrangements with SIB counterparty.

Marketing to investors and securing commitments for investment required to pay for services.

Service providers commissioned to deliver services to target group.

OUTPUT

Fully-funded services.

Move forward to implementation and delivery of services.

Steps to consider and develop a SIB

Social impact bonds and wider systems change in local public services

The challenges facing local government require long-term solutions. Among those must be a major rewiring of public services to design them around the needs of people and communities. That means devolving budgets away from Whitehall to local areas to increase cooperation between public agencies, save money and improve services. This Community Budgets approach can improve services while saving up to £4 billion a year across the public sector.

At the same time, the social investment market is developing and expanding. This creates opportunities for social investment to be incorporated into wider systemic changes, like Community Budgets, that are happening across local public services. The potential benefits of social investment and social impact bonds could be significantly greater if they are more fully integrated into the way public services are rewired.

Over the coming months the LGA and Social Finance will be exploring the role of social investment in public service redesign and systems change across the local public sector. As part of this work, we are running a survey which we would be grateful if you could take five minutes to complete. Hard-copies of the survey can be found at the back of this pamphlet or it can be accessed through the annual conference app.

We will be using the results of this survey to help us develop our thinking about social investment and increasing its value to local government commissioners.

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