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Report of the

ROUNDTABLE TO EXPLORE THE POTENTIAL  
FOR SOCIAL IMPACT BONDS IN IRELAND

hosted by Clann Credo – the Social Investment Fund  
in association with The Atlantic Philanthropies and the Centre for Effective Services

held on 11th April 2011 in the Centre for Effective Services , 9 Harcourt Street, Dublin 2

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## Foreword

The following report is an account of the discussions that took place at a roundtable held to 'Explore the Potential for Social Impact Bonds in Ireland'.

This event took place on April 11, 2011 and was organised by Clann Credo - the Social Investment Fund, in association with the Atlantic Philanthropies and the Centre for Effective Services.

At the outset we would like to sincerely thank Toby Eccles & Louise Savell for their incisive, informative and authoritative presentation. And we also extend our warm appreciation to Ann Clarke, who has skilfully captured both the essence and the key details of the discussions, in this report.

Social Impact Bonds (SIBs) are a new and innovative vehicle with the capacity to unlock new sources of private finance and channel them into delivering measurable social gain.

As was evident on the day, from both the calibre of the attendees and their close engagement with the discussion, this concept has generated interest across the entire sector.

The roundtable heard from participants from Northern Ireland and the Republic, with a wide range of experience at senior levels of Government, the public service and the philanthropic sector. It also featured contributions from social finance providers and service deliverers.

We could only be encouraged by the positive nature of the discussions and the subsequent response. There is a recognition that with proper implementation, SIBs possess the potential to transform service delivery while delivering significant savings to the public purse.

It is to the credit of participants that possible pitfalls arising from the use of SIBs in an Irish context were identified, but the overarching consensus was that they had enormous potential to deliver. We believe this is accurately conveyed in the report.

Having evaluated the outcome, the three organising parties are of the view that a thorough scoping exercise is necessary, prior to a more detailed feasibility analysis. We will bring forward proposals on this in the very near future.

Yours sincerely,

Paul O'Sullivan

## **Summary of Roundtable Discussion on Social Impact Bonds Held in Centre for Effective Services on April 11<sup>th</sup> 2011**

### **Hosts**

The roundtable was hosted by Clann Credo - The Social Investment Fund in association with The Atlantic Philanthropies and the Centre for Effective Services. These three organisations had recently engaged, together and separately, in conversations about Social Impact Bonds and their potential applicability in an Irish context.

### **Participants**

The roundtable was chaired by Gerry Kearney. This report attempts to capture a summary of the discussion that took place and seeks to reflect the views of the participants<sup>1</sup>. Appendix A provides a full list of participants. Appendix B summarises the question and answer session Appendix C profiles the speakers and organisations and Appendix D provides a copy of the slide presentations made by the speakers.

### **Purpose of the roundtable**

The purpose of the roundtable was to explore the potential for Social Impact Bonds (SIBs) in Ireland and Northern Ireland to inform invited participants from government departments, philanthropic organisations, service providers and key informants about SIBs. To this end, Social Finance Limited, an organisation that has been the leader in the development of the SIB concept in the UK was invited to make a presentation about SIBs, the lessons learned, the issues involved and potential future applications. This informed the roundtable discussion.

### **Defining SIBs**

SIBs are a relatively new development. For example, Social Finance is currently piloting the first SIB for the Ministry of Justice in the UK. The key features of a SIB<sup>2</sup> are as follows:

- A contract with the government.
- Commitment by the public sector to pay for improved social outcomes that are agreed as part of the contract. If successful, these outcomes should deliver social value and cost savings to the public sector.
- Investment is raised on foot of this contract from socially-motivated investors.
- The investment is used to pay for new interventions to improve the agreed social outcomes.
- The financial returns investors receive are dependent to the level of improvement in agreed outcomes.

### **Format**

The session was opened by Gerry Kearney, the chairperson for the roundtable. The CEO of the Centre for Effective Services, Nuala Doherty, welcomed the participants. Paul O'Sullivan,

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<sup>1</sup> While every effort has been made to reflect the discussion as comprehensively as possible, the organisers and authors cannot guarantee its accuracy. Any errors brought to our attention will be corrected.

<sup>2</sup> Based on Social Finance documentation, 2010.

CEO of Clann Credo - The Social Investment Fund, outlined Clann Credo's role in the social finance sphere and set the scene for SIBs in an Irish context. Toby Eccles and Louise Savell of Social Finance, made a presentation on the learning from the first pilot SIB in Peterborough in England and outlined other areas where SIBs have applicability. Social Finance is a not-for-profit organisation that is regulated by the FSA. It has a staff of c.22. During their presentation there were opportunities for questions and answers. The presentation was then followed by an open discussion.

### **Context**

The speakers summarised the current context that is contributing to a debate on SIBs in Ireland. This included:

- The inclusion of SIBs in the new Programme for Government in Ireland recent references in the Dáil to SIBs by the Minister for Finance in response to queries from Dáil deputies.
- The current economic climate and how it was driving a search for new ways to fund innovation.
- A perceived appetite for innovative solutions to pressing social issues.
- The development of SIBs in the U.K., Canada, the USA and elsewhere.

### **Learning from the UK experience to date**

The first SIB pilot in the U.K. involves a contract with the Ministry of Justice and the Big Lottery to reduce re-offending rates for a cohort of 3,000 men coming out of Peterborough Prison after a short sentence. Factors that were assessed in selecting the project and that are relevant to selecting any area with potential for a SIB included:

- Identification of an area where there are poor social outcomes.
- Improved social outcomes will deliver significant cost savings in a relatively short timeframe.
- Most of the cost benefits accrue to one government department (rather than across a range of departments).
- The presence of a vacuum in public service delivery (while not a necessary condition) was potentially helpful to deal with issues of attribution of outcomes in the early SIBs.
- Evidence that interventions work.
- Robust measurement is possible.

The learning outlined by the speakers from Social Finance from the UK experience included:

#### *Context:*

- Gaining political support and champions in the public service is key. The latter influenced the political system and helped to overcome hurdles.
- Local context and support is also important.
- Complex social needs require complex responses. Often the responders lack scale, are financially fragile and fragmented.

- Current economic context means the focus is on immediate social value/cost saving potential. A value of success has to be agreed.

### *Metrics*

- Measuring outcomes takes time.
- Evidence is very important in order to gain both government buy-in and investor buy-in. This requires establishing agreed baseline metrics and measuring against these for the target group in an agreed timeframe. The use of live control groups has proved helpful not just for providing comparison points with the project but also in the wider context.
- The best outcome in terms of metrics is the least complicated measure (direct or proxy) that incentivises the right behaviour by service providers.

### *Contracting:*

- Investors must be willing to wait for a return and initially are socially motivated.
- The contracting process requires negotiation and understanding of potential outcomes. Care must be taken in agreeing what the contract outcomes will be, particularly when services are already in place. [Note: not all outcome-based contracts have to be structured as SIBs].
- Developing a robust payment system is vital as this creates confidence amongst investors, commissioners and service providers.
- Identifying and understanding the needs of the target group and which services can address these needs is critical.
- Service providers must have credibility in order to give investors confidence.
- Service providers are paid in a way to ensure sustainability (quarterly in advance over the six years of the SIB for the Peterborough project).
- An intermediary body is required to provide leadership, to co-ordinate services and data collection and to interface with government and investors.
- The lead in time required to develop a SIB is quite long (minimum 18 months, although this will probably be less for subsequent SIBs as the contracting instruments are now in place). In the UK over 400 hours of pro bono legal advice was provided to the project.
- The SIB is for an agreed fixed period of time. [Note: There is the issue of sustainability post SIB if other (statutory) funding sources are not available to continue even if successful outcomes are achieved].
- The legal structure used in the UK was a Limited Partnership.
- Considerable work was required to put together the right documentation for investors, to developing the knowledge base of investors and to giving support to investors, particularly those who had not engaged in private equity deals in the past. Some of the investors were investing in social value for the first time, others were investing in criminal justice for the first time.
- Returns are directly aligned with outcomes, e.g. in the Peterborough project a 10% reduction in recidivism results in an annualised return of 7.5%. The total return is capped at 13.3% IRR (internal rate of return).

- The relationship with government was seen as an exit for investors and this in turn increased the pool of investors available.
- Clarity is required over the tax treatment for the range of stakeholders involved. The structure used in the Peterborough SIB reflects current tax law in the UK. [Note: These structures may not be appropriate in an Irish context].
- SIBs have the potential to generate a virtuous circle by being a catalyst for positive change through early intervention that results in better outcomes, lower social cost and reinvestment.

### Comments and Reflections

There was an animated discussion and on-going questions and answer sessions as the presentation was made by Social Finance. Appendix B summarises the Q&A sessions. The main themes were in respect of the following:

- Structuring the deal – working with government and departments, involving investors, selecting service providers, the co-ordinating role.
- Calculating returns and cost savings – the practicalities involved, where the balance lies between returns and social value.
- Metrics and data – the use of data and challenges for Ireland.
- Momentum for change – what happens when a SIB matures, capacity for learning and change, the role data plays in driving change.
- International developments – other countries developing SIBs.

Participants made a range of valuable contributions. These are summarised below.

While SIBs are timely, new and exciting, they were considered not to be a panacea and are founded on ideas that have been around for some time – effective services, outcomes, etc., but SIBs have a blended value of returns and pre-determined outcomes that is new. The focus on outcomes and the use of evidence and data was welcomed and it was considered that this could reinforce gains made to date and incentivise more evidence-based practice.

It was considered that evidence-based practice is still developing in Ireland. There are only a number of tried and tested models here, e.g. Incredible Years. The risk to investors is potentially high in an Irish context and this could impact on the amount of money that could be realistically raised for SIBs. In addition, metrics and data is under-developed in Ireland and primary data rather than pre-existing data might have to be generated resulting in additional costs and the potential for disputes.

Concern was voiced that a move to evidence-based provision, and focus on a small number of hierarchical outcomes, which are critical to SIB construction and metrics, could run the risk of narrowing the base of activity, stifling innovation, crowding out local solutions or more complex or holistic approaches. There is also the danger that it sets back the value of prevention and activities with very long-term horizons.

Views were expressed about 'cherry picking' the best service providers rather than building capacity in organisations to deliver services. Social Finance highlighted that the focus is on generating outcomes and a reasonable evidence base is very important as this generates confidence, so yes the most effective organisations are selected. This is considered to be a

good thing as the current system for selecting service providers, say for grant aiding, is poor. Others commented that the focus in the public service was on accountability for money rather than effective service provision.

A major prize was considered to be early intervention at the early years (of childhood) as this yields big savings, but in the long term. An important challenge was political will, especially given the long term pay-back. Other issues outlined were the long-term nature of some outcomes arising from early intervention and how to structure a SIB deal to develop proxy short-term outcomes to show that a programme was effectively implemented. Different levels of metrics were considered to be important, not just one or two. The view was expressed that as more SIBs developed, fund structures might also develop to deal with long-term horizon opportunities.

A number of speakers commented on the level of sophistication required for the development of a SIB.

There was discussion about whether SIBs could be perceived to be privatisation of the public sector. Social Finance indicated that in the UK, the SIB model arose because of anger and frustration at models that did not work, siloed service provision by government, approaches that were not holistic or focussed and expensive, with poor outcomes. SIBs were developed to address these issues, not to privatise public services. They are a financing mechanism for local delivery, although it was acknowledged that there are potential hazards (the analogy of PPPs was given by one participant).

The ethical issues that could arise from SIBs in terms of the relationship between investors and service providers and how to manage the desire for investors to intervene in a project if it was not going well were raised. Also, as the model matures and the investor base broadens was there a risk that investors begin to set the agenda of issues that SIBs address, e.g. what if hedge-fund type operations start investing in SIBs? Social Finance outlined how it had addressed these concerns in the Peterborough project. The SIB model used by Social Finance includes an intermediary co-ordinating organisation that works at a more intense level than any investor could in order to ensure the project stays on track. It also has an advisory group to deal with potential conflicts of interest. Also, sourcing funds from socially motivated organisations or individuals was an important component of the model.

There was some discussion about the applicability of SIBs to funding of capital projects. Social Finance was of the view that funding for an asset is cheaper using conventional debt finance rather than a SIB. A SIB is designed to fund services that can yield outcomes. Where capital is already in place (the discussion had mentioned primary care) then SIBs may have a role to play. In the context of primary healthcare there was some discussion about whether the State would pay on the basis of outcomes or inputs – evidence based data and metrics was an issue especially for chronic diseases. There were also comments that Ireland needs job creation and with construction at a halt, could SIB be a model that possibly result in infrastructure following on with resultant job creation?

Comments were made about what happens after successful outcomes were achieved and the use to which cost savings were put. The debate centred on whether cost savings should be diverted elsewhere, reinvested or used in some other way. There was a view that if successful outcomes resulted in reducing demand for services then a corresponding reduction in supply would also be needed for full effect. It is possible that the potential for cost savings could be negated if, for example, reductions in the numbers requiring hospital

beds are off-set by those beds filling up with other patients, or reductions in offending resulting in prison places being filled by other offenders imprisoned for longer.

### **Chairperson's Summary**

At the end of the roundtable, the chairperson reviewed the session and made the following summary points based on the discussion:

- We are at the 'foot hills' and it was beneficial to get an insight into the UK experience.
- The importance of early political ownership, thus the need to pick tangible areas seeking a solution.
- The importance of developing champions – in government, senior politicians, public sector and NGOs.
- Growing the investor base will be a challenge.
- If demand reduces (due to improved outcomes) it needs to be matched by reducing supply.
- The significant lead in time required to develop and launch the first SIB.

The chairperson proposed that a record of the seminar is circulated to participants and the organisers consider the outcomes for the day and, hopefully, come back with the next steps. He urged participants to discuss the potential for SIBs within their own areas and organisations.

## Appendix A: Participants

Name	Organisation
Gerry Kearney (Chair)	Director, Clann Credo - the Social Investment Fund
Aileen O'Donoghue	Chief Executive, Archways
Avery Bowser	Senior Fellow, Practice Development, Centre for Effective Services
Brendan Whelan	Chief Executive, Social Finance Foundation
Brian Murphy	Chief Executive, National Development Finance Agency
Claire MacEvilly	Principal Fellow, Knowledge & Communications, Centre for Effective Services
Carol Moore	Mental Health Reform
Dave O'Byrne	Chief Technology Officer, iheed Institute
David Moloney	Assistant Secretary, Department of Finance
Declan Ryan	Co-Founder & Chair, The One Foundation
Deborah Ghate	Centre for Effective Services
Deirdre Mortell	Co-Founder & Chief Executive, The One Foundation
Dónal de Buitléir	
Geraldine Tallon	Secretary General, Department of Environment, Heritage & Local Government
Jim Boyle	Finance Officer, Clann Credo - the Social Investment Fund
Jim Breslin	Assistant Secretary, Department of Health & Children

Name	Organisation
Katie Burke	Principal Fellow, Organisational Development Centre for Effective Services
Louise Savell	Associate Director, Social Finance Limited
Maeve Walls	Director, Voluntary & Community Unit, Department of Social Development Northern Ireland
Mary Doyle	Director General, Office of the Minister for Children and Youth Affairs
Mary Sutton	Country Director for the Republic of Ireland, The Atlantic Philanthropies
Michelle Shannon	National Director, Irish Youth Justice Service
Nuala Doherty	Chief Executive, Centre for Effective Services
Paul O'Sullivan	Chief Executive, Clann Credo - the Social Investment Fund
Seamus McAleavey	Chief Executive, NICVA - Northern Ireland Council for Voluntary Action
Seamus Mulcrony	Executive Director, Philanthropy Ireland
Seamus O'Prey	General Manager, Ortus - The Business Development Agency
Seán Campbell	Chief Executive, Foróige, the National Youth Development Organisation
Sean Coughlan	Chief Executive Social Entrepreneurs Ireland
Sylva Langford	
Toby Eccles	Development Director ,Social Finance Limited
Tom Costello	Programme Executive, The Atlantic Philanthropies
Tom O'Callaghan	Co-Founder & Chief Executive, iheed Institute
Ann Clarke	Rapporteur

## Appendix B: Q & A

The audience had a number of questions covering the following themes:

### ***Structuring the Deal:***

**Q: How is the package put together – is a competitive tendering process used [given the context of EU directives]?**

A: In the UK there was one contract with the Ministry of Justice, hence no public tender, and contracts with a range of service providers. External organisations were used to carry out primary research into suitable services. This research then informed the selection process for service providers.

**Q: What is the likelihood of increasing private sector interest in SIBs over time?**

A: Social Finance believe this will happen in time as SIBs have the potential to open up different pools of capital (e.g. high net worth individuals) and as the pool grows other investors (e.g. pension funds) become interested. Growing the pool of investors slowly will be key.

**Q: How were the payments for up to 6 years to delivery agencies calculated and what was the level of sustainability provided?**

A: Negotiations with each service providers were based on recovery of core costs and a small margin over this.

**Q: What are the challenges of dealing with departments, one by one, versus government as a whole?**

A: In the UK government as a whole is too big to be able to address and while at a whole government level there is interest in dealing with chaotic families, there are too many complexities in dealing with the number of departments involved, so Social Finance has started with a project involving one department. The government is now looking at the possibility of putting together one to three 'outcome pots' that different departments could connect into as a possible solution to multi-departmental social issues.

**Q: Can a SIB have a contract with the public sector for the latter to deliver services?**

A: Joint venture partnerships are a possibility, where the public sector provides parts of the services required but investors would need to have confidence in the oversight of the quality of services delivered and be sure that funding would not be diverted to other uses.

**Q: What is the cost of co-ordination relative to service delivery?**

A: In the UK, a new organisation, One Service, was set up to act as co-ordinator for the SIB. The co-ordinating costs are under 10%.

**Q: If the investor cannot interfere to make the service better, why would they invest?**

A: Someone needs to do this on behalf of the investor – an intermediary. The SIB structure (co-ordinating body) does this and works at a much more intense level than an investor ever could.

### ***Calculating Returns/Cost Savings:***

**Q: How are the cost savings calculated?**

A: In the UK this involved a combination of calculations made by the Ministry of Justice and considerable discussion. In theory a programme that has good outcomes (i.e. reducing demand) should be matched by reducing supply that results in cost savings. But governments might also decide to reinvest the savings made elsewhere in other services.

**Q: What percentage of the public sector benefits are paid back to investors?**

A: In the Peterborough pilot, the return to investors is a fixed rate for the agreed outcomes, but is capped at 13.3%. If the outcome is less than an agreed level, then there is no pay-out to investors and the investment is written off (i.e. all risk is transferred from government to investors). Long term research is required to determine what other impacts arise in addition to those contracted for in order to capture the full level of cost saving.

**Q: Whether the investment made by investors is more like a loan?**

A: Social Finance acknowledged that the term Bond was a misnomer as the investment was more like equity than a true bond. The investors can lose all their investment if outcomes are not achieved. There is lots of downside for investors with limited upside (due to the cap on returns). SIBs do resemble loans in having a fixed term.

**Q: Where does the focus lie – financial return or social value?**

A: The focus in the UK product was social value. The investment was clearly marketed as something brand new and as a capital instrument (not grant aid) but with the expectation that the capital would be repaid.

***Data and Metrics:***

**Q: Were pre-existing metrics available for the Peterborough project?**

A: Existing statistical data was used to trigger payments. A wider evaluation piece is also part of the project that is bespoke but that draws on existing statistical data as well as qualitative conversations with other services.

**Q: Data in Ireland is under-developed and of variable quality, what do you do?**

A: UK data also varies. New approaches are needed for poor quality data, e.g. population baselines, individual baselines, comparison with a comparative model already operating. Only one or two models where data is good are needed to get the first SIBs going.

***Momentum for Change:***

**Q: Where does the momentum for change come from rather than staying with the status quo?**

A: The use of data and monthly reporting and the focus on outcomes drive the change.

**Q: Is there any evidence of capacity within the public service to learn and change?**

A: There has been growing excitement in the UK. Data has been the key – it provides the added value and motivates people, helps them in their jobs and creates connectivity.

**Q: What happens when a SIB matures?**

A: One outcome might be that it did not work, and there was no return for the investors. Another might be that the evidence base was developed that this is a lower cost solution and government might then enter into a longer term service contract for delivery of this solution with or without some element of outcomes as part of the contract.

***International Developments:***

**Q: Is SIB a UK/English movement or are there international developments?**

A: Other countries where SIBs or versions of SIBs are developed or being explored include Australia (especially New South Wales), Canada (especially British Columbia) and the US. There are no real developments happening in Europe, except possibly Sweden. Issues might be cultural differences as the public sector tends to be both funder and deliverer. The European Venture Philanthropy Association is interested in SIBs.

### Appendix C: Background information on Speakers and organisations

#### Toby Eccles

Toby Eccles founded Social Finance in 2007, and is currently its Development Director. He has worked in social investment since joining the Commission on Unclaimed Assets in October 2005, where he helped develop its recommendation for the creation of a Social Investment Bank. Prior to working for the Commission he was Director of Research at ARK, a child focused foundation, where he built programmes around education in the UK and communities with high levels of HIV/AIDS in South Africa. In the commercial world Toby worked in corporate finance at UBS Warburg, and built a next generation internet protocols business for Data Connection, a leading UK software company. He has taken non-executive and investor roles in two technology related start-ups, and is a non-executive director of Antidote, a charity developing emotional intelligence in schools. Toby holds a BA in Maths from St. Edmund Hall, Oxford.

#### Louise Savell

Louise is an Associate Director at Social Finance and led the initial development of the Social Impact Bond concept. She joined Social Finance in October 2007 and leads their research and financial inclusion work. Before joining Social Finance, Louise was Programmes Manager at ARK, a child-focused foundation raising money from the hedge-fund industry. She started her career in East Africa researching and developing youth HIV/AIDS prevention programmes. Louise holds a BA and MPhil from the University of Oxford. She also holds a post-graduate diploma in Voluntary Sector Management from the Cass Business School.

**Clann Credo - the Social Investment Fund** - has 15 years experience of raising private capital for social investment and in investing for both social impact and a financial return. Currently over €15m is invested in over 125 projects that yield a social dividend and a financial return. Its aim has been to use finance and financial instruments exclusively for social purposes. Please see: [www.clanncredo.ie](http://www.clanncredo.ie)

**The Atlantic Philanthropies** are dedicated to bringing about lasting changes in the lives of disadvantaged and vulnerable people. Atlantic focuses on four critical social problems: Ageing, Children & Youth, Population Health, and Reconciliation & Human Rights. Programmes funded by Atlantic operate in Australia, Bermuda, Northern Ireland, the Republic of Ireland, South Africa, the United States and Viet Nam. To learn more, please visit: [www.atlanticphilanthropies.org](http://www.atlanticphilanthropies.org).

## Roundtable Exploring the Potential of Social Impact Bonds in Ireland

The **Centre for Effective Services** is part of a new generation of intermediary organisations across the world, supporting service providers and policy makers to do their work. The organisation is based in Dublin and Belfast, and its mission is to connect the design and delivery of services with scientific and technical knowledge about what works, in order to improve outcomes for children and young people and the families and communities in which they live. See: [www.effectiveservices.org](http://www.effectiveservices.org)

**Social Finance** is an FSA regulated, non-profit organisation with a mission to accelerate the flows of non-government capital to address difficult social issues. Social Finance's team brings together individuals with expertise in finance, strategy consultancy and social sector research. Team members are committed to driving innovative, sustainable and scalable solutions by combining a deep understanding of social issues with expertise in financial modelling, business case development and investment structuring. Social Finance developed and launched the first Social Impact Bond in the UK in 2010 raising £5 million around a contract with the Ministry of Justice to pay for reduced reoffending among short-sentence offenders leaving Peterborough prison. Social Finance is now working on developing Social Impact Bonds to deliver social impact across a number of other areas including children's services, drug rehabilitation and health.

See: [www.socialfinance.org.uk](http://www.socialfinance.org.uk)



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Inclusive  
Prosperity  
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**15**  
**YEARS**

# 15 years of Social Investment



## Private Capital

- Religious Charities €10m +
- Social Finance Foundation  
€25m + agreement with banks

## Social Finance

- €20m approved since Jan 2009
- 300 projects since 1996
- No viable project declined

## Social Purpose

- Community Organisations
- Voluntary Groups
- Charities
- Social/Community Enterprises

## Public Benefit

- No Exchequer funding
- Income covers Costs
- Supports State investments

# Innovation



## In the Common Interest



Social Finance Foundation

## Ray Murphy Memorial Bursary

- Post Graduate Scholarship  
Philanthropy & Social Finance



RayMurphyBursary.org

## The Role of Social Enterprise in National Recovery



SocialEnterprise.ie

## Social Impact Measurement

- Social Audit 2006
- Investigating simplified Framework



## Board

- Tom Finlay (Chair)
- Jerry Butler
- Peter Cassells
- Magdalen Fogarty
- Teresa Harrington
- Gerry Kearney
- Maurice O'Connell
- Grace Redmond
- Lorcan Tiernan

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# Social Impact Bond

11<sup>th</sup> April 2011

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## Overview

- Social Impact Bond in Peterborough – Development process and lessons learned
- Issues
- Potential future applications
- Discussion

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Social Finance is seeking sustainable revenues for organisations tackling the most intractable social problems

- Our aim is to open up new pools of capital to finance those driving social change.
- We believe that long term systemic change depends on sustainable funding which in turn depends on greater transparency of outcomes
- We aspire to be market builders – in a market which is at a very early stage of development.
- We aim to support the development of investor confidence in the emerging market through the development of robust structures with transparent risks and returns – both social and financial
- We believe that the market and society need each other and can work more closely together.
- Social Finance is an FSA regulated nonprofit organisation.

# Social Impact Bond: A definition

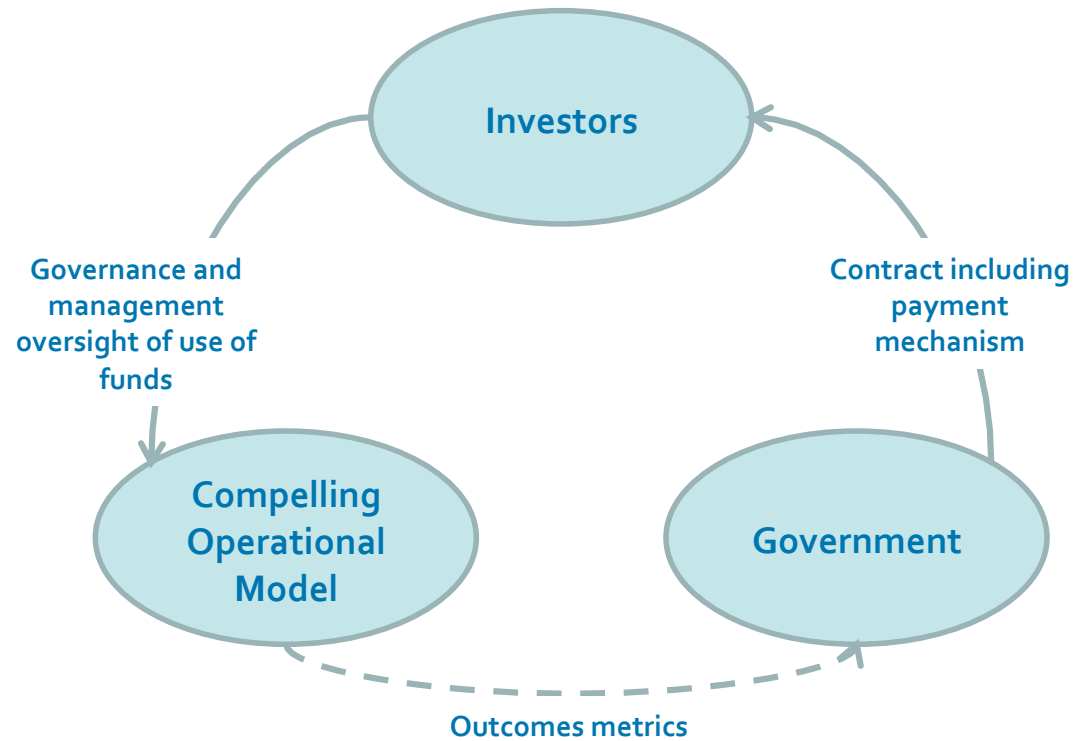
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- A Social Impact Bond is a contract with a government agency in which it commits to pay for improved social outcomes.
- On the back of this contract, investment is raised from socially-motivated investors.
- This investment is used to pay for a range of interventions to improve the social outcomes.
- The financial returns investors receive are dependent on the degree to which outcomes improve.

# Elements in developing a SIB

The basis of the SIB is a contract with government in which investors agree to pay on improved outcomes



# Assessing Social Impact Bond potential



**Recidivism was selected as the focus for the first Social Impact Bond as we believed it had the highest probability of success**

**An area where there are poor social outcomes**



The re-offending rate is 60% within a year and so there is significant opportunity to improve the outcome

**Improved social outcomes will deliver a considerable cost saving in a relatively short time horizon**



Recidivism is expensive to government and improved resettlement of offenders delivers considerable cost savings – if delivered on sufficient scale

**Most of the cost benefits accrue to one government department**



Although there are broader social and financial benefits of reduced recidivism a large proportion of the financial benefits accrue to one department making contracting simpler

**There is a vacuum in public service delivery**



The target population we selected (those on a sentence less than 12 months) don't receive any probation support post release. Consequently, the SIB funded work isn't displacing existing public services

**Programs have been shown to improve the social outcome**



There are a number of small scale programmes that had been shown to reduce recidivism

**Measurement is robust**



One metric can capture a positive change for society, the individual and the tax payer – which is not true for every social issue. Also there is reasonably robust government data

- Overview



## **Social Impact Bond in Peterborough – Development process and lessons learned**

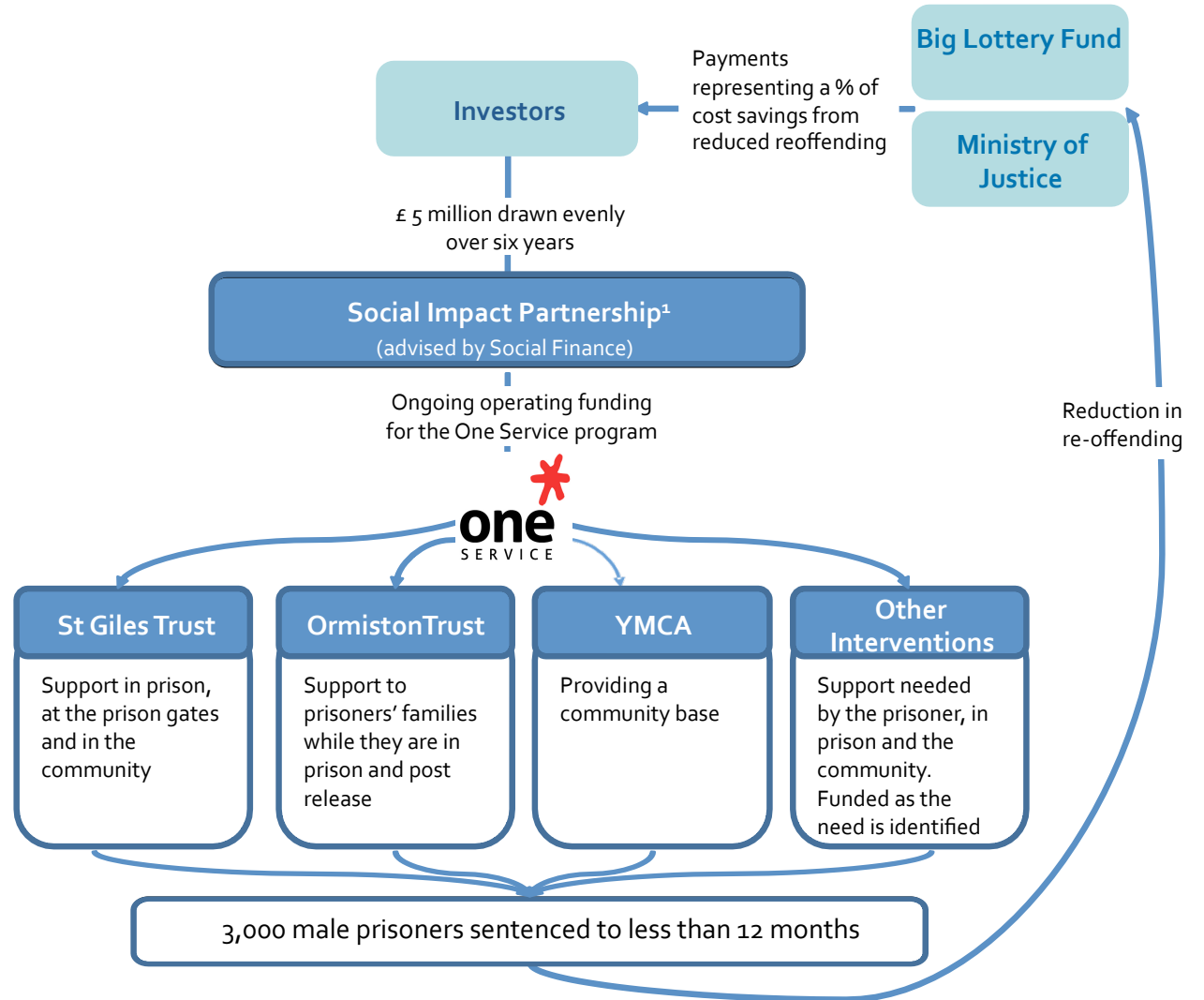
*“Every public action which is not customary, either is wrong or, if it is right, is a dangerous precedent. It follows that nothing should ever be done for the first time.” F M Cornford*

- Issues
- Potential future applications
- Discussion

# Social Impact Bond: Peterborough Prison

## The SIB is designed to provide...

- Alignment of all parties behind a single definition of success
- Sustainable revenue streams for successful organisations – for 6 years!
- A collaborative environment
- An investable proposition
- A replicable model
- Flexibility to innovate and reward innovation
- Flexibility to reflect regional variations



# Peterborough SIP: financial returns



## Financial returns increase with improved social outcomes...

- Capital commitments are drawn evenly over six years to fund interventions with 3,000 prisoners.
- Performance measured relative to a control group and an improvement of at least 10% needs to be delivered on a cohort of 1,000 to be statistically significant.
- Payments, if earned, are received in years 4, 6 and 8 in respect of each cohort of 1,000 prisoners.<sup>1</sup>

Financial Returns: 500 prison leavers p.a.

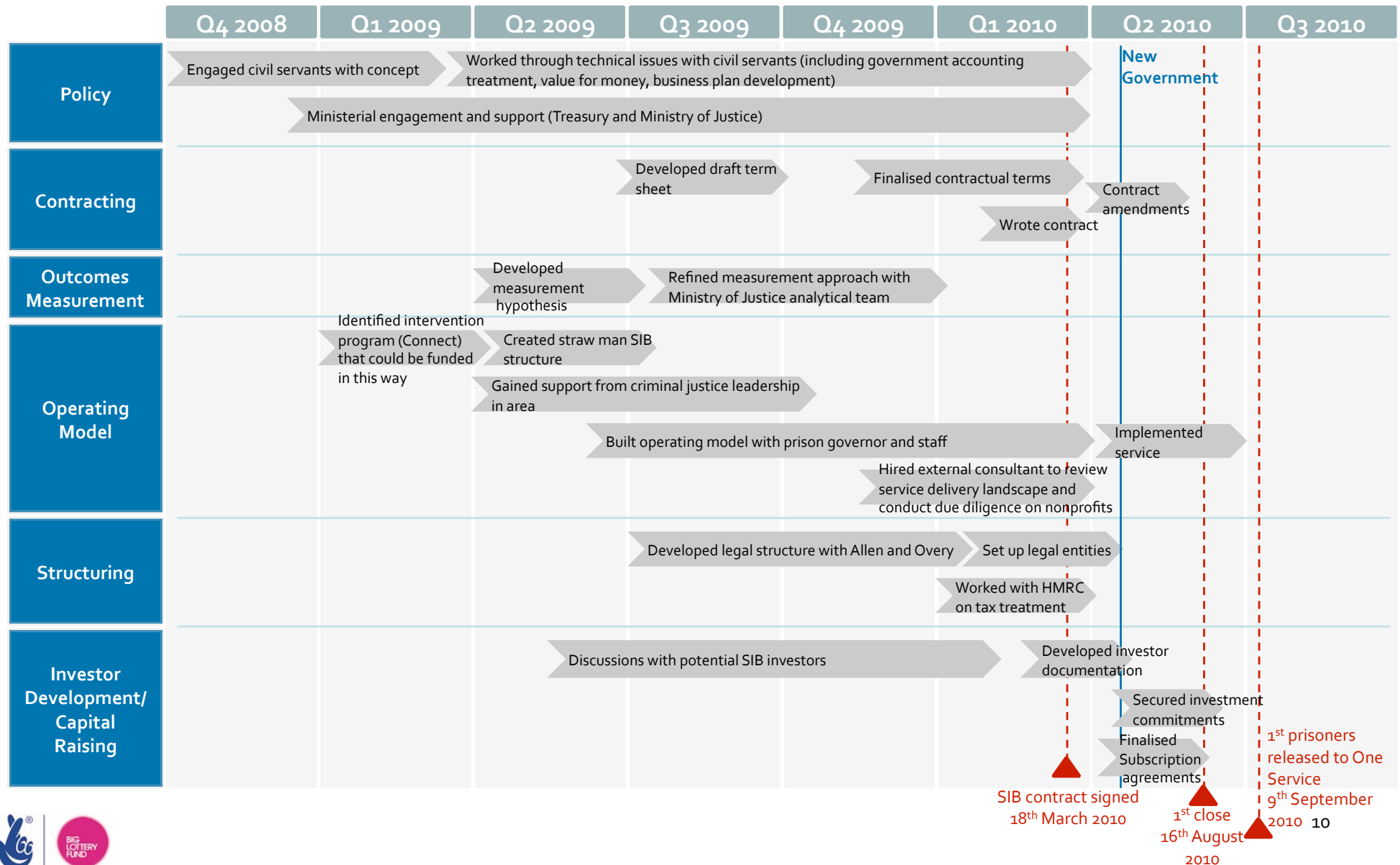
Based on £4.9m capital raised and inflation of 2.5% p a				
Success (Reduction in conviction events)				
1st Cohort	2nd Cohort	3rd Cohort	Investor IRR	Total Investor Payments £m
5.0%	10.0%	10.0%	2.5%	5.5
10.0%	10.0%	10.0%	7.5%	6.3
10.0%	11.0%	12.5%	10.4%	7.0
10.0%	12.5%	15.0%	13.3%	7.8

- If a reduction of less than 7.5% is delivered over the entire population of 3,000 – no payment is received and the investment is written off.
- There is an absolute cap on outcomes payments of £6.95m (indexed for inflation) which effectively limits the investor return.

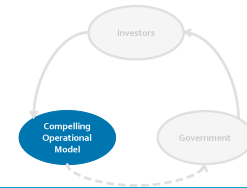


<sup>1</sup>: It will take approximately two years for the first 1,000 prisoners to be released (the first cohort period). Payments to investors will be made, if earned, 22 months after the end of each cohort period (i.e. the first payment is due nearly four years after the start of the program).

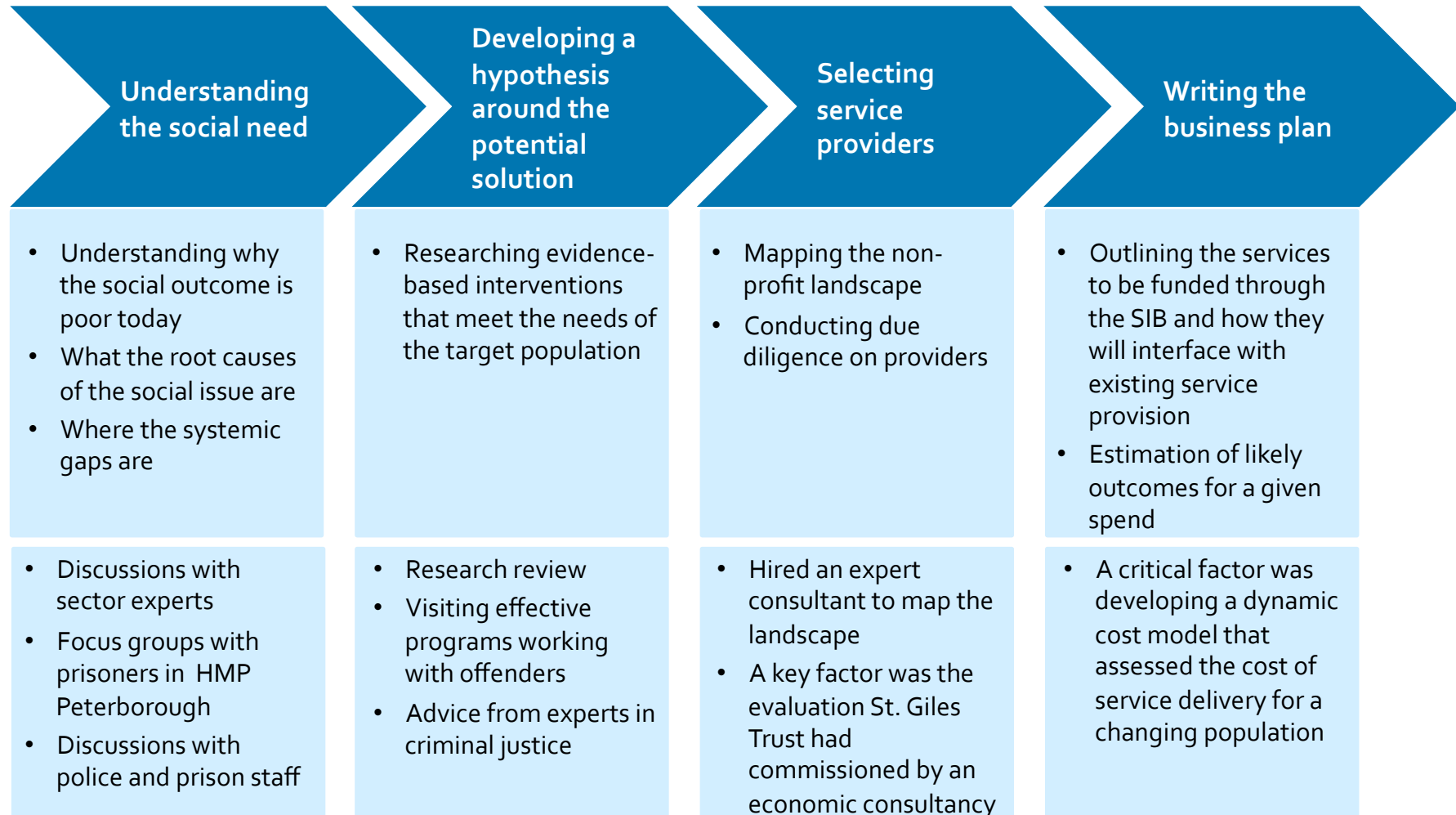
# Timeline of SIB development



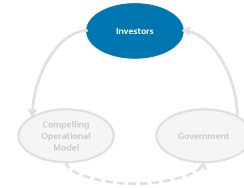
# Intervention model



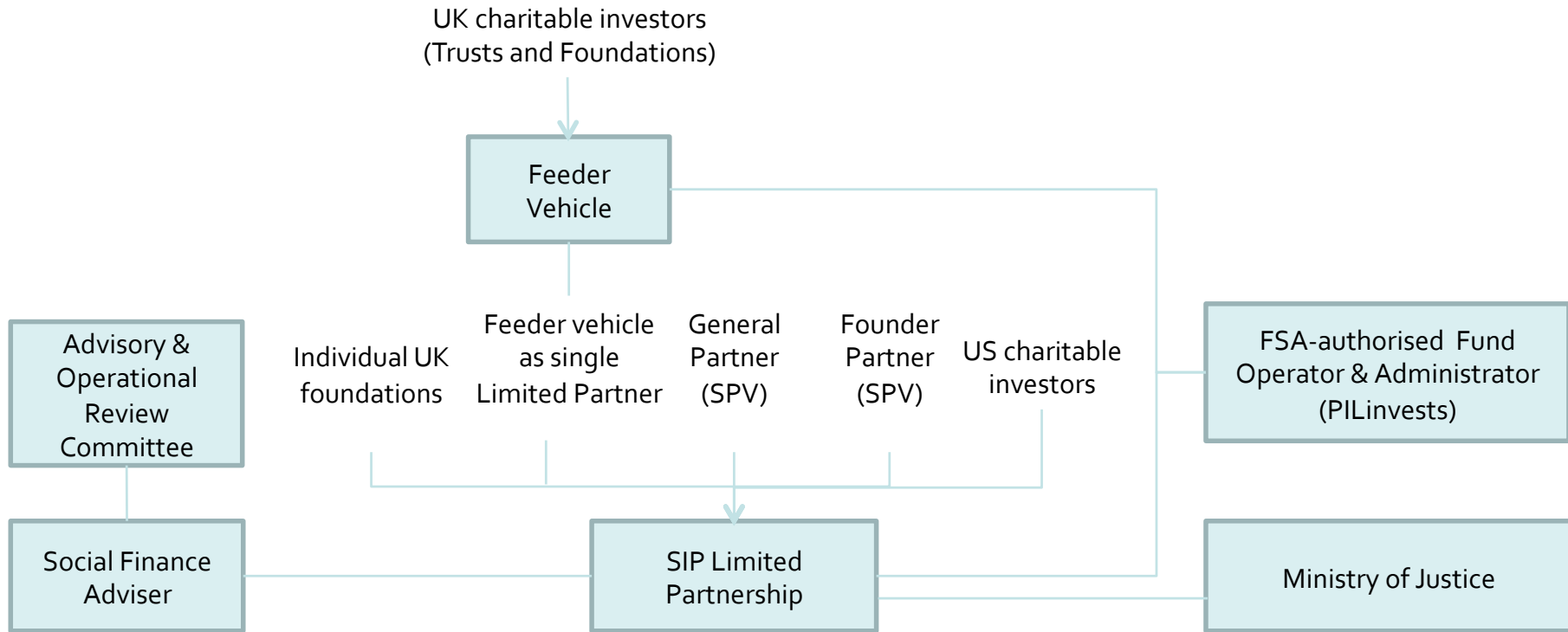
In developing the intervention model it is critical to understand the needs of the target population and which services could address those needs



# Structuring

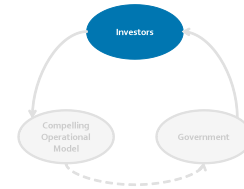


Tax treatment, investor requirements, administrative costs and operational feasibility were all factors in determining the SIB structure



- Investment in the SIP is via a limited partnership which offers tax transparency
- The Advisory and Operational Review Committee ensures that, on behalf of the investors, Social Finance has access to a wide range of experience in implementing the SIP and social and financial returns are optimised
- Social Finance has also appointed a full time Project Director to manage the operational plan

# Investor landscape



## Seventeen investors have committed £5 million to the Peterborough SIB

### Investor mix

- Five foundation investors with a history of investing in prisoner rehabilitation
- Six investors are funding Criminal Justice interventions for the first time
- Five foundations have funded the investment from their endowment – three for the first time
- Six investors were foundations established by HNW individuals excited by the funding instrument

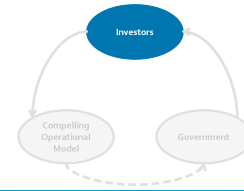
### Raising the investment

- Three cornerstone investors committed early and played a crucial underwriting role
  - certainty of funds at an important point in the contracting process
  - providing space for other investors who had to manage prolonged investment processes

### Raising future Social Impact Bonds

- Generated considerable interest among wider fraternity of foundations and private banks
- Track record, diversity of risk and / or capital protection key to major expansion
- Significant value in underwriting capacity

# Investor documentation



## Investors received the following documentation to outline the terms and nature of the investment

- Summary memo
- MoJ contract signposting document
- MoJ contract
- Business plan
- Illustrative financial projections
- Risk factors
- Limited Partnership Agreement signposting document
- Limited Partnership Agreement
- Subscription agreement to be signed by investors
- Advisory agreement signed between the SIP LP and Social Finance
- Operator agreement signed between Partnership Incorporations Limited (“PILinvests”), SIP LP and Social Impact Feeder Ltd (PILinvests will provide the FSA-regulated fund operator and administrator services to the LP and the feeder company)
- Agreement signed with Big Lottery Fund
- For Charity feeder – corporate documentation including Mem and Arts

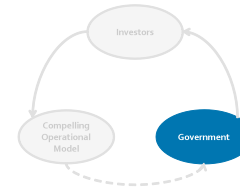
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**Issues**

- Potential future applications
- Discussion

# Issue: political engagement



A SIB is a new approach for government - political engagement is critical to implementation. Key success factors include:

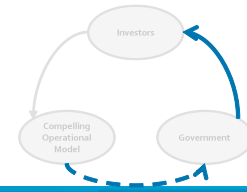
## Building a compelling business case

- **Policy alignment** – the target outcome and intervention model is aligned with the policy ethos and is in an area of political priority
- **Improved outcomes yield public sector benefit** – government will be able to reduce spend based on improved social outcomes

## Developing champions

- **Senior political support** – senior politicians that are engaged in this approach and can help build momentum behind it
- **Internal supporters** – people within government who are interested in working in a new way
- **Stakeholder support** – support from the governmental agencies already working with this population (e.g. Police)

# Issue: measurement and payment mechanism



If the payment structures are not developed effectively there are social and financial risks.

## Risks

### Social Risks

- The payment structure creates perverse incentives (e.g. encourages cherry picking) and the social need is not addressed

### Financial Risks

- Investors do not receive returns commensurate with the level of risk taken
- Investors do not have confidence in the outcome measurement process and are not willing to invest

## Potential Mitigations

An objectively defined target group is needed to prevent “cherry picking”

The pricing structure is designed to encourage service providers to work with the entire target population rather than focus on quick wins

The price per outcome is sufficient to give investors a good return for a realistic improvement in the social outcome

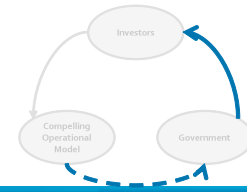
There is an objective mechanism for assessing and agreeing on the extent to which outcomes have been achieved

Controls mitigate external factors to ensure that outcomes are attributable to the success of the services



**Critical factors in finalising the measurement in Peterborough were defining the metric, specifying the control group and defining the target population**

# Issue: contracting



The contract for a SIB is different from either a service delivery contract or a commercial investment contract

## Legal and procurement expectations

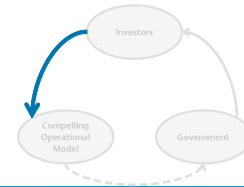
- Government service delivery contracts typically specify services, processes and milestones
- Having specified in detail the process for service providers to follow, government contracts often then focus simply on price
- Government procurement may get confused procuring services from a fund that does not have either assets or previous experience running services
- Commercial lawyers will find many of the risk transfers and conservative conditions of government contracts unacceptable

## SIB reality

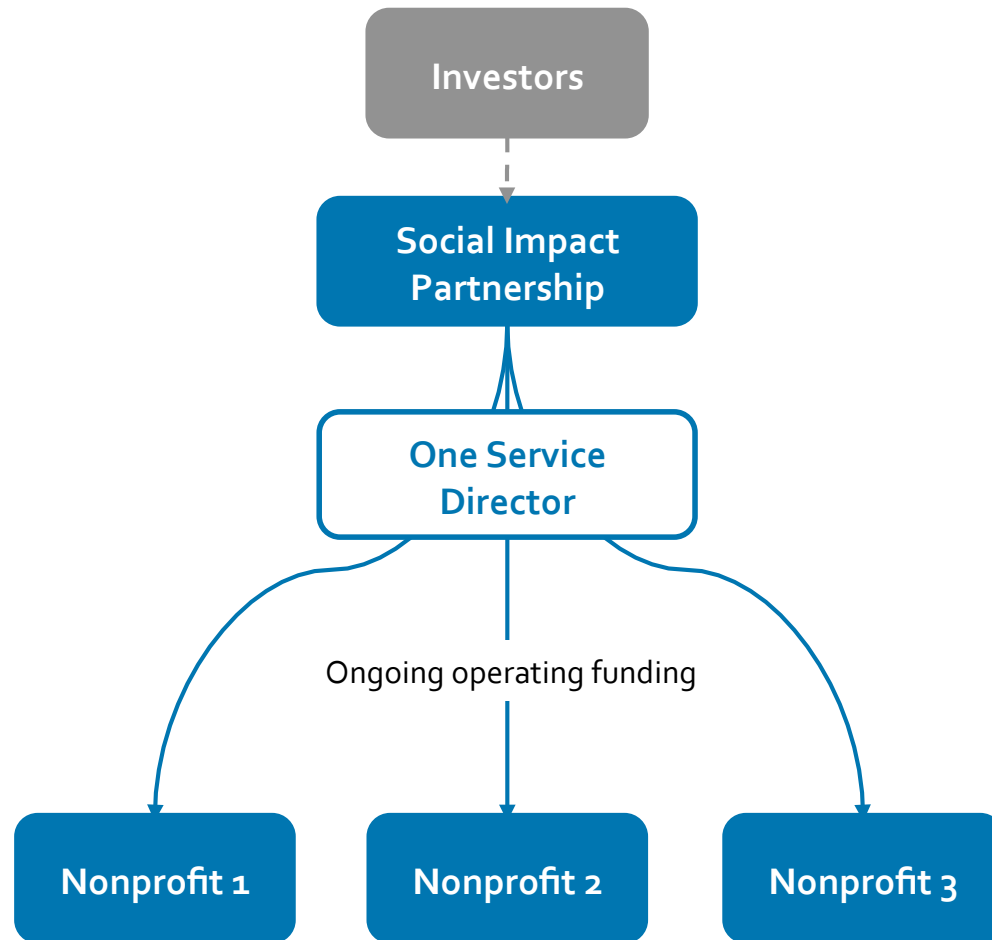
- A SIB contract should specify the boundaries around activities in order to protect vulnerable target populations, but thereafter leave room for flexibility and innovation
- The price for a SIB outcome should be based on the value of that outcome and the cost savings that it can generate – but the SIB investor cannot take the risk on government’s ability to realise the saving
- A SIB contract should split out responsibilities (and liabilities) between the SIB Fund and the arranging intermediary as Agent
- SIB contracts are still government contracts and some of these will probably simply have to be lived with

➔ **Getting the right legal advice, pro bono or otherwise, is difficult**

# Issue: managing performance



## Investors' capital is used to fund non-profits delivering services



- Over the term of the SIB, data will be gathered on the effectiveness of interventions. This will ensure that funding is flowing to the programs that work and fills any service gaps.
- There is a Director who oversees the allocation of funds, the effectiveness of services, the partnership between the service providers and relations with other stakeholders. She is objective and focused on achieving the outcome.
- The Social Impact Bond funds nonprofits directly.
- The nonprofits are paid in advance based on the estimated costs of service delivery. The aim is to provide certainty of income for service providers as long as they are delivering successfully.
- Nonprofits do not bear the financial risk that outcomes are delivered.

➔ **The aim is not to deliver “static” services but to adapt services as lessons are learned and the needs of the target population change**



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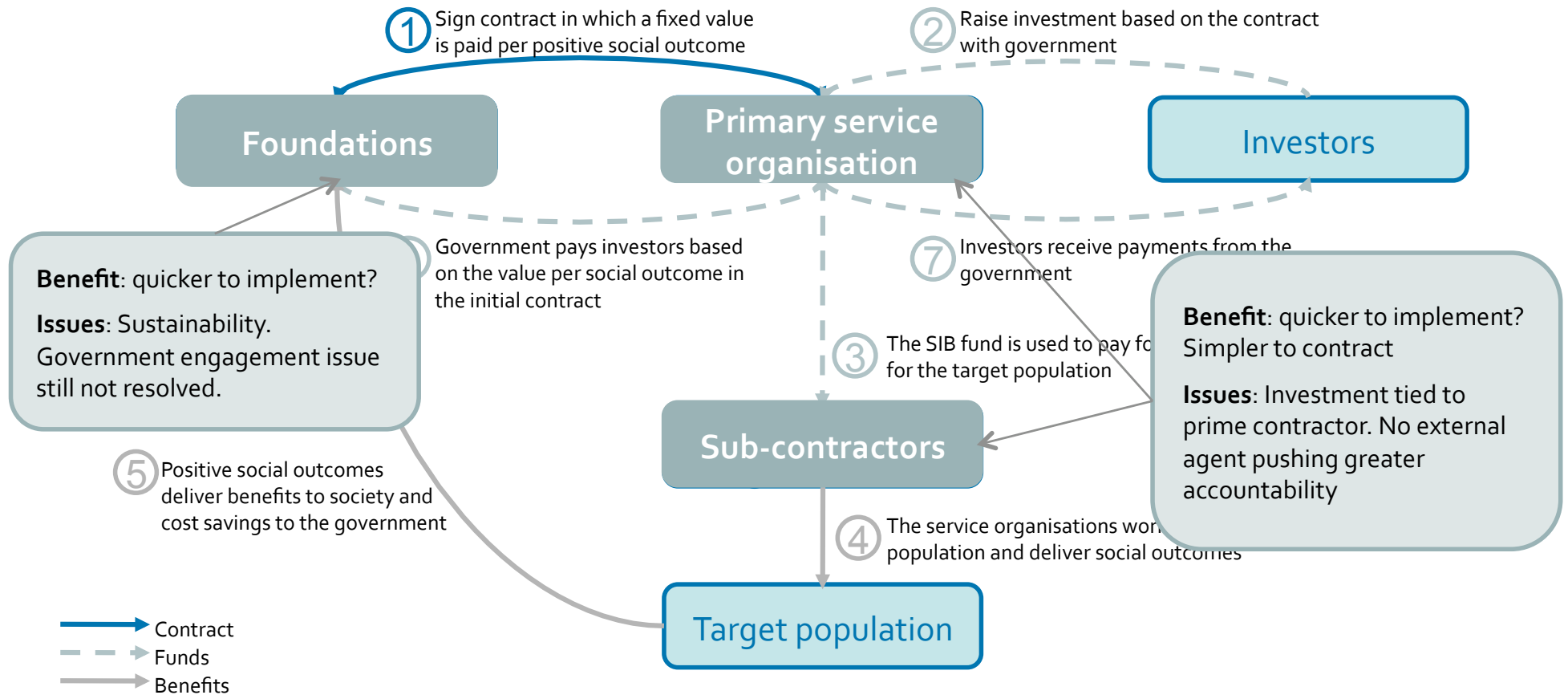
## Potential future applications

*"All truth passes through three stages. First, it is ridiculed. Second, it is violently opposed. Third, it is accepted as being self-evident."*

Arthur Schopenhauer

- Discussion

# Social Impact Bond Variations I



# Social Impact Bond Variations II

Different models for target populations, measurement and control groups are appropriate for different scales and intervention areas

## Measurement

- Control groups are ideal but are hard to implement
- Proxy baselines may be an alternative at scale
- Individual pricing based on previous history is the likely long term outcome, but data needs to be built up first

## Target population

- Area based models are attractive from the government's perspective
- They require effective tools for population capture, assessment and triage to become economically viable
- More narrowly defined populations of named individuals ideal for early versions, though scale required for statistical significance

# Improving market efficiency

There is a need for an effective social economy in which economic value follows the delivery of social change

## Value offered by nonprofits

### The benefits of nonprofit services

- Nonprofits often deliver high quality, locally based services that are trusted by the community.
- Nonprofits are established to meet the needs of their target population and tend to innovate to find new ways of achieving better outcomes.

### Barriers to nonprofit delivery

- Many nonprofits lack the scale and capacity to bid for government contracts.
- They do not typically have access to unrestricted funds and investment that will allow them to build their capacity.
- Government contracts are not always aligned with nonprofits' missions. This can lead to 'mission drift.'

## A healthy social economy needs both diversity of provision and rational market discipline.

### Diversity of provision

- A healthy social economy needs a wide variety of high quality service providers.
- Sometimes government contracting can favour larger, often for-profit, service providers.

### Rational market discipline

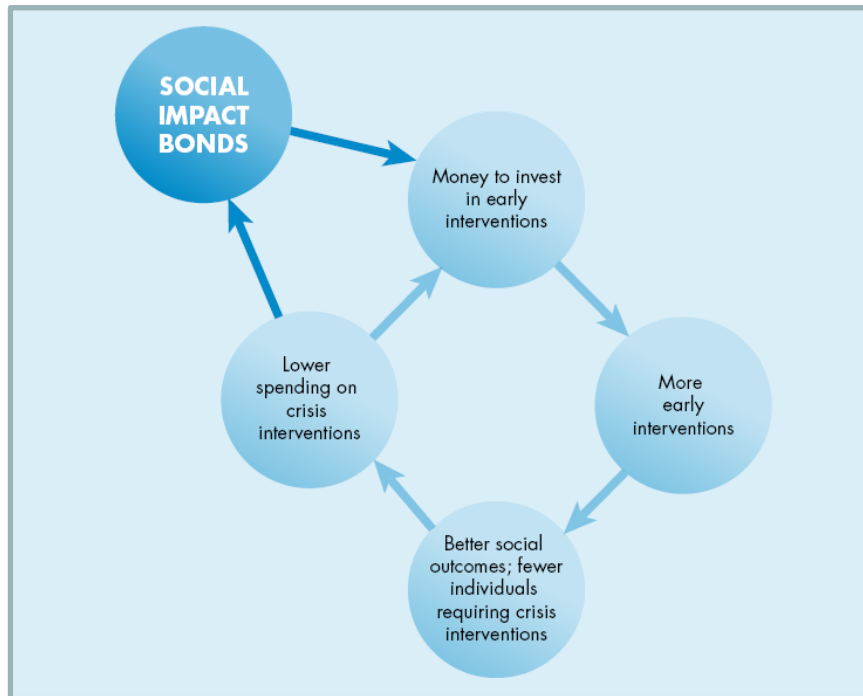
A key issue is that present funding streams do not act as an effective market discipline:

- **Grants** can be opaque and at times irrational.
- **Revenue** from government contracts can be focused on inputs and process and seldom provide margin to build capacity.
- **Donations** focus on brand, not impact.

➔ **Outcomes as a market discipline would be a substantial improvement for the social economy**

# Financing early intervention

## The Social Impact Bond can support the shift from acute to earlier intervention



- Government budgets are limited and early intervention spending is easier to cut in difficult times.
- Government often struggles to fund preventative work because, if it isn't successful, they will be required to fund the consequences of failure
- Over time this creates a negative spending cycle and an ever growing need for government resources to be spent on expensive acute services.
- Social Impact Bonds can support positive spending cycles that increase investment into early interventions and rehabilitation

➔ Social Impact Bonds transfer the risk of failure of early intervention away from government and allow investment in prevention without impacting on the acute budget until outcomes are achieved

# Developing the SIB market

Following the launch of the Peterborough Social Impact Bond there has been considerable interest in the UK and internationally in developing further applications

- **Interest across Government:** including Ministry of Justice, Department for Work and Pensions, Home Office, Department for Education and Department of Health as well as a range of local authorities
- **New models in development:** Social Finance is developing further SIB applications, focusing on disconnected, chaotic and complex groups – these populations tend to be expensive, poorly engaged with existing services and experience poor outcomes
- **Current areas of social need being explored include:**
  - Broader applications in criminal justice (including alternatives to custody, women in prison and youth offenders)
  - Health and social care
  - Drug rehabilitation
  - Employment
  - Education (excluded children)
  - Children in care



**We see a capital need in the next six SIBs of approximately £50 - £60 million over the next 12 - 18 months**

## Adolescents at Risk

### Example service area

- Adolescents at risk of entering care due to behavioural problems or family breakdown
- Interventions include intensive family support and parenting training

### Example Outcome

- Reduction in preventable family breakdowns and number of young people entering into care
- Reduction in length of time in care
- Improved outcomes for young people at risk of going into care

## Children Needing Adoptive Families

### Example service area

- Children needing adoptive families who would otherwise remain looked after
- Interventions include better planning models, use of not-for-profit providers and changes to local authority procedures

### Example Outcome

- Higher numbers of children adopted
- Reduction in delay for adoption placements
- Reduction in number of children re-entering care

## Older people

### Example service area

- Falls and fractures are common among older people, and affect their health, well-being and independence.
- Interventions that prevent falls and fractures among older people include home improvements and exercise classes.

### Example outcome

- Reduced hospital admissions for over 69 year olds.
- Reduced fractures among over 69 year olds.
- Reduced or delayed entry into residential care.

## Diabetes

### Example service area

- There are 2.3m people diagnosed with diabetes in the UK. Diabetes is the most common cause of non-traumatic limb amputation, with 5,000 people a year in the UK have a limb amputated as a result of diabetes.
- Interventions include providing community support to help diabetics manage their condition to avoid complications that require hospital treatment.

### Example outcome

- Reduced emergency admissions for patients with diabetes.
- Reduction in amputations.

## Increasing available capital

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### Trusts & Foundations

£62billion of assets in the UK

### High Net Worth Individuals

### Private Banks

### Mass Affluent

ISAs - £92billion

### Institutions

£488 billion AUM

### Corporate Investors

Philanthropy as an asset, not an expense

- Robust investment structures critical: Social Impact Bonds, Fund of Funds, Community Venture Funds (e.g. Bridges)
- Scope to develop tax incentives: EIS difficult to apply. VCT more promising. Community investment tax relief (CITR) needs revision
- Research and distribution required: investor confidence depends on transparency
- Underwriting capacity needed

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 **Discussion**