Social Impact Bond
Provider Toolkit - Development

WHO IS THE SIB TOOLKIT FOR?

Maybe you're responding to a call put out by a commissioner or an approach from an intermediary, or perhaps you're working with an investor to initiate a SIB yourselves. Whatever the story, there could be complex concepts and delicate negotiations ahead.

This toolkit is the first of its kind aimed at helping providers, rather than commissioners, to develop a SIB. Wherever the idea first came from – provider, commissioner or intermediary – the toolkit can help providers navigate complex concepts and delicate negotiations, to develop a SIB with the best chance of success.

Department for Digital, Culture, Media & Sport
Bank of America Merrill Lynch
ThinkForward Successful school to work transitions
Good Finance

CONTENTS: 'DEVELOPMENT' STEP BY STEP GUIDE

Stage-by-stage tips, tools and resources for successfully developing a SIB

The inspiration for this toolkit, and the material within it, comes from ThinkForward.

ThinkForward were one of the first organisations to complete a Social Impact Bond (SIB) in the UK. Since then, they have noticed a need for practical advice specific to delivery organisations (charities and social enterprises) developing or delivering a SIB. They have gathered together their experience with that of others to develop a set of tips, tools and resources for the next generation of potential SIB providers.

Glossary

Term	Definition
Beneficiary	The person that needs or benefits from the services being provided
Commissioner	An individual or organisation prepared to pay if specific outcomes are achieved; historically, this is typically a government body, but it could be any type of funder
Delivery Model	The way in which the service is delivered: by whom and on what basis. For example, 'outsourcing' is one delivery model
Delivery Organisation	An organisation delivering a programme which aims to achieve positive social outcomes; typically, a charity or social enterprise (also known as "service provider")
Investor	An individual or organisation providing up-front financing to the delivery organisation to cover operating costs; typically, a social investment firm, trust, foundation or bank
Operating Margin	The amount of money left over once the cost of delivery is subtracted from the (contractual) income
Outcome	The measurable changes or benefits that happen as a result of an organisation's or project's services
Output	The products, services or facilities that a project or organisation provides through its activities
Payment by results	A system of commissioning where payments are contingent upon pre-defined and independently verified results or outcomes
Rate	Often used to refer to the amount of money agreed as payment for each outcome achieved. Outcome payers can publish 'Rate Cards' with pre-defined amounts
Return	The profit achieved on the investment
Social Impact Bond	A financing arrangement where an investor contributes up-front capital, and is paid back by a commissioner as the delivery of a charitable or social project achieves its outcomes
Special Purpose Vehicle	A Special Purpose Vehicle, or SPV, is in this case a legal entity (a company) created to hold the contract, receive investment and pay the service provider

FIVE GUIDING PRINCIPLES

It might feel at times as if there is so much detail that the big picture gets lost. These five guiding principles, based on the common experiences of SIB providers, offer the perspective we often need along the journey.

1. STAY TRUE

The service, and the outcomes it delivers, must be aligned to our mission and strategy. If the SIB is not aligned with our other work, performance management will be difficult and it can be easy to neglect monitoring outcomes that matter to us and to other funders. The SIB is not the answer or the goal that leads the conversation. It is only a tool to help unlock opportunities and enable the biggest impact.

2. LEARN FROM OUR PARTNERS

Commissioners, investors, and other partners are there to help, not make the process more difficult. They have experience and expertise that we might not – involving them early and often is an opportunity to develop. Learn from experienced participants and don’t reinvent the wheel alone.

3. EMPOWER THROUGH DATA

One of the greatest challenges, and opportunities, of delivering a SIB is the level of discipline it imposes around data and performance management. This can be a catalyst to empower our organisations and embed data-driven practice into our culture. The aim is that we all see data as a means to continually learn and improve practice, rather than a reason to punish.

4. BE PRAGMATIC

The most common issue faced by delivery organisations is over-estimating and under-delivering on our outcomes. We need to invest the time before signing the contract to pressure-test all our assumptions about the beneficiary flow and resources in delivering the intervention. Be pragmatic and realistic. Much better to exercise caution than to breach contract!

5. COMMISSIONERS’ REQUIREMENTS ARE KEY

Recognise that since the commissioner is paying for results, the commissioners’ perspective and requirements are key to the SIB. At the beginning of SIB development, it helps to take time to understand the commissioners’ needs before investing in detailed technical modelling.

Overview of SIB development

Developing a SIB is a multi-stage process that can take anything from six months to two or three years:

**PHASE 1:
DEFINE**

1. Create or hone the logic model
2. Cultivate relationships with outcomes payers
3. Calculate costs
4. Price outcomes

**PHASE 2:
PREPARE**

5. Identify investors, negotiate and complete due diligence
6. Adjust IT and performance systems
7. Prepare the board and staff

**PHASE 3:
CONTRACT**

8. Formalise partnerships
9. Develop risk & exit strategies
10. Engage legal support & develop deal structure
11. Establish governance

Some aspects of these stages may run in parallel, so it’s worth getting familiar with the steps involved in all three development phases up-front.

Depending on who originated the SIB, different parties may be responsible for some or most of these steps. Is my SIB Provider-Led?

We are not all blessed with a deep understanding of all the issues and details at play in all of this. It may be necessary to develop or incorporate a new set of skills within the project team:

- Traditional fundraising skills including networking and prospect research
- Legal understanding of organisational structures

- Financial awareness (for example an understanding of debt, equity and return)
- Excel modelling
- Knowledge of and contacts within the SIB 'landscape'

Before you begin

In hindsight, many of the providers we spoke to expressed a wish that they'd known the resources it would take to develop the SIB, from the initial expressions of interest to the signing of contracts.

"Even though it's a new and exciting form of funding, I would advise people not to chase after it if it doesn't work naturally."

"I think potential providers would benefit from a realistic expectation. The sense of seeing £££ can give way to disappointment when the true profit potential emerges."

What other providers have said about partnerships:

"I can't say this often enough: don't waste time calculating and modelling until a commissioner is interested and committed."

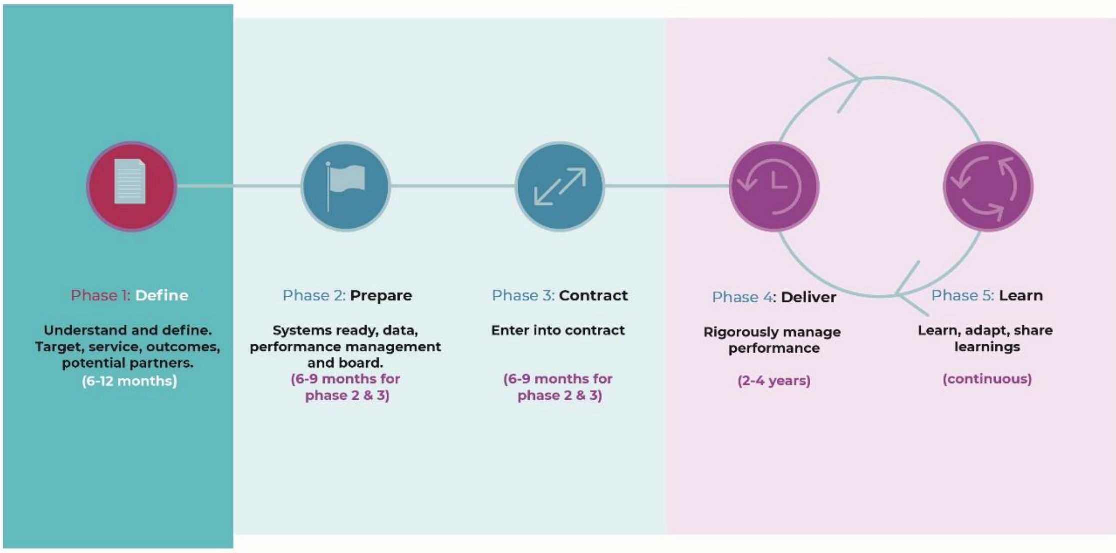
"Networking is crucial: the SIB community is small and those in the know can put you in touch with all the partners you need. Go to fund briefings, conferences, online networks."

When you're thinking about outcomes:

"Outcomes can be nebulous and slippery, and SIBs can live or die by the details."

"Simplicity is key. In their quest for value for money, some commissioners are tempted to include almost impossible burdens of proof and administration, setting the SIB up to fail before it begins."


PHASE 1
DEFINE
1
2
3


Phase 1: Define
Understand and define. Target, service, outcomes, potential partners.
(6-12 months)
Phase 2: Prepare
Systems ready, data, performance management and board.
(6-9 months for phase 2 & 3)
Phase 3: Contract
Enter into contract
(6-9 months for phase 2 & 3)
Phase 4: Deliver
Rigorously manage performance
(2-4 years)
Phase 5: Learn
Learn, adapt, share learnings
(continuous)

OVERVIEW OF PHASE 1

This first phase is focused on defining outcomes and finding someone who is interested in paying for them, at a rate that makes the financial model viable. In our research we heard the strong message: start conversations with potential commissioners at the very beginning of your journey developing a SIB, rather than starting with detailed technical modelling. It can take time to get a commissioning body engaged, and without a committed commissioner, any investment in modelling will be wasted.
During the 'Define' phase, an organisation will need to dedicate some resource to the possible SIB or set up a project team. These have been led successfully by a variety of team members from finance managers, operations directors and chief executives to pro bono consultants. Each may have areas of expertise and gaps; it is important that whoever takes on this responsibility is supported with advice and 'sounding boards'.

Tools referenced in Phase 1

Scenario analysis model
Contributed by Sune Frandsen, KKR

DOWNLOAD TOOL

To use this model, first make sure you 'enable content' on the workbook. Then set about adjusting the variables in the following tabs, bearing in mind that cells highlighted in yellow are those that you should change:

1. The 'Rate Card' tab: set the financial value of your outcomes for different cohort sizes. N.B. rates are not inclusive of VAT. Ensure you establish VAT rates payable if applicable, as this may have an effect on the cashflow
2. The 'Scenario Assumptions' tab: set a downside, base case and upside. For example, 70% means that 70% of participants will achieve this outcome
3. The 'Base Case' tab: set other variables, including programme length, staff numbers/salaries and other costs, and the amount of initial investment

The other tabs in the workbook will give you the results: in 'Scenario overview', find the rate of return that your investors can expect. In 'Detailed scenarios', find out whether or

1.1 Develop a logic model

A logic model – sometimes called a 'theory of change' – lays out the key project inputs, outputs and outcomes. Its purpose is to clarify the work being done and the aims and benefits of that work.

Developing a logic model is often the first step in developing a SIB, because it helps to describe and define more tightly:

- Who exactly the service best works for
- What precisely the outcomes are for these beneficiaries (in a 'SMART' format)
- What volume or rate of outcomes the designed service might achieve
- How success can be monitored and managed

A good theory of change sets you up for successful delivery and performance management.

As well as services and consultancies who can facilitate the process, there are a number of online tools to help walk you through the creation of a logic model:

1. TOCO at the Center for Theory of Change
2. DIY Learn module by Nesta
3. Spark by the W. K. Kellogg Foundation
4. Dylomo by the Canadian Evaluation Society
5. Creating your theory of change by NPC
6. How To by NCVO
7. Cyfar by the University of Minnesota

Those who have developed logic models with a SIB specifically in mind have told us that:

1. The theory of change process in its purest form asks organisations to go right back and revisit their mission. Be ambitious but not too lofty if you want to use this as a basis for a realistic SIB. Done right, a SIB tied firmly to a provider's organisational mission is most likely to run smoothly

2. The most useful part of the process from the perspective of SIB development is the attaching of precisely defined indicators to your outcomes, and the mapping of data requirements to measure them

3. To ensure that all voices are heard and to challenge confirmation bias (especially within organisations trying hard to make a SIB work), an external facilitator can be invaluable. Ignoring frontline or beneficiary voices can endanger a SIB as surely as it can endanger an entire organisation

4. Record assumptions: these can often be the details that need testing during SIB scenario modeling. Logic models can err towards the best case, and in SIB delivery we often deal with more complex reality

Theory of Change: The Right Questions
Bethia McNeill, Centre for Youth Impact

The two questions that are really important are:

a) Why are you proposing to do what you do?
   a. With some reference to context – what's going on in the community's lives, what is their reality?
   b. Should draw in underpinning theory. If you are going to do a 10 week basketball programme: why basketball? Why 10 weeks? Is there a body of practice or evidence to support this?
b) What is it that you are doing?
   a. Aims, goals, work towards one or two sets of outcomes
   b. Activities – and within that, what we call the 'mechanism of change': the experience or even the moment that creates change.
   c. Which parts are flexible? With reference to inclusion criteria, programme duration

Answering those two deceptively simple questions meaningfully should be quite challenging and should involve conversations with others. If it feels easy, press a little bit harder: keep digging into the details, always asking 'why?'

A theory of change needn't involve inventing a completely new service. There is an emphasis on innovation with many SIBs – understandable for a funding mechanism which often focuses on intense, unresolved social needs. But in a lot of cases, this is misguided or artificial. Innovate only when:

- You have a good understanding of your starting point, and
- You have a hypothesis as to what is and isn't currently working

This may not be exciting, but it avoids the risk of reinventing the wheel or going off on a tangent to your mission.

Further resources

- Setting and measuring outcomes, GO Lab

1.2 Define your target population

Even if your SIB development process does not begin with a logic model or theory of change, it is important to make sure your target population is precisely defined:

- It helps all stakeholders involved to understand the focus of the intervention. It makes conversations with potential commissioners - and in the next phase, with investors – more productive

- The choice of target population will influence how strategic your SIB is to a commissioner: the population affects the outcomes you forecast, and therefore the savings or other potential benefits that might interest a commissioner

Also bear in mind that in the delivery phase of your SIB, you'll be referring to this definition when deciding which participants to recruit.

Gamesmanship

A precise definition of the target population helps to safeguard against the risk of gamesmanship.

The more precise the definition of the target population, the narrower the scope for these tactics. While you might not plan on them, it's safest not to rely on good intentions, especially with a long and complicated supply chain. Evaluations can pick up on poorly defined target populations at the end of the programme, even if the initial design and set up has not.

Cherry picking
Selecting participants who are most likely to achieve the outcomes or easiest to reach. Also known as 'cream-skimming'.

Parking
Ignoring those least likely to achieve the outcomes, or those who are most expensive to reach.

1.3 Define your programme outcomes

Before you can identify potential commissioners and begin conversations with them about their appetite to fund particular outcomes, it is important to be clear which outcomes the programme delivers, and which of these matters most to your organisation.

Even if you are not starting with a full logic model, mapping out a successful participant journey through the programme from scratch can help draw out outcomes by stage:

Short-term outcomes are incremental changes that successful participants achieve during their day-to-day programme participation, that can be thought of as checkpoints on the path to achieving intermediate outcomes. For example:

- New attitude gained (e.g. improved academic self-efficacy)
- New skills acquired (e.g. improved time-keeping)
- New behaviour manifested (e.g. school attendance improved)
- Improved achievement (e.g. weekly test scores)

Intermediate outcomes are critical changes that successful participants achieve at key points during the programme, indicating a high likelihood that the participant will achieve the long-term outcome. For example:

- Gaining a complete set of defined soft skills needed to succeed in the workplace
- Achieving certain sub-levels of the National Curriculum Key Stages
- Predicted GCSE pass in English and/or Maths
- Entry to paid employment

Long-term outcomes are the results of programme participation that serve as the ultimate demonstration of the programme's value to society, manifested after the end of the programme. For example:

- Six months post-completion, entering higher education
- One year post-completion, obtaining a full Level 2 qualification
- One year post-completion, having been in full-time paid employment for at least six months

See Section 1.4 for considerations when negotiating mutually meaningful outcomes within a SIB.

Further resources

- The LOUD SIB model, Policy Innovation Research Unit and ECORYS: four factors that seem to determine whether a SIB is launched (Collective Leadership, clear Outcomes, shared Understanding and Data).

1.4 Cultivate relationships with potential outcomes payers

Looking for an outcomes payer

When you're clear which outcomes your programme delivers, think creatively about who might be prepared to pay for all or some of them. While many SIBs feature central or local government bodies as outcomes payers, and the term "commissioner" is commonly used as shorthand for "outcomes payer" in a SIB model (as in this guide), Chih Hoong Sin, Director of OPM, points out that there is potential for more flexibility and creativity in the role of an outcomes payer. Some of your programme outcomes may be of interest to other kinds of organisations with the budget to pay for them, beyond the statutory commissioning bodies – foundations, for example, or schools.

If the outcomes that matter most to you are not in line with the current political climate, you may need to look beyond the statutory system for an outcomes payer: traditional commissioners will tend to only pay for outcomes aligned with current policy intent, and often (particularly in the case of local authorities) only when other big contracts are ending or where pots of funding already exist.

Since it may be a slow process, start reaching out to these potential outcomes payers now.

Negotiating outcomes

This can be the stage at which outcomes are transformed from vague organisational objectives (for example, "the participant is in full-time employment") to payable outcomes (for example, "the participant has been in employment of more than 16 hours per week for at least 13 of the 26 months following their sixteenth birthday".)

In designing a set of 'win-win' outcomes, each party needs to balance what can seem like opposing factors:

1. Outcomes need to be meaningful, uniting all stakeholders	
A provider needs to ensure that:	**An outcomes payer needs to ensure that:**
- The outcomes closely align with their mission / expertise, and make a difference to the people they serve, rather than being created to respond to a potential funding opportunity	- The outcomes are a good proxy for genuine and sustainable impact within priority policy areas, and often (in the case of statutory outcomes payers) lead to economic savings or cost avoidance

2. Outcomes need to be attributable but achievable	
A provider needs to ensure that:	**An outcomes payer needs to ensure that:**
- Enough outcomes can be achieved – i.e. the bar is not too high - Outcomes can be identified in a timely manner	- The outcomes are reasonably attributable to the activities being done – i.e. they are not paying for something that could have happened anyway

3. Outcomes need to be measurable and provable	
A provider needs to ensure that:	**An outcomes payer needs to ensure that:**
- Successful cases can be proven easily enough	- The outcomes are simple and objective enough, and/or are validated by a willing and neutral validating authority

4. Outcomes need to be helpful	
A provider needs to ensure that:	**An outcomes payer needs to ensure that:**
- No unintended consequences are built in. For example, in achieving an outcome, something else may worsen or decline for beneficiaries	- No 'perverse incentives' are built in. For example, if two mutually exclusive outcomes are defined, each with a different financial value (say, two different pathways through education or care), all parties need to be careful that providers are not incentivised to 'push' their beneficiaries through routes or activities that are not in their best interests

See section 1.7 for what to consider when modelling for volumes and rates

Cohort-level vs individual outcomes

Cohort-level outcomes: Outcomes-payers may advocate for a 'control group' system, benchmarking the beneficiary group's outcomes against a (usually random, anonymous) control group of their peers.

- Be aware that these methods can rely on agreeing reliable data sources for group-level statistics, and will involve conversations around statistical significance
- This system is best for establishing attribution, enabling you to say that you really are responsible for the outcomes you are claiming
- Another advantage is that it reduces the burden of individual-level admin. If you are claiming for a reduction in the 'rate' of this or the 'prevalence' of that, you don't have to worry about certifying positive outcomes for individual beneficiaries

Individual outcomes: or you can be paid each time an individual achieves, improves or does not do something.

- Individual outcomes may require further evaluation to establish attribution (whether your programme caused this change), on the downside

> *"To make it simple and measurable, we couldn't be operating at population level. We needed to be proving outcomes on an individual basis. That's where you can create the right incentives to do right by people"* –
>
> Foundation leading the development of a SIB

- But they are usually simpler to prove, and often involve real-time tracking, which enables course-correction of the programme along the way
- Also, a system of individual outcomes does work at smaller numbers, where a cohort-level system may not

You are likely to have several different discussions with commissioners before precise contractual outcomes definitions can be negotiated.

What about soft outcomes?

Historically, commissioners have tended to prefer hard, objective outcomes that can be verified independently, such as work placement, completion of activities, and job sustainment. But SIBs can include payments linked to softer, more subjective outcomes, as commissioners accept that it can be difficult to set hard outcomes in some areas, and that soft outcomes can indicate progress toward the hard outcomes that will come in time. For example, the Ways to Wellness SIB attached an outcome payment to *improved wellbeing*, the Reconnections SIB to *reduced loneliness* and the DfE Innovation Fund for care leavers included *resilience* as an outcome area. Service providers use evidence such as letters from teachers and interviews with beneficiaries to demonstrate that soft outcomes have been achieved.

Be aware that these kinds of outcomes will raise questions around robustness and value for money. If they are based on self-assessment questionnaires: to what extend does it depend on the participant's frame of mind at the time of answering? Did they feel beholden to delivery staff when they answered it?

To persuade a commissioner to agree to soft outcomes, be prepared to show evidence that the soft outcomes are conducive to the ultimate hard outcomes/policy objectives and be prepared to incorporate a blend of different types of outcome.

1.5 Calculate the costs of delivering the programme

***I. Estimate how many participants you expect to achieve which outcomes* and when**

You'll need to estimate the number of participants recruited, the programme duration, the drop-out rate, the % achieving each outcome, and when this will happen. Realistic goals should reflect:

- The target population's capabilities and needs. Ideally, you'll be deeply familiar with these already
- Your organisation's capacity to meet these needs and deliver the programme outcomes. Which resources, most notably in time and money, are necessary and available to achieve your intended results?

While much of the workload in the SIB development phase may fall on the organisation's management, it is very important to involve the delivery team when setting goals involving participants: the delivery staff will be closely involved in recruiting and selecting participants – perhaps working with partners, such as schools or other community organisations – and of course they will be delivering the programme. It will most likely be their responsibility to record outcomes. You'll need to work together to make sure the goals are realistic.

One of the most common mistakes delivery organisations make when developing a SIB is to be too optimistic. Keep your estimates conservative. For example, there may be delays in participant recruitment, the drop-out rate may be higher than expected, and outcome achievement may be slower than expected. Once it seems that a commissioner may be interested in your outcomes, it is sensible to do some scenario modelling. This should happen before agreeing to any outcome rates.

CASE STUDY: THINKFORWARD

At ThinkForward, our experience with our Department for Work and Pensions (DWP) SIB offers a cautionary tale of being overly optimistic about how much it is possible to achieve. When we first designed the SIB, the programme was new, and we did not have extensive experience working with the beneficiary population, which was young people aged 13-18 at risk of becoming NEET in 10 London schools. We allocated each of our progression coaches a caseload of 95 young people.

Throughout the first year, it became clear that coaches were overburdened and that this was compromising the outcomes. In response, investor Impetus-PEF led a theory of change process to assess how the programme model could be adapted, resulting in the decision to flex the model and halve coach caseloads. This adaptation required flexibility on the part of the investors.

The target resetting process involved striking a balance: we were aware of the danger of over-compensating. If we had reset the outcome targets at too low a level, such that it was 'too easy' to achieve the targets, this could have resulted in failing to serve the young people who could most benefit from this intervention, i.e. those who would likely not have achieved the outcomes without the programme's support.

II) Calculate the cost of delivering the programme for the target number of participants

Remember to include core costs as well as direct delivery costs and estimate as precisely as possible any SIB-specific costs such monitoring, reporting and evaluation. Think about any timing lags for outcomes to be verified and outcomes payments to be received. Also include the cost of borrowing the working capital. From the above, you should be able to work out the minimum level of total outcome payments that would cover the costs of delivering the programme and therefore make the SIB financial model viable.

III) Postpone any resource-heavy scenario modelling until conversations with commissioners progress

We have heard that many delivery organisations have spent significant time and funding on preparing and developing SIBs for which they have not been able to find commissioners.

Tempting though it may be to test assumptions as fully as possible before commissioners are engaged, a SIB that is co-designed seems to stand the greatest chance of success.

1.6 Progress conversations with potential outcomes payers

As you're preparing your case for your initial meetings with the commissioners, think about the following:

- A compelling explanation of the social challenge, your intervention, and what makes it different
- The reasons you are in the best position to deliver this intervention, perhaps in partnership with other providers
- Examples of other local authorities that have done something similar

Bear in mind why the commissioner might be interested in participating in a SIB. Brookings (2015) lists:

- Opportunity for future savings from financing a preventative programme
- Only needing to pay if the programme is successful
- Finding it exciting to be part of an innovative financial model
- Wanting to scale up an intervention with demonstrated effectiveness
- Being frustrated by the silos, politics, and procurement issues created by traditional funding and seeking a way to collaborate with other commissioners and private investors to break these down

Masterclass: How to engage your commissioner
Contributed by Dr Chih Hoong Sin, Director, OPM

Providers often underestimate how much work goes in to securing a commissioner. They tend to focus their efforts on modelling, whereas actually the technical piece of SIB development is the easy one. The relational piece is the hard one and must come first. If you have not got full support from all the right people within the commissioner – or if there are fundamental things you haven't unblocked – you could waste a huge amount of energy, time and potentially advisory fees building technical models that will not be used. **Between the 'in principle' award and signing the contract for a SIB, between a third and a half of commissioners tend to drop out.**

So how can you increase the chances of your commissioner following through? You need to be aware that even though it may be appropriate to begin your conversations with a contact that you know within a commissioner, stakeholders from other departments will need to be involved with any commissioning decision. You need to be making sure that your contact is involving all the right colleagues:

- SIBs don't always have to be about savings (see point 5 below), but we acknowledge that this can be the primary motivator behind commissioners' engagement. So, make sure that you have a conversation with your contact about saving against specific budgets. Specifically, your contact needs to ask himself or herself: "If we see these outcomes achieved, which departments and which budgets would that have implications for?" Budgets are siloed and each department typically only has sight of their own budget, so they may not have done this piece of work. You can encourage him or her to think this through, by brain-storming together where the authority might feel the benefits of your outcomes, and even drawing a map together. Your contact can then work out which colleagues may need to be involved.

- Don't assume that "warm noises" from your contact mean that a deal is likely; there may well be blockages within different parts of the commissioner's internal decision-making process, which may not be communicated to you as a provider. You need to ask your contact some key questions, to check levels of commitment of the various departments. Here are five questions to ask your contact within a commissioning organisation to check whether you have support from the whole team.

  1. Have you involved your procurement colleagues?

  2. Have you involved your legal and finance colleagues?

  3. Does the board have direct line of sight on this project?
     The board sponsor may sign even if his or her heart is not in it, e.g. to show they are pursuing innovation.

  4. Is this a procurement-led or commissioning-led authority?
     Most commissioners will say that they are commissioning-led, but when you dig, you might find that they are procurement-led.

  5. Has the authority thought about the whole range of strategic rationales for commissioning the intervention, i.e. not just savings? Other rationales for commissioning a programme include:
     - Creates economic benefits to society
     - Reduces pressure on certain services
     - Increases individual or community wellbeing

Here's how delivery organisations who've gone through the process of engaging with commissioners describe the challenges:

Leaving their comfort zone and building trust:

'Our biggest challenge was trying to push commissioners to do something different and leave their comfort zone. They will view you with suspicion from a procurement standpoint, because of the high-risk perception of a SIB, and won't trust your intentions and motivations. They also didn't want to speak with the investment community, as they don't trust them.'

Complexity:

'You will need to contend with the fear that it's too long to develop, far too complicated, far too risky. A grant programme doesn't have the same level of rigour.'

Lack of understanding:

'Commissioners have been doing the same thing for a very long time. This requires a huge change in accountability, practice and service. After a year of low-key conversations, some still believe that social investors will pay for the whole project.'

Loss of control:

'Some of the local authorities we engaged with at the beginning enthusiastically supported our work; others were concerned that the SIB activities would cut across, and perhaps even undermine, services that they directly commission. Our job was to work considerately with all local authority partners within whose areas SIB service users were to be found and, in time, we feel that the support and understanding of our work was recognised and appreciated by all.'

And here are some ways providers have approached the challenges:

Start preparing early:

'A SIB is usually a very different way of financing for the commissioner. You may need to prepare considerably in advance of beginning the process, to change mindsets and behaviour.'

Resolve their challenges in advance:

'This is a government department, and you've all worked with the government so you have your insights. Think about what makes this most challenging for them and try to solve that problem for them.'

Appeal to a change in focus on outcomes and learning, or other motivations:

'The SIB has been a steep learning curve for Thames Reach, but also for the commissioners, and we appreciate the spirit of partnership in which the SIB has been developed and progress measured. One of the attractions of the SIB was the agreement with the commissioners that they would not focus on outputs and the detailed interrogation of budgets but instead concentrate on verifying outcomes and sharing and disseminating learning.'

Engage multiple partners:

'When you're engaging with the local authority, get as many people as possible involved and excited. Engage them in what are we all trying to achieve.'

'Another point is that partnering up with another delivery organisation can enable a greater reach and be more attractive for investors and commissioners too.'

Build trust and confidence:

'If possible, work with the senior commissioners to give their teams permission to work in a different way.'

'Find the stakeholder that commissioners trust. This is not always the investor, even if they are the most knowledgeable. Perhaps it's GOLab, because they are seen as independent. Find role models who have done this. Make connections with another local authority that has gone through it. This will de-risk it for the commissioners.'

Provide resources and 'playbooks':

'A big barrier is that the resources for learning about the process are theoretical. Try to find practical papers and resources that walk commissioners through what they need to do.'

1.7 Model scenarios to price and define outcomes

Rate Cards

Where the SIB has been originated by the outcomes payer, they may publish a Rate Card: a list of outcomes for which they are willing to pay, with a value attached to each.

When commissioners publish Rate Cards, they can either be:

- **fixed** – weighting the procurement process towards quality, or
- **flexible** – in which case commissioners expect discounts to it and may select based on value for money.

The rates are typically calculated from models of long-term savings for the commissioner, and the cost of other comparable programmes. Sometimes commissioners allow for providers to share in any cost savings they achieve against the cap.

In other cases, where you as a provider or intermediary are leading the SIB development, there are no set rates. Rather than responding to an invitation to bid, you will need to negotiate outcomes from scratch or you may be asked to provide your own Rate Card. It can be helpful to refer to historical Rate Cards, such as those from the central government SIB funds.

Pros and cons:

- Rate Cards fix some variables, leading to a potentially **simpler SIB design process** that makes the question "Can we make these numbers add up?" easier to answer.

- On the other hand, without a pre-defined Rate Card, you are **free to design a SIB that works for you** both organisationally and financially.

- The negotiating of outcomes rates and definitions can also be a crucial step in a developing a **strong provider-commissioner relationship**.

> *"Our process was way more interactive, a true partnership. It was brilliant but hard. It pushed out loads of questions about who has responsibility for what."*
>
> – Provider who defined their outcomes without a Rate Card

Example Rate Card

In the example rate card below from the DWP's Innovation Fund Round 1, the outcomes payments are specified 'per individual'.

An alternative is to specify an outcome payment per cohort, where payment is triggered if a specified minimum percentage of the cohort achieves the outcomes agreed. For example, if the commissioner agreed to pay £75,000 if a minimum of 50% of the cohort got jobs, no payment would be triggered if 49% of the cohort got jobs.

Innovation Fund Round 1 Rate Card – Centre for SIBs, 2013	
Outcome	**£ per participant**
• Improved behavior at school (measured by letter from teacher)	• 800
• Stop persistent truancy (absent for > 10% of school days / year)	• 1,300
• Achievement of First NVQ Level 2 qualification	• 2,200
• Achievement of First NVQ Level 1 qualification	• 700
• Entry into first employment including training	• 2,600
• Entry into sustained employment	• 1,000
• Completion of First NQL level 3 training/vocational qualifications	• 3,300
• Successful completion of an ESOL course	• 1,200
• Entry into education at NQF level 4	• 2,000

Refining outcomes projections

Scenario modelling often depends on a sometimes hidden factor: the details of the outcome indicators and the mechanism for verifying that success. Many who have been through the process wish that, even at this early stage, they had tested their numbers by sketching the process of identifying and claiming outcomes to avoid surprises.

You will already have discussed cohort-level vs individual-level outcomes and agreed an outline definition. Modelling for volumes and rates can involve further complicated conversations about:

- Whether to downscale expectations if success relies on establishing a relationship or data sharing agreement with a specific authority or data source by way of validation
- Whether to downscale expectations if success relies on keeping in contact with a potentially chaotic beneficiary group
- Whether there is likely to be a time lag in establishing success – for example, if annual results are published by a statutory body – which could affect cashflow
- What volumes would constitute statistical significance for the cohort size being discussed
- Where outcomes are not binary – where they call for an improvement or increase or decrease in something – how the scale of change required will affect success rates. For example, how many outcomes can you expect if a 10% improvement is required compared with a 50% improvement?
- Whether you are engaged in a zero-sum game: will success in one area affect your ability to achieve outcomes in another?
- Whether external political, economic, social or technological factors could interrupt your success rates

In summary, we all need to build human error, reluctance, confirmation bias and even deceit as well as healthy optimism into our models!

Pricing outcomes

When discussions with a commissioner become promising, before starting to negotiate rates for outcome payments, it is prudent to model different scenarios, especially a down-side case to protect you from underpricing your outcomes.

Tool

Scenario analysis model
Contributed by Sune Frandsen, KKR

DOWNLOAD TOOL

1. **Start with your assumptions from Section 1.4**
    - Drivers: duration of programme, number of participants recruited, percentage of participants dropping out, percentage of participants achieving each outcome, case load per staff member
    - Costs: delivery costs, core costs, SIB-related costs

2. **Link the costs to the drivers**
    - E.g. staff costs depend on number of participants, case load per staff member

3. **Link the outcome payments to the drivers**
    - E.g. outcome payments depend on number of participants, percentage of participants dropping out, percentage achieving each outcome and the Rate Card

4. **You should be able to change the drivers and see the effect on the costs and the outcome payments**

5. **Model four different scenarios, from "best case" to "downside case".** Input the appropriate numbers as drivers in each case and see the effect on costs and outcome payments.
    - Best case: what is the theoretical maximum value of the contract if everything goes well? Does the contract apply a cap?
    - Expected case: an ambitious but achievable view of the programme
    - Break-even case: what is the minimum level of outcomes needed before the contract makes a loss?
    - Down-side case: take a more cautious view of e.g. the number of people who complete the programme, or the staffing levels needed. e.g. programme is delayed, recruitment is slow, half of the beneficiaries drop out, staff fall ill, etc.

This analysis will help you to identify a reasonable outcome payment level that covers costs, even if things do not go exactly to plan. In addition, it will help you to identify the key risks of the contract and decide how to manage them, and it will show how much investment might be needed.

This will usually form one of a series of stage-gates for a 'go' or 'no go' decision, defined for itself by each potential delivery organisation.

Further resources

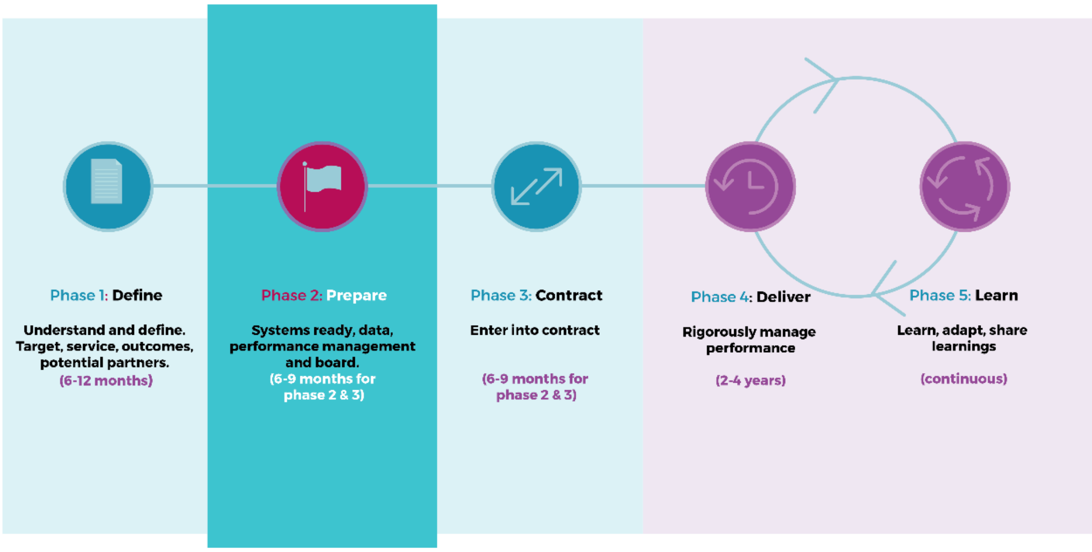
- Introductory Guide to Pricing Outcomes, GO Lab: guide to pricing outomes for commissioners – could also provide helpful insights for providers

CHECKLIST: AFTER PHASE 1

Have you completed Phase 1? If the answer to any of these questions is 'no', you might want to revisit the relevant sections of the guide and explore the suggested tools.

- Have you created a logic model or theory of change to define:
  - Who you will enrol on the proposed programme?
  - What the inputs or activities are?
  - What the outcomes of your programme are?
- Have you made contact with potential outcomes payers, and negotiated the details of the outcomes to be paid?
- Have you estimated how many participants will be enrolled in the programme at any given time, if you're running at full capacity? And what happens if things go wrong, e.g. recruitment, availability of case managers, school closures?
- Have you calculated the full cost of delivering the programme outcomes, including monitoring, evaluation and HQ support?
- Have you had positive conversations with potential outcomes payers?
- Have you planned scenarios to take into account all the things that can go wrong, both with the beneficiary flow and your resources to deliver the programme?
- Have you priced your outcomes?


PHASE 2
PREPARE
1
2
3


Phase 1: Define
Understand and define. Target, service, outcomes, potential partners.
(6-12 months)
Phase 2: Prepare
Systems ready, data, performance management and board.
(6-9 months for phase 2 & 3)
Phase 3: Contract
Enter into contract
(6-9 months for phase 2 & 3)
Phase 4: Deliver
Rigorously manage performance
(2-4 years)
Phase 5: Learn
Learn, adapt, share learnings
(continuous)

OVERVIEW OF PHASE 2

In this phase, we recommend entering discussions with an investor, and it's time to get your house in order ahead of delivery. Delivering the SIB will require rigorous data management and performance measurement, and you'll need to be confident that your team will perform well in such an outcomes-focused environment. Invest in systems and in people and be prepared to review, support and develop them, throughout the SIB delivery period and beyond.

This phase will most likely overlap with Phase 3 (Contract); as you are preparing your internal organisation, you will be developing your relationships.

Tools referenced in Phase 2

Investor Discussion Template
Contributed by TSAP

DOWNLOAD TOOL

This tool will help you to keep track of the nature, approach and fit of the investors you are talking to. It offers 15 areas to investigate during your discussions.

SIB Project Plan
Contributed by Numbers for Good

DOWNLOAD TOOL

This is a template plan for developing a SIB, in Gantt Chart format with a Red/Amber/Green/Blue status column to help you track progress. The tasks, people and timescales can all be customised, by agreement with your project team.

2.1 Consider hiring an intermediary

While not all successful SIB projects have involved social finance intermediaries (SFIs), it is common to hire them to increase your chances of a successful project. Their roles in developing a SIB can include raising capital, structuring the deal and brokering the relationships between partners.

It's not just networking and deal structure that an intermediary can help with. Many providers new to contract management have found it helpful to harness the objectivity of their intermediary even after the deals are done. One said: *"It can be really hard to challenge a partner in an objective way without it being seen as an affront. Having a neutral party helped keep tempers down!"*

There have often been central government grants available to finance the cost of engaging an intermediary during the development, transaction and delivery phases of a SIB. Some intermediaries charge a success fee if the SIB achieves its outcomes.

Service providers' views on getting the most out of working with an SFI:

'Working with the right SFI is crucial. We changed SFIs during the course of developing the bid and our second choice was far more effective.'

'Intermediaries know best, have the most technical knowledge and more engineering expertise. However, this sometimes puts providers on the back foot. Build up your confidence to find a unique solution, to push back, to design something bespoke."

"The Intermediary was far and away an absolute necessity – they were able to facilitate interviews with several social investors to pitch to and were brilliant at keeping us on task and understanding the management reporting information."

2.2 Begin conversations with investors

Social investors that participate in SIBs lie anywhere on a spectrum:

Organisations which usually make grants	Organisations which usually make commercial investments

Some are experienced in social investment, and for some SIBs are a new concept. Whoever the investor(s), there can be a long road between initial contact and the closing of a deal. As with commissioners, it is best not to take early interest as a sign of firm commitment.

Social investors also vary in their expectations of financial return. Some are willing to accept a relatively low return for helping to finance a social change, while others are more commercial and are looking for a higher return. To identify which investors to approach, it can help to think about the profile of return expectation and risk appetite that would be a good fit for your programme and SIB.

Once a provider has been invited to meet an investor, they should be prepared for questions such as these:

- Current programme (if applicable)
  - What interventions are you currently delivering?
  - What is your theory of change?
  - What is the average duration of an intervention?

- Current outcomes (if applicable)
  - What is the success rate?
  - What are the longer-term outcomes? (i.e. what do beneficiaries go on to do?)

- Current data systems (if applicable)
  - Which systems do you use to collect data on durations, success rates, longer-term outcomes?
  - How often do you monitor your outcomes?
  - In what form do you report your results?

- Proposed programme
  - What is the proposed programme?
  - What are the intended outcomes and impact?
  - Have you discussed the programme with commissioners?
  - Is there commissioner appetite for paying for the programme?

- Organisational change
  - How comfortable are you with being paid for outcomes?
  - What do you think an external investor can bring to the partnership?
  - Are you willing to take on a multi-year contract?
  - Are you willing to take on debt?
  - What is your view on taking on risk?

Questions that a SIB provider might ask an investor include:

- Why are you considering engaging in this SIB?
- Which sectors do you support?
- Which types of SIB contracts have you invested in?
- When might we expect a final investment decision?

Tool

Investor Discussion Template
Contributed by TSAP

DOWNLOAD TOOL

This tool will help you to keep track of the nature, approach and fit of the investors you are talking to. It offers 15 areas to investigate during your discussions

2.3 Get your board on board

There may be work to do to convince a board of Trustees to support engagement in a SIB programme. In forming a case, it can help to draw from the material that you prepare for the investor. In addition, you may need to prepare the following for your board:

- Risk analysis
  - Show potential financial losses or gains
  - Suggest how much risk you are prepared to take on
- Case for pursuing the SIB for this intervention
  - Show pros/cons vs other methods of financing
- Background on potential partners
  - Expertise, capability, and relationship with all stakeholders you propose as partners
- Suggested role for the board
  - To make this a success, what could you ask the board to do?

Later in the contracting process, you will develop a governance structure – perhaps, setting up a governing committee or establishing an official SPV board – to oversee the SIB. At least one trustee from the service provider's own board are likely to be on this.

2.4 Prepare for due diligence

Once an investor is interested in a proposed SIB, providers can expect detailed questions around the business case, probing the soundness of the proposed programme and the provider's ability to deliver the outcomes. The questions below are fairly standard. You'll be expected to provide evidence for your answers.

"An investor came to visit and wanted to observe a skills session with a beneficiary. Afterwards, he asked me questions around the young person's circumstances, personal and social barriers, and their engagement with the programme. We spoke along with my manager about the programme as a whole and how and why I think it works. I was surprised at the level of detail they wanted to know."

Delivery staff on Due Diligence

General

- How complementary is the proposed project to your existing activities?
    - Geography
    - Age group and profile of participants
    - Intervention
    - Commissioner
- How aligned are the programme and the proposed outcomes with your current mission?
- Which external factors, locally or nationally, could affect your ability to deliver the contract e.g. changes to benefits, local policy shifts, changes in procurement processes?

Programme team

- Which project team members have been identified as programme staff and which roles need to be recruited?
- CVs/biographies of key team members

Intervention

- Have you delivered this intervention before, in a comparable area, and with a comparable cohort?

  Provide details and any third party evaluations if available.
- What is the evidence base for this approach? Is there evidence of sustained outcomes? Which outputs and outcomes were measured?
- Which external partners or resources are needed to make the project a success? Have these already been secured? If not, what is the plan for doing so?
- How will you make people aware of the programme and secure beneficiary referrals?
- How will you monitor, report on and respond to outcomes data?

Financials and contracting structure

- How much money do you estimate needing to borrow to fund working capital?
- Assumptions for:
    - Number of referrals onto the programme
    - Number of referrals that convert into active participants
    - Duration of support provided
    - The percentage of participants achieving outcomes and time taken

  It is advisable to provide detailed spreadsheets.
- On what information have you based these assumptions, and do you consider your estimates to be conservative or ambitious? Provide any supporting data e.g. relevant prior experience.
- What are your detailed operating cost assumptions? Include staff, IT, travel, insurance, marketing, other overheads, data reporting and analysis, participant costs, regulatory compliance e.g. Merlin.
- Will any capital investment be needed, e.g. offices/vehicles/IT for outcomes-reporting?
- What if you only achieve [80%] of the target outcomes?
- What steps could be taken if the project falls behind plan?
- Which level of outcomes will you need to achieve to break even?
- Do you have any strong preferences on the contracting and financing structure?

Governance

- Has the proposed project been discussed with the board, and what is their appetite to take on social investment? What is the process to secure final approval?
- Who would participate in the project board or governance committee?
- How do you think an investor could add the most value to the board?

As discussions with an investor progress, providers are usually asked to share a package of information about their organisation that demonstrates the soundness of their operations and management. This sample list is fairly standard:

Organisation and team

- Strategy document
- Corporate brochures and documents
- Risk register
- Names and biographies of the senior management team, board of trustees and other key individuals

Financials

- Last three years annual audited accounts
- Last 12 months management accounts
- Most recent budget/business plan
- Any other MIS/financial analysis
- Breakdown of revenue and cost lines
- Details of any major contract wins/losses/renewals (historic or in the next two to three years)
- Details of concentration/diversification of sources of income or costs
- Details of any existing borrowing or other liabilities, including property leases and pensions
- Details of property leases and any major rent reviews/lease maturities in the next three years

Social impact

- Theory of change
- Latest social impact report or scorecard
- Plan for tracking and reporting on inputs, outputs and outcomes
- Example of social impact reporting, for the organisation or specific contracts
- Copies of any formal impact evaluations or research reports
- Systems for data entry and analysis, their integration with financial information, and processes for using data to inform decision-making

Prior experience

- Details of any contracts that involve working with a similar cohort or intervention, including:
    - Contract value and term
    - Your role and the role played by other partners
    - Description of the intervention/approach
    - Success rates, length of intervention, outcomes reported
- Overview of previous experience of payment-by-results or other outcomes-based contracts
- Examples of delivering contracts with considerable flexibility to evolve the model in response to changing needs and conditions
- Details of two referees e.g. commissioners

2.5 Prepare your CRM system

Delivering a SIB involves robust data collection and rigorous reporting, so a SIB provider's data management system must be fit for the job. For a SIB, a customer relationship management (CRM) system is preferable to a classic database. With a CRM system, we can track each beneficiary's journey and communicate relevant outcomes data easily to key stakeholders, e.g. board members, commissioners and investors.

Unless a very high volume SIB is under discussion, it should not need a bespoke system designed from scratch. Most manage fine with an off-the-shelf CRM system, as long as it can be customised. We have heard positive feedback about CiviCRM, Salesforce and Apricot. Salesforce gives away some licences to charities.

Tips we have gathered:

- You'll need to make sure that the CRM system enables you to customise your own reports based on the data necessary to claim your SIB outcome payments.
- Someone inside your organisation, e.g. the data manager, should be able to make structural tweaks, such as adding or removing data fields, relatively easily. It can be an unwelcome extra expense and waste of time to have to pay for simple changes
- You'll also want a bulk upload function so it's easy to add a lot of information at the same time
- Choose a web-based system so that it can be accessed from anywhere
- Make sure your system has good security protection

You may also need to invest in an administrator to take care of tasks like gathering documents as outcomes evidence, scanning them, and entering them into the system.

While you'll probably need to invest time and resources into developing the system, bear in mind that a robust system will reduce administration costs in the long run, not only for this programme, but for future programmes too. You may be able to attract a grant for the systems development work.

In adapting a system for a SIB, it can be helpful to do a 'dry run' if a test environment or record is available to you. Test each aspect (or representative examples) of how each metric will be collected, entered, validated and converted into a 'claim'. System change requests tend to become more expensive and time-consuming the further through the process you go.

2.6 Plan and prepare your team

Once the SIB is in the delivery phase, it will take extensive administrative work to demonstrate that outcomes have been achieved so that payments can be claimed. This work will usually fall to delivery staff, in cooperation with their managers, and perhaps an external performance management resource.

The whole organisation therefore needs to buy into the process required to evidence the outcomes (as well, of course, as the process required to achieve the outcomes). Planning a SIB without this collective buy-in runs the risk of an 'us-and-them' divide developing:

"US"	"THEM"
We know what's *really important* – the difference we make to people	They are driving a focus on the wrong things – the *outcomes*
We care about what's right for the beneficiaries	They care more about what brings in money

Some providers have had success with involving their delivery team as early as the bidding and negotiating process. A deep understanding of the SIB mechanism can help stem mistrust and improve cooperation.

To get everyone on board during the preparation phase, show full commitment to the opportunity, and train staff about the new challenge. Prepare them for the experience they'll have, and the benefit it will bring to the organisation in the medium and long-term.

Embedding outcomes in the day job

At some stage, all members of staff will need to understand the outcomes required for payment, so that they can map out their objectives and develop work plans to achieve them. Delivery and management teams should work closely together in setting objectives and developing a shared understanding of the importance of being outcome-focused.

The objective setting process maps how staff, working with beneficiaries, will deliver the outcomes required to achieve the programme's mission. To humanise the financial outcomes and avoid a criticism that the focus is just on 'ticking boxes' to get the payments, all team members need to internalise the connection between quantitative outcomes such as a qualification that a young person has achieved and perhaps more qualitative results, for example, developing a supportive relationship with a mentor. With an aligned approach, it becomes clear that everyone is working together toward the same goal of serving programme beneficiaries in the best way possible.

Make sure that the objectives and work plans allow some flexibility. After all, every participant is unique, and many variables can influence results. Especially for a new programme, it may take time before you can predict the rate at which the participants achieve the outcomes.

Case Study
ThinkForward

At ThinkForward, to support delivery staff in setting and achieving objectives, we set up a 'team around the coach': the coach's line manager, a data manager, and a colleague who organised education and employment related activities for young people on the programme.

Meeting regularly, this support team would make sure that everyone understood the steps needed to deliver the outcomes. Coaches presented dashboards on where things stood with their young people and worked with the team to set milestones and put trackers in place to assess how they were doing against their objectives.

These meetings provided an opportunity to identify over and under-performance, so that the team could celebrate successes and address any issues. Coaches could take the opportunity to ask the team for the support they needed to meet their objectives.

In Phase 4 (Delivery), we cover performance management. You'll need to decide whether to carry out data and performance management in-house, outsource it or partner with an organisation that can provide limited support, so it's worth thinking about this now, in the development phase.

Tool

Project Plan
Contributed by Numbers for Good

DOWNLOAD TOOL

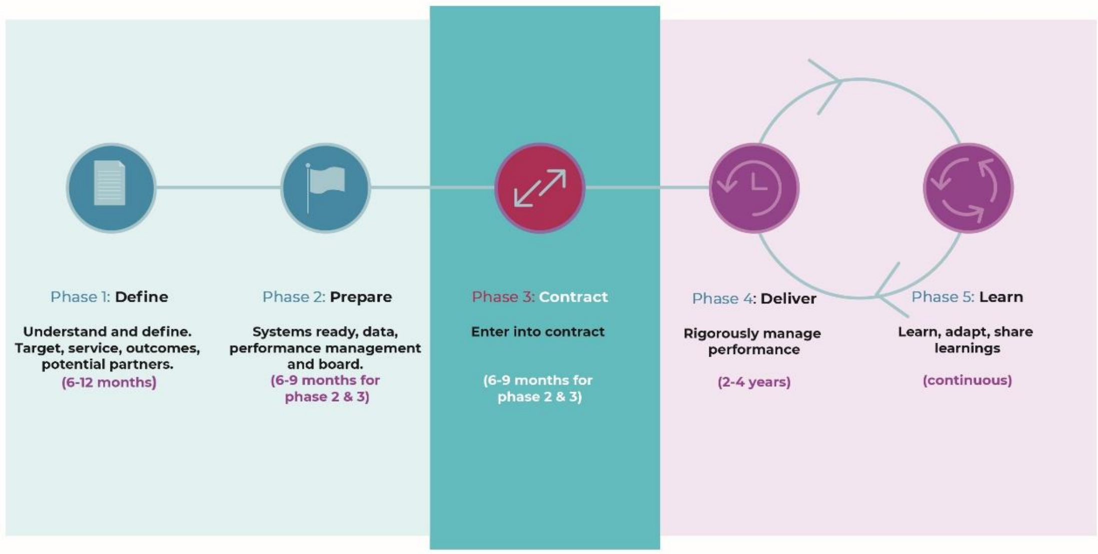
This is a template plan for developing a SIB, in Gantt Chart format with a Red/Amber/Green/Blue status column to help you track progress. The tasks, people and timescales can all be customised, by agreement with your project team. This should help with objectives and resource planning.

CHECKLIST: AFTER PHASE 2

Have you completed Phase 2? If the answer to any of these questions is 'no', you might want to revisit the highlighted sections of the toolkit and explore the suggested tools.

- Are you aware of organisations that support SIB development, including intermediaries? Are you aware of grants that may help finance the preparation phase?
- Have you identified investors who share your vision and values, and may be willing to finance the programme?
- Do you know what to expect when meeting an investor for the first time?
- Are you aware of the full scope of materials you will need to present during the due diligence stage, should you all agree to proceed?
- Are you aware of IT system requirements to handle the rigour of monitoring and reporting? Does your current IT system have this capacity? Do you have staff to upgrade the system, if required?
- Is your board fully supportive of the proposals? Have you got a plan for involving them in the future governance of the SIB?
- Is your staff on board with the requirements, and have you planned in detail staff resources and objectives?


PHASE 3
CONTRACT
1
2
3


Phase 1: Define
Understand and define. Target, service, outcomes, potential partners.
(6-12 months)
Phase 2: Prepare
Systems ready, data, performance management and board.
(6-9 months for phase 2 & 3)
Phase 3: Contract
Enter into contract
(6-9 months for phase 2 & 3)
Phase 4: Deliver
Rigorously manage performance
(2-4 years)
Phase 5: Learn
Learn, adapt, share learnings
(continuous)

OVERVIEW OF PHASE 3

This phase is all about solidifying your relationships with all the stakeholders and finalising the details of the contract. This phase will most likely overlap with Phase 2 (Preparing); you will be developing your relationships as you are preparing your internal organisation. In the UK, deal development usually takes between six and nine months. This might sound long, but it can take up to three years in markets where this type of financing is just getting started.

While each of the key stakeholders enters the deal with their own requirements and perspectives, you can all agree that you would like to find an efficient, accountable, impactful way to help the population in need. Also, don't lose sight of the fact that a key benefit of the SIB is that it's a partnership among stakeholders with unique and complementary expertise. Rather than a hurdle, think of this as an opportunity to get support – financial, legal, technical – from experts in their field who are working towards the same goal as you.

Tools referenced in Phase 3

SIB Structure Considerations
Contributed by Numbers for Good

DOWNLOAD TOOL

A summary guide to the typical features of different kinds of SIB – those where the lead contract is respectively the SPV, the Prime Contractor or the Service Provider.

SIB Implementation Plan
Contributed by ThinkForward

DOWNLOAD TOOL

This plan is for use after the 'green light', when all parties have made the decision to proceed, but contracts are not yet signed and delivery has not yet begun. It is high-level, leaving scope to customise and add detail.

3.1 *Explore contracting with commissioners*

Even after promising early discussions (see Section 1.6), don't assume that commissioners will be familiar with the processes involved in commissioning a SIB. You may well need to help them through the steps.

Masterclass: How to help a commissioner through the SIB commissioning process

Contributed by Dr Chih Hoong Sin, Director, OPM

If you are developing your own provider-led SIB, though you as a provider cannot influence the commissioner's specific procurement route, you can use the Public Services (Social Value) Act 2012 to ask the commissioner to have pre-procurement conversations.

If the commissioner is developing the SIB, keep in mind that while less complicated than provider-led SIBs, commissioner-led SIBs are not as straightforward as they look. There are some steps you can take to help avoid common pitfalls:

- Ask the commissioner about contract management:
  - Which contracts does the commissioner already hold for this kind of work?
  - When do they run out?

- Make sure the commissioner is aware that they do not always have to go to open market:
  - Check how familiar the commissioner is with using the Public Services (Social Value) Act, and do some pre-procurement
  - Check whether the commissioner has considered an Innovation Partnership (enabling commissioners to develop a new service concept in partnership with a small number of providers)
  - Check whether the commissioner is aware of the option of using a Voluntary Ex Ante Transparency notice to award the contract to one provider (see below).
  - Check whether the commissioner can operate under the Light Touch Regime (see below)

The Public Services (Social Value) Act requires commissioners of public services to think about how they can also secure wider social, economic and environmental benefits.

In an **Innovation Partnership,** the contracting authority uses a negotiated approach to invite suppliers to submit ideas to develop innovative works, supplies or services aimed at meeting a need for which there is no suitable existing 'product' on the market.

A Voluntary Ex Ante Transparency (VEAT) notice can be issued by a commissioner if a provider has developed a unique solution and only they have the means to deliver it according to the commissioner's requirements. The notice notifies the market of the commissioner's intent to award a contract to a provider without competition and provides for a 10 – 15 day period to allow challenge to that decision.

In the **Light Touch Regime (LTR)**, a commissioner can design their own process if it meets the rules around openness to avoid flouting competition rules. The LTR requires procurers to:

- Post a notice to make known their intention to award a contract, inviting expressions of interest
- Hold some sort of competitive award process, ensuring equal treatment and transparency. Reasonable and proportionate time limits should be allowed
- Publish a contract award notice (these can be grouped for publication quarterly)

Such an OJEU call for competition can be dispensed with where:

- The contract is sub-threshold for the LTR (Schedule 3)
- The "negotiated procedure without notice" can be used – i.e., where a procurer can legitimately approach one provider direct
- For contracts that can be regarded as an in-house arrangement or a public-to-public co-operation

Content provided by Roger Bullen and GO Lab

Further resources

- Technical Guide: Procurement, GO Lab
- The Art of the Possible in Public Procurement, Bates Wells Braithwaite
- Local Government Lawyer guidance on Innovation Partnerships
- Mills & Reeve background in the Light Touch Regime

3.2 Write contractual outcomes definitions

Writing up the details – even looking at some real-life data to sanity-check the outcome definitions – can save confusion and surprise at delivery stage. Even where a Rate Card has been published, the details can be far from settled.

We have found that, in dealing with real people, it can be very hard to apply a consistent outcome definition. Whilst outcomes are supposed to be objective, they often require a judgement call – and this has sometimes been reported as a case of conscience versus profitability. It's sensible for all parties to avoid this kind of ambiguity in a SIB contract, by stress-testing these definitions before signing.

The complexity of a single outcome

The Innovation Fund Rate Card listed as its first outcome 'Improved behavior at school', at a rate of £800. This example shows the kinds of questions needed to stress test each outcome before it is enshrined in contract:

- Who is considered acceptable as a 'verifier' (someone who could sign a letter or claim form to certify that this improvement has taken place)? Where, when and how often will they have capacity to sign, and will this affect cashflow?
- What evidence does the 'verifier' themselves need to have seen? (For example, a decrease in behavior "markers" awarded at school? A decrease in detentions?).
- What percentage constitutes a significant decrease?
- Does the same system apply to all delivery sites (for example, schools)? How can this be standardized?
- Over what period of time does the improvement need to be seen? What if a young person's behaviour fluctuates or deteriorates again after the period of the outcome definition?

3.3 Consider partnering with other delivery organisations

Consider developing partnerships with other delivery organisations who may make the programme possible by adding expertise, geography, relationships. There are lots of good reasons for doing so – not least:

- In some SIBs, investors have only been willing to fund high value transactions (e.g. £1m) because of the development costs, so providers need to band together in a consortium to build the capacity necessary to deliver at this scale

- In other cases, commissioners would only be interested if the programme addressed the problem through a unique combination of services, or across many geographies

Think about engaging with other service providers (both national and local) to find ways to work together and create an innovative intervention that gets at the root cause of the problem by leveraging everyone's unique strengths.

Case Study
St Mungo's and Thames Reach

The London Homelessness SIB was launched in November 2012 and targeted 831 entrenched rough sleepers.

The Borough of Westminster is a shared area given its centrality and number of rough sleepers.[1] St Mungo's and Thames Reach partnered to deliver this intervention to a matched half of the cohort, split according to a range of support needs and by the borough where each individual was last seen sleeping.

The partners took a flexible approach that helped them to achieve long-term positive outcomes.

Further resources

- Evaluation of the London Homelessness SIB

3.4 Develop a stakeholder management strategy

Though it may not feel a top priority, consider engaging, developing partnerships with, and on-boarding other stakeholders – for example:

- Schools
- Teachers
- Healthcare providers
- Employers
- Local providers

Strong early relationships with these stakeholders will drive referrals, better outcomes, and trust. When they have been well-engaged, these are often the people who can come up with a solution in the face of underperformance or other delivery issues later on.

Stakeholder management is another aspect of a SIB that requires planning, resources, and strategy. As a minimum, you'll need to:

- Identify all potential stakeholders; be as inclusive as possible!
- Map the interests of each stakeholder – consider what motivates them, who would they work with best, what they will contribute to the programme
- Develop a communication strategy for each stakeholder – how often you'll speak/meet, who else needs to be involved, what information they will need. Some will be more formal (as in, Service Level Agreements) and some less (as in, fortnightly bulletins)
- Engage each stakeholder – in writing, meetings, groups

These tasks may be outsourced or managed in-house; this decision may depend on the deal structure (how the SIB is constituted). Consider these pros and cons:

	In-house	Outsourced
Pros	• Builds internal capabilities to manage complex relationships with new partners, setting you up for future transactions • Provides in-depth learning experience in the partners' areas of expertise (finance, legal structures, governance, data measurement, etc) • Smooths the way for programme delivery through in-depth relationships built during deal development	• A third party may have inside information and relationships • Agreements may be expedited, enabling the work to begin more quickly • Partners may be identified who may be ideally positioned for the deal, and may not have been identified otherwise • If relationship or conditions needs to be renegotiated, or if there are any negative aspects, the third party is responsible, rather than you
Cons	• May take longer due to lack of experience and time to build relationships, find partners • May take staff time away from on-going programmes, putting existing work and relationships at risk • Any renegotiations, changes in partners/relationships, misunderstandings need to be resolved by your staff	• Deep relationships may not be built, and/or nuances lost in handover • In-house expertise in relationship management and technical skills may not be developed

Regardless of your choice, SIBs provide the opportunity to develop deep stakeholder relationships and bring immense learning from your partners and their expertise. They arouse interest and are often a great incentive to involvement, or at least an interesting 'talking point', with the wider sector.

Case Study
Aviza and the Energise SIB

During delivery of the Energise SIB, strong relationships with local schools were critical to Adviza's success as they provided the pipeline of participants for the programme. Adviza's relationships with schools were very strong prior to beginning the programme, and they built on this to expand the networks and explain the value of the programme to schools.

Local investors brokered access to senior staff; however, each school differed in its coordination, which made kicking off the process more challenging.

- A stakeholder working group was created in order to best fit the programme delivery into school timetables and priorities.
- Adviza also introduced Service Level Agreements to clarify the data required and ensure a level of consistency that would enable them to claim outcomes.

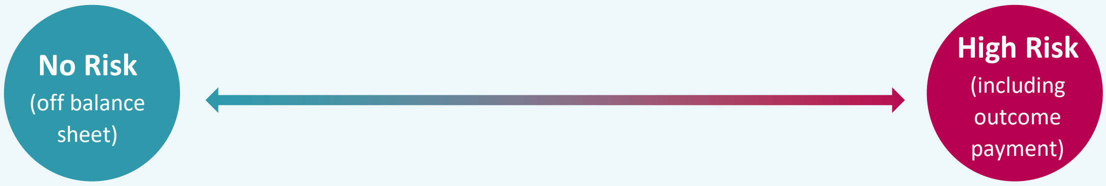
1.5 *Develop a risk management strategy*

What is the level of risk you're willing to take on as an organisation? Your board and partners will help you with this decision, and it may be partially determined by the deal structure you choose (whether the SIB has a direct, managed or intermediary structure).

Here is a trade-off for you to consider: transfer all the risk to the investor and they will gain all of the potential upside from your successful provision, or take on some of the risk and earn a success fee/bonus if you succeed or even exceed expectations, which you can then reinvest into your programmes. Ask yourself:

- How much risk are we willing to take on?
- Who should gain if we overperform?
- Should some of that gain be transferred to us?
- How can we set the terms so that our continuous improvement during delivery leads to financial upside?

***Continuum of risk acceptance, and potential reward*[1]**



No risk / no share in return

No risk share other than reputational; a central overarching organisation holds risk and upside, and sub-contracts to service provider

Example:

- *Peterborough SIB* (see Section 3.6 for detail) – appropriate as attribution is virtually impossible with a large consortium of providers
- *Essex SIB, Action for Children* – appropriate as highly vulnerable population and potentially diverse decisions. Provider acting more as contractor.

Some risk / some share in

Variation 1: Additional income if above threshold – e.g., provider has to achieve a minimum of £xM worth of outcomes; above this for every £100 of outcomes, organisation gains

Example:

- *DWP Innovation Fund SIBs* – providers share in the upside but protected from the downside

Variation 2: Provider partially funds intervention upfront and negotiates return with interest

Example:

- *GLA Homelessness SIB, St Mungo's – made equity investment into SIB, sharing delivery risk*

High risk / high share in return

Variation 1: Provider risks profit in return for variable loan interest rate depending on outcome; interest can be close to zero if outperforming

Examples:

- *Thames Reach Rough Sleeping SIB* – loan given directly to the charity, interest rate linked to performance
- *Family Action SIB* – provider underwrote 50% of the loss in order to retain the upside, lower cost of capital.

Variation 2: Provider risks part of outcome payment, shares in the surpluses.

Examples:

- *It's All About Me SIB* – varying outcome payments; share in over-performance. Collaboration incentives.
- *Manchester SIB, Action for Children* – take on risks to develop internal capabilities

[1] Big Society Capital, 2014

Where along this continuum will you find yourself? Some questions to consider:

1. How confident are we in our organisation's ability to deliver the programme to achieve the outcomes? And to exceed the promised outcomes?
2. Will our board and trustees be receptive to the idea of investing some of our money upfront, taking the risk of losing it if outcomes are not met, but with the opportunity to get back a certain return?
3. Does investing create any misalignment of interests, or unwanted complexity, in arrangements between the partners?
4. Do we have a strong enough balance sheet to enable us to take on the risk in order to lower our interest rate?
5. Are we keen to engage more in a relationship of equals or are we happy adopt a traditional 'fundee' role?

1.6 Develop your exit strategy

SIBs are often billed as more sustainable than other types of funding: in the long-term, because of cost-savings, the commissioner may decide to integrate this intervention into their standard programme of service delivery, allocating regular sums of money to this type of work. You may hope that the contract will be extended in the meantime.

Of course, neither of these may happen, so it is good practice to discuss 'legacy' from the beginning of delivery rather than waiting until the final year. If this becomes a regular discussion point, consider including it as a standing agenda item for board meetings.

Case Study

ThinkForward and the importance of an exit strategy

Running a five-year programme and enrolling new young people each year, ThinkForward planned to continue its intervention after its three year DWP contract concluded. In the last year of the SIB, they began working to secure additional philanthropic funding as a bridge to further statutory funding opportunities. Work with some cohorts of young people was therefore still funded by DWP as new cohorts started under new philanthropic funding.

There was a short hiatus after the SIB contract that created an opportunity to reconsider how they should best position themselves moving forward. ThinkForward's board, coaches, and management team undertook a new theory of change to assess the target population and outcomes they aimed to achieve. No longer bound by DWP's requirements, they used the opportunity to re-evaluate how they could best serve their beneficiaries, and which outcomes made most sense for them to be working towards.

At the same time, new funders also had different ideas about the outcomes that they wanted to see, along with fewer requirements for outcome evidence. The management team had to set up a new performance management system to adapt to this funding shift. As the original system had been attached to the SIB, a standard way of operating to drive outcomes was not integrated into ThinkForward's culture. In transitioning out of the SIB, they have had to refocus energy on data collection and performance management to build this capacity across the organisation.

Have you thought through the various scenarios that would cause the programme to stop mid-delivery? It's best if possible to be prepared and develop an exit strategy for each of those scenarios. How will you continue to engage with your partners if this happens?

"When you go into your last year you're already thinking 'What's my resource mix going to be? What's the shortfall that I need to make up?'. You don't want to have more staff on your books than you can afford." – SIB Provider

1.7 Engage legal support

A SIB is not a single defined legal structure you can pick up and use, it is a set of concepts and relationships. It therefore takes bespoke and often unique legal work to set up.

At a minimum, you will need legal support to produce the key legal documents:

- Contracts with commissioner, SPV (if using), intermediary (if using), investor(s) and delivery partners
- Term sheet outlining obligations to investor(s)
- Shareholders' agreement

Most legal firms do some pro bono – or low bono – work, and if your main requirement is creating the above documents, this should be enough. If your partner is getting a good law firm and strong legal support, you most likely don't need additional support.

However, if you need advice on structuring the deal, you'll probably want to work with a lawyer who has seen a variety of these types of transactions to guide you through the options, and you may need to budget for more comprehensive support.

Actions to ensure you set yourself up for an effective relationship with your legal partners may include:

- Writing a very clear Request for Proposal and scope of work
- Speaking with two to three different providers to understand the time they are able to dedicate and their expertise, including experience with SIBs

- Agreeing on a detailed timetable
- Understanding whether there is a cap on pro bono assistance; some may need you to transfer to an hourly rate if the transaction becomes more complex
- Agreeing on a comprehensive fee as well as arrangement for any ongoing work

Further resources

- Directory of SIB Service Providers, Big Lottery Fund: a list of law firms which have offered legal support to SIBs
- Template SIB Contract and accompanying guidance, Centre For SIBs

3.8 Develop a deal structure

There are many variations on a SIB; you will need to work with your partners to develop a deal structure that will enable your unique programme. In addition to commissioners, investors, and service providers, several other important participants are often involved. Many crossover roles are possible, and some deals have large numbers of service providers, along with senior and subordinate investors.

Intermediary

Often raises capital and brings the other stakeholders together to agree upon the transactional details. Can be integral to the success of a SIB and may be involved from the very start of the concept through to delivery, performance management and quality control.

Evaluator

Independent evaluation firm, research institution or government agency that is sometimes used to evaluate the outcomes. Technically not needed but may be provided in complex SIBs.

Validator

An auditor (can be employed by the commissioner or be independent) that validates the rigour of the outcome evaluation. Often the commissioner will have access to data sources to take on this function.

Lawyers

Advise on structure of the deal.

SPV

A legal entity, called a Special Purpose Vehicle, created to hold the contract, receive investment and pay the service provider. An SPV is a company with limited liability that is set up to protect the stakeholders and separate the contract from the delivery organisation's other activities, reducing their risk and making it easier for investors to fund the specific contract. While it may sound like it adds complexity to an already multi-faceted undertaking, it doesn't have to be very expensive – either financially or in resources – and can be very advantageous.

Advantages of an SPV:

- It can protect the provider by transferring risk to the investor, especially in substantial (above £1-1.5M[2]) or complex structures. Assuming they don't choose to co-invest, a provider's main risk is then reputational.
- SPVs can be accredited by the Centre for SIBs in order to be eligible for Social Investment Tax Relief.

Potential downsides of an SPV:

- Loss of control and depth of relationship with commissioners, to some extent, as the provider is no longer the interface with the commissioner but rather a sub-contractor carrying out the service.
- The investment required for set up, and then to wind it down at the end of the contract. Enough cushion needs to be built into the outcome payments to pay for this. There may be other ways to transfer risk without the expense of an SPV.

There is enormous variation on SIB structures, and the structure that is right for your programme will flow out of discussions with your partners on the intervention, specific providers, payment legal structure, and other factors. In all cases, service providers must be aware of the reputational risk in case of poor performance.

There are three main types of structure:[3]

1. Direct

The contract is signed between the commissioner and the service provider (or SPV controlled by service provider). The service provider is responsible for implementation and performance management. Here, the service provider bears the risk of non-payment for not achieving outcomes, after the initial investment

[2] As per Go-Lab's guidance.
[3] OECD, adapted from Goodall, 2014

Intermediated

The contract is signed between the commissioner and the investor (or investor-controlled SPV). The service provider risks termination of contract in case of poor performance.

2. **Managed**

The contract is signed between the commissioner and an intermediary (or SPV controlled by intermediary)

Tool

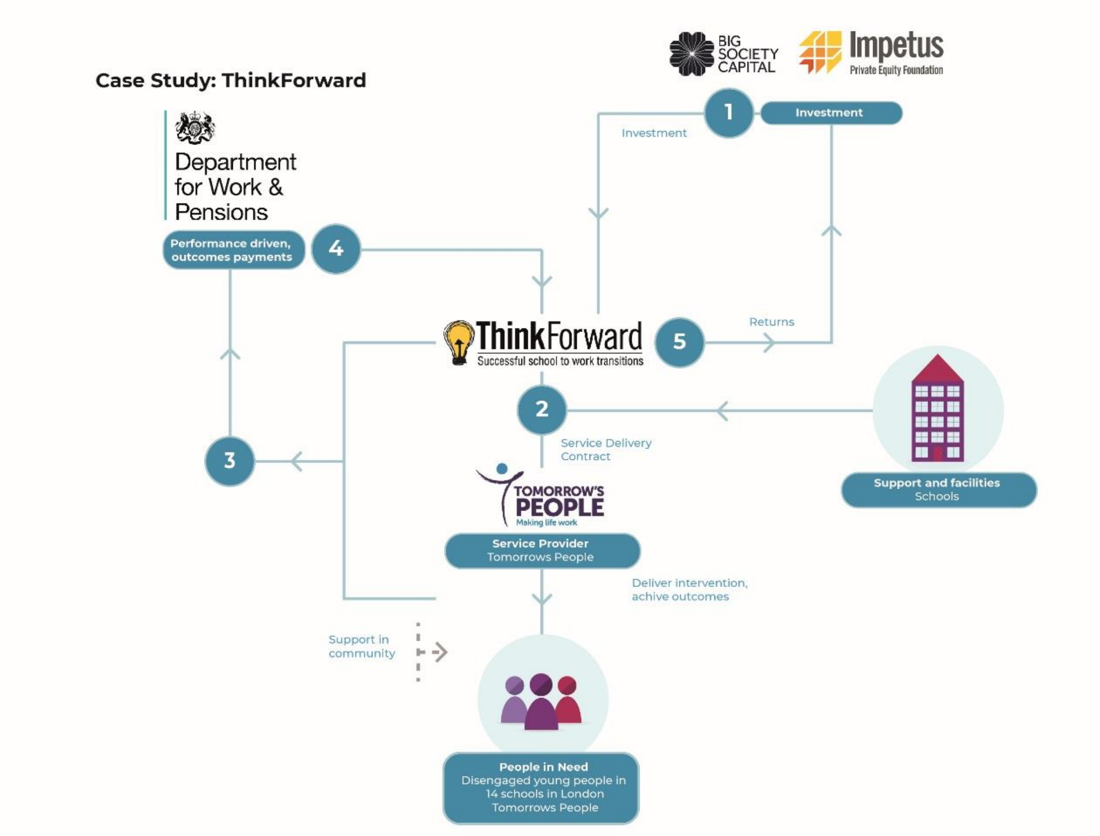
SIB Structure Considerations
Contributed by Numbers for Good

DOWNLOAD TOOL

A summary guide to the typical features of different kinds of SIB – those where the lead contract is respectively the SPV, the prime contractor or the service provider.

There follow examples of three different SIB structures.

1. Direct contract with provider-owned SPV



2. Managed contract, with investor signing contract with intermediary-owned SPV[1]

The first SIB was designed to reduce recidivism at HMP Peterborough. It was targeted at prisoners serving sentences of less than 12 months, a group known to have high reoffending rates.

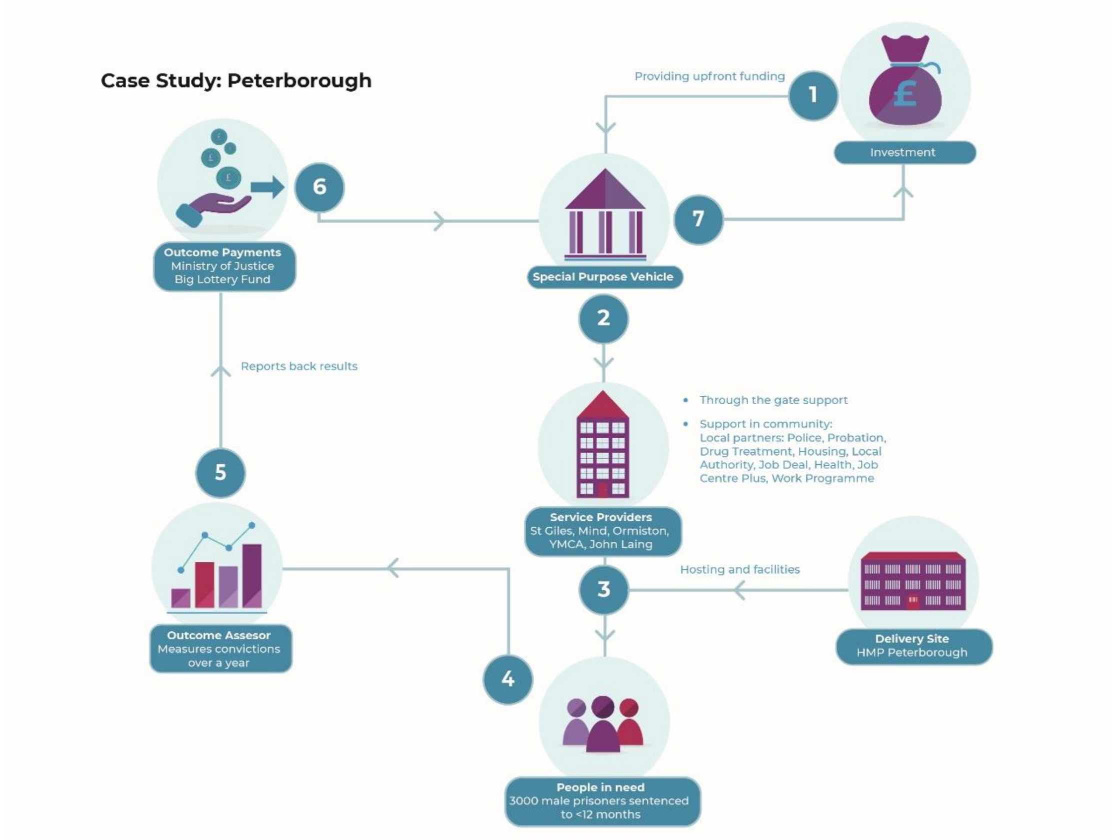
Peterborough SIB return arrangements

The SIB was structured to pay up to 13.5% of the original investment, if the rate of reoffending was reduced by more than 7% across three cohorts, compared to average figures across the entire prison.

To trigger payment for a single cohort, the reoffending rate had to be reduced by 10%.

Results for the first cohort showed a reduction of 8.6%, which would be enough to trigger payment if the second cohort showed a similar reduction.

The structure was very complicated, requiring a consortium of several service providers. The intermediary, Social Finance, coordinated not just the key stakeholders but also the agencies and partners working with the beneficiary group.



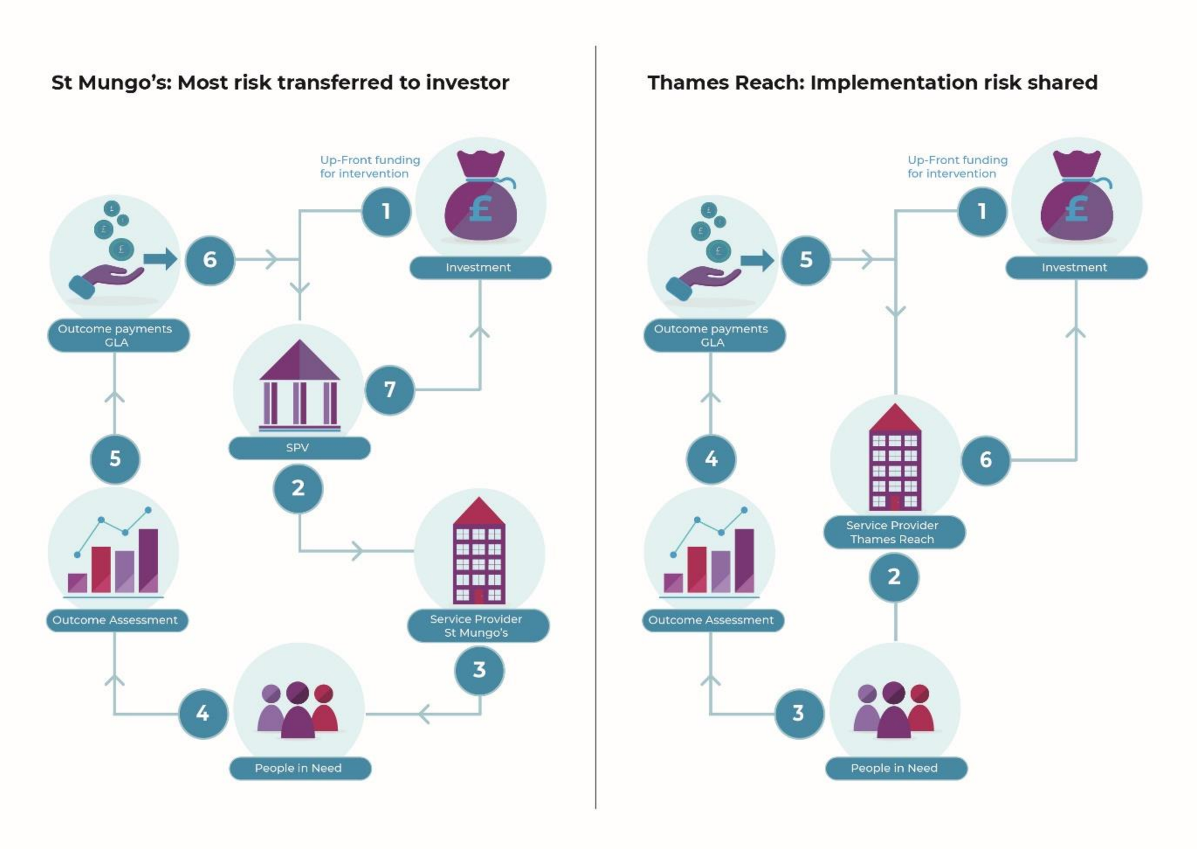
3. Mixed model SIB – shared risk contracting

Within the same SIB, a consortium of service providers may develop different structures. As an example, St Mungo's and Thames Reach partnered to deliver the London Homelessness SIB, launched in November 2012, to improve the outcomes for rough sleepers whose needs were not being met by existing services and who were not being targeted by other interventions.

To finance their contracts:

- St Mungo's established an SPV, which holds the risk, while
- Thames Reach decided on a shared risk approach through unsecured loans.

St Mungo's equity investment is at risk before the bonds, so some of the risk was still shared.[4]



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[4] DCLG, Qualitative Evaluation of the London Homelessness SIB 2014

Layered capital structure[5]

Some SIBs will be financed by several investors, rather than just one. In that case, you may have a senior lender – one who will have the highest priority of repayment once outcomes are met – and a subordinate lender. Some SIBs will also have a grant maker – an investor who is not paid even if outcomes are met, while others may have investment guarantees, which are triggered to pay back investors if the outcomes are not met.

Tool

SIB Implementation Plan
Contributed by ThinkForward

DOWNLOAD TOOL

At this point, it may be useful to plan your route to the start of the project. This plan is for use after the 'green light', when all parties have made the decision to proceed, but contracts are not yet signed and delivery has not yet begun. It is high-level, leaving scope to customise and add detail.

3.9 Develop a governance structure and board

Whether or not an SPV is set up, you will need to develop a governance structure and board that will fully support and advise you, and will empower you to change tack, make difficult decisions, or add additional resources if necessary.

Consider, if your board does not include a representative from all your investors and partners, what will be the role of those not on the board? How can you best leverage the expertise of all the partners to best support the work? This may involve setting up other committees or advisory groups.

The impulse to receive as much support as possible and make all your stakeholders feel involved must be balanced against the time commitment needed to service these bodies. A neglected committee or group can either become a burden on staff or spoil the goodwill of your partners.

[5] Brookings, 2015

Here are some best practices that should help to establish a structure that best supports your work and ensures that the process will run smoothly.

1. **Very clear governance and decision-making responsibilities**, especially if more than one governance entity
   - For example, operational meetings with commissioners, commissioner contract review meetings, SPV board meetings

   Responsibilities should be laid out in Terms of Reference and may include:
   - Performance management
   - Selecting service providers
   - Hiring/replacing staff
   - Managing any renewal/novation/alteration/breach of contracts:
     - Contracts with outcomes-payers
     - Loan agreements with investors
     - Service provision contracts with delivery partners

2. **Frequent (monthly or quarterly) board meetings** of the SPV or SFI, during which:
   - The service provider reports progress on the outcome indicators and other operational KPIs regarding performance. For example, whilst not necessarily directly linked to outcome payments the number of participants enrolled on a programme can affect success and should be monitored
   - Management accounts for the SIB project or SPV are presented
   - The board asks questions concerning progress and any challenges on targets
   - Often, safeguarding issues and complaints are given a regular slot for reporting to the board

3. **Composition of the board to best support the project**

   - An investor actively involved in all board meetings
   - A stakeholder who deeply understands the policy area
   - A stakeholder who is close to the commissioner and who understands the local context and commissioning environment

   It is best practice to define a quorum and voting mechanism up front. For example, on a board of six members, three may be quorate and the Chair may have the casting vote.

4. **Agendas for board meetings that clearly communicates data and raises red flags** regarding any performance or other issue

Tool

Sample Board Agenda
Contributed by ThinkForward

DOWNLOAD TOOL

Demonstrates a mix of standing and one-off items

5. **Well-defined roles and responsibilities for board members**, as well as well-defined structures and processes to be used by the board

CHECKLIST: AFTER PHASE 3

Have you completed Phase 3? If the answer to any of these questions is 'no', you might want to revisit the highlighted sections of the toolkit and explore the suggested tools.

- Have you moved into advanced discussions with outcomes payers? Have you identified any challenges they may face with pursuing a SIB and planned how to help them resolve these if possible?

- Will your programme be stronger or more attractive if you partnered with other providers? Have you identified potential provider partners who share your vision and values and complement your programme?

- Have you identified other partners and stakeholders (schools, teachers, healthcare providers, employers, etc) that will enable your programme recruitment and delivery and strengthen your proposition? Have you developed an overall strategy for managing these relationships, including considering outsourcing stakeholder management?

- Have you thought about the balance of risk and reward that is right for your organisation, and established your board's view on this?

- Have you engaged legal experts to advise on contracts and terms? Have you explored pro-bono support for this?

- Have you thought through, with your partners, the structure that will define your relationships? Will the structure include an SPV? How will your organisation be protected in case of under-performance?

- Have you thought about how the work will be supported throughout delivery by the board and other stakeholders?