

# Social Impact Bond Provider Toolkit



## 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.



## WHAT IS IN THE SIB PROVIDERS TOOLKIT?

Whether you are considering SIB for the first time, or you have already started your SIB journey, there is something in this toolkit for you.

### SIB QUIZ

1

Could a SIB be an appropriate financing tool for you to consider? Test your mindset, your programme and your organisation



If you are a **complete beginner** with a programme in mind that might be suitable for a SIB, start here

If you do have **knowledge of SIBs**, you can still use the quiz to explore your team's alignment around the idea of a SIB

### SIB BASICS

2

Find quick answers to questions such as: What is a SIB? What is the difference between a commissioner and an investor?



If your quiz answers suggest that a SIB could be right for you, decipher the fundamentals here before moving on to [SIBs Step By Step](#)

- *What is a SIB?*
- *How does the money flow?*
- *How is a SIB different from standard payment by results contracting?*
- *How have SIBs developed in the UK?*
- *Why are SIBs especially relevant for youth-focused delivery organisations?*
- *What are the reasons to consider a SIB?*
- *What are the disadvantages to a SIB?*
- *What are the alternatives to a SIB?*
- *A note on the differences between provider-led and commissioner-led SIBs*

## SIBs STEP BY STEP

# 3

**Access stage-by-stage tips, tools and resources for successfully developing and delivering a SIB**



If you are ready to develop or deliver a SIB, dive into the details here

### Overview of SIB Development

#### Phase 1 – Define

- 1.1 [Develop a logic model](#)
- 1.2 [Define your target population](#)
- 1.3 [Define your programme outcomes](#)
- 1.4 [Cultivate relationships with potential outcomes payers](#)
- 1.5 [Calculate the cost of delivering the programme](#)
- 1.6 [Progress conversations with outcomes payers](#)
- 1.7 [Model scenarios to price outcomes](#)

#### Phase 2 – Prepare

- 2.1 [Consider hiring an intermediary](#)
- 2.2 [Begin conversations with investors](#)
- 2.3 [Get your board on board](#)
- 2.4 [Prepare for due diligence](#)
- 2.5 [Prepare your CRM system](#)
- 2.6 [Plan and prepare your team](#)

#### Phase 3 – Contract

- 3.1 [Explore contracting with commissioners](#)
- 3.2 [Write contractual outcomes definitions](#)
- 3.3 [Consider partnering with other delivery organisations](#)
- 3.4 [Develop a stakeholder management strategy](#)
- 3.5 [Develop a risk management strategy](#)
- 3.6 [Develop your exit strategy](#)
- 3.7 [Engage legal support](#)
- 3.8 [Develop a deal structure](#)
- 3.9 [Develop a governance structure and board](#)

*Overview of SIB Delivery*

Phase 4 – Deliver

- 4.1 *Gather data and evidence*
- 4.2 *Design a performance management system*
- 4.3 *Use information to manage performance*
- 4.4 *Work with your board to address problems*

Phase 5 – Learn

- 5.1 *Evaluations*
- 5.2 *After a SIB*
- 5.3 *Post-SIB organisational review*



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.

# 1. SIB QUIZ



**Part 1: Could a SIB be right for your mindset?**

These questions explore whether you and your organisation would be comfortable with the ways of working that a SIB imposes.

1. Are you comfortable with the idea of a payment by results contract?

- YES  
 MAYBE  
 NO

*All SIBs have payment by results at their heart*

2. Do you need the involvement of an investor and are you comfortable with the idea of an investor receiving a return?

- YES  
 MAYBE  
 NO

*There are various ways of contracting for investor returns, including involving only parties which will re-invest any return back into philanthropic activities*

3. Are you willing to iterate and adapt your delivery model based on data, in continuous pursuit of the outcome?

- YES  
 MAYBE  
 NO

*The cashflow of a SIB depends on the claiming of outcomes to schedule. If this does not happen, an agile approach can be needed to improve performance*

4. Are you willing to take on the reporting requirements and scrutiny that a SIB brings – for example, monthly contract management meetings and regular outcomes paperwork?

- YES  
 MAYBE  
 NO

*SIB investors, and even commissioners, can be used to a more interventionist style of contract management than providers. Further discussion will be needed up front to close this gap*

Ensure that you are comfortable with the structure and ways of working that a SIB requires before proceeding to the next part of the quiz.

**Part 2: Could a SIB be right for your programme?**

These questions check that your programme meets the most essential requirements for the SIB structure.

1. Will you be able to measure successful delivery of your programme with a small set of clear, hard outcomes (rather than outputs)?

- YES  
 MAYBE  
 NO

*A set of pre-defined, measurable outcomes are at the core of every SIB. For more on defining these, see [Phase 1 of the SIBs Step by Step guide](#)*

2. Do you think you'll be able to find a commissioner who would be willing and able to pay for any of these outcomes?

- YES  
 MAYBE  
 NO

*Providers who try to develop their own SIB without the committed partnership of a Commissioner may face wasted effort and disappointment activities*

3. Could you articulate to commissioners and investors why your programme lends itself well to SIB financing?

- YES  
 MAYBE  
 NO

*There needs to be a good reason to justify the complexity of SIB contracting. Perhaps yours is a long-term, preventative programme, requires special collaboration, or involves an aspect of innovation?*

4. If you were to deliver a multi-year SIB, and you did not manage to secure follow-on funding, could the programme be closed or adjusted with minimal disruption to the participants?

- YES  
 MAYBE  
 NO

*Our first obligation is to our beneficiaries, so sustainability needs to be built into the fabric of a SIB*

Ensure that a SIB is an appropriate financing tool for your programme before proceeding to Part 3 of the quiz.

If you deliver multiple programmes, it may be worth considering whether any of the other programmes might be more suitable for a SIB.

**Part 3: Could a SIB be right for your organisation?**

It's important to visualise the impact of SIB – instead of another type of financing – to your organisation. The reporting and monitoring requirements of a SIB are very rigorous, and the structure can be quite complex

1. Can you see clear benefits to your organisation of pursuing a SIB?

- YES  
 MAYBE  
 NO

*A SIB can alter the workload at every level within an organisation including administrators and delivery staff. You will need think in advance about communicating the upside*

2. Are you prepared to assess whether your organisation has the skills and capacity to take on a Payment by Results contract and, if necessary, to invest in further resources?

- YES  
 MAYBE  
 NO

*Be aware that one person rarely has all the skills to develop and deliver a SIB – including traditional fundraising skills, legal and financial awareness, excel modelling and contract management.*

3. Are you willing to enter into a multi-year contract which may well have a modest financial return?

- YES  
 MAYBE  
 NO

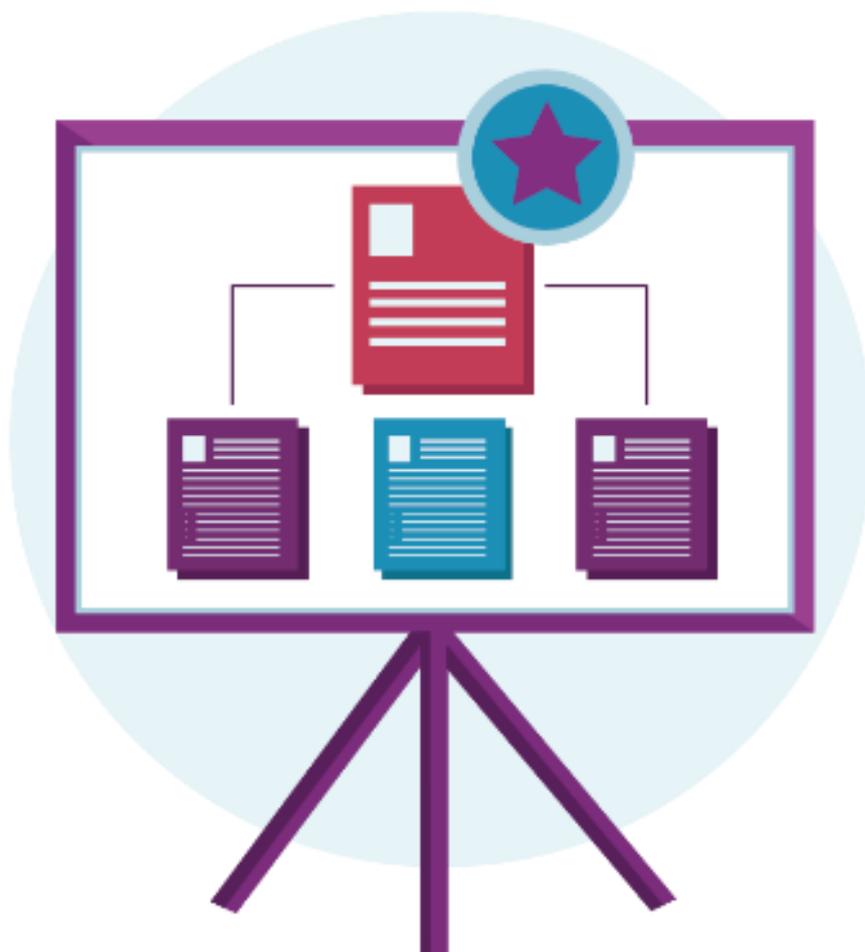
*With skilful modelling, in partnership with staff who are close to delivery, it is important to embed a realistic outcomes forecast into the development of a SIB*

**Congratulations!** You have considered the impact of a potential SIB on your workplace culture, programme and organisation as a whole. Read [SIBs Step by Step](#) to find out more quiz.

## Glossary

Term	Definition
<b>Beneficiary</b>	The person that needs or benefits from the services being provided
<b>Commissioner</b>	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
<b>Delivery Model</b>	The way in which the service is delivered: by whom and on what basis. For example, 'outsourcing' is one delivery model
<b>Delivery Organisation</b>	An organisation delivering a programme which aims to achieve positive social outcomes; typically, a charity or social enterprise (also known as "service provider")
<b>Investor</b>	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
<b>Operating Margin</b>	The amount of money left over once the cost of delivery is subtracted from the (contractual) income
<b>Outcome</b>	The measurable changes or benefits that happen as a result of an organisation's or project's services
<b>Output</b>	The products, services or facilities that a project or organisation provides through its activities
<b>Payment by results</b>	A system of commissioning where payments are contingent upon pre-defined and independently verified results or outcomes
<b>Rate</b>	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
<b>Return</b>	The profit achieved on the investment
<b>Social Impact Bond</b>	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
<b>Special Purpose Vehicle</b>	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

## 2. SIB BASICS



## What is a Social Impact Bond?

A SIB is a type of financing mechanism. The word *bond* is a little misleading: rather than a financial bond, a SIB is a contract on future social outcomes. It is an arrangement involving at a minimum three parties who share a desire to see social outcomes delivered:

- A 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”)
- A commissioner: an individual or organisation prepared to pay if specific positive social outcomes are achieved; historically, typically a government body, but could be any type of funder
- An 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

If any of the outcomes agreed upfront are achieved, the commissioner makes the corresponding payments and the investor’s corresponding capital is given back, potentially with a return. The investor therefore carries the financial risk of non-performance: if the outcomes are not achieved, the investor has lost the capital that was invested upfront.

The benefits of SIBs to the different stakeholders include:

### For delivery organisations (and the participants)...

...SIBs are a tool enabling the funding of programmes that otherwise might not have been funded, thereby enabling the delivery of positive social impact in a time where government resources are constrained. This might be for one three reasons:

1. The impact is oriented around **prevention**, and cost savings are therefore delayed or difficult to ascribe
2. The work requires cross-sector organisational **collaboration**, perhaps around a complicated social issue
3. The intervention involves a new **innovation**, and is therefore difficult to fund in conventional ways

Reflect on your reasons for developing a SIB: a rock-solid rationale will get all potential partners on board.

### For commissioners...

...SIBs enable payment only for successful outcomes that may reduce the need for future spending. SIBs let them pool funding for outcomes as they often share the benefits.

**For investors...**

...SIBs offer the potential to support delivery organisations to deliver social impact, and to generate a financial return

**For all...**

...SIBs unlock the potential for preventative programmes that can address complex issues at their core

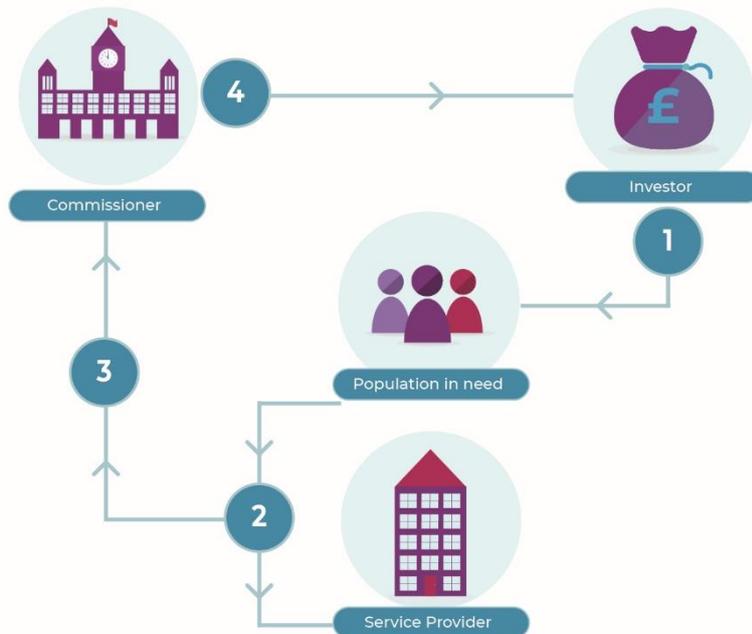
**Further resources**



- [Setting and Measuring Outcomes](#), GO Lab
- [Social Impact Bonds Guidance](#), Gov.uk
- [Social Impact Bonds](#), NCVO Knowhow
- [Understanding Social Impact Bonds](#), OECD

**How does the money flow?**

While SIBs can be structured in a variety of ways, sometimes with multiple providers, commissioners, or investors, and often involving other stakeholders such as intermediaries and evaluators, the fundamental activities are as follows:

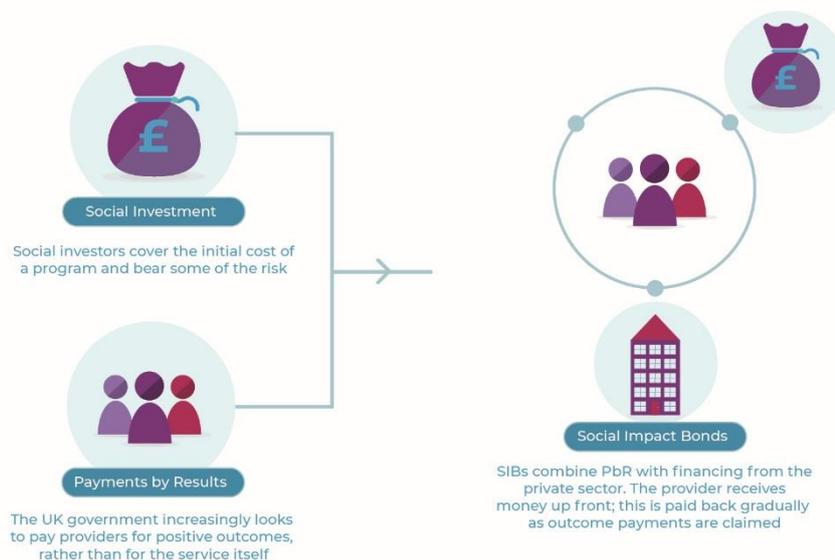


1. The investor provides working capital to the service provider at the beginning of the SIB
2. The service provider works with the participants to deliver the programme, and if all goes well the desired social outcomes are achieved along the way
3. As the programme progresses, the commissioner checks that the desired social outcomes have indeed been achieved
4. If the commissioner is satisfied that the desired social outcomes have been achieved, payments are made (sometimes indirectly) to the investor, following a rate of return agreed upfront

In some variations, the delivery organisation may choose to share in the risk and be rewarded for achievement of outcomes. See [Phase 3](#) of SIBs Step By Step for more details.

### ***How is a SIB different from standard payment by results contracting?***

It is the involvement of a social investor, who bears the financial risk, that makes a SIB different from standard payments by results contracting. SIBs have been a very small part – less than 1% - of the estimated £15 billion PbR market<sup>1</sup>.



<sup>1</sup> [Briefing on Social Impact Bonds](#), David Floyd, Social Spider

### ***How have SIBs developed in the UK?***

In the UK, as government resources have shrunk and demand for services has increased, commissioners and delivery organisations have sought new approaches to do more with less. The UK government has launched several funds backing SIBs (see box below). Socially motivated investors from the private sector have often provided the working capital loan.

#### **Key events in the growth of SIBs in the UK<sup>1</sup>**

Central government SIB funds are underlined

- *November 2010*: First SIB launched – One Service, Peterborough, UK
- *April 2012*: Big Society Capital launched – £600m social investment provider
- *April 2012*: DWP Innovation Funds 1 and 2 launched – £30m, funded ten SIBs
- *July 2013*: Commissioning Better Outcomes and Social Outcomes Funds launched – £40m Big Lottery Fund to support development of SIBs and subsidise outcomes
- *December 2014*: Department for Communities and Local Government Fair Chance Fund launched – £15m, funded seven SIBs focused on housing, education, and employment for homeless youth
- *March 2015*: DWP Youth Engagement Fund launched – £15m, funded four SIBs for youth education and employment
- *July 2015*: First successful UK SIBs funded through DWP Innovation Fund repay investment (Career Connect, Teens and Toddlers, Adviza)
- *July 2016*: Government Outcomes Lab (GO Lab) launched by UK Cabinet Office with Blavatnik School of Government, University of Oxford, to achieve better social outcomes through innovative public sector commissioning
- *July 2016*: Life Chances Fund launched – £80m, with aims including increasing social innovation and generating public sector efficiencies
- *July 2017*: Peterborough results published
- *August 2018*: renewed commitment to SIBs in the Civil Society Strategy (and the Rough Sleeping Strategy)

### ***What types of issue can SIBs help to address?***

Youth and education interventions have historically dominated the distribution of SIB funding in the UK. Indeed, four major central government programmes (DWP Innovation Fund, Department for Communities and Local Government Fair Chance Fund, DWP Youth Engagement Fund, and Life Chances Fund) have focused on supporting disadvantaged young people. Reasons include:

- The sector's existing experience of payment by results in the Work Programme and European Social Fund (ESF)
- Relatively simple-to-measure outcomes (e.g. entry into jobs) and short delivery-to-result times

- Abundant historical data to assess success and support attribution
- The value of successful early or preventative intervention, in terms of future savings

Social investment markets in other sectors with equivalent features are beginning to develop too. Healthcare, for example with its often binary or relatively simple outcomes and its emphasis on prevention, can be well suited to SIBs

## **What are the reasons to consider a SIB?**

We asked providers and other stakeholders who have gone through the SIB process what they particularly valued about their SIB projects:

### **Freedom to innovate**

*“Because of the focus on outcomes, we have greater freedom to individually tailor our approach to achieve the end goal. This has been really important in enabling us to take creative steps that carry risks of failure, but which have often succeeded in unlocking long-held issues with some very challenging clients. This kind of approach is harder to take in more traditionally commissioned services, where costs and time spent with each client is more directly influenced by commissioning frameworks and contractual expectations.”*

– St Mungo’s Broadway, Street Impact

### **Access to future opportunities**

*“Through the SIB, Impetus-PEF and ThinkForward hosted three ministerial visits, study tours from the US Congress and the Asian Venture Philanthropy Network and received national news coverage in the Sunday Times, the Guardian and ITV News. It led to a step change in our relationships with the DWP and the Cabinet Office and has spawned a variety of other opportunities, including potentially to support the roll-out of Job Centre Plus staff in schools.”*

– ThinkForward

### **Internal growth**

*“The SIB experience has been enormously beneficial in helping us to weigh up emerging PbR initiatives that require working capital secured through social investment. We have learnt a great deal from our own experience of delivering the SIB.”*

– Thames Reach, Ace Project

### **Scaling up**

*“Prior to the start of the SIB, ThinkForward had three coaches and a pilot group of just 60 young people. Less than a year later the staff team had grown to 14 and over 700 young people were being supported. In part this was because of the greater income generated, but it was also a product of the focused operating model that a SIB structure encourages.”*

– ThinkForward

## *Advantages of SIBs vs other types of financing*

Combining comments from our interviews with providers and experts, and other groups' research<sup>2</sup>, we have summarised some of the advantages of SIBs for delivery organisations, compared to other types of financing such as standard Payment by Results contracting, fee-for-service and grants.

### **1. Investors carry the risk and bring expertise and scrutiny**

- Investors bear the financial risk which would be carried by the delivery organisation in standard payment by results contracting
- Upfront capital from investors means small providers can participate, who would not be able to otherwise in standard payment by results contracts
- Funding can provide capital to scale up operations
- Scrutiny of investors leads to capacity building for improved performance management and service redesign
- Strong foundations are put in place to measure social and financial benefits
- New-found skills, confidence and connections can unlock future funding opportunities

### **2. Deal structure offers flexibility, innovation and upside**

- Funding for innovative programmes, and proof if they work
- A great deal of flexibility in the delivery model, especially with an active board
- Potential of upside, in case of out-performing

### **3. Longer-term funding means more stable and predictable revenue**

- Most SIBs have timelines of three to seven years
- Enables providers to improve financial planning rather than depend on government budget cycles or granting timelines

### **4. Partnerships**

- Partnership brings wide range of expertise (provider consortia, investors, intermediary) and improved ways of working
- Foster a culture of collaboration, combining services to best serve the population

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<sup>2</sup> Social Impact Bond Technical Guide for Service Providers, 2013: MaRS Centre for Impact Investing.

## What are the disadvantages of a SIB?

SIBs are not for everyone:

- They rely on **strong commissioner relationships**. If these relationships are not in place and there is no commissioner who is comfortable working with you on a SIB, details can put a strain on a relationship in the delivery phase.
- They demand **substantial internal impact management** capabilities – a requirement which, if met, can skew or disrupt the balance of a small organisation
- They often require **continuous or intensive tracking** of individual participants, so that it can be established whether intermediate and long-term outcomes have been met. Some delivery organisations have felt that this places a strain on frontline relationships
- They come with some **financial risk**, despite the principle of keeping this burden with independent investors. If unsuccessful, it is possible your organisation could be working with no operating margin
- They **only recognise externally validated outcomes**. Programmes which measure success on soft outcomes but don't use externally validated scales (e.g. mental toughness, grit, locus of control) may continue to struggle with a sense that their outcomes don't fit well with those of their commissioners. Within the SIB landscape of society-wide cost-benefit, they haven't shown that their work leads to a socially significant outcome or one that doesn't dissipate over time
- Ideologically, some find it troubling that they engage **private investment for public services** in the social and healthcare sectors. What with the high ancillary costs that go with a SIB – intermediaries, lawyers and IT – some feel they take more money than is necessary 'out of the system' or away from the frontline.

"SIBs really clearly don't enable innovation. A SIB allows innovation to the extent that it allows us to test it here, or scale it, if the evidence already exists. If the initial idea is untested, no investor or commissioner will touch it"

*SIB intermediary*

"Some great organisations do not have outcomes. If for example, you aim to provide young people with a safe space to be themselves, of course there are ultimate outcomes, but it may not be practical to define or measure them up front. That's absolutely fine, but it's not SIB-able. In too many scenarios, providers try to measure outcomes which their service is unlikely to deliver" –

*Sector thinktank*

Pursuing a SIB without considering these potential disadvantages poses the risk of low-level conflict either internally or between the internal team and their stakeholders, for the duration of the SIB.

SIBs also pose considerable financial risks for investors. A SIB is an extreme form of a payment by results contract. When organisations fail to deliver the forecasted outcomes, or cannot get the required beneficiary flow, investors risk losing a lot of money. Recruiting the specific cohort they are trying to help is the challenge most often underestimated.

### ***What are the alternatives to a SIB?***

#### **If your goal is sustainability through government involvement...**

“We couldn’t continue funding basic healthcare provision - what was the exit strategy for a grant-maker like us? We see SIBs as a way to make the service sustainable.”

– *Issue-based SIB developer*

SIBs can be seen as a way to achieve sustainability for social and health services, beyond the traditional philanthropic model – a way to begin bringing government on board.

Another way to achieve the same goal is to bring on government bodies and local authorities as a match funder, to ensure they have a stake in any successes.

For bigger organisations which are prepared to take the risk on their balance sheet, a straight outcomes-based style of commissioning can work. You’d need to be sufficiently confident in your programme design and ability to achieve outcomes!

#### **If your goal is an ethical, socially responsible financing solution...**

If the concept of profit in this context does not sit well with your organisation and stakeholders, it is possible to restrict finance contracts to organisations who guarantee that profits will be reinvested in further work for social benefit.

#### **If your goal is expanding your funder base...**

SIBs can be a useful way of pooling the resources of various stakeholders when the value of what you deliver is hard to define financially or benefits several different organisations.

If the SIB mechanism is too complicated, you can ensure your attractiveness to each different stakeholder by doing a high quality cost benefit analysis to explicitly define the financial benefit of your programme in each case.

SIBs take a variety of different forms, and while the label might be attractive to some, it is theoretically possible to design an up-front investment model that doesn’t have the complexity of a SIB.

## ***A note on the differences between provider-led and commissioner-led SIBs***

Many operational SIBs so far have been commissioner-led, initiated by a statutory outcomes payer (often central government) with a set of social outcomes they want to see delivered. Delivery organisations are invited to bid to deliver those outcomes. The commissioner does most of the upfront work, including often publishing a Rate Card for outcomes payments, and the provider fits into the jigsaw puzzle.

This guide focuses on SIBs where you as a delivery organisation have decided to take more of a leading role in the development process. This can take many forms: perhaps you are seeking commissioners (e.g. local councils) to pay for the outcomes that you have established your programme delivers. Perhaps you have been approached by an intermediary. Either way, taking on elements of the development work yourself can be costly and time-consuming in the absence of a ready-made solution, and you also face the key risk that you won't be able to find a willing commissioner with a budget to commit to the project.

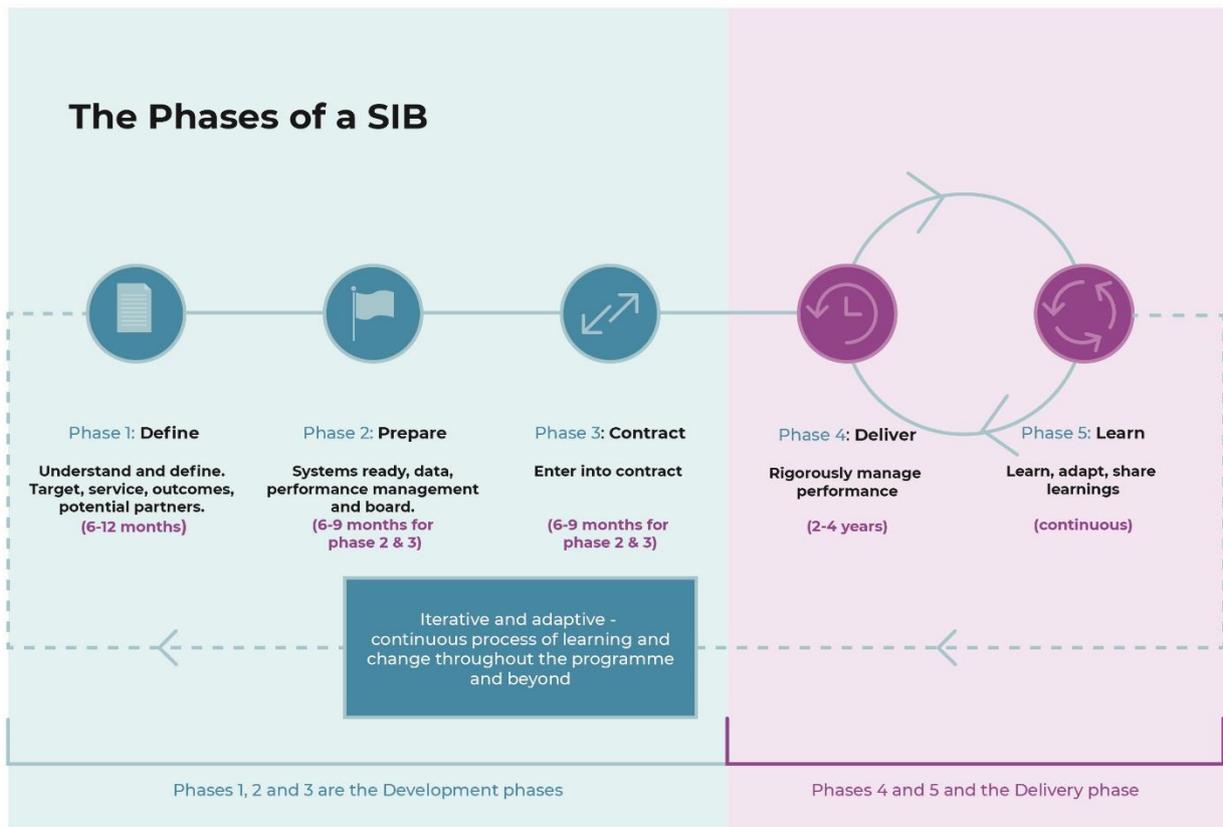
**For these reasons, in this guide we emphasise that you need to be engaging with commissioners from the start to minimise wasting your resources in developing an idea which no one will fund.**



### **Further resources**

- [SIB Readiness Framework](#), GO Lab: describes SIB development activities from the commissioner's point of view.

# 3. SIBs Step by Step



## 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."

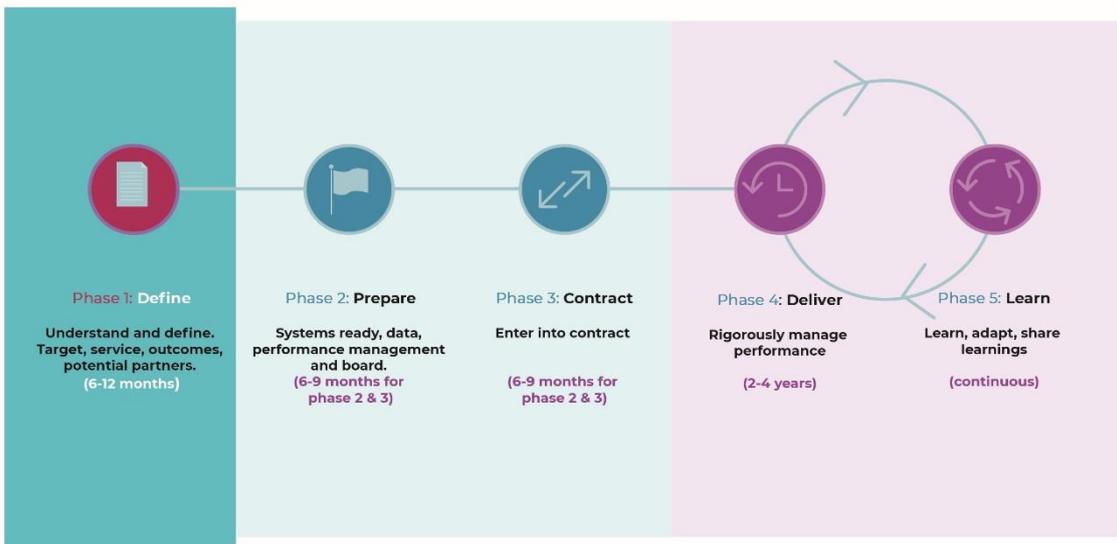
## When you're thinking about outcomes:

"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



## 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:

<b>1. Outcomes need to be meaningful, uniting all stakeholders</b>	
<b>A provider needs to ensure that:</b>	<b>An outcomes payer needs to ensure that:</b>
<ul style="list-style-type: none"> <li>- 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</li> </ul>	<ul style="list-style-type: none"> <li>- 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</li> </ul>

<b>2. Outcomes need to be attributable but achievable</b>	
<b>A provider needs to ensure that:</b>	<b>An outcomes payer needs to ensure that:</b>
<ul style="list-style-type: none"> <li>- Enough outcomes can be achieved – i.e. the bar is not too high</li> <li>- Outcomes can be identified in a timely manner</li> </ul>	<ul style="list-style-type: none"> <li>- The outcomes are reasonably attributable to the activities being done – i.e. they are not paying for something that could have happened anyway</li> </ul>

<b>3. Outcomes need to be measurable and provable</b>	
<b>A provider needs to ensure that:</b>	<b>An outcomes payer needs to ensure that:</b>
<ul style="list-style-type: none"> <li>- Successful cases can be proven easily enough</li> </ul>	<ul style="list-style-type: none"> <li>- The outcomes are simple and objective enough, and/or are validated by a willing and neutral validating authority</li> </ul>

**4. Outcomes need to be helpful**

A provider needs to ensure that:	An outcomes payer needs to ensure that:
<ul style="list-style-type: none"> <li>- No unintended consequences are built in. For example, in achieving an outcome, something else may worsen or decline for beneficiaries</li> </ul>	<ul style="list-style-type: none"> <li>- 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</li> </ul>

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
- 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

*“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**

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 extent 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 outcomes for commissioners – could also provide helpful insights for providers

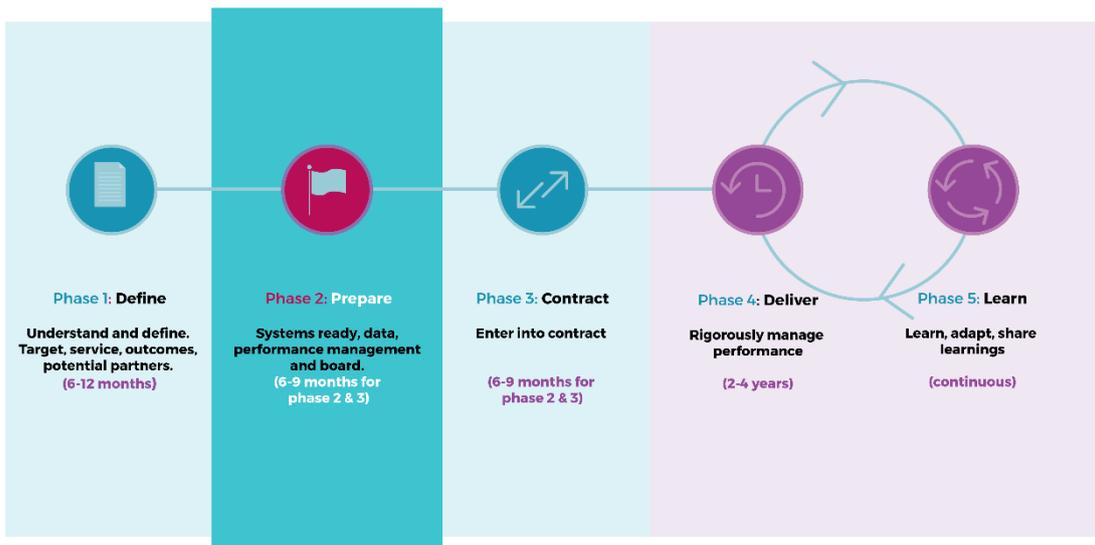
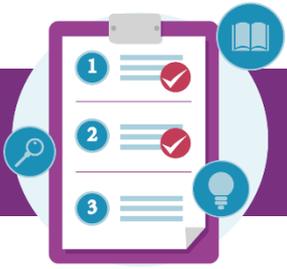


## CHECKLIST: AFTER PHASE 1

*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



## 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”

We know what’s *really important* – the difference we make to people

We care about what’s right for the beneficiaries

### “THEM”

They are driving a focus on the wrong things – the *outcomes*

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



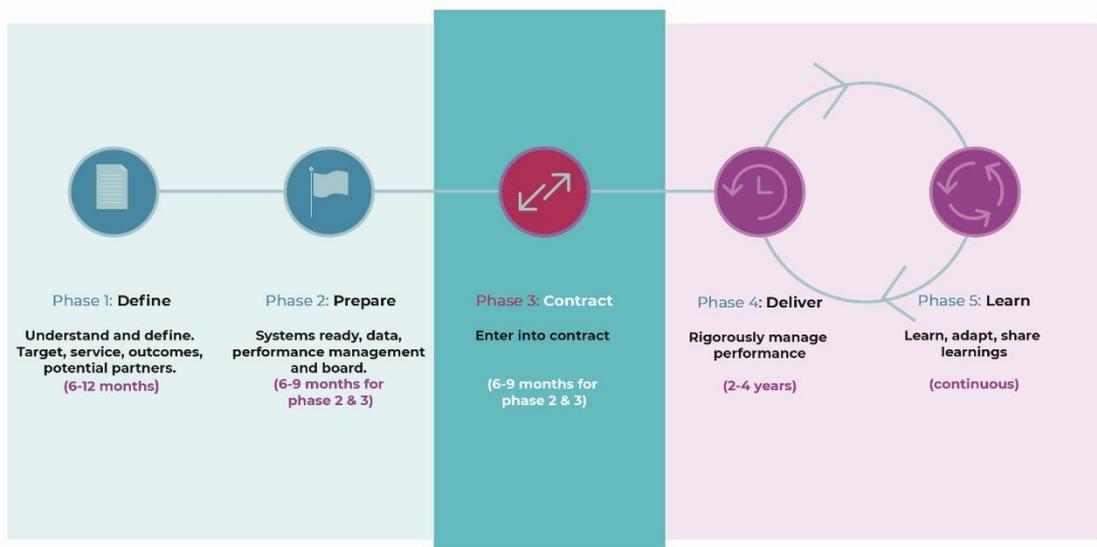
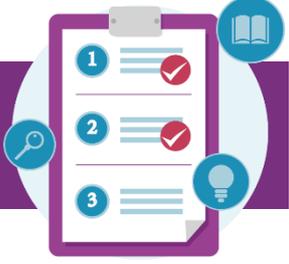
This is a template plan for developing a SIB, in Gantt Chart format with a Red/Amber/Green/Blue status column to help you track progress. The tasks, people and timescales can all be customised, by agreement with your project team. This should help with objectives and resource planning.

## 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



### 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.

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#### 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.<sup>1</sup> 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:



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	<ul style="list-style-type: none"> <li>• Builds internal capabilities to manage complex relationships with new partners, setting you up for future transactions</li> <li>• Provides in-depth learning experience in the partners' areas of expertise (finance, legal structures, governance, data measurement, etc)</li> <li>• Smooths the way for programme delivery through in-depth relationships built during deal development</li> </ul>	<ul style="list-style-type: none"> <li>• A third party may have inside information and relationships</li> <li>• Agreements may be expedited, enabling the work to begin more quickly</li> <li>• Partners may be identified who may be ideally positioned for the deal, and may not have been identified otherwise</li> <li>• If relationship or conditions needs to be renegotiated, or if there are any negative aspects, the third party is responsible, rather than you</li> </ul>
Cons	<ul style="list-style-type: none"> <li>• May take longer due to lack of experience and time to build relationships, find partners</li> <li>• May take staff time away from on-going programmes, putting existing work and relationships at risk</li> <li>• Any renegotiations, changes in partners/relationships, misunderstandings need to be resolved by your staff</li> </ul>	<ul style="list-style-type: none"> <li>• Deep relationships may not be built, and/or nuances lost in handover</li> <li>• In-house expertise in relationship management and technical skills may not be developed</li> </ul>

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.

### 3.5 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<sup>3</sup>**



**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

<sup>3</sup> 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?

### 3.6 *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

### 3.7 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<sup>4</sup>) 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:<sup>5</sup>

#### **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

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<sup>4</sup> As per Go-Lab's guidance.

<sup>5</sup> 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**

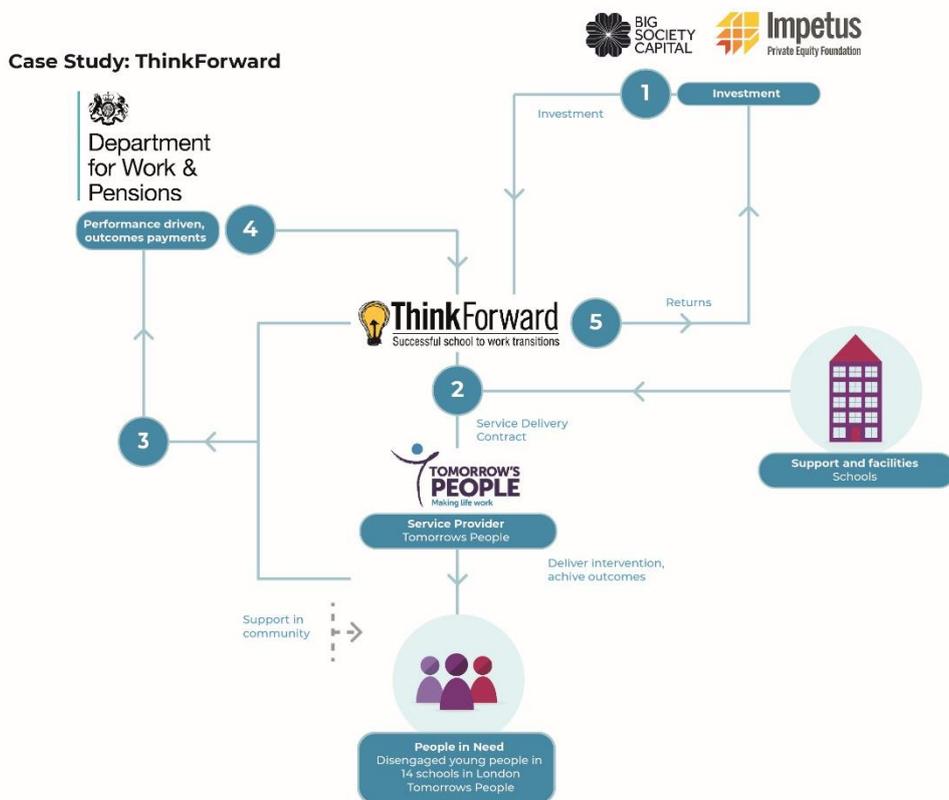
**SIB Structure Considerations**  
Contributed by [Numbers for Good](#)

**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<sup>1</sup>**

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.

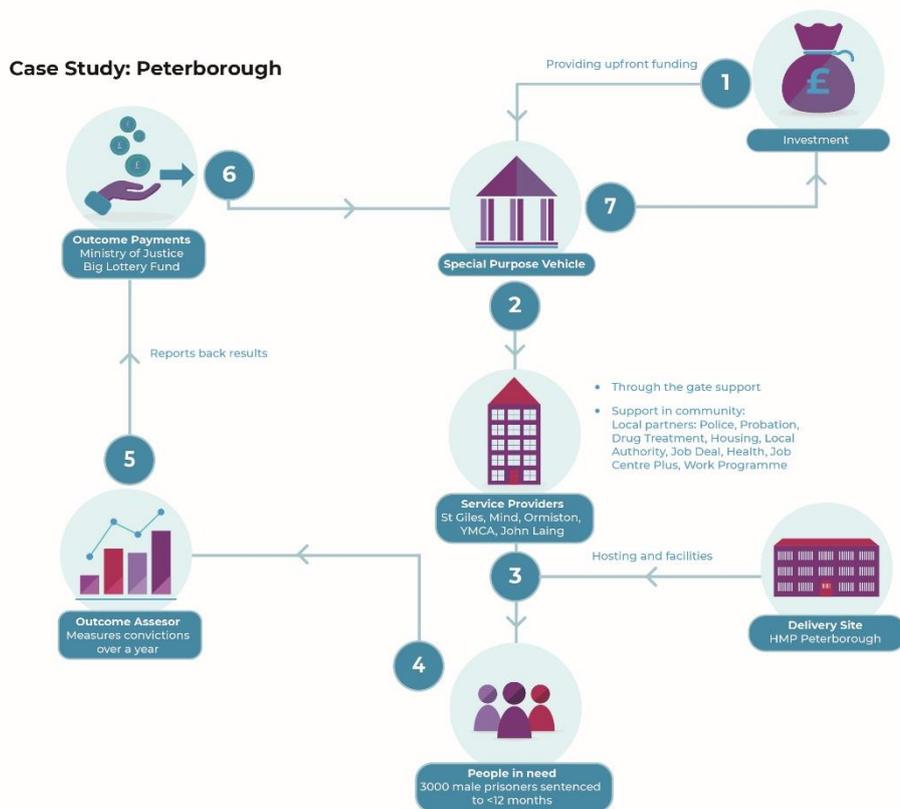
**Peterborough SIB return arrangements**

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

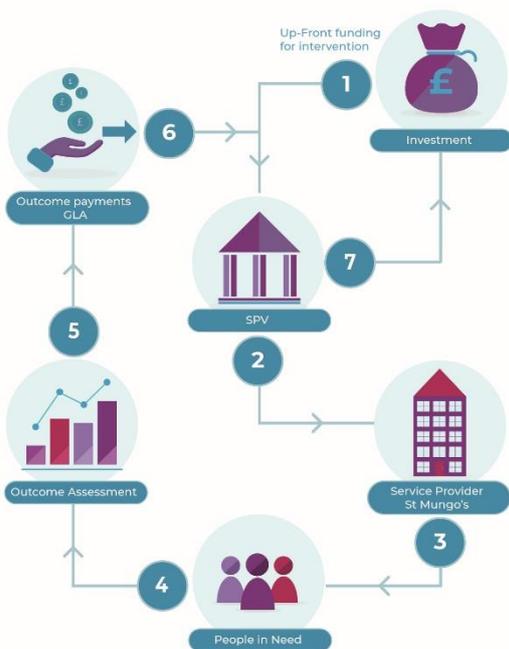
Within the same SIB, a consortium of service providers may develop different structures. As an example, St Mungo’s and Thames Reach partnered to deliver the London Homelessness SIB, launched in November 2012, to improve the outcomes for rough sleepers whose needs were not being met by existing services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

To finance their contracts:

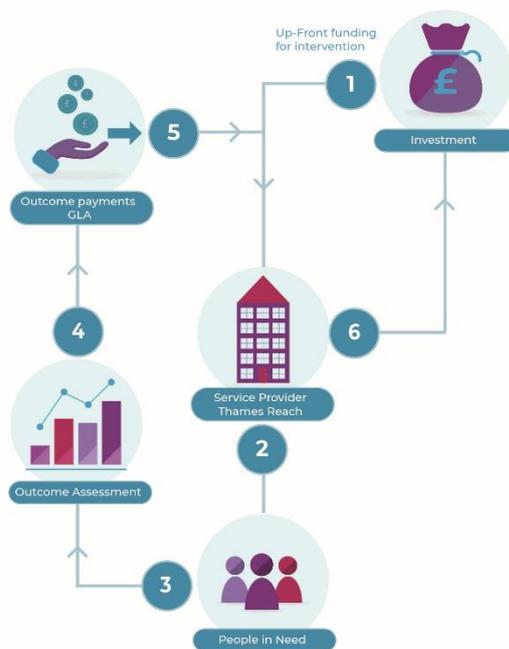
- St Mungo’s established an SPV, which holds the risk, while
- Thames Reach decided on a shared risk approach through unsecured loans.

St Mungo’s equity investment is at risk before the bonds, so some of the risk was still shared.<sup>6</sup>

**St Mungo’s: Most risk transferred to investor**



**Thames Reach: Implementation risk shared**



<sup>6</sup> DCLG, Qualitative Evaluation of the London Homelessness SIB 2014

***Layered capital structure<sup>7</sup>***

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.

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<sup>7</sup> 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?

## Overview of SIB delivery

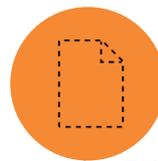


SIBs tend to be multi-year arrangements with little or no break provision. While this – and the need to provide an investor return – adds pressure, it also gives providers the time to really fine-tune their programme and their impact.



### PHASE 4: DELIVER

1. Create processes for gathering data, evidencing outcomes and tracking performance
2. Reflect on performance and allow results to inform changes to delivery
3. Engage your board early to tackle challenges



### PHASE 5: LEARN

4. Settle the finances and wind up the SIB structures
5. Undergo independent evaluation(s)
6. Communicate with partners and stakeholders
7. Take the opportunity for a full organisational review

In delivering a SIB, some providers relished the opportunities to:

- Collaborate in ways they have never done before, and learn from their partners and intermediaries
- Hugely expand their reach and impact
- Prove their credentials as a high performance organisation

Some struggled with the need to:

- Support staff through increased administrative burdens
- Answer to third parties, reporting more regularly and intensively to intermediaries and funders
- Keep a close eye on tough success criteria and narrow financial margins

### Is it worth it?

Delivering a SIB can be stretching for a small organisation or a new programme. We asked two providers whether they felt the hard work had been worth it:

#### YES:

“The benefits have outweighed the negatives. It gives you the opportunity to deliver at scale. It helps you professionalise and improve your delivery at a pace you just wouldn't be able to do otherwise. The focus on outcomes is really beneficial.”

– Joanne Hay, Power2

#### NO:

“We started out with a great little programme and ended up twisting and moulding it to fit a set of national priorities that weren't our own. That took a lot of unravelling.”

– Early SIB provider

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### Our SIB: the highs and lows

Early SIB provider

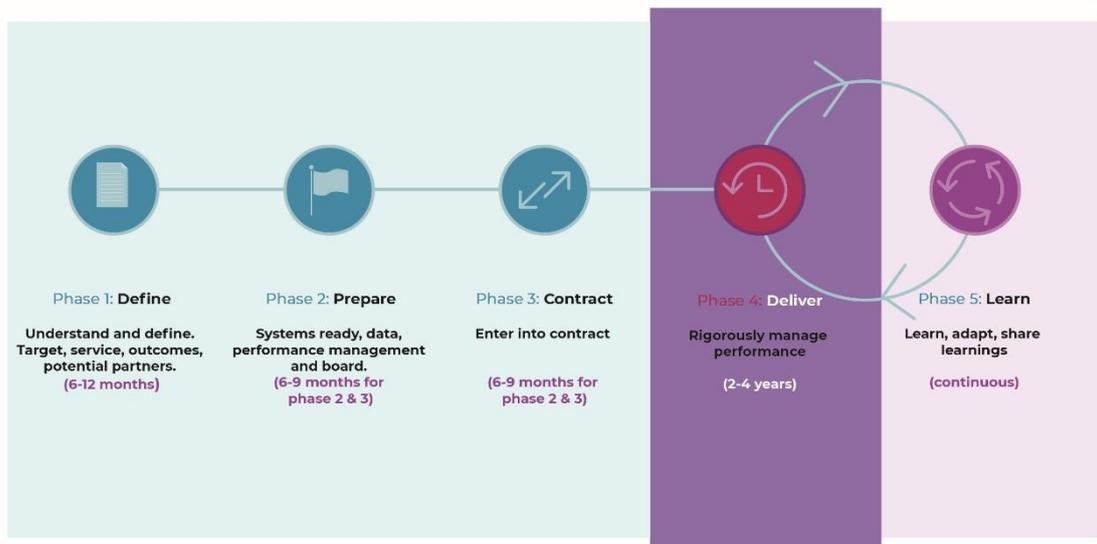
#### Highs:

- Seeing unprecedented **commitment from local partners** for referral pathways
- Working with **our pick of social investors** (we had pitched to several and they all wanted to invest!)
- Working with a committed group of people to deliver the service as originally designed and enabling our young people to **achieve those outcomes**
- Having an **independent chair** throughout and a **consultant** for the first year; both these roles were pivotal in helping the partnership maintain focus, work through differences and hold each other accountable for performance.
- Being the delivery partner to achieve the **highest outcomes overall**

#### Lows:

- Being put on a **performance improvement plan** at the start of the project
- Experiencing an intense level of **scrutiny and management reporting**
- Overcoming **partnership challenges**
- Being unsure on number of occasions whether we were going to be able to **deliver on target**. Each time, we regrouped and committed to removing the barriers – for example, investing in an administrator for our partners, agreeing incentives for participants, etc.

# PHASE 4 DELIVER



## OVERVIEW OF PHASE 4

This section focuses first on designing a performance management system, including the gathering of data and evidence needed to claim outcomes, and then on implementing that system. The often neglected element is putting in place feedback mechanisms to make sure delivery is agile and responsive. If you only have a few months or years to succeed in claiming outcomes to get paid, it helps to make sure that you welcome suggestions and act fast to make changes.

This section stresses the necessity of involving delivery staff and managers in everything you design and do during delivery. A disconnect between the leadership and the front line would be a highly detrimental organisational legacy for a SIB to leave.

Involving and welcoming input from the board is just as crucial. This section offers practical ideas on troubleshooting and adapting from past experience of SIB governance.

### Tools referenced in Phase 4

#### Example Detailed Service Delivery Tracker

Contributed by [ThinkForward](#)



DOWNLOAD TOOL



An example of an Excel tool that tracks participation and outcomes in detail.

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#### Example Board Dashboard

Contributed by [ThinkForward](#)



DOWNLOAD TOOL



An example of a PowerPoint deck which summarises participation, activities and outcomes information incorporated in a front line tracker, at board-level detail.

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### Performance Dashboard Template

Contributed by Tony Munton at [The Right to Know](#)



DOWNLOAD TOOL



An example of an Excel dashboard which summarises outline performance data, with more narrative, notes and lessons learned.

---

### Sample Agenda for Board Meeting

Contributed by [ThinkForward](#)



DOWNLOAD TOOL



A sample agenda for an SPV board meeting including regular agenda items, operational updates and compliance logs.

#### 4.1 Gather data and evidence

In designing a SIB, it can be easy for managers to overlook the chaotic environment in which delivery staff may inevitably work. They are dealing with real people who may lose or withhold information, may be difficult to get hold of and may not behave consistently.

We have gathered tips for gathering outcomes from those with prior experience.

##### In designing the outcomes gathering process:

- Make letters, forms and other requirements **as light as possible** to ease the burden. Ensure each word or signature needs to be there, as people may need to complete a high volume of this paperwork
- **Involve frontline staff in the design** of these processes (including beneficiaries, validators, delivery staff and administrators). If you create cumbersome or difficult requirements, it is their professional and personal relationships you will be putting at risk, so it is crucial to ask their advice and obtain their agreement

##### And in implementing the outcomes gathering process:

- **Establish a regular (monthly or quarterly) cycle** for the gathering of data and documents and make it available to delivery staff in an easily-consumable format. Calendar reminders and system alerts may work or may need to be supplemented with other forms of communication until new processes become habit
- **Offer regular feedback and insights into progress and results** for those doing the groundwork, in return for their efforts. This can include healthy doses of praise and thanks wherever appropriate, but also interesting morsels of analysis and benchmarking to contribute to professional growth. In contributing to a SIB, staff are doing expert and innovative work and may emerge with sought-after personal expertise.

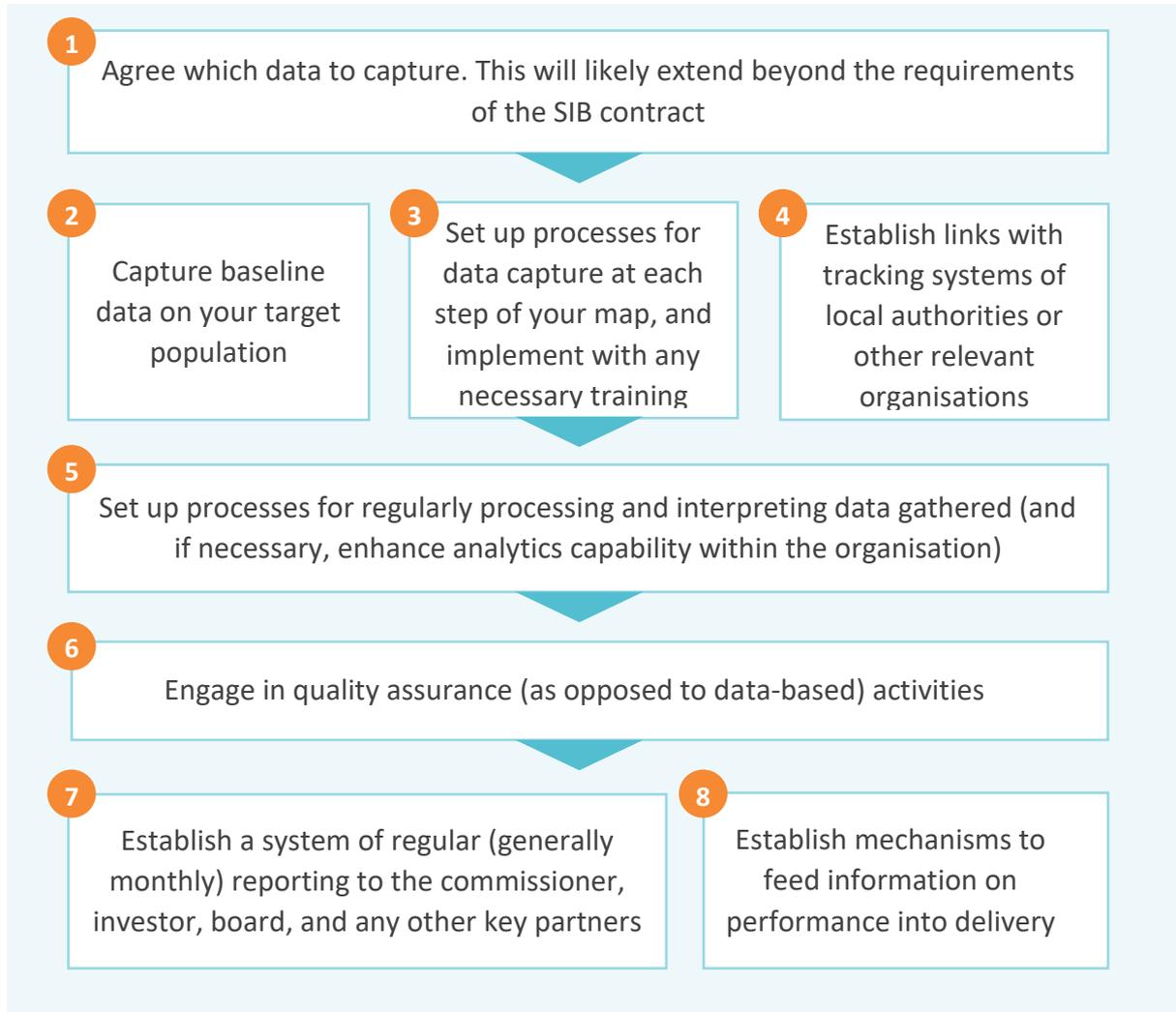
Ignoring discontent about the process of gathering outcomes can allow a damaging spiral to develop. A burdensome regular administrative effort can easily become divorced from the reality of a practitioner's professional successes and failures – and 'outcomes' become unpopular as a form of paperwork rather than a measure of real life successes.

#### 4.2 Design a performance management system

In phase 1, you set yourself up for successful performance management by mapping out the logic between the beginning of your intervention and the final outcome, with all the steps in between. You can use this model or map throughout the delivery process to tell if

you're on track to deliver your final outcome. All staff involved with the SIB need to feed into, understand, and continuously use this map throughout the programme.

In order to effectively manage performance you need to:



### Quality Assurance

Data and databases can often absorb most of the time given to performance management, but quality assurance is particularly important in a SIB, where delivery will often have been scaled rapidly, and where success depends on consistency.

You will have made outcomes projections for your [scenario modelling](#) based on past performance and any other evidence available about the effectiveness of your programme. To join up the circle, you now need to ensure that what is being delivered matches what was designed.

Quality assurance activities can include:

1. File audits (e.g. checking consent forms and other documentation is in place)
2. Procedure compliance (e.g. safeguarding spot checks)
3. Programme design compliance (e.g. checking numbers of activities delivered)
4. Programme quality checks (e.g. observation of delivery)
5. Feedback gathering (e.g. participant survey)

### Gathering feedback

Advice from an evaluation provider

“Feedback questions should be designed to get at the 'mechanisms for change' – the point where the activity yields an outcome. Too often they're not - they are getting at something unrelated - for example, 'would you recommend us?' or 'did you enjoy the programme?'

You should be using a validated and standardised measure - don't try to design questionnaires yourself.”

The art of quality assurance lies in:

- a) how these activities are built into the regular calendar without disrupting delivery, and
- b) how the results are communicated and assimilated. Do they feed into personal training plans? Newsletter case studies? Governance reports?

If the SIB's outcomes and overall performance is suffering, the answer may well lie in something discovered during quality assurance.

## Tool



### Self-Assessment Tool

By [The Matrix Standard](#)

DOWNLOAD TOOL



Before quality assurance can take place, the delivery team needs to be clear 'what good looks like'. Staff, ideally in partnership with beneficiaries, need to define quality markers. For example, a certain workshop needs to be delivered with empathy, with energy, and in a safe space. Everyone needs to be aware of these markers and the fact that they will be monitored. Look at accredited standards for your sector, like the Matrix quality standards, for inspiration.

Tool



**Quality Assurance Activities**

Contributed by [Maximus](#)

DOWNLOAD TOOL



This tool offers the building blocks for a Quality Assurance Framework. It proposes tiered quality assurance activities at different levels within an organisation, and the elements for a framework to surround them.

Tool



**Sample Quality Assurance Calendar**

Contributed by [Maximus](#)

DOWNLOAD TOOL



This is one example of an intermediary organisation's quality calendar, and gives an idea of what happens daily, weekly, monthly and annually to ensure a high quality of delivery.

**External performance management support**

You'll need to decide whether or not to outsource performance management. Outsourcing performance management offers some advantages over managing it in-house, notably reducing the burden on a delivery organisation which may be overstretched, especially if the performance management system needs to be built from scratch. However, it has drawbacks. As well as carrying a cost, outsourcing creates the risk that the performance management process becomes disconnected from the delivery team and too focused on the board and the commissioner without the necessary feedback loops between the two. It also means that the organisation does not develop the internal capacity to carry out this important function.

To reconcile these factors, a common arrangement is to only outsource the function for the beginning of the programme. Over time, the person or team responsible for performance management may be integrated into the organisation, with the budget expanding to include their salary, so that the organisation expands its internal capacity to include performance management. Another option is that the external person trains up internal staff and then moves on.

If you decide to outsource performance management at any point, you will need to allocate internal capacity to manage this resource.

### ***Working with external performance management support***

If you have external performance management support, take steps to internalise their best practices at analysis and decision-making, and to disseminate these learnings to your team in real time.

#### **Case Study**

##### Performance Management on the Energise SIB



Adviza and Social Finance worked together on the Energise DWP SIB, which required a great deal of data to be collected from 42 schools across Berkshire, Buckinghamshire and Oxfordshire. The challenge was facilitated by a model tracking the flow of young people through the programme, along with the required levels of contact at each stage of engagement. The young people's progress and participation were tracked weekly, highlighting where provision needed to be modified as well as predicting resource requirements month to month.

The performance management approach helped to ensure that the programme was achieving target outcomes and was collaborative. The model was refined along the way to include extra referral information and was used to promote the programme among schools. Adviza had a strong track record of collecting operational data and monitoring performance. The performance management approach from the SIB built on this to facilitate data-based decision-making, and the use of rigorous measurement across its other programmes.<sup>1</sup>

### **4.3 Use information to manage performance**

A key benefit of SIB delivery is the catalyst it provides for delivery organisations to use their own data more effectively.

You may find that dashboards are useful in keeping everyone informed of progress against the SIB programme design. These can flow directly from your [CRM system](#) and provide a snapshot of, for example:

- Participation rates and activities
- Updates to participants' personal details and circumstances
- Distance travelled and interim outcomes
- Costs

Tool 

**Example Detailed Service Delivery Tracker**  
Contributed by [ThinkForward](#)

DOWNLOAD TOOL 

An example of an Excel tool that tracks participation and outcomes in detail.

Tool 

**Example Board Dashboard**  
Contributed by [ThinkForward](#)

DOWNLOAD TOOL 

An example of a PowerPoint deck which summarises participation, activities and outcomes information incorporated in front line tracker, at board-level detail.

Tool 

**Performance Dashboard Template**  
Contributed by Tony Munton, [The Right to Know](#)

DOWNLOAD TOOL 

An example of an Excel dashboard which summarises outline performance data, with more narrative, notes and lessons learned.

Dashboards have a number of uses beyond reporting to stakeholders, which has been the traditional purpose of management information. This can often be a new way of working for even experienced practitioners, who may have seen dashboards used to little effect in the past:

**1. Personal development**

Dashboards work better when the appetite comes from within the delivery team, and when those on the frontline help to design and implement them.

Within a certain culture, dashboards can be internalised by frontline staff as genuine support to improve their practice, and can lead to personal reflection, training requests and improvement.

## 2. Programme redesign

Dashboards help to create feedback loops between the frontline staff, management, and the board. They enable data to inform and improve new iterations of service delivery by highlighting best practices across teams, and focusing learning on what works, and what does not.

For this to happen, teams need to be empowered and flexible enough to raise flags when issues come up, and propose changes to the programme, even if these are substantial. One way to engender this culture is to ask: allocate time in delivery team meetings to reflect and understand any pain points and potential issues. Try to create a culture of using “data to improve” practice rather than “data to prove”.

## 3. Tracking SIB performance

Keeping a regular eye on input, output and outcome metrics can give those responsible for SIB governance early sight of likely performance against contracts, making it easier not only to manage stakeholders’ expectations but to adjust resourcing to steer the direction of the programme.

### 4.4 Work with your board to address problems

However much scenario planning you’ve done, delivering a SIB is difficult and issues will come up during the lifetime of the contracts.

If there are clear governance and decision-making processes in place, it is much easier to deal with the inevitable unforeseen challenges as they happen and support timely improvement in service delivery?

Having mechanisms in place up-front will help you feel confident to raise urgent and critical issues with the board – a monthly forum, if appropriate. Try to see your board as allies: share information about problems or setbacks and ask for help when it’s needed. The board should support you in modifying outcomes if required and may be able to bring in additional resources.

#### One provider’s recommended approach for addressing an issue with your board:

##### 1. Acknowledge the problem

e.g. *We have recruited fewer participants than forecast*

##### 2. Collate supporting data to build a full picture of the consequences

e.g. *Actual vs forecast recruitment numbers, participation in activities*

**3. Analyse reasons for difference**

*e.g. Project kick-off delayed by staff absence during the summer holiday period*

**4. Gather recommendations** from the team and summarise for the board

- *What do we need to do more/less of?*
- *What additional resources are required?*
- *What is the forecast impact on timing and outcomes?*

**5. Make decisions with input from board**, e.g.

- *Replace project manager within two months*
- *Reduce expected outcomes by 5%*

Here are some common SIB delivery issues we have come across, and how boards have helped to avoid or address them.

**Problems with delivery organisation staffing:**

Problem	Solution (to avoid or address problem)
<b>Delays to recruit well-qualified staff</b>	<ul style="list-style-type: none"> <li>• Recruited the entire frontline team in advance of contract signature (at investor’s own risk) so that they would be ready to deliver at full speed from day one</li> <li>• Adjusted the pay scale and terms of contract to be better able to attract well-qualified staff</li> </ul>
<b>Variable management of staff performance, resulting in sub-optimal delivery</b>	<ul style="list-style-type: none"> <li>• Implemented a bonus scheme to reward high performing teams for excellent performance</li> <li>• Implemented an active performance management scheme to train or replace staff who were not delivering the highest quality services</li> <li>• Paid for and recruited a ‘programme manager’ after the first year to oversee the service and drive improved management. This role was not in the original specification or budget</li> <li>• Recruited a ‘trainee’ frontline staff member, ready to step into a role as soon as it became vacant, to mitigate against the effects of staff turnover</li> </ul>

	<ul style="list-style-type: none"> <li>• Fast-tracked team members to training courses, paying transport costs, to ensure that staff were trained rapidly and could commence delivering services immediately</li> <li>• Offered to carry on delivering the service after the contract cap had been hit, to drive more outcomes and better value for money</li> </ul>
<b>Failure to keep the team fully functioning right up to the end of the programme</b>	<ul style="list-style-type: none"> <li>• Implemented a retention scheme to reward high performing frontline staff who continued delivering right up until the contract end date</li> </ul>

**Problems with recruiting participants:**

<b>Problem</b>	<b>Solution (to avoid or address problem)</b>
<b>Failure to market the programme to those responsible for referrals (e.g. social workers)</b>	<ul style="list-style-type: none"> <li>• Ran a marketing campaign to pitch the programme to social workers, e.g. workshops, visits, videos and case studies to explain the benefits for families, along with clear referral pathways and instructions for eligibility</li> <li>• Offered incentives in return for participation levels e.g. guaranteeing rent arrears for certain clients – to clear logistical and perceived barriers to engagement.</li> </ul>
<b>Inadequate IT system for referral of participants</b>	<ul style="list-style-type: none"> <li>• Built, paid for and implemented a new IT system for all GP practices, which flags up suitable patients and encourages GPs to refer them to the service</li> </ul>
<b>Insufficient resources within the referring authority to manage the essential tasks required</b>	<ul style="list-style-type: none"> <li>• Paid for ‘care experienced mentors’ to help young people make the transition out of residential care. These mentors were not in the original budget</li> <li>• Paid for a formal medical and psychological assessment of all children referred to the service for adoption, from the country’s leading child mental health assessment team</li> <li>• Paid for and seconded an additional social worker into the referring authority, to ensure that all referral tasks are completed effectively</li> <li>• Paid for a full academic evaluation to identify the benefits and recommend improvements mid-programme</li> </ul>

**Problems with claiming outcomes:**

Problem	Solution (to avoid or address problem)
<p><b>Poorly-defined contractual outcomes lead to lack of clarity in claims</b></p>	<ul style="list-style-type: none"> <li>• Brought delivery staff to contract review meetings to avoid a back-and-forth situation and bring a dose of reality to contract discussions</li> <li>• Set up a working group including commissioner and provider, during which particularly thorny hypothetical ‘test cases’ were probed and tested to their limits</li> <li>• Signed contract amendments to redefine or add parameters to outcomes when all variations and permutations have been explored</li> </ul>
<p><b>Administrative or teething problems with claims process</b></p>	<ul style="list-style-type: none"> <li>• Took each site administrator out for lunch or coffee to ask about particularities of their site and gain buy-in for a monthly process. Used this information to map the different systems and processes used across all sites</li> <li>• Developed a two-step claim validation process where a manager dip tests a handful of claims each month, tracing the paperwork back to ensure validity</li> <li>• Reverted to Excel when our system confused or lengthened the process. Data can always be bulk-uploaded at a later date.</li> </ul>

**Masterclass: Tips for performance management and governance**



Contributed by Dr Dr Tony Munton, managing director, TheRTK

TheRTK works with organisations to help them get the greatest value from their performance data, so that it becomes a key strategic asset. The key issues that organisations usually need help with are around performance management and governance.

Tips for performance management:

- Keep it simple! A key reason for failure of a performance management system is having too many KPIs. Keep things basic. Pick three top KPIs – your top three “obsessions”.

- Every month, provide a summary dashboard (see tool below) showing for all three KPIs:
  - What is the “story behind the curve”? (i.e. why does the graph look like that?)
  - Who are your partners, to get the numbers to change?
  - What do you know about what works to change the numbers? Where are the gaps in your knowledge?
  - What are you going to do about it (by next month)?
- TheRTK’s approach is based on the outcomes-based accountability framework (also known as results-based accountability), developed by Mark Friedman in the US. There are plenty of resources and worksheets for [using this approach here](#)

#### Tips for good governance

- Bear in mind that people are naturally reluctant to collect performance data, because it can show poor performance
- It’s important to create a culture that is tolerant of failure, and one where you know if performance is failing, so that you can do something about it
- Adopt the mantra: “if you're not measuring it every month, it's not a KPI.” Investors will demand that KPIs are being tracked, before they invest

#### Tool



##### Sample Agenda for Board Meeting

Contributed by [ThinkForward](#)

DOWNLOAD TOOL



A sample agenda for an SPV board meeting including regular agenda items, operational updates and compliance logs.

## CHECKLIST: AFTER PHASE 4

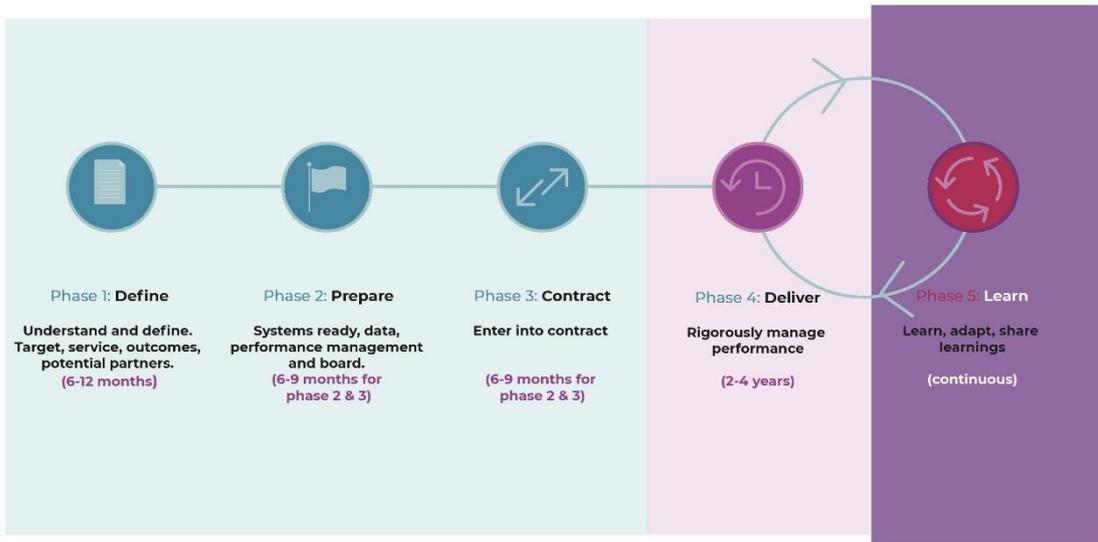
Have you got everything in place for Phase 4? If the answer to any of these questions is 'no', you might want to refer to the relevant sections of the toolkit.

- Have you got user-friendly processes for [gathering data and evidencing outcomes](#), co-designed with your delivery team?
- Are there [mechanisms in place](#) to ensure that the team is receiving, interpreting and using the full range of available information and resources?
- Have you allocated time for [reflection and feedback](#)? Is your team empowered to raise flags when issues come up and propose changes to the programme?
- Have you engaged all team members to feel motivated by the potential for learning and personal/organisational development that this new way of working offers?
- If you are outsourcing performance, data, or stakeholder management have you allocated time and resources to learn from your partner and adopt their best practices?
- Are there clear governance processes in place to deal with [unforeseen challenges](#) and support improvement in service delivery over the course of the programme? Do you feel able to raise urgent and critical issues with the board?



**PHASE 5**

**LEARN**



### ***OVERVIEW OF PHASE 5***

The hard work does not necessarily stop on the official end date of the SIB. You will need to wind up the official structures of your SIB; close down the finances; communicate with stakeholders and decide ‘what next?’ for the organisation.

Many providers take the opportunity at the end of a SIB to undertake a full organisational review; this section offers guidance on taking stock of your systems and processes, partnerships and finances after a SIB.

This section also explores the different types of evaluation – be they led by you, your commissioner or even your investor – and how to make the most of a SIB evaluation. It includes common pitfalls experienced by SIB providers in the past, and advice on weathering a negative evaluation outcome.

Regardless, successful SIB delivery is a badge of honour within the sector and speaks well to potential future partners and funders about your organisation’s ability to manage its impact.

### 5.1 Evaluations

Your commissioner(s) and even your investor(s) may be undertaking evaluations of their own. It is not usually advisable to rely on these externally-led evaluations, which might focus on the value of the commissioning mechanism itself, answering questions such as:

1. Did the SIB framework enable the organisation to better meet specific policy objectives?
2. Did the SIB framework contribute to the project’s impact?

In addition to these, your evaluation would aim to answer various questions on the delivery of the intervention you are planning. These should include the following:

Process evaluation	Impact evaluation	Value for Money assessment
<i>Is the programme operating as designed and which elements are making the difference?</i>	<i>Are the outcomes achieved above or below available benchmarks?</i>	<i>Has the intervention been cost-effective?</i>

#### Isn't a SIB its own evaluation?

For many SIBs, a key aim is to encourage innovation, which makes it even more important that they are accompanied by a strong evaluation to assess whether or not that innovation has succeeded. The scope of this may depend on how the SIB was set up. For example:

- SIBs whose outcomes incorporate benchmarking against national data sets may find the comparison is relatively easy to achieve
- SIBs whose outcomes orient mainly around individual achievements may have further to go to find a valid control group and establish statistical significance

Regardless, the better your definition of the [target population](#) and [outcomes](#) and the better your [performance management](#) throughout the SIB, the less money and effort you should need to spend on evaluation.

We have listened to delivery staff talk about the evaluations they took part in and have drawn together SIB-specific evaluation lessons from what we heard:

Providers have said...	Lesson
------------------------	--------

<p><i>“People just want to leave and get on with their lives, and not be bothered again.”</i></p>	<p>In designing a SIB evaluation, try to make sure that crucial findings (or indeed outcome payments) don’t rest on getting in touch with participants after they leave the programme. If they do, numbers need to be large enough to accommodate low response rates.</p>
<p><i>“There were so many blank spaces in the online forms, you felt a bit like none of it was important”</i></p>	<p>Each party in a SIB can come with their own data requirements. Try to co-ordinate: argue that it’s better to collect a few pieces of information and focus really hard on data quality than try to build everything you can think of into your <a href="#">IT system</a>. That can be off-putting.</p>
<p><i>“Rubbish in, rubbish out...”</i></p>	<p>Any evaluation will be hamstrung by ‘rubbish in, rubbish out’ if you are guarded in your release of information. Dedicate serious time to onboarding and arming your evaluators: see it as bonus consultancy! Designing the evaluation in such a way as to separate it from financial incentives will make this easier.</p>
<p><i>“We had a great little programme, but it didn’t translate well”</i></p>	<p>A good evaluation should include assessing ‘fidelity’ to a well-documented programme manual. SIBs have been known to stimulate fast growth in small, effective “black box” programmes which didn’t replicate well.</p>

Be aware from the outset that not all evaluation outcomes are uniformly positive: they may show no difference or even a negative impact on your beneficiaries and their outcomes.

**How you manage a negative evaluation result tests your resilience as an organisation. Handled well, you can show staff, funders and external stakeholders evidence of your flexibility in the relentless pursuit of social impact.**

“If your evaluation throws up something you don’t like, get some moral support from your board and closest colleagues to overcome the bruised pride, embarrassment, sadness – and get on with the job. Improve the programme. Cut out the harmful or wasteful bits. Prune the tree so the fresh growth can blossom.”

– Kathryn Maunders, [Ten Thousand Starlings](#)

### Masterclass: What if you don't like the answers?

Contributed by Bethia McNeill, Centre for Youth Impact



When evaluations yield the 'wrong' answer it's either a management issue or it's an interesting opportunity – either of which is valuable. For example, say you run an eight week workshop for 10 young people, but you discover that by the end, only four people on average are attending. Either:

- There has been a logistical problem: perhaps the workshops are not easy for your cohort to get to, or they're being held too late
- Whilst most people drop off after six weeks, their outcomes aren't affected. This is an opportunity to cut the duration of the programme

You can triangulate the various metrics – outcomes, participation data, feedback – to work out the cause and the solution.

It isn't helpful to undertake or commission an evaluation if there isn't some kind of space in which to analyse the results and adjust your approach accordingly.

But adjustments have to be made with discipline. Change one thing at a time, make a hypothesis about what difference that will make, and monitor what happens as a result.



#### Further resources

- [Introduction to Evaluation](#), GO Lab
- [Mapping Standards of Evidence](#), Nesta

## 5.2 After a SIB

As one ex-SIB provider put it, "if you leave it until after the SIB to think about what happens after the SIB, it's too late." It's wise to start thinking a year out from the end of your contracts about [what's next](#), so that provision or funding does not fall off a cliff.

What happens next may depend on why you were doing a SIB in the first place:

- Was it a long-term solution for a model that will always require investors? (For example, if there is a long delay between the start of the programme and the achievement of outcomes). If so, all parties may now be able to engage in conversations about longer-term contracts

- Was it a proof of concept for a programme too innovative/risky to fund without working capital? If so, you can now explore different funding mechanisms

For SIB providers who are now able to manage and demonstrate their impact, it should not be hard to attract a wider range of interested parties. Charities in this position are acknowledged to be well placed to navigate the statutory funding environment and are almost ‘certified’ as good impact managers who could succeed in any other kind of outcomes-based contract.

“SIBs involve some quite intensive and detailed performance reporting to specific parties, but potential future funders aren’t part of that process. Local authorities, for example might not know anything about your journey and the improvements you’re making unless you can find a way to involve them earlier on.”

– Joanne Hay, Power2



### What have I forgotten?

One common pitfall is the assumption, designed in at the [modelling](#) stage, that financial returns come quickly.



Firstly, you may decide you need to continue providing the SIB service for some months after the official programme end, to fulfil your duty of care.



Secondly, it can take a while to wind it down – particularly if there is a legal company to dissolve.

Allow 9-12 months to gather in the final outcomes, calculate figures and obtain consensus from all parties, undergo any auditing, and distribute money before wind down.

Don’t forget to communicate the results with all the partners and agencies who have supported your work, many of whom will have changed their way of operating to support this new funding model. These partners may be your first port of call for seeking further programme funding.

Finally, the end of your SIB is likely to be a good time for an [organisational review](#).

“We developed a completely new facility on the back of the money that we (eventually) made from the SIB. We wouldn’t have been able to do this otherwise.”

– Contracted SIB provider

### 5.3 Post-SIB organisational review

At the end of a SIB programme, you'll most likely be facing some decisions about what's next for the organisation.

As an input into your thinking, we'd recommend reviewing what you've learned during the SIB, and considering how to apply this learning to strengthen your organisation for whichever direction you choose to pursue.

You'll have made some changes to your organisational structure and culture in order to deliver the SIB, and in an ideal scenario, you've been learning and adapting throughout its lifetime. **Now is the time to decide, what should we take forward, and what should we leave behind?**

The end of a SIB presents a valuable opportunity to more formally take stock. It is worth soliciting input from your partners, programme participants and evaluators as well as your full internal team. As you write up the learning for internal use, consider sharing any of it that may be useful to other organisations that are considering developing and delivering a SIB.

Below, we suggest some key areas to focus on as you review the learnings and turn towards what's next.

#### 1. Processes, systems and capabilities

- Does your theory of change need revising in the light of the outcomes delivered (or not) during the SIB?
- Do you need to retool your performance management systems, including revising the indicators, or setting targets more accurately?
- Do you need to make any changes to delivery?
- Will your current IT systems support the collection of data beyond the SIB's requirements, or do you need to upgrade them?

#### 2. Partnerships

- Which new relationships have you cultivated? Which doors have you opened?
- What is your plan for continuing to engage with all your partners, and to continue to explore new partnership opportunities?

- Is the end of the SIB leaving any of your partners in the lurch – for example, if you supplemented their service as part of [performance troubleshooting](#)?

### 3. Financial sustainability

- In which ways has the SIB made your organisation a stronger candidate for subsequent funding, e.g. by producing a body of outcomes data?
- How could you secure follow-on funding for successful aspects of the programme? How likely is the commissioner to recommission them?
- How could you redesign your fundraising strategy to capitalise on the learnings from the SIB?



#### Further resources

- [The Confidence Framework](#), Dartington Service Design Lab