

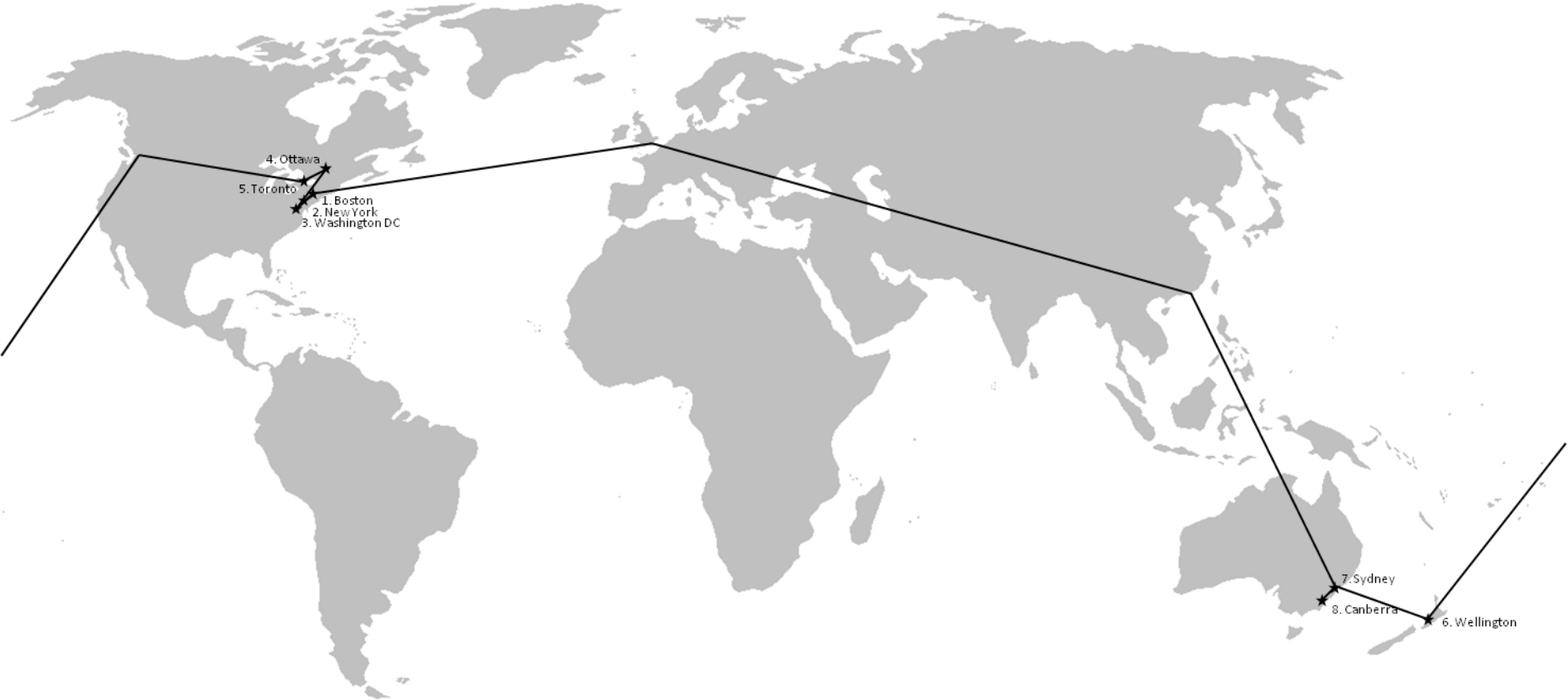
# Better Public Services through Social Impact Bonds

Lessons from the US, Canada, New Zealand and  
Australia

Dr Jim Robinson

Winston Churchill Fellow 2012

**Itinerary: 6 April – 11 May 2012**



Boston	6 – 11 April	Toronto	25 – 27 April
New York	11 – 15 April	Wellington	29 April – 6 May
Washington DC	15 – 22 April	Sydney	6 – 11 May
Ottawa	22 – 25 April	Canberra	11 May

## Introduction and objectives

1. Payment by Results (PBR) is attracting growing interest in the UK and internationally as a means of improving the delivery of public services. PBR offers key advantages over traditional output-based commissioning, notably: (i) financial risk transfer away from the public sector; (ii) greater freedom for providers to innovate; and (iii) drive towards better performance through financial incentives.
2. Yet for all the attractions of PBR, some types of provider organisations can find it challenging to bid for and deliver services under PBR contracts. This is a particular problem for social enterprises: social-purpose businesses which are usually thinly capitalised and lack easy access to commercial borrowing.
3. One solution to this problem, aiming to 'level the playing field' for social enterprises and similar organisations, is the social impact bond (SIB)<sup>1</sup>. In a SIB contract, finance raised from socially-motivated investors is used to meet the working capital (and risk capital) requirements of social enterprises.
4. The attractions of SIBs are manifold. As well as making it easier for social enterprises to participate in PBR service delivery, they can also act as a new source of up-front investment for preventative interventions. In some cases, SIBs can even be self-financing, if the improved social outcomes they deliver result in sufficient 'cashable' savings to the public purse to repay the investors' principal and return.
5. The world's first SIB was launched by the UK's Ministry of Justice (MOJ) at Peterborough prison in the UK in September 2010<sup>2</sup>. It aims to reduce re-offending among 'short-sentence' prisoners serving 12 months or less. Six further SIBs were launched by the UK's Department for Work and Pensions (DWP) in April 2012, all seeking to reduce the number of people Not in Education, Employment or Training (NEET)<sup>3</sup>. Several more SIBs are now in development or procurement across the UK, including at Essex County Council<sup>4</sup> and Manchester City Council<sup>5</sup>.
6. Following the UK's lead, there has been keen international interest, with SIB procurements underway in Massachusetts (US), New York City (US) and New South Wales (Australia). In addition, the US, Canadian, New Zealand and Australian national governments are looking at their use.
7. SIBs have the potential to become a major part of the public service landscape. But there is no consensus on how they should be designed or procured, and limited existing international links. Substantially different approaches to SIB development have been followed around the world.

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<sup>1</sup> <http://www.socialfinance.org.uk/sib>

<sup>2</sup> <http://www.justice.gov.uk/publications/research-and-analysis/moj/2011/social-impact-hmp-peterborough>

<sup>3</sup> <http://www.dwp.gov.uk/supplying-dwp/what-we-buy/welfare-to-work-services/innovation-fund/>

<sup>4</sup> <http://www.essex.gov.uk/News/Pages/ESSEX-COUNTY-COUNCIL-FIRST-AUTHORITY-TO-GET-GOVERNMENT-SUPPORT-FOR-SOCIAL-IMPACT-BONDS.aspx>

<sup>5</sup> [http://www.manchester.gov.uk/news/article/6245/councils\\_executive\\_agrees\\_to\\_pilot\\_new\\_scheme\\_to\\_improve\\_outcomes\\_for\\_looked\\_after\\_children\\_and\\_young\\_people](http://www.manchester.gov.uk/news/article/6245/councils_executive_agrees_to_pilot_new_scheme_to_improve_outcomes_for_looked_after_children_and_young_people)

8. In that context, my project had the following objectives:

- explore international governmental perspectives on when and how SIBs should be used;
- investigate the emerging development methodologies and procurement routes;
- investigate the key barriers to greater use of SIBs and how those barriers can be removed;
- gather information on the specific SIBs under development and in procurement around the world; and
- forge lasting links between the UK and overseas governments in SIB policy.

## **Findings**

### Motivations for SIB-based commissioning

9. There was substantial interest in SIBs at both federal and state (or provincial) level in all the countries I visited. Unusually for a public policy intervention, support ran across the political spectrum. It was motivated by a combination of:

- the desire to find self-financing preventative programmes, especially in countries most affected by fiscal pressures; and
- the desire to achieve better value from existing spending, notably in Australia, where fiscal constraints are less severe.

### Development roles of SIB intermediaries

10. In the UK, the intermediary Social Finance played a series of key roles in establishing and operating the Peterborough SIB. It is also closely involved with SIBs now being procured by Essex County Council and Manchester City Council. But, for the future, it is unclear how intermediaries like Social Finance can most effectively assist commissioners in designing and procuring SIBs.

11. Overseas contacts suggested that it is helpful to think of three distinct functions of SIB intermediaries:

- (i) as outcome identifiers and contract designers, working alongside government commissioners;
- (ii) as raisers of investment capital; and
- (iii) as ongoing contract managers of the service supply chain.

12. At Peterborough, Social Finance played all three roles. But future SIBs might separate them out, with separate competitions for each part. As part of its SIB, the Massachusetts state government is indeed separately procuring (i) and (iii). Given that two SIBs are being developed, this means that Massachusetts is running a total of four parallel procurement processes.

## Models of SIB procurement

13. Broadly, three complementary models of SIB development and procurement seem to be emerging:

- (i) government works closely with an intermediary to identify problems for which a SIB may be an effective solution – e.g. Peterborough;
- (ii) government identifies areas for SIB development and procurement using its existing in-house expertise – e.g. local authorities supported by UK Cabinet Office; or
- (iii) government solicits suggestions through a Request for Information (RFI) – e.g. Massachusetts and New South Wales.

14. The most appropriate model will vary according to the nature of the policy area and government capacity, and in many cases a combination will need to be used.

## Key barrier to SIB growth: government capacity

15. The growth of SIBs is being held back two key difficulties. The first of these is a lack of government capacity to design and procure the contracts. Key issues are:

- lack of required technical skills; and
- government officials have too little time to devote to SIB design alongside day-to-day work.

16. This accords with recent UK experience which looked at the scope to apply SIBs in a troubled families context<sup>6</sup>. In order to tackle this problem, there are various models for SIB capacity building within government:

- a single central agency which assists others; or
- agencies assist each other on an ad hoc basis; or
- agencies are assisted by a party or parties external to government.

17. In the US, academia is playing an important role in SIB design. At the Harvard Kennedy School of Government, Prof Jeff Liebman (formerly a senior White House official) has been working closely with the state of Massachusetts through its SIB design and procurement process. In the longer term, there may also be scope for a wider network of expert fellows who will be able to work with individual US states.

18. Prof Jeff Liebman is creating a de facto SIB catalysing unit outside both government and the SIB intermediary sector. This is an interesting approach and different from anything seen in the UK. However, it is not clear whether any of the other approaches would well work in the US: support at the federal level would be unlikely to be taken up by states; and individual states would be unlikely to 'buy in' such support from neighbouring states.

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<sup>6</sup> <http://www.cabinetoffice.gov.uk/sites/default/files/resources/VF-PBR-for-troubled-families-Final-Report.pdf>

19. In the UK, a catalytic role might be played by the Cabinet Office, which is currently scoping a SIB 'Centre of Excellence' to develop resources for SIB commissioners as well as offering hands-on support to catalyse more deals. The Cabinet Office is also exploring whether UK academia could become more involved.

#### Key barrier to SIB growth: difficulty of securing co-payment

20. The second key problem holding back the growth of SIBs is the difficulty of securing co-payment. Benefits and savings accrue to multiple public sector agencies both (i) within each tier of government and (ii) between tiers. But securing financial contributions is very difficult. This can be even more serious in the US, Canada and Australia as these countries have an additional tier of government compared to the UK: states or provinces.

21. The 2011 US federal budget allocated US\$100m for a payment by results outcomes fund – which would complement outcomes payments made under PBR contracts procured at the state and city levels. However, it has now become clear that this provision did not win the approval of Congress. Instead, federal agencies relying on making small grants from existing budgets, with the goal of catalysing PBR commissioning by states.

22. In the UK, the Cabinet Office is now developing an 'Outcomes Finance Fund' which would help to top up outcomes payments where SIBs can demonstrate wide, cross-cutting benefits for the public sector. The fact that the US\$100m fund was not passed by the US Congress means that an outcomes fund in the UK would be the first of its kind.

#### **Summary of schemes by location**

##### United States

23. At the time of my visit, the state of Massachusetts was in the process of procuring two SIBs around (i) recidivism and (ii) homelessness. Boston is perhaps the leading US centre for SIBs, being a confluence of three important factors: (i) headquarters of both major social finance intermediaries – Social Finance US and Third Sector Capital Partners; (ii) a sympathetic and skilled state government; and (iii) proximity to the Harvard Kennedy School of Government. Since my visit, Massachusetts has selected Third Sector Capital Partners to develop its two SIBs.<sup>7</sup>

24. At the time of my visit, New York City was planning to procure a SIB in the area of recidivism. Since my visit, New York City has announced its decision to proceed, with investment from Goldman Sachs.<sup>8</sup>

25. A number of other jurisdictions in the US are also interested in SIBs – both cities and states.

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<sup>7</sup> [http://www.thirdsectorcap.org/press-release-ma-selects-third-sector-first-in-the-nation-pay-success-contracts/?utm\\_source=Work+Etc.+Import+7.31.12&utm\\_campaign=6c00f34d2c-MA+PFS+Announcement+8.1.12&utm\\_medium=email](http://www.thirdsectorcap.org/press-release-ma-selects-third-sector-first-in-the-nation-pay-success-contracts/?utm_source=Work+Etc.+Import+7.31.12&utm_campaign=6c00f34d2c-MA+PFS+Announcement+8.1.12&utm_medium=email)

<sup>8</sup> [http://www.nytimes.com/2012/08/02/nyregion/goldman-to-invest-in-new-york-city-jail-program.html?\\_r=3](http://www.nytimes.com/2012/08/02/nyregion/goldman-to-invest-in-new-york-city-jail-program.html?_r=3)

26. Meanwhile, the US Federal Government is supporting PBR commissioning by states and cities on an ad hoc basis. The Department of Labor has established a 'Welfare Innovation Fund' for pilot back-to-work PBR projects, while the Department of Justice is launching a PBR programme aimed at reducing recidivism.

### Canada

27. Two Canadian Federal Government departments are developing SIBs: Human Resources and Skills Development Canada (HRSDC) and Public Safety. HRSDC is working on several SIBs across a number of areas at policy. Meanwhile, at Public Safety, there is strong interest in implementing SIBs for youth crime prevention and adult re-offending.

28. The March 2012 budget of the province of Ontario included a commitment to 'identify and prioritize pilot projects' using SIBs. This work is being led by Infrastructure Ontario, a quasi-independent part of the provincial administration, together with Ontario's Cabinet Office.

29. Other Canadian provinces are also developing SIB propositions.

### New Zealand

30. New Zealand appears to be adopting a 'wait-and-see' approach to SIBs. But there are interesting developments in other areas of payment by results – notably in a new PFI prison contract (at Wiri) which includes an integral payment by results element.

### Australia

31. In Australia, the New South Wales (NSW) 2011 budget put aside AUS\$21m for 'Social Benefit Bonds' (equivalent to SIBs), including AUS\$20m for outcome payments. Following a request for proposals, three propositions were selected for a 'joint development phase': one on recidivism, the other two targeting improved 'out-of-home care' for children. There are no immediate plans for Commonwealth (i.e. federal government) co-payment, but this could be a longer-term aspiration.

32. Elsewhere in Australia, the state of Victoria has established a SIB scoping project looking at re-contact with the criminal justice system.

33. The Government of Australia is taking an active interest in both federally-commissioned SIBs and facilitation of commissioning by states. Following the recommendations of a report by the Senate Economics Committee, the Commonwealth Government is working with leading intermediary Ecotrust Australia on scoping. This process is expected to lead to advice to Ministers and then policy design.

## Meetings log

Contact	Position	Date of meeting	Location of meeting
George Overholser	Founder and Managing Director, Third Sector Capital Partners	9 April 2012	Boston
Mike Belinsky	MPA student, Harvard Kennedy School of Government	9 April 2012	Boston
Prof Jeff Liebman	Professor of Public Policy, Harvard Kennedy School of Government (formerly Executive Associate Director of the Office of Management and Budget)	9 April 2012	Boston
Tracy Palindjian	CEO, Social Finance US	10 April 2012	Boston
Steve Goldberg	Managing Director, Social Finance US		
Greg Mennis and other senior officials	State Government of Massachusetts	10 April 2012	Boston
Kippy Joseph	Associate Director (Innovation), Rockefeller Foundation	12 April 2012	New York City
Linda Gibbs	Vice Mayor of New York City	12 April 2012	New York City
Kristin Giantris	Vice President, Nonprofit Finance Fund	13 April 2012	New York City
Senior White House officials	Office of Management & Budget	17 April 2012	Washington DC



Jitinder Kohli	Senior Fellow at the Center for American Progress	19 April 2012	Washington DC
White House and other Federal officials	Office of Management & Budget, Depts of Labor and Justice	20 April 2012	Washington DC
Federal officials	Human Resources and Skills Development Canada (HRSDC), Public Safety Canada and central agencies (including Treasury Board)	23 April 2012	Ottawa
Anne White	Infrastructure Ontario	26 April 2012	Toronto
Federal officials	Office for the Community & Voluntary Sector, Dept of Internal Affairs	30 April 2012	Wellington
Fiona Mules	Head of PPP Team, Treasury	3 May 2012	Wellington
Federal officials	Ministry of Social Development	4 May 2012	Wellington
Dr Ruth Lawrence and team	Principal Advisor, Expenditure Review Directorate, NSW Treasury	7 May 2012	Sydney
Rosemary Caruana	Assistant Commissioner, Community Offender Management, Corrective Services NSW	7 May 2012	Sydney
Stephen Brady	Deputy Director General, Department of Premier & Cabinet, NSW	8 May 2012	Sydney
Senior officials	State governments of Victoria and Queensland	8 May 2012	Sydney (teleconference)

Rosemary Addis and other senior Federal officials	Social Innovation Strategist, Dept of Education, Employment and Workplace Relations (DEEWR), Dept of Families, Housing, Community Services and Indigenous Affairs	11 May 2012	Canberra
Prof Gary Sturgess	Australian School of Business, University of New South Wales (former NSW Cabinet Secretary)	11 May 2012	Sydney
Prof Peter Shergold	Centre for Social Impact at the University of New South Wales (former Australian Cabinet Secretary)	11 May 2012	Sydney