PIRU POLICY INNOVATION RESEARCH UNIT

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Final report

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Contents

Note: Appendices are presented in a separate volume.

Abstract

Objectives

Social Impact Bonds (SIBs) are a relatively new type of payment for performance (P4P) contract focused on outcomes (i.e. 'payment by results' (PbR)) in which public service commissioners partner with private for-profit or philanthropic social investors to finance interventions to tackle social problems. These services are often delivered by third sector provider organisations. SIB specialist organisations may play important coordinating roles. The investors provide the up-front finance to mount the intervention and are repaid, including an agreed premium, if specified client outcomes are achieved. Sometimes, the intention is that the premium to investors should be paid wholly or in part from cashable savings generated for the commissioner. If the outcomes are not met, the investors stand to lose all their initial investment. The overall aim of this evaluation was to assess the potential costs and benefits, for different actors involved, of the SIB Trailblazer programme in health and social care over three years from the planning stage to their early years of service provision, June 2014 – May 2017.

Methods

Literature review to develop a conceptual framework to guide subsequent data collection and analysis; analysis of Trailblazer plans and contracts; semi-structured interviews with national policy makers, local participants in Trailblazer SIBs (commissioners, investors, SIB specialist organisations and providers) and local participants in comparable non-SIB services. Planned quantitative comparison of SIB and non-SIB sites providing similar services to similar clients via the same providers proved impossible due to problems of finding suitable comparators, data access and data quality.

Results

Of the nine sites in the programme, four eventually decided not to proceed to a SIB for a variety of reasons. The five SIBs that went ahead funded a wide range of different interventions for different clients: older people who are socially isolated; people with multiple chronic health conditions; entrenched rough sleepers; adolescents in care; and people with disabilities requiring long-term supported living. Typically, the planning of the SIB services and subsequent oversight were better resourced and the services more flexibly provided than similar non-SIB services. Investment came from philanthropies and socially minded investors rather than commercial sources. Three models of SIB were identified: Direct Provider SIB; SIB with Special Purpose Vehicle (SPV); and Social Investment Partnership (an evolution of the SIB concept without payments being tied to outcomes). Each allocated financial risks differently, with providers bearing more of the financial risk in the Direct Provider model than in the others. Front-line staff were more aware of the financial incentives associated with meeting client outcomes in the Direct Provider model than in the SPV model. Likewise, providers in the Trailblazers were more outcome-focused than providers of comparable non-SIB services. Up-front financing of providers by investors tended to be provided in instalments contingent on hitting volume and/or throughput targets. During the three-year evaluation which covered the early period of the Trailblazers, the bulk of the payments to investors came from central government and sources such as the Big Lottery rather than local commissioners in most cases. Only one of the Trailblazers reported having made any cashable savings during the evaluation period as a result of the SIB-financed interventions. Only one of the Trailblazers had set up a counterfactual outcome evaluation to use as the

basis for making outcome payments to investors in the period of the study. The two SIB specialist organisations involved adopted different roles (intermediary and adviser versus investment manager) and different management styles, accordingly: the one a more 'informal' approach stressing cooperation between commissioners, providers and investors; and the other a more 'formal' style, emphasising contractual obligations and outcome delivery to meet the expectations of investors.

Conclusions

The SIB Trailblazers in health and social care appeared to encourage a stronger emphasis on demonstrating results than comparable non-SIB services but it is not possible to ascertain whether this was translated into better client outcomes. It was difficult to reach a clear verdict on the costs and benefits of SIBs in this field over the three years of the evaluation.

Summary

Social impact bonds

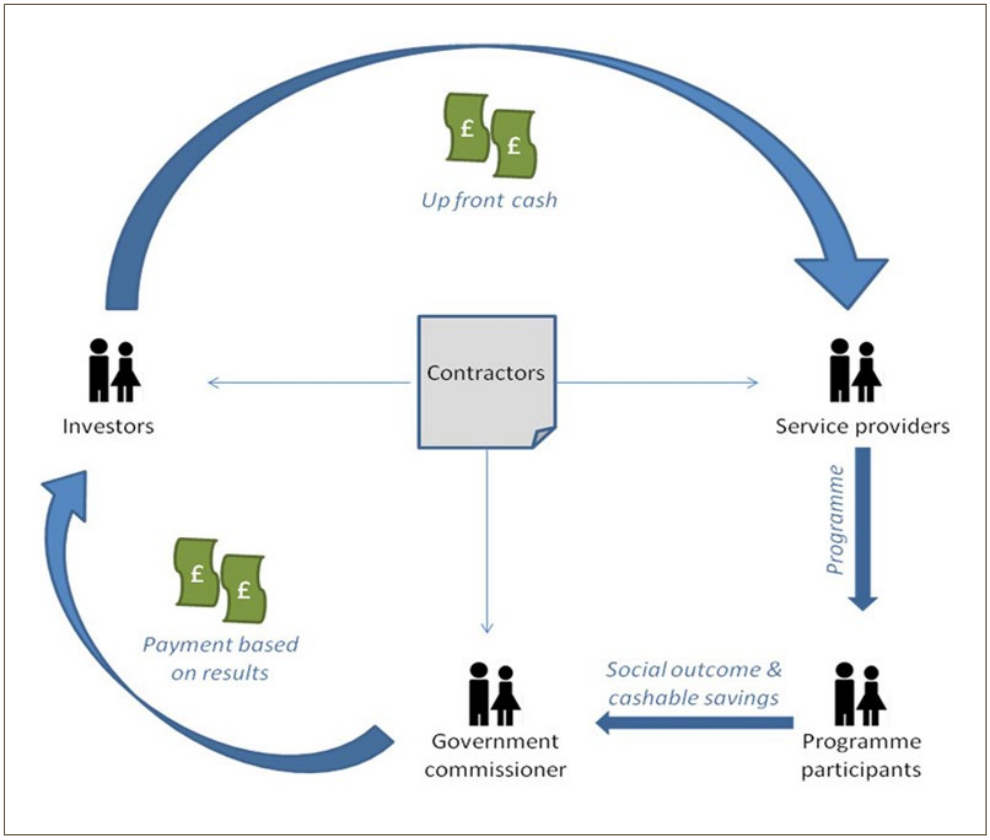
Social Impact Bonds (SIBs) are a relatively new type of payment for performance (P4P) contract focused on outcomes (i.e. 'payment by results' (PbR)) for the delivery of public services, frequently through third sector organisations over a period typically between three and five years but sometimes longer. These contracts involve three parties: public sector commissioners; social investors; and service providers. A fourth party, a SIB specialist organisation, is also often involved. In this research, two different SIB specialist organisations were involved, representing two typologies of SIB specialist organisations. One is an intermediary organisation that brings the different parties together, aids service redesign and may also perform a management function in the delivery of the subsequent project. The second organisation is a specialist fund manager that generates the finance for projects and also performs a management function overseeing how this finance is used. We use the term 'SIB specialist organisation' for both types of organisation to preserve anonymity.

In a typical SIB contract, public sector commissioners partner with (usually socially minded) private for-profit or third sector philanthropic social investors to fund interventions that seek to tackle (usually complex) social problems such as those associated with rough sleeping, frail older people with multiple long term conditions, youth offending, youth unemployment, substance abuse, etc. More specifically, investors cover the upfront costs necessary to set up and provide the interventions implemented by service providers, while the commissioner commits to pay an agreed premium – a return on investment – if pre-defined desired outcomes are later reached. Sometimes, the intention is that the premium to investors should be paid wholly or in part from cashable savings generated for the commissioner through the achievement of the desired client outcomes. SIB specialist organisations are often involved in developing the intervention, providing advisory services (intermittently or through the life of the contract) and liaising with investors to secure project funding. In many cases, a Special Purpose Vehicle (SPV), i.e. a subsidiary company, is established whose operations are used for the acquisition and financing of the service, and to receive investments and make outcome payments. The SPV can also issue contracts to service providers to deliver the intervention.

England has emerged as a pioneer in the use of private and third sector finance to deliver social services through SIBs. The world's first SIB was launched at the Peterborough prison in 2010, and SIBs have been promoted by successive governments and others since then. The original proponents of SIBs in the UK (Cohen, 2011; Corrigan, 2011; Mulgan et al., 2011; Social Finance, 2011; Cabinet Office, 2012) characterised the promise of SIBs in the following ways:

- An innovative partnership between private and/or socially minded investors, commissioners and non-profit service providers, often coordinated through SIB specialist organisations, to tackle deeply ingrained social problems;
- Improved social outcomes for service users and cashable savings for commissioners;
- Financial risk transfer from the public sector to investors;
- Rigorous evaluation to ensure that improvements in social outcomes are measured and attributable to the SIB-financed interventions;
- Return on investment to investors dependent on achievement of outcomes

Figure 1 SIB Diagram



Source: Cabinet Office 2018.

We report on whether these features are present in the SIBs in this study and, if so, how they are manifest. The notion of what a SIB is, or should be, has changed over time as SIBs are implemented in different sectors (see Chapters 3 and 9 for a fuller discussion of this). Nonetheless, across a range of public services, including health and social care, SIBs are seen as a possible solution to meeting rising demand in the face of severely constrained public resources, since, in principle, they offer policy makers a 'win-win-win' scenario: i.e. better social outcomes; public sector savings; and a financial return to socially minded investors.

The SIB Trailblazers in Health and Social Care

In 2013, under the auspices of the Department of Health, work began to develop SIBs in nine sites, referred to as the SIB Trailblazers in Health and Social Care. The table below describes these sites and indicates whether or not a SIB was eventually established.

Table 1 Overview of the nine SIB Trailblazers in Health and Social Care, June 2017

Project	Intervention/service	Progress
Sandwell and Birmingham	Integrated community-based end of life services	Did not progress to a SIB
Cornwall	Early interventions for a cohort of 1000 frail older people with LTCs at risk of emergency admission	Did not progress to a SIB
East Lancashire	Patient-specific tailored health and social care interventions to reduce isolation, unemployment and poor quality of life	Did not progress to a SIB (intervention funded by service contract in the normal way)
Leeds	A 75-bed nursing facility and community nursing care to a mix of high-needs people with neurological trauma	Did not progress to a SIB
Manchester	Treatment Foster Care Oregon (TFCO-A) providing behavioural interventions for 95 children aged 11 to 14 years	Contracts for a SIB were signed and a SIB is in progress at the time of writing
Newcastle	Better self-management of long-term conditions through social prescribing (i.e. non-medical interventions in the local community to foster sustained healthy behaviours)	Contracts for a SIB were signed and a SIB is in progress at the time of writing
Shared Lives	Alternative to care homes for people in need of intensive support: carers share their lives and often their homes with those they support	Contracts for a SIB were signed and a SIB is in progress at the time of writing in Lambeth and Manchester (from 2015), and Haringey and Thurrock (from 2017)
Thames Reach	Personalised service pathway for a cohort of 415 entrenched rough sleepers	Completed in October 2015, last outcomes paid in October 2016
Worcester	Aims to reduce loneliness among older people through tailored support to engage with local community	Contracts for a SIB were signed and a SIB is in progress at the time of writing

Aims and objectives of the evaluation of the Trailblazers

In December 2013, the Department of Health's Policy Research Programme commissioned the Policy Innovation Research Unit (PIRU) at the London School of Hygiene and Tropical Medicine, in partnership with RAND Europe, to undertake an independent evaluation of the nine Trailblazers with the aim of exploring their potential benefits and costs.

The study was planned initially to take place over two years between January 2014 and December 2015, and had the following four objectives:

1. Develop a conceptual framework to help understand the potential role and effects of SIBs compared with other approaches to paying for public services. This component will help orientate the subsequent empirical parts of the project;
2. Describe and assess the development of the nine SIB Trailblazers in order to identify obstacles and enabling factors in finalising SIB contracts;

3. Describe and characterise the signed SIB contracts in order to unpack the implications in terms of incentives and risk-sharing arrangements for the different parties;
4. Assess, if feasible, in a second phase, whether and how the SIB contract mechanism enables achievement of better outcomes than alternative funding mechanisms, and if so, to explore the ways through which such benefits appear.

The evaluation was planned in two phases from the outset because of the uncertainty about the speed of development of the Trailblazers and the feasibility of undertaking a quantitative comparison of the same services delivered through SIBs and conventionally (objective 4, above).

After the initial data collection in phase 1 during 2014, designed to understand the nature of the Trailblazers, a peer-reviewed interim report was published in spring 2015 (see Tan et al., 2015). The first phase included work to assess the feasibility of a quantitative evaluation, and the research team submitted a more detailed proposal for this and other work in June 2015. This proposed an extended second phase of the evaluation since it was clear that the original objectives of the study could not be accomplished by December 2015 because of the slower than planned progress of the Trailblazers towards putting in place SIBs.

The proposal for the extended second phase, emphasising objectives 3 and 4, was accepted by the Department of Health with the following revised objectives for the remainder of the evaluation which took place between January 2016 and June 2017:

1. To finalise an analytical framework to help understand the factors involved in the decisions made by the different parties to fund a project through a SIB compared with other approaches to paying for public services;
2. To continue and deepen the description and assessment of the Trailblazers in order to identify obstacles and enabling factors in finalising SIB contracts;
3. To undertake the description and characterisation of the signed SIB contracts in order to unpack their implications in terms of incentives and risk-sharing arrangements for the different parties;
4. To assess whether, and if so, how, the SIB contract mechanism enables achievement of better outcomes than alternative funding mechanisms, with two sub-objectives:
   a. To explore qualitatively how any benefits appear, through in-depth interviews at strategic and operational levels, and, if appropriate and feasible, with service users, including comparative research with other non-SIB funded similar or equivalent services elsewhere in the country to answer the following questions:
      i. What are the roles played by investors in the shaping and delivery of the SIB service?
      ii. How does a SIB change the way providers operate at a strategic level in terms of workforce organisation and performance monitoring?
      iii. How does a SIB change the way providers work at an operational level in terms of the relationships between front-line workers and local managers?
      iv. How and in what ways do the regular outcomes payment schedules affect the work of provider organisations in the periods before payments?
      v. How and in what ways does the SIB change the services received by users?
   b. To explore quantitatively, in sites where appropriate comparators can be identified, whether SIB contracts enable the achievement of better outcomes than other contractual arrangements (e.g. normal P4P contracts or block contracts or cost and volume contracts).

Methods

The original design of the evaluation comprised the following components:

- A literature review of academic, government and practitioner publications globally. The review was published in a peer-reviewed journal in 2016 (see Appendix 1 for a copy and Chapter 3 for a summary);
- Development of a conceptual framework for analysis, presented in Chapter 3 of this report. As part of this work, a separate output was developed in the form of an article published in a peer reviewed journal examining the factors that commissioners and investors may take into account when considering to take part in a SIB, or not (see Appendix 2 for the paper and Chapter 5 for an analysis of why some Trailblazers did not proceed to a SIB);
- Collation of descriptive information on the SIB Trailblazers from their plans, progress reports, contracts and other documents (e.g. concurrent evaluations) (presented in Chapter 4, section 4.1);
- Analysis of the SIB contracts in the five operational Trailblazers (Chapter 4, section 4.2);
- Semi-structured interviews to discuss the development of each Trailblazer with:
  - Service providers involved in SIB design and delivery
  - Commissioners in health and social care (Clinical Commissioning Groups (CCGs) and local authorities)
  - SIB specialist organisations involved in the development and design of SIBs in health and social care, and others involved in SIB development (e.g. legal specialists)
  - Investors and
  - National policy advisers (e.g. in the Cabinet Office) (findings presented in Chapters 4-8).
- Semi-structured interviews with commissioners and providers involved in similar non-SIB services (findings presented in Chapters 7 and 8);
- Quantitative analysis comparing outcomes of the same services commissioned through a SIB contract and more conventional commissioning.

For those Trailblazers that did commission SIB-financed programmes, we compared the Trailblazers qualitatively with sites elsewhere in the country that had the same or similar interventions (e.g. social prescribing, or specialist foster care services) serving similar populations provided by the same or similar organisations but without a SIB – referred to throughout this report as 'non-SIB comparison sites' (see Chapters 7 and 8). This comparison, though not perfect, was designed to shed light on how the presence of a SIB contract might have affected the management and delivery of health and social services. The original intention had been to undertake a quantitative comparative analysis of at least some of the SIB Trailblazers versus suitably matched non-SIB service commissioning (i.e. a SIB versus non-SIB comparison of the same or similar organisations providing the same service to the same type of clients), but this proved impossible (see Chapter 2, Section 2.6 for a detailed explanation). The qualitative comparisons are explored in Chapters 7 and 8.

Interviewees with an interest in the Trailblazers and SIBs as a policy instrument were first identified through the initial Trailblazer applications, the Department of Health and the Cabinet Office. Subsequent interviewees were identified by 'snowballing'. We conducted 177 interviews with 199 informants across all sites between June 2014 and May 2017 until 'data saturation'. We purposively sampled informants to include commissioners (n=38 with 32 informants), providers (n=123 with 109 informants),

SIB specialist organisations (n=23 with 13 informants), investors (n=9 with 10 informants) and others (n=5), e.g. central government, data analysts/consultants, and independent board members. The first wave of data collection occurred June-November 2014 during the early development and set up phase of the SIB Trailblazers; the second wave occurred between February 2015 and March 2016 during early implementation and the first full year of operation; and a third wave was undertaken between July 2016 and May 2017 looking at subsequent project progress 18-24 months into the Trailblazers.

The research team chose not to interview service users. Firstly this choice was consistent with this study's focus on evaluating the SIB mechanism, not the services that were delivered using SIBs. Secondly, this avoided interfering with the concurrent, local evaluations of the services being undertaken in all the Trailblazers and over-burdening service users (since there were small numbers of service recipients in most of the Trailblazer services).

Development of an analytical framework

An objective of the research was the development of a conceptual framework to use in the evaluation of the SIB Trailblazers. This framework for analysis was developed through a review of the UK and international literature on SIBs (in Appendix 1). It differentiates the Trailblazers according to three features:

1. **Risk and SIB model structure:** contractual and financial relationships between the parties involved and risk-sharing arrangements;
2. **Incentivisation and outcome measurement:** incentives faced by providers, investors and commissioners;
3. **Management style:** the effect of management on service delivery.

This analytical approach was employed to develop a typology of the different possible ways in which SIBs can be designed which differed in terms of their risk-sharing arrangements, the incentives faced by providers, investors and commissioners, and the impact of the Trailblazer's management style on service delivery (see section 4.2). The key findings in relation to these three features are presented below, after a description of the SIB-funded interventions and the reasons why some of the Trailblazers did not launch SIBs.

What the Trailblazers funded

Diversity of SIB-financed interventions

Over the course of the evaluation, January 2014 – June 2017, the research team followed the progress of each Trailblazer from project development to early implementation (or to project termination), and at one site through to completion of the contracted SIB term. Of the nine SIB Trailblazers, five went on to become operational SIBs while four did not proceed to commission a SIB. The five SIB Trailblazers that were commissioned provided services to a diverse range of service recipients, namely, older people who are socially isolated, people with multiple chronic conditions, entrenched rough sleepers, adolescent children in the care of the local authority and people with disabilities requiring long-term supported living arrangements. The Trailblazers provided preventive and community based services that might not otherwise have been commissioned by local commissioners in the absence of the SIB funding mechanism.

Funding
The Trailblazer SIBs provided 'ring-fenced' funds for interventions, which was not the case for similar services not funded by a SIB, and participants particularly noted that this enabled staff to concentrate their efforts exclusively on the SIB-financed intervention. This also permitted commissioners, SIB specialist organisations and providers more time to come together to consider ways to tackle both large and small problems of implementation or ongoing service delivery than would have been usual with other approaches to commissioning. This suggests that some of the effects attributed to SIBs may be the product of higher levels of funding available for initial service development and subsequent oversight. Of course, dedicating protected funding to a specific problem and its response is not intrinsic either to P4P programmes or SIBs. It can be undertaken within conventional approaches to commissioning by 'earmarking' funds for a priority service within a service contract, although the main obstacle would be how to obtain sufficient funds to meet the upfront costs of service development.

The SIB Trailblazers operated with more stable funding for prime contractor provider organisations (although some providers' contracts were typically shorter than the duration of the Trailblazers themselves to enable the investors to replace or modify the contract for poorly performing sub-contracted providers should this be necessary) and longer-term contracts for the staff delivering the interventions than were present typically under conventional form of financing.

Flexibility and responsiveness in service delivery
The evaluation found that the SIB financing mechanism enabled greater flexibility in terms of both overall management approaches and also in service delivery by allowing, for example, spot-purchasing of items for beneficiaries (e.g. tablets, mobile phones, or public transport travel cards) and individualisation of services by providers in response to client needs, in ways that might have been impossible or less likely under more traditional approaches to service commissioning.

Reasons for not proceeding to a SIB
In the four SIB Trailblazers where a decision was made not to commission an intervention through a SIB financing mechanism, there was no single reason why this occurred. In one, the intervention was re-commissioned using conventional (non-SIB) financing due to an unexpected budgetary surplus. In another, work done as part of the SIB development influenced the design of a new service that was ultimately also commissioned conventionally. One of the proposed Trailblazers did not proceed in the geographic area where it had been pursued because local commissioners were unconvinced about the need for the proposed service. The final project, whilst not commissioned during the evaluation period, still had local champions exploring other (non-SIB) routes for financing the proposed services at the time of writing. In the sites that did not develop a SIB, some of the development work as part of the Trailblazer had been drawn on in subsequent (non-SIB financed) programmes elsewhere.

Findings in relation to the analytical framework

Risk and SIB model structure

SIB contracts introduce new actors into commissioner-provider relationships and establish new rules for the governance of specific services. These contracts also distribute risk amongst actors in new ways.

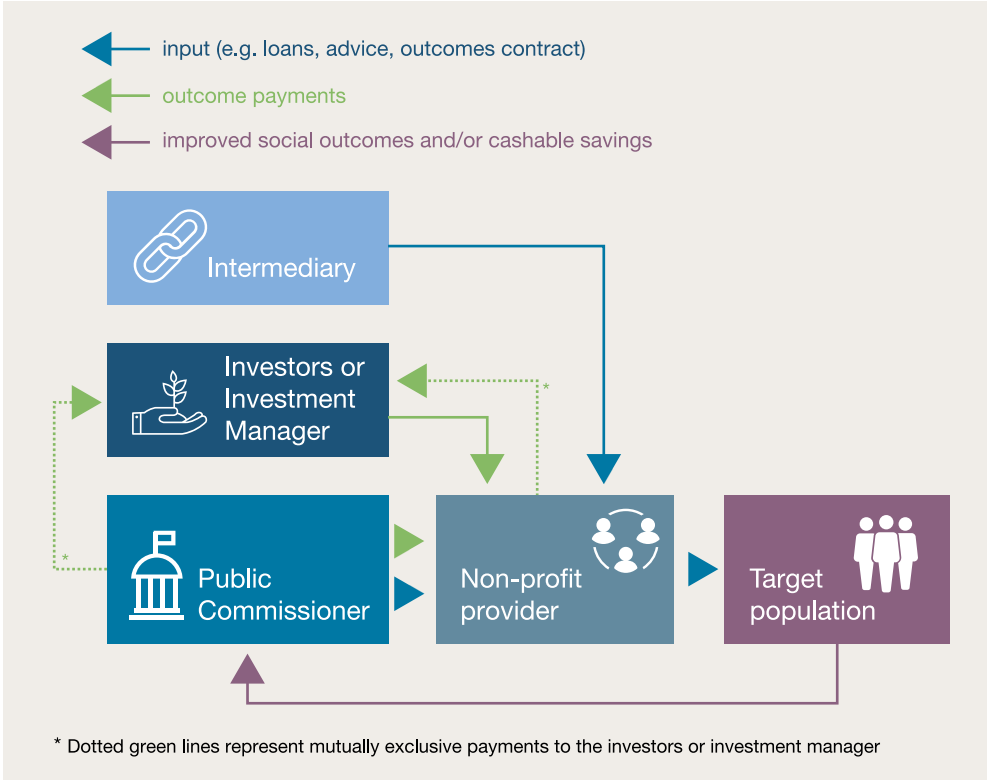
Through analyses of the signed SIB contracts in the five sites that were commissioned, three distinct SIB models could be identified:

1. Direct Provider SIB model (London Thames Reach, Manchester TFCO-A)
2. SIB with SPV model (Newcastle Ways to Wellness, Worcester Reconnections)
3. Social Investment Partnership[1] (SIP) model (Shared Lives)

Other models may be present in other SIB programmes – the intention here is to characterise the underlying structures in the Trailblazer SIBs.

Under the *Direct provider model*, as presented in Figure 2: Direct Provider SIB model, below, financial inputs and outputs flow directly between the provider and the investor(s) or investment manager. In this model, payments and other input from the commissioner also feed into the provider organisation, and, in some instances, the commissioner makes outcome payments to the investor. Resources coming from the SIB specialist organisation (labelled the 'intermediary' or 'investment manager' here), if present, feed directly into the provider organisation.

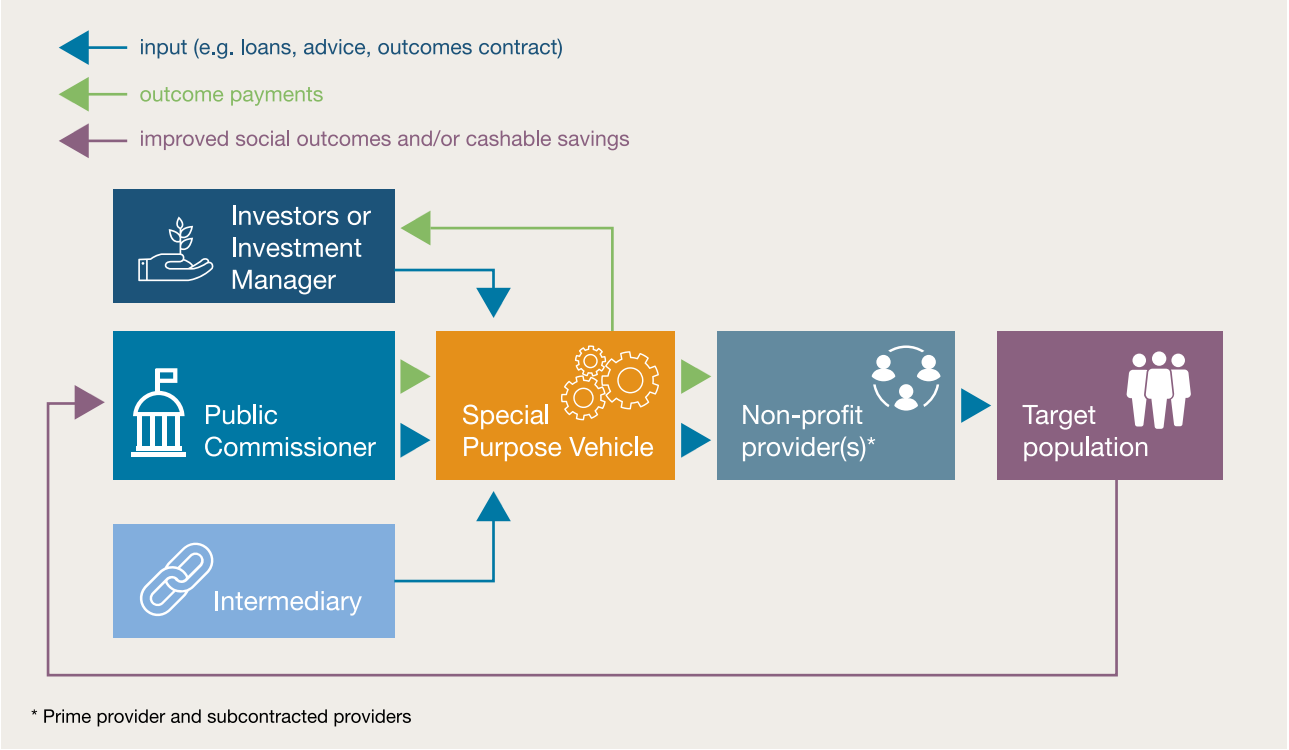
Figure 2 Direct Provider SIB model



1 This model is a payment for performance (P4P) model using process measures as a basis for performance payments.

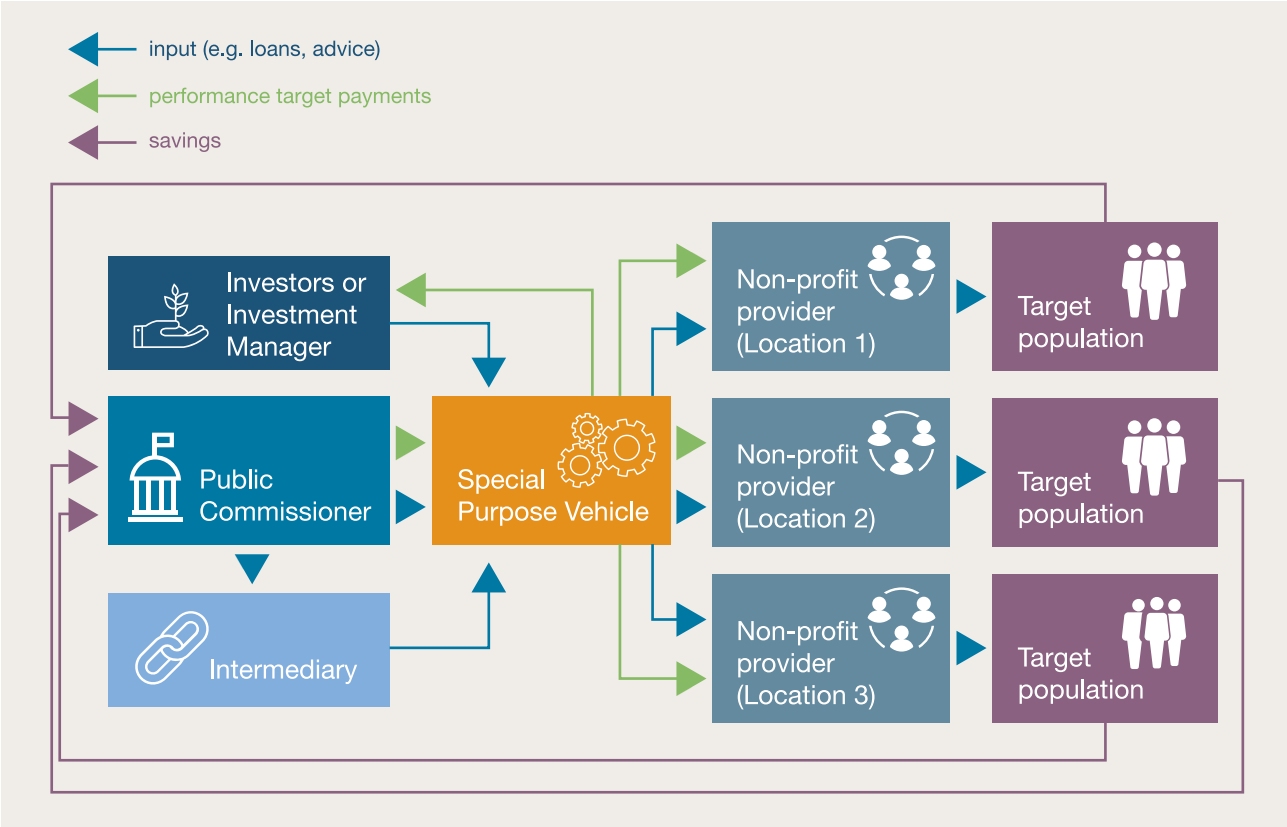
The *SIB with SPV model* presented in Figure 3 differs from the Direct Provider model in the involvement of a Special Purpose Vehicle (SPV) – a legal entity separate from all the parties that can receive investments, issue contracts and provide up-front funds for service delivery to non-profit provider(s). Instead of inputs flowing from investors, commissioners and SIB specialist organisations directly to the provider, these now takes place through the SPV. Similarly, outcome payments to the investors or investment manager are made through the SPV.

Figure 3 SIB with SPV model



The *Social Investment Partnership (SIP) model* in Figure 4 is similar to the SIB with SPV model in terms of input and output flowing via an SPV into the provider organisation, and via the SPV back to investors. The main difference compared with the previously described SPV model is the up-scaling element: through one SPV, several SIPs can be set up across multiple locations, providing the same service. In addition, the SIP does not pay the investors on the basis of outcomes but uses other performance targets.

Figure 4 Social Investment Partnership model [2,3]



Risk allocation in practice

SIBs are often presented as an opportunity for commissioners and providers to transfer the financial risk of paying for services that are not effective to private or social investors. However, financial risk was not always transferred from public commissioners or providers to private or social investors in the Trailblazers. Firstly, providers chose to take on financial risks in some cases; this was explicitly and by design under a Direct Provider model (where the provider could benefit or lose depending whether targets were met or not). Secondly, there was also evidence of providers taking on financial risk within SPV and SIP with SPV models, which should, in principle, have shifted financial risk from providers to investors. The way that contracts were managed created financial consequences for the providers, for instance, by withholding finance when a service did not perform as planned (this occurred in three of the Trailblazers). However, this kind of financial risk exposure of providers in SIBs with SPV and the SIP with SPV models was lower than that experienced by providers in the Direct Provider SIBs. Moreover, the distribution of financial risk was not entirely fixed by the original contractual relationship, but was subject to change during implementation, partly because of the flexibility with which the SIB specialist organisations responded to underperformance (described further below).

Flow of funding from investors to providers

In only one of the five operational Trailblazer sites did all parties agree to share financial data with the evaluation team that were sufficiently detailed and agreed to be reported here. This was the Worcester site. In two sites – Manchester TFCO and Newcastle Ways to Wellness –the SIB specialist organisation declined to confirm data provided by

2 This model is a payment for performance (P4P) model using process measures as a basis for performance payments.

3 Other SIBs with SPVs can operate across multiple locations.

the commissioners and service providers. We have therefore not included these data in the report. While we are grateful to Worcester for sharing their data, we decided that presenting these data alone would be of limited value, so have not included the analysis of these data in this report. Nevertheless, our qualitative work (analysing the contracts and loan agreements, receiving project updates, and interviews with stakeholders) revealed that funds were often paid to providers in the Trailblazer sites in instalments according to their contracts with the investors, based on planned targets for recruitment of specific numbers of clients and other metrics. In three of the Trailblazers, funds were withheld when throughput targets were not met. Since client numbers tended to rise more slowly than planned in the majority of the Trailblazers, not all of the planned funding had been paid to SPVs or providers by June 2017.

Commissioner financial risk mitigation through central Government support
Up to June 2017, the majority of the outcome payments received by SPVs or providers in most of the Trailblazers had come from central government or other national public sources (e.g. the Big Lottery Fund) and a smaller sum had come from local commissioners (the Manchester TFCO-A Trailblazer is an exception with the majority of payments coming from the commissioner). It is likely that the proportion provided by local commissioners will rise in subsequent years across all the Trailblazers due to how the contracts are structured. In all the sites, outcome payments appeared to have been recycled into running the SIB services rather than being taken out as profit by investors. Central government financial support facilitated the initial involvement of local commissioners. Since the SIB Trailblazers represented early, and, in some cases, the first, iterations of SIBs in their respective areas of health and social care, central government financial support for outcome-related payments is aligned with the policy priority ascribed to the development and growth of SIBs by the Government. However, it is important to consider whether and how central government and other national body financial support will, or should be, sustained for the next generation of SIBs.

Financial risk compared to the extent of savings and set-up costs
It can take time for potentially realisable net financial savings to be generated by a novel intervention. In some cases, such savings were not expected during the period of the evaluation fieldwork (e.g. Newcastle). In other cases (e.g. Worcestershire), net cashable savings were not expected. By June 2017, of the five operational Trailblazers, only the TFCO-A programme in Manchester had delivered net savings for a commissioner, though these were lower than the savings expected by that date in the original business case. It may be that TFCO-A exemplifies the sort of service area in which a SIB model can potentially deliver significant savings to a commissioner – i.e. an existing very high cost service which is spot-purchased on a per client basis. However, the Manchester programme may no longer deliver a net saving when the full costs of development and establishment are taken into account.

The absence of obvious financial savings, at least in the first few years, at four out of five Trailblazers, raises the possibility that successful achievement of outcomes may come at increased cost to local commissioners, at least in the short to medium term, when set-up costs are taken into account. Considerable initial time and financial costs were reported by interviewees involved in setting up the Trailblazer SIBs compared to interviewees commissioning services though other funding mechanisms. Set up costs may have been comparatively larger in SIB sites because of the added legal complexities and time commitment needed, or because the Trailblazers were being established from scratch. Regardless, the costs of developing a SIB should be set against any potential savings or better outcomes that may accrue later from more effective delivery of services funded by SIBs (Giacomantonio, 2017).

Incentivisation and outcomes measurement

The theory behind the SIB model is that investors are incentivised to achieve some return on their investment, even if it is below a commercial rate of return. Thus, investors in SIBs are expected to encourage a sharper outcome focus within service delivery organisations by specifying, measuring and encouraging providers to focus on improving client outcomes. In at least one Trailblazer, this theory was never intended to operate, since, unusually, the entire 'investment' was in the form of two loans from public sources at fixed rates of interest, almost entirely unrelated to the achievement of pre-specified client outcomes or other performance metrics. This unusual arrangement largely protected the 'investors' from the financial risk associated with the provider failing to achieve the outcome targets (unless the provider faced bankruptcy). It also meant that the incentivisation mechanism usually presumed in SIBs was absent.

Within the Direct Provider Trailblazers, the provider organisations had a direct financial incentive to achieve results. In the other two Trailblazer models, providers were paid, at least in part, only if they delivered a certain throughput. Thus they also had some financial incentives to achieve targets, though the targets related to outputs rather than outcomes.

It appears that differences in the allocation of incentives in the different SIB models had implications for the manner of service delivery. This was shown most clearly by comparing one Direct Provider SIB and one SIB with SPV, both of which were contracted to deliver similar services to a similar client population. Interviews with staff at the Direct Provider SIB indicated that managers perceived themselves to be under greater pressure to meet targets linked to payments than in the SIB with SPV. There was some evidence from interviews in this site of potential instances of 'parking' difficult cases to focus staff time on clients that would generate outcomes payments. By contrast, the SIB with SPV model (mostly) isolated the provider organisation from financial risk if targets were not met, thereby generating a different incentive structure, with less managerial pressure on front-line staff to meet targets linked to payments. While it can be argued that this was a managerial decision rather than an intrinsic feature of the SIB model, it is nonetheless worth reporting as a behavioural response to a particular SIB model.

In relation to outcome measurement, front-line workers in all of the providers operating in the Trailblazer SIBs were more aware of their targets and the financial implications of both meeting and of failing to meet these, compared to their counterparts in non-SIB financed services. It appeared that the contracts in the Trailblazers enabled a stronger focus on performance through explicit incentives for outcome achievement than was to be found in conventional forms of contracting for public services, resulting in staff being more focused on project goals and more aware of the financial implications of their work.

While the Trailblazers demonstrated greater focus on outcome measurement and had more rigorous data collection and performance management approaches than non-SIB services, it is important to distinguish the collection of management information from robust evidence of effectiveness. Only one Trailblazer tried to use causal attribution through quasi-experimental design to attribute outcomes to the SIB intervention using a matched control group as a counterfactual. There are various reasons for this, including the cost of undertaking outcome measurement using counterfactual approaches that requires causal attribution or quasi-experimental design, and of collecting outcome data at individual client level over time, the research expertise required, data access issues related to information governance in health and social care, and the small size of some of the client groups which precluded meaningful quantitative analysis.

Management style

Only two SIB specialist organisations (one a social investment fund manager and one an intermediary) were involved in the Trailblazers. Between them, these organisations played critical roles in the design of the five Trailblazers and in the implementation and management of four of the Trailblazers. These two organisations displayed both similarities and differences in their overall management styles. Both approached delivery and problem solving with their respective partners in very flexible and largely collaborative ways, searched for unconventional solutions to address underperformance, and demonstrated a willingness to change the service if improvements could be made.

However, one organisation demonstrated a more 'informal' style of management which promoted closer cooperation between commissioners, providers and, to a lesser extent, investors, and downplayed the need to minimise investor exposure to the financial risk if providers under-performed against agreed key performance indicators. The second organisation demonstrated a more 'formal' management style that relied more explicitly on contractually established obligations between the different parties, emphasised individual organisational accountability for performance and included a more pronounced willingness to minimise investor exposure to financial risk in the light of provider under-performance by withholding tranches of investor finance from provider organisations. The more 'formal' managerial style appeared to lead to more pressure on staff in provider organisations to deliver outcomes. Within the time scale of the current evaluation it was not possible to identify which of these managerial styles is likely ultimately to deliver better outcomes for service users.

Interestingly, the divergence in management style mirrors a broader shift in the discourse used by key informants from the two respective organisations during the period of the evaluation. For one of these organisations, the articulated *raison d'être* of the SIB as a concept was to foster experimentation, collaborative learning and social impact. The lack of counterfactual modelling found in all but one of the Trailblazers, and an absence of commissioner savings in all but one of the Trailblazers were not seen as fundamentally problematic from this perspective; rather, issues of attribution and commissioner savings were viewed as subordinate to the overall learning process and development of innovative ways of working with the potential to counter important social problems. In contrast, the other SIB specialist organisation took the view that SIBs ought to be considered as a mechanism principally devoted to the development of effective PbR schemes. This SIB specialist organisation took the view that a SIB should raise some external funding to enable a service to be delivered on behalf of the commissioners; and that this service should be designed to be at least as effective, and, preferably, cheaper, than that provided previously, thereby generating savings alongside social outcomes and guaranteeing, as far as possible, a return for investors.

Further empirical findings

Effectiveness and cost effectiveness of the SIB-funded services

In all Trailblazer SIB and comparator non-SIB sites, there was a unanimous view that interventions were having a positive effect on participants. The findings of local evaluations of the Newcastle, Worcester and London Rough Sleeping SIB Trailblazers (see Mason et al., 2017; McDaid et al., 2016; Moffatt et al., 2017) resonate with those from evaluations of other early UK SIBs, which also reported that those involved perceived that the SIB-financed services added value (DWP, 2014; Disley et al., 2015; Sin & Cameron, 2016).

In relation to the question of whether SIB-financed interventions deliver improved social outcomes and cashable savings for the public purse, compared to conventionally procured services, taking into account the relative costs of the two methods of commissioning, the evaluation team were not able to obtain any of the information needed to answer this question satisfactorily. We cannot quantify whether SIB contracts enabled the achievement of better outcomes than other contractual arrangements (e.g. normal P4P contracts or block contracts or cost and volume contracts) as we had proposed to do at the outset of the evaluation. This is a significant finding given the importance placed by SIB proponents (at least in the early days) on attribution of outcomes through rigorous counterfactual evaluation and the potential for SIBs to achieve cost savings (Cohen, 2011; Corrigan, 2011; Mulgan et al., 2011; Social Finance, 2011; Cabinet Office, 2012). Eight years from the launch of the first SIB at HMP Peterborough, the only quantitative evaluations of any of the effectiveness of the interventions delivered by UK SIBs are the year one (Jolliffe & Hederman, 2014) and year two (Anders & Dorsett, 2017) analyses of the Peterborough cohort data. As described in Chapter 2 (Methods), Section 2.6., quantitative data were provided by one of the Trailblazer SIBs, the London Rough Sleeping SIB, but these were of insufficient quality to be used in this evaluation to undertake a robust assessment of the effectiveness of that SIB-funded service. In one other Trailblazer site a quantitative comparative analysis of outcomes from the SIB-funded intervention (using routine hospital use data) might have been possible, but it ultimately proved impossible for us to negotiate data access within the timeframe of this evaluation. Evidence of effectiveness may emerge from that site in the future, and possibly from one other site, where data are being collected on levels of use of secondary and ambulatory care those who have undergone the SIB-funded intervention and individuals in a control group from elsewhere in the city. A comparative analysis of these data are expected in coming years. At the time of writing, after three and a half years of the Trailblazer evaluation, during which the evaluation team have looked for data on which to base an assessment of effectiveness of the interventions funded in the Trailblazer sites, and after over two years of SIB operation in four of the five sites, there remains a paucity of quantitative evidence of effectiveness of these SIB financed programmes. This reflects what has been seen in other UK SIBs and their evaluations, which have not been able to acquire the necessary quantitative data on costs and outcomes needed to answer questions about the effectiveness of SIB-funded services in a robust way (DWP, 2014; Sin & Cameron, 2016; Mason et al., 2015; 2017).

Ability of the Trailblazer SIBs to scale up interventions

An explicit claim of SIB proponents relates to the potential for SIBs in scaling up programmes that have a social impact (Social Finance, 2012; Big Society Capital 2017; OECD, 2016; Bridges Fund Management, 2015). To investigate this, Chapter 4 describes how the five active Trailblazer SIBs performed in terms of service user recruitment. Among the Trailblazers, Newcastle's Ways to Wellness programme performed impressively against the original recruitment targets agreed by all parties, and to this extent did result in scaling up Social Prescribing Services locally. Manchester TFCO-A did not meet targets for the number of service users recruited, but recruitment compared very favourably with other TFCO-A projects in the UK. Service user recruitment in the Worcester Reconnections project was below target although it was improving at the time of writing. As with the Worcester project, recruitment was below target in both the Lambeth and Manchester Shared Lives projects. Thames Reach, one of London's two Rough Sleeping SIBs, worked with a fixed, predefined cohort of rough sleepers so cannot be evaluated against this criterion.

Key contributions and limitations of the evaluation

Contributions

The main contributions made by this study are:

- The evaluation is the first to describe and compare a number of SIBs (and potential SIBs) and discuss their relative strengths and weaknesses from different actor perspectives. It is also the first UK evaluation to focus exclusively on the potential that SIBs hold for health and social care.
- The focus on risk, SIB model typologies and the management of SIBs undertaken by SIB specialist organisations offers new insights into how different financial and management models may affect service delivery as a result of: different incentive structures; the interaction between financial, reputational and implementation risk; and different approaches to performance management.
- The detailed investigation into financial flows and outcome payments.
- The examination of how outcomes were measured highlighting the absence of robust data on the effectiveness of the SIB-funded interventions, set up costs and cost savings.
- The qualitative comparison of the experience of staff delivering similar interventions with and without a SIB – an approach that other studies have not employed – and as a result of this the identification of some potential 'SIB effects'.
- Placing SIBs in the context of a wider body of theoretical literatures from public policy, management, business and economic disciplines.

Limitations and challenges of the evaluation

- The inability to access suitable quantitative data to compare costs and outcomes of SIB and non-SIB services meant that it was not possible to achieve one of the objectives of the project (revised objective 4b).
- With the exception of one Trailblazer which ended during the evaluation, the other four operational SIBs were evaluated during their early to mid-period of implementation. It is possible that the performance of these projects will change before they conclude in two to five years' time.
- In a small number of the Trailblazers, some informants presented narratives relating to the trajectory of the Trailblazer (both those that were and were not ultimately commissioned) that sometimes conflicted with those of other informants. While it is within the scope of research to attempt to reach a verdict on the basis of the weight of evidence supporting one interpretation of events versus another, in some cases, this was not possible. In these situations, the report presents each of the narratives and identifies the points of divergence.
- The relatively small number of Trailblazers and their distinctive profiles made anonymisation of interviewees and other participants an important consideration in the empirical data presentation (see Chapters 6-8 of the report).
- The heterogeneity of the different Trailblazer interventions also made generalisation across the sites difficult. To counter this, the empirical chapters endeavour to highlight when findings were specific to a particular site, or number of sites, and when they seemed more widely generalisable because they were consistent with the intrinsic incentives of SIBs.
- This study's remit was to provide an evaluation of the SIB as a financing mechanism in commissioning health and social care services in England. It was not to conduct a service evaluation that focused on the impact of the services delivered on their users. For this reason, extensive service user input was not part of the conduct of the research.

Implications for policy and practice in health and social care

The implications for policy, practice and future research are discussed fully in the final chapter of the report. Below we highlight the major implications:

- SIBs are unlikely to be applied to a wide range of commissioning situations
- SIB specialist organisations add value, but their different approaches prioritise different SIB goals
- Attribution of outcomes to the SIB-financed intervention should be prioritised in future projects
- SIBs need to demonstrate cost-effectiveness
- The choice of SIB model is important since it shapes the allocation of financial risk

Conclusions

It is not possible from the three or so years of data that could be collected during the Trailblazer evaluation to determine whether SIBs are likely to be superior to other more conventional approaches to commissioning in the service areas chosen by the Trailblazers. However, it is possible to give some high level, if tentative, indications of which elements of the Trailblazers appear to be contributing to the likelihood of better outcomes in the future and which elements seem to be hindering this. Taken together, they give some indication of actions to encourage and others to avoid when implementing SIBs in health and social care in the future.

The following elements identified in this evaluation seem likely to contribute to the achievement of better outcomes in future. It appears that SIBs have the potential to be a useful health and social care commissioning tool to put in place evidence-informed, or untested interventions for complex problems in specific circumstances, for example, where there are relatively easily measured and attributable outcomes and/or where there are relatively easily identifiable and potentially realisable cost savings. The Trailblazers demonstrate that SIBs can encourage collaborative approaches to the design of interventions (bringing together providers and commissioners alongside new actors such as investors and SIB specialist organisations) and seem well-suited to funding interventions that deliver highly individualised support. This is not to say that other approaches to commissioning could not achieve this if the resources were available for the intensive work required (Disley et al., 2015).

The Trailblazers demonstrate greater managerial attention to, and greater flexibility in, service delivery than was apparent in non-SIB comparator services. SIBs also appear to encourage greater provider focus on demonstrating results and more rigorous collection of performance data. The effective 'ring-fencing' of funds and staff time to dedicate to commissioning specific programmes is helpful. The Trailblazers demonstrate innovative approaches to long-standing problems – such new thinking is welcome. Linked to this, SIB specialist organisations, in particular in the Trailblazers, challenged institutional norms and championed new methods and models of delivery. Some of the Trailblazers encouraged evidence-based interventions (e.g. Manchester TFCO-A), or research-based interventions (e.g. Newcastle Ways to Wellness Social Prescribing Service) and are thereby generating useful knowledge and learning about the applicability of such interventions in different contexts. Other Trailblazers offer the space to develop the economic case for new untested interventions to explore what might work in tackling stubborn social problems (e.g. Worcester Reconnections). Finally, the Trailblazers also offer longer-term planning and relative financial stability for some of the third sector provider organisations involved.

The research identified other elements that appear to reduce the odds of improving outcomes. The monetisation of process targets and social outcomes can clash with the professional values of third sector provider organisations and some of their staff. This may lead to increased managerial pressure on staff to perform in particular ways, resulting in staff alienation, 'gaming' and increased staff turnover in some instances. Somewhat overly optimistic client recruitment rates and performance targets exacerbated these problems in some sites. Misunderstandings between partner organisations about risk allocation, access to finance and the implications of underperformance may lead to inter-organisational turbulence. Accessing and interpreting data were contested in a small number of Trailblazers with implications for assessing performance as well as inter-organisational trust. The Trailblazers seem to operate, at least in health and social care so far, with less reliance on outcome data than might have been expected given the emphasis given to the focus on paying for outcomes in the justification generally given for SIBs. The absence of outcome and costs data at this point in time limits the extent to which they can be independently evaluated.

Whilst SIB specialist organisations can be credited with getting five of the Trailblazers that eventually started off the ground, and in four of the five, facilitating project management and problem solving, there are some transparency issues associated with the costs associated with their roles in contracting and delivering a SIB, that policy makers should be aware of before they enter into such contractual arrangements.

It is noteworthy that the Trailblazers in practice appeared to depart from the original idea of an outcome-focused, investor-driven model of commissioning and paying for public services that deliver cashable savings (Cohen, 2011; Corrigan, 2011; Mulgan et al., 2011; Social Finance, 2011; Cabinet Office, 2012) in the following significant ways. Firstly, at least so far, payment to investors by commissioners on the basis of outcomes was relatively little emphasised, compared with achievement of other performance targets such as recruitment or throughput of clients. Secondly, in four of the five Trailblazers, there was no outcome analysis against a counterfactual, thus it was impossible to judge robustly whether the outcomes achieved were a product of the SIB-financed intervention or not. Thirdly, provider organisations took on varying levels of financial risk (rather than the investors exclusively) since they were remunerated, in part, on the basis of performance, including on outcomes achieved. Fourthly, in one Trailblazer, some of the upfront investment was not outcome-contingent but provided as an interest-bearing loan to the provider from public sources.

It is important also to highlight that the upfront investment in the Trailblazers came from philanthropies and socially minded investors rather than purely commercial investors (this is similar to SIBs in other sectors in the UK). Additionally, at least so far, outcome payments were typically re-invested in the intervention/service rather than taken as profit by the investors (this relates to the nature of the investors, above). A large proportion of these outcome payments (where relevant) were typically paid not by local commissioners from savings generated by client outcome improvements but by central government and national charities such as the Big Lottery on a variety of bases (the Manchester TFCO-A Trailblazer may be an exception). Finally, we find that the ability to make cashable savings as a result of successful interventions was not always a prominent consideration in the design or implementation of the Trailblazers overall.

Ultimately, the Trailblazer evaluation shows that the practice and thus the concept of a SIB, and what it should be, continues to evolve with different voices emphasising different aspects of the activities which take place under its auspices. This leads to differences of view as to whether a SIB should even be considered as a financing

instrument at all rather than simply an approach to local partnership development designed to improve the specification and delivery of responses to embedded social problems. For example, the third Trailblazer model identified in the current study (referred to as the Social Investment Partnership) would not qualify as a SIB according to some definitions because it does not include any investor payments based on the achievement of pre-specified social outcomes. This, in turn, potentially alters the basis of judging the success or otherwise of the SIB approach, though it should still be possible to assess the extent to which any of the SIB models improves people's lives and by how much compared with more conventional approaches to commissioning services and the overall cost implications of doing so.

1. Introduction

1.1 Background

Interest in Pay-for-Performance (P4P) mechanisms, linking part of remuneration to achieving performance targets, has recently grown in health care and other public services, especially in the UK. For instance, P4P, also sometimes termed 'payment by results' in England, was mentioned 15 times in the UK Government's 2011 Open Public Services White Paper (Government, 2011). The term 'payment by results' can be confusing as 'Payment by Results' is also the term used in the English NHS to refer to the prospective payment for hospital care based on activity, not on performance targets. For this reason, the term 'payment for performance' will be used in preference in this report.

Social Impact Bonds (SIBs) are a relatively new type of P4P contract focused on outcomes (i.e. 'payment by results') for the delivery of public services, frequently through third sector organisations over a period typically between three and five years but sometimes longer. While SIBs come in many shapes and sizes, generally these contracts involve three parties: public sector commissioners; social investors; and service providers.

A fourth party, a SIB specialist organisation, is also often involved. Again, while there are many different roles these specialist organisations can perform, the two SIB specialist organisations involved in this research are somewhat typical: one is an intermediary organisation that brings the different parties together, aids service redesign and may also perform a management function in the delivery of the subsequent project. The second organisation is a specialist fund manager that generates the finance for projects and also performs a management function overseeing how this finance is used. We use the term 'SIB specialist organisation' for both types of organisation for purposes of anonymity in this report.

In a typical SIB contract, public sector commissioners partner with (usually socially minded) private, for-profit or third sector social investors to fund interventions that seek to tackle (usually complex) social problems such as those associated with rough sleeping, frail older people with multiple long term conditions, youth offending, youth unemployment, substance abuse, etc. More specifically, investors (who might be philanthropies and/or private investors) cover the upfront costs necessary to set up and provide the interventions implemented by service providers, while the commissioner commits to pay an agreed premium – a return on investment – if pre-defined desired outcomes are later reached. Sometimes, the intention is that the premium to investors should be paid wholly or in part from cashable savings generated for the commissioner. SIB specialist organisations are often involved in developing the intervention, providing advisory services (intermittently or through the life of the contract) and liaising with investors to secure project funding. In many cases, a Special Purpose Vehicle (SPV), or a subsidiary company, is established whose operations are used for the acquisition and financing of the service, and to receive investments and make outcome payments. The SPV can also issue contracts to service providers to deliver the intervention.

The term SIB can be confusing as these contracts are not really bonds. If they were bonds in the accepted sense, the investors should be guaranteed to get their initial investment back at the end of the defined period, with any interest in proportion to the effectiveness of the intervention funded with their investment. Instead, Social Finance, a prominent SIB specialist organisation in the SIB field in the UK, describes a SIB as "a hybrid instrument with some characteristics of a bond (e.g. an upper limit on returns) but also characteristics of equity with a return related to performance" (Social Finance, 2014).

In the more ambitious SIB schemes, the pay-out to investors is, in theory, derived, wholly or in part, from savings to government as a whole or the specific service commissioner if the intervention succeeds (e.g. if people are helped back to work and cease to be reliant on welfare benefits) rather than on the basis of an estimation of the value to society of the improved outcomes – as might happen in less ambitious SIB schemes. The government commissioner agrees to pay a proportion of any savings to the investors as profit and/or return on capital (returns on their investment).

Under a SIB mechanism, there is no requirement for the service provider to enter a performance-related contract. This means that unlike more conventional P4P schemes, the risk does not have to be borne by service providers, but is borne by the investors instead. Nevertheless, in practice, some SIB schemes include a P4P component for service providers as well (Tan et al., 2015). Ultimately, even though there might be an attempt from the public funder to shift some of the risk to private investors via a SIB, the government is likely to bear at least some residual risk, for example, if the SIB-funded intervention fails or makes things worse and clients of those interventions end up using other or more public services.

England has emerged as a pioneer in the use of private finance to deliver social services through SIBs. The world's first SIB was launched at the Peterborough Prison in 2010 (Disley et al., 2011), and SIBs have been promoted by successive governments and others since then. The original proponents of SIBs in the UK (Cohen, 2011; Corrigan, 2011; Mulgan et al., 2011; Social Finance, 2011; Cabinet Office, 2012) characterised the promise of SIBs in the following ways:

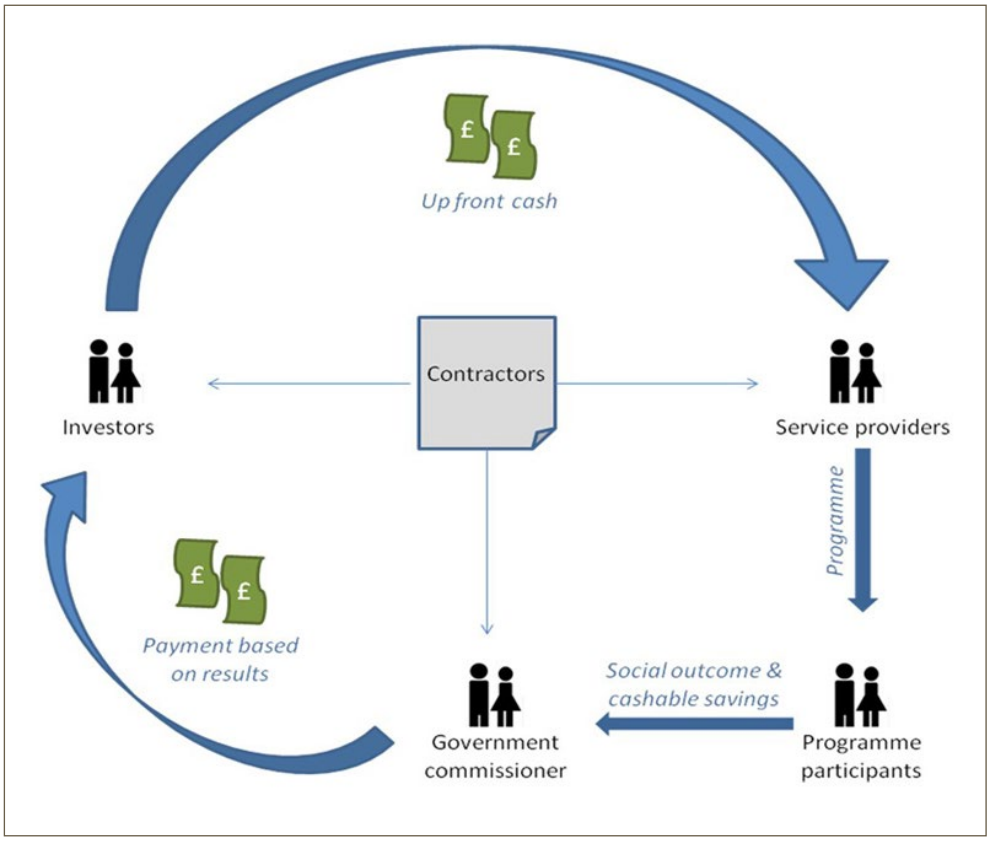
- An innovative partnership between private and/or socially minded investors, commissioners and non-profit service providers, often coordinated through SIB Specialist Organisations to tackle deeply ingrained social problems;
- Improved social outcomes for service users and cashable savings for commissioners;
- Financial risk transfer from the public sector to investors;
- Rigorous evaluation to ensure that improvements in social outcomes are measured and attributable to the SIB financed interventions;
- Return on investment to investors dependent on achievement of outcomes

As health and social care systems face the challenges of rising demand (due to an ageing population) and severely constrained resources, social investors and financial intermediaries see social investment as one of the main areas of growth and opportunities. The demand for social investment in the UK was estimated as likely to reach £1 billion by 2016, a third of which was expected to be in the field of health and social care (Boston Consulting Group, 2012). At the end of 2016, social investment in the UK was estimated to be worth at least £1.950 million, a 30% increase from the end of 2015 (Big Society Capital, 2017a). The Conservative Government's 2016 strategy on social investment affirmed the government's commitment to growing the social investment market as a means to expand public services delivery by third sector organisations and social enterprises (HM Government, 2016). Although there are still enthusiastic predictions, growth of the market has not been as rapid, and most UK investments have come from philanthropic and/or government sources.

The simultaneous introduction of such an innovative funding mechanism and entry of new actors (i.e. social investors and financial intermediaries) in the field of health and social care is likely to present opportunities for the future financing of services, but might also present potential risks associated with the contracting out of public services, for

example, in relation to the sustainability of service delivery and what happens if ventures 'fail'. There is also the issue of the transaction costs as SIBs appear more complex than traditional mechanisms with the added risks associated with complexity in financing (see Figure 1.1 below, for a diagram illustrating how a SIB operates). In this context, it is important to critically assess the development of the first SIBs in the area of health and social care, in order to contribute to the research literature focused on the value-added and feasibility of further SIB models in health and social care, and to inform the way in which they might be designed and managed in the future.

Figure 1.1 SIB Diagram



Source: Cabinet Office 2018.

1.2 SIB Trailblazers in Health and Social Care

In 2013, under the auspices of the Department of Health, work began to develop SIBs in nine sites, referred to as the SIB Trailblazers in Health and Social Care (briefly described below in Table 1.1, see Chapter 4 for a more detailed description of the SIB Trailblazers' progress and contractual analysis). Eight of the Trailblazers received seed funding from the Government's Social Enterprise Investment Fund (SEIF). This was to undertake an analysis of whether to implement a SIB and, if so, to help set it up. The SEIF was originally set up in 2007 by the Department of Health in order to facilitate the development of the social investment market in health and social care. In many cases, SEIF funding allowed projects, often led by service providers at the invitation of commissioners, to gain access to fund managers and intermediaries, new actors offering advisory services, not unlike management consultancies with

specialist knowledge in SIB development, who have provided assistance in the design and negotiation of potential SIBs. In most cases, intermediaries worked closely with providers and commissioners to share the development work involved in the SIB as far as is possible within the requirement to tender SIB-funded services. Other parties (not just the SEIF) were also involved in the early financing of the Trailblazers.

Five of the nine projects in Table 1.1 proceeded to become operational SIBs. Four did not progress and the reasons for this are explored in Chapter 5. The Trailblazers varied in their location, scale and type of interventions delivered (e.g. from providing innovative interventions to support isolated older people in the community to scaling up proven programmes targeting delinquent youths). Since the projects became operational, SIB specialist organisations have continued to play an important role in the SIB Trailblazers. In four of the operational SIBs, they have remained actively involved in the SIB sites in multiple roles. These include strategic oversight (e.g. as directors in the SPVs), operational management, performance managers, and in monitoring and evaluation.

Table 1.1 Overview of nine SIB Trailblazers, June 2017

Project	Intervention/service	Was a SIB developed?
Sandwell and Birmingham	Integrated community-based end of life services	Did not progress to a SIB
Cornwall	Early interventions for a cohort of 1000 frail older people with LTCs at risk of emergency admission	Did not progress to a SIB
East Lancashire	Patient-specific tailored health and social care interventions to reduce isolation, unemployment and poor quality of life	Did not progress to a SIB (intervention funded by service contract in the normal way)
Leeds	A 75-bed nursing facility and community nursing care to a mix of high-needs people with neurological trauma	Did not progress to a SIB
Manchester	Treatment Foster Care Oregon (TFCO-A) providing behavioural interventions for 95 children aged 11 to 14 years	Yes – contracts for a SIB were signed and a SIB is in progress at the time of writing
Newcastle	Better self-management of long-term conditions through social prescribing (i.e. non-medical interventions in the local community to foster sustained healthy behaviours)	Yes – contracts for a SIB were signed and a SIB is in progress at the time of writing
Shared Lives	Alternative to care homes for people in need of intensive support: carers share their lives and often their homes with those they support	Yes – contracts for a SIB were signed and a SIB is in progress at the time of writing in Lambeth and Manchester (from 2015), and Haringey and Thurrock (from 2017)
Thames Reach	Personalised service pathway for a cohort of 415 entrenched rough sleepers	Yes – Completed in October 2015, last outcomes paid in October 2016
Worcester	Aims to reduce loneliness among older people through tailored support to engage with local community	Yes – contracts for a SIB were signed and a SIB is in progress at the time of writing

1.3 Aims and objectives of the evaluation

In December 2013, the Department of Health's Policy Research Programme commissioned the Policy Innovation Research Unit (PIRU) at the London School of Hygiene and Tropical Medicine, in partnership with RAND Europe, to undertake an independent evaluation of the nine Trailblazers with the aim of exploring their potential benefits and costs.

The study was planned initially to take place over two years between January 2014 and December 2015, and had the following four objectives:

1. Develop a conceptual framework to help understand the potential role and effects of SIBs compared with other approaches to paying for public services. This component will help orientate the subsequent empirical parts of the project;
2. Describe and assess the development of the nine SIB Trailblazers in order to identify obstacles and enabling factors in finalising SIB contracts;
3. Describe and characterise the signed SIB contracts in order to unpack the implications in terms of incentives and risk-sharing arrangements for the different parties;
4. Assess, if feasible, in a second phase, whether and how the SIB contract mechanism enables achievement of better outcomes than alternative funding mechanisms, and if so, to explore the ways through which such benefits appear.

The evaluation was planned in two phases from the outset because of the uncertainty about the speed of development of the Trailblazers and the feasibility of undertaking a quantitative comparison of the same services delivered through SIBs and conventionally (objective 4, above).

After the initial data collection in phase 1 during 2014, designed to understand the nature of the Trailblazers, a peer-reviewed interim report was published in spring 2015 (see Tan et al., 2015). The first phase included work to assess the feasibility of a quantitative evaluation, and the research team submitted a more detailed proposal for this and other work in June 2015. This proposed an extended second phase of the evaluation since it was clear that the original objectives of the study could not be accomplished by December 2015 because of the slower than planned progress of the Trailblazers towards putting in place SIBs.

The proposal for the extended second phase, emphasising objectives 3 and 4, was accepted by the Department of Health with the following revised objectives for the remainder of the evaluation which took place between January 2016 and June 2017:

1. To finalise an analytical framework to help understand the factors involved in the decisions made by the different parties to fund a project through a SIB compared with other approaches to paying for public services;
2. To continue and deepen the description and assessment of the Trailblazers in order to identify obstacles and enabling factors in finalising SIB contracts;
3. To undertake the description and characterisation of the signed SIB contracts in order to unpack their implications in terms of incentives and risk-sharing arrangements for the different parties;
4. To assess whether, and if so, how, the SIB contract mechanism enables achievement of better outcomes than alternative funding mechanisms, with two sub-objectives:

a. To explore qualitatively how any benefits appear, through in-depth interviews at strategic and operational levels, and, if appropriate and feasible, with service users, including comparative research with other non-SIB funded similar or equivalent services elsewhere in the country to answer the following questions:
   i. What are the roles played by investors in the shaping and delivery of the SIB service?
   ii. How does a SIB change the way providers operate at a strategic level in terms of workforce organisation and performance monitoring?
   iii. How does a SIB change the way providers work at an operational level in terms of the relationships between front-line workers and local managers?
   iv. How and in what ways do the regular outcomes payment schedules affect the work of provider organisations in the periods before payments?
   v. How and in what ways does the SIB change the services received by users?
b. To explore quantitatively, in sites where appropriate comparators can be identified, whether SIB contracts enable the achievement of better outcomes than other contractual arrangements (e.g. normal P4P contracts or block contracts or cost and volume contracts).

2. Methods

2.1 Overview

This final report covers the 42 months of the evaluation (January 2014- June 2017). Data collection started in May 2014 due to delays in securing ethical approval and local research governance approvals. Fieldwork and data collection ended in May 2017 to capture information about the operational SIBs during their first two full years of operation as most began in May 2015.

The original design of the evaluation comprised the following components:

- A literature review of academic, governmental and practitioner publications globally. This has since been published (Fraser et al., 2016) (see Chapter 3 for a summary and Appendix 1 for a copy of the journal article);
- Development of a conceptual framework for analysis, presented in Chapter 3 of this report. As part of this work, a separate output was developed that has since been published as a decision-tree analysis of reasons why commissioners might choose not to commission a SIB (Giacomantonio, 2017) (see Appendix 2 for the paper);
- Collation of descriptive information on the SIB Trailblazers from their plans, progress reports, contracts and other documents (e.g. concurrent evaluations) (presented in Chapter 4, section 4.1);
- Analysis of the SIB contracts in the five operational Trailblazers (Chapter 4, section 4.2);
- Semi-structured interviews to discuss the development of each Trailblazer with:
  - Service providers involved in SIB design and delivery
  - Commissioners in health and social care (CCGs and local authorities)
  - Specialist SIB intermediary organisations involved in the development and design of SIBs in health and social care, and others involved in SIB development (e.g. legal specialists)
  - Investors and
  - National policy advisers (e.g. in the Cabinet Office) (findings presented in Chapters 4-8).
- Semi-structured interviews with commissioners and providers involved in similar non-SIB services (findings presented in Chapters 7 and 8);
- Quantitative analysis comparing outcomes of the same services commissioned through a SIB contract and more conventional commissioning: ultimately, it proved impossible to undertake this type of analysis (see Section 2.6, below) for an explanation.

2.2 Qualitative research design

Comparative case studies of SIB Trailblazers

We drew on comparative case study methods (Yin, 2013; Eisenhardt, 1989) to explore the perceptions and narratives offered by key actors relating to the decisions whether or not to commission services through a SIB financing mechanism across the nine original SIB Trailblazers in health and social care. Qualitative case studies are an appropriate method for exploring issues related to policy implementation (Pope & Mays, 1995; latest edition in press, 2018), exploring 'how' and 'why' questions about phenomena through detailed contextualised accounts of cases (Yin, 2013).

For those sites that eventually chose not to commission SIB financed services, we undertook qualitative analysis of policy documents (both local and national) and conducted interviews with relevant actors ***before and after*** the decisions were

made not to commission the respective services through a SIB. This approach meant that it was possible to compare participants' explanations for not proceeding with their previous SIB rationales for proceeding and any concerns that they had earlier expressed. The findings relating to decisions not to commission a SIB can be found in Chapter 5. It was not possible to interview any potential investors where a decision was ultimately taken not to commission a SIB because the decisions were taken before any investors had become involved. Among the Trailblazers, investors became formally involved in SIBs only following advanced negotiations between commissioners, providers, legal advisors and SIB specialist organisations.

In a small number of the Trailblazers, some informants presented narratives relating to the trajectory of the Trailblazer (both those that were and were not ultimately commissioned) that sometimes conflicted with those of other informants. While it is within the scope of research to attempt to reach a verdict on the basis of the weight of evidence supporting one interpretation of events versus another, in some cases, this was not possible. In these situations, the report presents each of the narratives and identifies the points of divergence.

Comparisons with non-SIB services

For those Trailblazers that *did* commission SIB-financed programmes, we compared the Trailblazers qualitatively with sites elsewhere in the country that had the same or similar interventions (e.g. social prescribing, or specialist foster care services) serving similar populations provided by the same or similar organisations but without a SIB – referred to in this report as 'non-SIB comparison sites'. This comparison, though not perfect, was designed to shed light on how the presence of a SIB might have affected the management and delivery of health and social services. The original intention had been to undertake a quantitative comparative analysis of at least some of the SIB versus non-SIB pairs but this proved impossible (see Section 2.6 of this chapter). The qualitative comparisons are explored in Chapters 7 and 8.

Non-SIB comparison sites were selected according to the following criteria:

1. They provided the same intervention or as similar as possible;
2. The same provider organisation was present; and
3. The same types of users were present

Four non-SIB sites were eventually identified as suitable comparators for four of the commissioned SIB Trailblazers (sites B to E in Table 2.1 below). However, in the fifth case (site A), no suitable non-SIB comparator could be identified because, unlike the SIB-led service, services in this sector were generally provided in silos, with different providers involved at each point along the service pathway. The Trailblazer service was the first service that allowed the same staff to follow the cohort of users along a personalised pathway. In this case, the Trailblazer SIB was compared with another SIB in the same field but which used a different SIB model (see Table 2.1 for the design of the qualitative case study comparisons and Table 2.2. for information on the number of interviews in the Trailblazers and comparator sites). Of the four non-SIB comparator sites, three had services directly funded by local commissioners through block contracts and the fourth service was in the form of a pilot project with grant funding. Three of the services had been commissioned by the local authority for some time. The novel, pilot intervention experienced some of the same hurdles and implementation challenges as the SIB Trailblazer. In the case of the fifth Trailblazer,

the comparison with another SIB model enabled understanding of how different allocations of risk between investors and providers affected SIB implementation. The two SIB projects ran concurrently and provided a unique opportunity to compare how two different SIB contracts (one using an SPV and one with a 100% P4P provider contract, hereafter described as the "P4P-SIB") were used to pursue the same outcomes-based performance targets in two similar service providers with the same target population.

Table 2.1 Design of qualitative case study comparisons

SIB Trailblazers	Provider	Intervention	Target population	Method of funding
Site A	Similar	Similar	Same*	SIB without SPV SIB with SPV
Site B	Similar	Same**	Similar	Block contract
Site C	Similar	Similar	Similar	Block contract
Site D	Same	Same***	Same	Block contract
Site E	Same	Similar	Similar	Grant funds

* Retrospective, selection to scheme based on historic numbers of contacts with service delivery organisations;
** Licensed intervention; *** Standardised intervention

Table 2.2 Interviews in qualitative case study comparison sites

SIB Trailblazers	Commissioners	SIB specialist organisations	Investors	Providers Management	Providers Front-line staff	Total
Site A	4*	1*	1	4	9	19
Site A comparator			0	5	10	15
Site B	2	2	1	8	2	15
Site B comparator	n/a	n/a	n/a	1	1	2
Site C	3	4	8	6	3	24
Site C comparator	2	n/a	n/a	4	5	11
Site D	1	4	0	2*	2	9
Site D comparator	n/a	n/a	n/a		2	2
Site E	4	6	2	8	8	28
Site E comparator	1	0	0	2	2	5
TOTAL	**17**	**17**	**12**	**40**	**44**	**130**

* The informants for Sites A, D and its comparator were able to speak about both projects

2.3 Semi-structured interviews

Initial interviewees were identified through SEIF applications, the Department of Health and the Cabinet Office, and subsequent interviewees were identified using the 'snowball' method (See Appendix 3 for interview topic guides, Appendix 4 for interviewee information sheet and Appendix 5 for interviewee consent form). We conducted 177 interviews with 199 informants overall across all sites between June 2014 and May 2017 until 'data saturation' (Glaser, 1978). We purposively sampled informants to include commissioner (n=38 with 32 informants), provider (n=123 with 109 informants), SIB specialist organisations (n=23 with 13 informants), investor (n=9 with 10 informants) and others (n=5), e.g. central government, or data analysts or consultants, or independent board members viewpoints. The first wave of data collection occurred in 2014 during the early development and set up phase of the SIB Trailblazers, the second wave of interviews occurred from February 2015 to March of 2016 during the early launch and implementation process, and the third wave occurred from July 2016 to May of 2017 to understand how the projects fared at the 18-24 month point. See Table 2.3 below for details of interviews with all stakeholder groups.

Table 2.3 Total number of interviews held

	Commissioners	SIB specialist organisations	Investors	Providers	Others	Total
First wave	6	8	2	11	2	29
Second wave	22	8	0	63	1	2
Third wave	10	7	7	49	1	74
TOTAL	**38**	**23**	**9**	**123**	**5**	**177**

Most interviews lasted an hour and were conducted face to face, though a number of interviews were undertaken over the telephone where this was more convenient for informants (n=27). Many interviews were conducted by two members of the research team together and a small number of interviews were conducted with more than one informant.

In the first round of interviews at all the Trailblazers held from June to November of 2014, we asked informants about their professional background, work history, an overview of their understanding of the proposed health or social care intervention and their understanding of the SIB financing mechanism. We discussed the opportunities and challenges likely to be faced in SIB development whilst allowing informants the space to express their own narratives (Fontana & Frey, 2000).

In sites where a SIB was not commissioned, from September of 2015 to December of 2016, a second round of interviews were held in which we asked informants to reflect on the reasons for this decision (See Chapter 5 for the results of this work). Where a SIB did proceed, we conducted a second round of interviews from April 2015 to April of 2017, following the early to mid-implementation process of the SIBs. We asked informants to reflect upon their own ability to promote or inhibit the development of the proposed SIB and the way in which the proposed SIB had identified current problems, challenged established ways of delivering solutions to problems and offered new ways of delivering services. In the Trailblazers that progressed to commission SIB-financed services, the second round of interviews focused on the allocation of risk, performance management, role of incentives, and the benefits or challenges of SIB implementation.

The research team chose not to interview service users because of concurrent evaluations of some of the services provided in the Trailblazers (see McDaid et al., 2016; Mason et al., 2017; Moffatt et al., 2017). This was to avoid interfering with these evaluations and over-burdening service users since there were small numbers of service recipients in most of the Trailblazer services. This decision also helped make it clear at local level that the focus of the current study was on the SIB financing mechanism rather than the specific services provided using SIB resources. For example, the Newcastle Trailblazer SIB focused on providing a range of social prescribing interventions in a part of the city. These were subject of a local evaluation which compared the area where social prescribing was available with another district which lacked such provision. The relevant comparison for the current study was different involving two social prescribing programmes, one commissioned through a SIB and one not.

2.4 Analysis of data from semi-structured interviews

Interview transcripts were coded using NVivo 10 (QSR International, 2009). Two members of the research team analysed data collaboratively to ensure inter-coder reliability and interrogated the data repeatedly in order to understand key issues in relation to the Trailblazers such as the decision to commission, or finance a SIB project or not; early implementation challenges where SIBs were commissioned; impacts of performance management and contract management decisions and service delivery upon different actors; and overall views about potential strengths and weaknesses of SIB financing mechanisms from staff as they developed and delivered SIB-financed projects. The interviews in the non-SIB comparison projects explored similar questions with the goal of attempting to tease out the main differences between delivering services with and without a SIB.

Initial codes were based on themes arising directly from the semi-structured interview questions covering: ***measurement, complexity, competition, risk, trust,*** and ***collaboration***. These codes were closely related to the analytical framework described in Chapter 3 and developed from the SIB literature and initial data collection at Trailblazers, presented in Interim report (Tan et al., 2015) and also in Chapter 3. This framework is structured according to:

- A typology of SIB models
- Incentives and outcomes
- Management styles.

Use of the analytical framework was further informed theoretically by a concern to identify from the interview data the 'situated agency' of the actors in each Trailblazer and comparator, and their broader narratives, stories and local traditions in relation to commissioning services (Bevir & Rhodes, 2007; Bevir & Richards, 2009). These narratives and stories were used by informants to explain what had promoted or hindered the establishment of SIB contracts; their operationalisation; and other emergent factors in each site.

The aim was to produce 'rich' accounts and 'thick description' (Geertz, 1994). The concept of transferability 'represents the extent to which findings of a particular study may be applied to similar contexts' (Murphy & Dingwall, 1998; p195) and provides a useful way to approach the issue of 'generalisability' in qualitative research. There are myriad views on the extent to which case studies and qualitative findings overall

can be generalised since case studies typically have high internal validity but lower external validity (Denzin & Lincoln, 2011). It is often argued that case studies are useful for highlighting local causality, but not for the development of more general theoretical claims (Bowling, 2009). Whilst maintaining a reflective awareness of the limitations of our work, we hope that we can offer some general learning points for policy makers, practitioners, academics and the wider public about the strengths and weakness of SIB financing for health and social care services. This work adds to a handful of other studies conducted in this area in separate policy domains (See Annex 3 of Fraser et al., 2016 for a list of other useful empirical reports from the UK and beyond that explore the empirical implications of early SIBs).

The anonymisation of interviewees had to be handled sensitively due to the small number of actors and distinct characteristics of the small number of Trailblazers. Every effort was made to maintain the anonymity of individual informants in presenting quotations from interviews and other related findings. In some parts of this report (Chapters 6-9), the only way to do this has been also to anonymise the Trailblazer site in question by presenting the findings thematically rather than by site. The latter would have been more normal in case study research. Quotations are identified with reference to the role of the interviewee in the Trailblazer; i.e. provider, commissioner, SIB specialist service organisation and investor.

Performance management, monitoring of outcomes and financial data

To understand how the SIB Trailblazers performed relative to their original targets, we asked all sites to provide a snapshot of overall performance relative to their original targets as at May of 2015. In only one of the five operational Trailblazer sites did all parties agree to share financial data that were sufficiently detailed and agreed to be reported here. This was the Worcester site. In two sites – Manchester TFCO and Newcastle Ways to Wellness – whilst the local commissioners and service providers were willing to share financial data, the SIB specialist organisation ultimately declined to confirm these data. We have therefore not included these data in the report. The other two sites, London rough sleeping and Shared Lives also did not disclose detailed financial data to the research team. We are grateful to Worcester for sharing these data. We have decided that it would be unfair to present the Worcester data in isolation so have not included the analysis of these data in this report.

2.5 SIB contract analyses

The SIB contract analyses were used to inform our research strategy and wider understanding of some of the legal relationships and responsibilities between the different actors involved in each different Trailblazer project. The table below presents an overview of the different contracts that were accessed and analysed for this strand of the evaluation.

Table 2.4 Contract documents accessed and analysed

Site	Investor to Provider Contract	Commissioner to Provider Contract	Investor to Provider Loan Agreement	Commissioner to SPV Contract	SPV to Service Provider Contract	Investor to Limited Partnership for Fund Contract	Provider to Carer Contract
Manchester TFCO-A	Yes	Yes	N/A	N/A	N/A	N/A	N/A
Newcastle Ways to Wellness	N/A	N/A	Yes	Yes	Yes	N/A	N/A
Shared Lives (Lambeth)	Yes	N/A	N/A	N/A	N/A	Yes	Yes
Thames Reach	Yes	Yes	Yes	N/A	N/A	N/A	N/A
Worcester Reconnections	Yes	N/A	N/A	Yes	Yes	N/A	N/A

The first task was to access the various documents that constitute the different contracts – the number and type of documents differ according to the SIB model type. We endeavoured to get access to as many of these different documents as possible. There were a variety of reactions from the different stakeholders we approached to ask for access to the documents. One provider organisation sent us all the documents seemingly un-redacted following a face to face discussion. Other organisations needed more reassurance about our motives and dissemination plans. Most documents had some redactions, particularly of costs and fees.

Two researchers read all the documents and made initial notes of points considered to be important from an understanding of payment for performance contracting and SIB policy. They then held a meeting with a member of the project advisory group, Professor Pauline Allen (PA), a former commercial solicitor, now Professor of Health Services Organisation at which the initial notes were discussed. PA suggested further key questions that should be explored more fully. The researchers then devised data extraction sheets (see Appendix 1) based on PA's input. They re-read the contractual documents and completed the data extraction templates as fully as possible and met once more with PA. Any outstanding questions were then put to key contacts at each SIB and telephone interviews were conducted to answer these questions.

We shared our templates with representatives of the two SIB specialist organisations involved in SIBs in England and held face to face meetings with these contacts (and a lawyer who had been involved in the drafting of some of the contracts). At these discussions, we asked the informants to describe diagrammatically the model structure of the each SIB as they interpreted it and also asked a number of questions about the operationalisation of the SIB. For example, most contracts have prescriptive Key Performance Indicators (KPIs) with the provision for contract managers to withhold funds should KPIs not be met. They also highlight that Performance Improvement Plans (PIPs) must be developed in the face of missed KPIs. It is unclear from the contracts themselves whether or not, and, if so, how such procedures would take place. In these interviews we were able to ask stakeholders about such procedures.

The final stage was to write up the findings from the contract analyses and share these with multiple stakeholders from SIB specialist organisations to ensure accuracy. These were then shared with commissioners and staff in provider organisations for a further round of data validation.

2.6 Quantitative comparison of outcomes between SIB-funded and other similar services provided without a SIB

The original design of the evaluation sought to complement the qualitative comparative analysis, described above and presented in Chapter 9, with a quantitative analysis in sites where appropriate comparators could be identified to see whether SIB contracts enabled the achievement of better outcomes than other contractual arrangements, all other things being equal. In the absence of any quantitative analysis of the additional benefits of commissioning health and social care services through a SIB contract compared with other forms of payment for performance and no evidence about the costs of securing any such benefits, the objective of this part of the evaluation was to assess how the SIB could affect outcomes, whether intended or unintended. To carry this out in a meaningful way required at a minimum the following:

- **Existence of a counterfactual:** a proper evaluation of impact requires a counterfactual to assess what the outcomes would have been in the absence of the intervention (as opposed simply to monitoring outcomes).
- **Sufficient sample size:** the intervention and comparator groups should be large enough so that there is sufficient statistical power to allow the detection of meaningful differences.
- **Availability of relevant data:** in the absence of a randomised experiment, a quantitative impact evaluation hinges on the comparison of outcomes in the intervention and counterfactual groups at least before and after the intervention. The quantitative approach not only depends on the existence (and availability) of such data, but that the data should also be relevant (i.e. related to outcomes of interest directly or indirectly affected by the intervention) and of good quality (not suffering from reporting biases, especially if they are linked to the intervention of interest).

Unfortunately, these three conditions were not met in any of the SIBs available for potential outcome analysis (see Table 2.5 below for details). The absence of robust outcome data collection and analysis in an intervention group with an appropriate counterfactual in the Trailblazers is discussed in more detail in Chapter 7. The initial description of how SIBs functioned, derived from the Peterborough SIB (Disley et al., 2011), had to led us to design and resource the evaluation in the expectation that such data would be plentiful in the Trailblazers and that it would not be necessary to plan primary data collection of outcomes.

Table 2.5 Summary of the main issues of measuring outcomes comparatively impact in the SIB Trailblazers

Site	Sample size	Counterfactual	Data
Thames Reach	Yes	No (systematic differences)	No (reporting bias)
Manchester	No (N= 19)	No	No
Newcastle	Yes	Yes	No (identification issues)
Worcester	No (N= 689)	No	No (no data before)
Shared Lives	No (N=31 in two sites)	No	No (no data before)

As an example of the limitations on what was possible, we provide describe the situation in the Thames Reach SIB, which had the greatest potential to meet the three conditions highlighted above. While the intervention funded by the Thames Reach SIB delivered services to a large population of homeless individuals, and despite the existence of a rich set of data before and after the intervention, evaluating the impact of SIBs was not feasible due to challenges faced by the evaluation team in gaining access to unbiased data of sufficient quality for the intervention group and for a relevant comparison group to create a counterfactual.

To ascertain the impact of the SIB, we would have needed to identify a contemporaneous cohort of rough sleepers receiving similar support but not through a SIB to act as a control. Unfortunately, this was rendered difficult by the way in which the rough sleepers targeted by the SIB were identified: the 831 SIB beneficiaries were selected because they were identified as the most in need. This meant that other rough sleepers in the area were, by definition, different in key characteristics and would not have constituted a good comparison group. A less robust alternative would have been to use a historical comparison group identified in the same way as the SIB cohort using data collected about homeless people, say, in the year before the SIB started. However, this was not possible, because even though there was a dataset that included longitudinal data on all homeless individuals in London since 2005, the introduction of the SIB changed the way data were collected and reported. As a result, the data before the SIB were not comparable with the data after the SIB In addition to formal changes in the data recorded, because the dataset was used as a basis for SIB outcome payments, one cannot rule out that this changed the way in which SIB providers entered data (reporting more events and/or more accurately than before). As a result, this limits the ability to attribute to the SIB any difference in outcome before and after the SIB was introduced. This demonstrates the limitations of relying on routine data collected within programmes for rigorous independent evaluation where there are strongly incentivised outcome payments.

Taken together, the challenges to identify a good counterfactual cohort and the data issues meant that it was not possible to provide robust comparative estimates of outcome even in this Trailblazer.

2.7 Patient and public involvement

The primary focus of the current research was not on the effectiveness and quality of the services delivered to users, but the effectiveness of the novel financing mechanism of the SIB from a service commissioning perspective. In addition, the services provided through the Trailblazers varied widely covering a large number of different types of potential beneficiaries. For these reasons, patient and public involvement (PPI) was not prioritised in the preparation of the initial application. However, as the research evolved and generated data related to the potential added 'SIB effect' on service delivery, PPI became more significant. Even if users would not necessarily be directly affected by the impact of the incentives in the SIB (unlike front-line staff), they would be able to reflect on potential changes created by such new funding mechanisms, and would also have a broader understanding of the range of services provided, and be able to reflect on potential unintended consequences for service users.

PIRU collaborates with the Quality and Outcomes of Person-centred Care Research Unit (QORU), another DH-funded Policy Research Unit (PRU) which has a Public Involvement Implementation Group that supports and provides public involvement

in research projects across the two PRUs. This Group has recruited a pool of 20-30 Research Advisors who can be called upon to provide input into particular projects.

A group of Research Advisors was convened during the data analysis process in 2017. The group was drawn from a wider group of people with lived experience of services similar to those provided through the SIB Trailblazers to inform the analysis from a public and service user perspective, as follows:

- Older people who had participated in services offered by the voluntary or community sector, such as befriending, sporting activities, or exercise classes;
- People with multiple chronic conditions that had taken part in social prescribing initiatives
- People with experience of residential care, foster care, or services for rough sleepers
- Carers of people with learning disabilities and people with learning disabilities

The eventual group comprised a panel comprising a carer for a person with long-term care needs, a Shared Lives carer, a social prescribing user and a person with previous personal experience of residential care. We held a focus group where we presented the scope of the evaluation, explained what SIBs were, summarised descriptive information about the SIB Trailblazers and presented the interim findings from the comparative analysis of the Shared Lives Trailblazer, together with our assessment of the strengths and weaknesses of the analysis.

The panel provided several important insights from a public and patient perspective that the research team drew upon in identifying the key findings. In particular, the panel highlighted several potential issues if SIBs were to be more widely rolled out as a financing mechanism in health and social care. First, the panel noted that it is important that the outcomes be designed in such a way as to be person-centred (e.g. engaging public and service user groups in the design and development of future SIB programmes). They were concerned about how outcome metrics were agreed and validated to ensure that they reflected user experiences of participating in the services. Second, the panel felt there was a tension between the SIB's rationale as both cost-saving and as a vehicle for service improvement that may be in conflict in the absence of PPI input. They raised questions about the terms on which success or failure to deliver on these promises would be judged. They were particularly interested in knowing whether, and how, long term outcomes for service users would be assessed, and whether this could be included as an indicator of success in future SIBs. Third, SIBs were seen to offer longer term contracts for third sector providers (compared to traditional financing) – this was perceived as a potentially positive aspect for service users because this could provide greater stability for their care planning. However, the panel noted that many small-scale third sector organisations may be discouraged, or intimidated, from taking part in a SIB for a number of reasons, particularly the large-scale nature of SIBs and the implications of an outcomes-focus (e.g. the degree to which providers might be pressurised to deliver outcomes). In one panellist's view, this implied that the third sector is too 'fluffy' and requires more discipline and data collection requirements, which may be a threat to the third sector's way of working. Lastly, they raised concerns that SIBs in health and social care could be seen as projects that sought to generate private profit from service users' ill health. In response to this, the research team reflected on these key points throughout the analysis process and in considering the policy implications of this evaluation.

In parallel, the research team shared the findings of the research with organisations that contributed to this research through oral presentations. There are plans to share the final report with other representative organisations whose work is relevant to these findings.

2.8 Ethical approval

Ethical approval to undertake the study was granted by the research ethics committee of the London School of Hygiene and Tropical Medicine (LSHTM ethics ref: 7227). We obtained local research governance permission from the CCG for each Trailblazer, where relevant to interviewing NHS staff.

3. Framework for analysis

3.1 Introduction

One of the fascinating issues identified over the course of the Trailblazer evaluation was the multiple, and sometimes contradictory claims made for SIBs (Maier et al., 2016). For example, sometimes SIBs are heralded for their ability to ***innovate*** (Leventhal, 2012), whilst other authors emphasise the potential for SIBs to ***'scale-up'*** evidence-based programmes (Burand, 2012; Rudd et al., 2013). Sometimes flexibility or 'personalisation' of services and a focus on the needs of services users may be emphasised (Jackson 2013; Clark et al. 2014). Other times, efficiency and financial discipline are promised as key SIB elements, and other SIB promises include improved measurement and greater accountability (Mulgan et al., 2011; HM Government 2011b, 2013; Liebman, 2011).

The collection of justifications for pursuing SIBs at the local initiative and national policy levels has created a situation where every outcome from a SIB initiative can be thought of as success under one lens or another – in essence, a situation in which no one (or at least no SIB) can entirely fail. This is further pronounced by the novelty of SIBs, since at a minimum every new SIB initiative provides some form of learning for future (SIB or non-SIB) initiatives (though it is possible that the same may be said of any novel government initiative, insofar as these *ipso facto* generate some form of learning), and learning itself may be characterised as success regardless of other outcomes, dependent of course on how much governments are willing to pay for learning. The 'fail-proof' aspects of arguments in favour of SIBs are by no means unique to SIBs. Indeed, a wide range of policy pilots and experiments have been launched with multiple goals, many of which are unclear or implied rather than explicit at the outset , which can lead to complications in evaluating whether the pilots have achieved their goals, or not (see e.g. Ettelt, Mays & Allen 2015).

These fail-proof aspects of SIBs are illustrated well by the recent experience in New York City, where the first US-based SIB was launched at Rikers Island in 2012. The initiative was brought to a close after three years, short of the expected six year duration of the intervention. In subsequent public communications from the funders, Goldman Sachs and Bloomberg Philanthropy, the failure of the intervention was hailed as a success for SIBs, on the grounds that the funding from private sources had protected the public purse from investing in an intervention that was ultimately not fit for purpose. Should the intervention have worked and the investors been paid out, of course, it seems likely that subsequent communications would have been similarly or even more positive about how the SIB had helped the intervention achieve its goals.

Thus SIBs can be seen as displaying 'chameleonic' properties (Smith, 2013), allowing different stakeholders to place contrasting emphases on specific elements and outcomes of the mechanism in different places and at different times. This will be explored in more detail in Chapter 9.

The 'shapeshifting' nature of the SIB concept poses challenges for the development of an over-arching conceptual framework. Nevertheless, one of the aims of the project was to:

- *Develop a conceptual framework to help understand the potential role and effects of SIBs compared with other approaches to paying for public services. This component will help orientate the subsequent empirical parts of the project.*

The starting point for addressing this aim was to conduct a comprehensive review of academic and 'grey' literature on SIBs (published as Fraser et al. 2016, see

Appendix 1 for full text). This work informed the analytical approach developed to address questions about the potential role and effects of SIBs compared with other approaches to paying for public services. The methodological approach was that of an 'interpretive synthesis' (Dixon-Woods et al. 2006). This encouraged an approach that drew on relevant literature from a number of disciplines to pursue the broader aim of the project:

- *To conduct conceptual work that builds on existing economics, public finance and public administration literature, as well as on a description of existing SIBs, to develop a typology of the different possible ways in which SIBs can be designed, in order to assess their theoretical implications in terms of the incentives faced by providers, investors and service commissioners, together with the risk-sharing arrangements. This component of the work also seeks to compare SIBs to other approaches to funding health and social services.*

This chapter describes how an analytical approach to the evaluation of the SIB Trailblazers was developed that built on the SIB specific and broader linked literature reviewed by the research team. The next section presents the findings of the literature review, conducted at the onset of this research, to set out what was known about SIBs when we embarked on this work. This is followed by the conceptual framework developed for this research by the authors, which draws on the findings of the preceding literature review. This analytical approach is subsequently drawn upon in the empirical chapters of the report and reflected upon in the discussion and conclusion chapters.

3.2 The literature on SIBs: three themes and three narratives

The methods used for the review are described in detail in the published review (Fraser et al., 2016). Both academic and 'grey' literature were included since this is a novel field and it was important to synthesise as much of the existing thinking as possible. Thirty-eight academic papers and 63 'grey' sources were analysed in detail. All 38 academic papers identified were very recent (published since 2011), with the majority emanating from English-speaking countries (23 from the USA, 11 from the UK, three from Canada, and one from Australia). Likewise, the 63 'grey' sources were very recent, all published since 2010. The vast majority of these came from the UK (38) and the USA (16). The grey sources included publications by think tanks (eight), consultancies – including practitioner, intermediary and investment organisations such as Social Finance, an intermediary organisation involved in promoting and running SIBs in the UK (13), government, or government affiliated organisations (14), civil society organisations, including charities (six) and others – e.g. non-peer-reviewed academic reports and speeches (eight). The majority of papers – both academic and grey – were commentaries without any empirical data – i.e. they set out what SIBs might hope to achieve. There were, however, 14 publications (mostly located in the 'grey' literature) describing the early implementation of SIBs or characteristics of SIBs. Of the 13 qualitative sources on active or proposed SIBs, nine were from the UK, three from the USA and one from Australia. Just one quantitative study reporting on SIB outcomes was found. These empirical reports were useful for conceptual development as they highlighted differences in the ways in which SIBs may be both structured and implemented – this informed the thinking of the research team on the development of a typology of the different possible ways in which SIBs can be designed.

Three themes

The review identified three major themes in the SIBs literature:

1. Competing public and private values
2. Outcome measurement
3. Transfer and calculation of risk

These themes are described briefly before being elaborated below in turn. Whilst the concept of competing public and private values is contested and dynamic in both theoretical and ideological terms between different academic commentators (Noordegraaf & Abma, 2003), perceptions, or understandings of what constitute 'public values' (Beck Jørgensen & Bozeman, 2007) and 'private values' (Watson et al., 2004) have been surveyed across organisations. Empirical comparative work by Van Der Wal et al. (2008) identified both differences and similarities between values espoused within public and private sector organisations in the Netherlands. They found that: "'lawfulness' , 'impartiality' and 'incorruptibility' were considered the most important public sector values and were absent from business' [private sector's] top values. 'Profitability' and 'innovativeness' were at the top of business values and absent from the public sector's top values. 'Profitability' according to this measure could even be considered the least important public sector value." (Van Der Wal et al., 2008; p473). SIBs (through both new funding mechanisms and new service delivery relationships) may challenge not only the values supporting the historic ways in which services have been delivered by public, non-profit and voluntary providers (through clearer outcomes' specifications), but also the logics and normative assumptions of the private financial services sector (Moore et al., 2012; Nicholls & Murdock, 2012). This raises questions about the extent to which the public sphere should be influenced by private sector values, such as profitability, and aligned techniques for resource allocation, such as competition, market incentives, diversity of providers and new forms of investment, and, in turn, whether the dominant values and resource allocation techniques of the financial services sector should be reoriented towards more socially minded, 'blended returns' rather than traditional profit maximisation.

The second theme identified in the literature relates to the introduction of, or increased primacy given to, outcome measurement in public services' contracting as a result of financing mechanisms like SIBs. Whilst there are conflicting views about the utility derived from, and the impacts of, new regimes of measurement outside the SIB literature, both proponents and critics of SIBs tend to be in broad (though not universal) agreement about the potential benefits of a shift to outcomes-focused measurement. The third theme relates to the transfer and calculation of risk amongst different actors through SIB mechanisms, and the ideological and practical implications that this may have for specific services and policy more broadly.

Through the interrogation of these themes, emerging 'lines of argument' were identified (Dixon-Woods et al., 2006); that is, broader, theoretically distinct narratives that differentiate the approaches taken by groups of authors and policy actors in relation to both understanding and critiquing SIBs. This was a reflexive, iterative process and involved going beyond the SIB-specific texts into the wider theoretical literature in accordance with the principles of interpretive synthesis (Dixon-Woods et al., 2006). Three distinct narratives linked to SIBs were identified.

Three narratives

1. **Public sector reform narrative located within broader theories of New Public Management (NPM) and the public administration literature**
2. **Private financial sector reform narrative located within broader theories of social entrepreneurship and the economics and public finance literature**
3. **Cautionary narrative sceptical of public and financial sector developments such as NPM and SE, and thus of SIBs.**

There are some significant elements of convergence between the first two narratives that dominate the grey literature and highlight the political salience of SIBs and how they have come to be seen as 'win-win' options by some proponents, particularly in the context of public sector financial austerity in the UK following the 2008 financial crisis. In contrast, the third, cautionary narrative was more prevalent within the academic literature, and diverges from the first two by taking a more critical view of SIBs on pragmatic and ideological grounds.

The public sector reform narrative starts from the premise that public, non-profit and voluntary sector organisations have important shortcomings in terms of service design, delivery and accountability, and have so far been unable to find solutions to entrenched social problems. Public sector reform advocates, therefore, promote the application of private sector management techniques and values, such as introducing market incentives and 'market discipline' to remedy these issues (Mulgan et al., 2011; HM Government, 2011; 2013; Liebman, 2011). From this perspective, SIBs relate to a belief in the exposure of more activities to competitive tendering and the application of private sector-influenced audit systems (Power, 1999), as well as the fostering of entrepreneurship in the public sector (Osborne & Gaebler, 1992). The public sector reform narrative presents SIBs as an extension of outcomes-based contracting and payment for performance in public services (Lagarde et al., 2013). The aim of outcomes-based contracting is to incentivise managers and service providers through performance pay or outcomes payments which reflect the extent to which pre-agreed metrics of success are achieved. Thus, SIB contracts create a mechanism to improve the ways in which non-profit and voluntary sector organisations measure their performance (Cox, 2011; Liebman, 2011), and, in theory, they introduce greater accountability between commissioners and service providers by setting clearer expectations of what funds will be used to achieve (Stoesz, 2014). The public sector reform narrative also highlights the potential for SIBs to transfer the financial risk of failure for interventions – that might otherwise be seen as too experimental or risky for traditional forms of public funding – from the state to private/social investors. This is said to be appealing as the state does not need, in theory, to release any public funds unless projects demonstrate success and, even then, payments should come out of savings to public budgets as a direct result of the SIB-financed intervention through the prevention of 'downstream' social problems (Mulgan et al., 2011; Social Finance, 2011a; Callanan & Law, 2012; Rotheroe et al., 2013).

The financial sector reform narrative adopts the perspective of private actors. It proposes that blending public and private values will offer private sector actors (particularly financial institutions) an opportunity to effect socially worthwhile change through social entrepreneurship whilst simultaneously pursuing commercial interests (Social Investment Task Force, 2010; Cohen, 2011; Leibman, 2011; Mosenson, 2013; Nicholls & Murdoch, 2012; Moore et al., 2012). The financial sector reform narrative emphasises the expertise that new players such as management consultancies and specialist intermediaries, in particular, may bring in linking public, private, non-profit

and voluntary sector actors – usually for a fee. These intermediaries are seen as crucial to the implementation of SIBs (Haffar, 2014). For example, they are expected to bring enhanced data monitoring techniques and skills to non-profit and voluntary sector providers which have traditionally been thought to have limited capacity to monitor their own activities and validate achieved outcomes (Callanan & Law, 2012). The central importance of extensive, ongoing performance monitoring and concurrent independent evaluation by external actors is emphasised in the literature by many authors as a way of ensuring that outcome payments within SIBs are earned in a valid and attributable way (Cox, 2011; Burand, 2012; Leventhal, 2012; Nicholls, 2013). The financial sector reform narrative further articulates a strong desire to see the social impact investment market 'grow' (HM Government, 2011a; 2011b; 2013; Liebman, 2011; Cohen, 2011; Clark et al., 2014). However, there is a distinction between those who see SIBs as a niche for pro-social investors who will take higher risks and smaller returns, and those who desire guaranteed returns or higher yields in the evolving social investment field.

In contrast to the generally positive public sector and private sector reform narratives, the cautionary narrative questions the appropriateness of 'private sector' values and mechanisms in the field of public services. A number of authors suggest that SIBs represent a further extension of neoliberal logic in public policy (Warner, 2012; 2013; Whitfield, 2012; McHugh et al., 2013; Malcolmson, 2014; Sinclair et al., 2014). Lake (2015), for example, draws on the notion of ***financialisation*** to highlight the destructive potential of SIB logic in urban policy making in the US. Financialisation is the process whereby both macroeconomic and public policy making are subordinated to financial sector interests. In this way, public policy simply exists to support, stabilise, or expand the economy rather than to meet social needs (Lake, 2015). For some authors, SIBs represent the inappropriate intrusion of private sector and financialised values in social policy, and a reversion to pre-welfare state methods of service funding and provision. SIBs are also criticised for diminishing transparency in the use of public funds. Warner (2012) emphasises the relative 'openness' of public sector contract making and contrasts this with the closed nature of private sector contracts like SIBs that are not publicly disclosed for reasons of commercial sensitivity. She suggests that a degree of public oversight is essential to ensure accountability to citizens and taxpayers in relation to these contracts, as private sector investors or providers may place profit motives above the interests of service recipients. Others have expressed concerns that allowing private financiers to foster a competitive ethos and introduce performance management regimes to non-profit and voluntary sector provider organisations may lead to a diminution, or distortion, of their social mission (Joy & Shields, 2013). For the most part, the cautionary narrative is favourably disposed, in principle, to the focus on outcomes-based contracting central to SIBs. Fox and Albertson have written extensively on SIBs and their application to the criminal justice sector and probation services in the UK (Fox & Albertson, 2011; 2012; Fox, Albertson & Wong, 2013), and suggest that a strength of SIBs is that, by reducing reliance on process measurement, they challenge the output 'target culture' associated with the NPM. Indeed, from this perspective, the shift from process to outcome measures aligns SIBs to an 'evidence based' approach where ***what matters is what works*** (Deering, 2014). However, there is recognition that outcome measures need to be very carefully defined and calibrated by commissioners, providers, and investors (Warner, 2012; 2013).

3.3 Using the literature to develop an analytical approach

The analytical approach to the SIB Trailblazer evaluation is built on the three key themes (see three themes in Section 3.2) identified in the literature review in relation to the three broader narratives identified and the theoretical literature they are drawn from. Table 3.1, below, illustrates how these three themes relate to the three narratives presented above.

The research team reflected on these three key themes and narratives alongside some of the early empirical work on the Trailblazers (see Tan et al., 2015 for the interim report for early findings that emerged from this work). The themes developed for the interim report were related to the early process and negotiations involved in setting up a SIB but it was evident that there were recurring issues such as the role of intermediaries and investors, how risk was allocated between parties and the role of measurement and attribution. This led the research team to triangulate the themes that emerged from our empirical work with the three themes and narratives from the literature review to develop a three-part analytical framework, looking at management style, incentivisation and model structure, which we felt enabled the evaluation to engage with the key issues raised in the literature. This is now presented.

A consideration of the allocation and transfer of risk is analysed through *SIB model structure*. This derived conceptually through an engagement with both the broader public administration, management studies, economics and finance literature and analysis of the empirical reports describing early SIB implementation (e.g. Disley et al., 2011; Goodall, 2014) and is discussed below under analytical focus 1. A consideration of outcome measurement, monitoring techniques and payment for performance is analysed through *Incentivisation*. This is derived conceptually from the broader economics and finance literature and is discussed below under analytical focus 2.

Table 3.1 Analytical approach linking narratives and themes from the literature on SIBs

Narrative/ Theme	Theme 1: Competing public and private values	Theme 2: Outcome measurement	Theme 3: Transfer and calculation of risk
Public sector reform narrative	Private sector management techniques and values offer innovative approaches (SIBs) to tackle problems that public and non-profit providers struggle with.	SIBs as variant of P4P to improve data management; Longer term outcomes-based contracts improve stability and accountability for commissioners and providers.	Financial risk of programme failure shifts from the public to the private purse. Risk-transfer enables more innovation for all parties.
Private financial sector reform narrative	Private sector actors can pursue socially valuable interventions alongside commercial interests.	Investors and specialist intermediary organisations may bring enhanced data monitoring techniques and skills to non-profits.	SIBs can 'grow' the social impact/investment market. Tension between 'finance first' and 'impact first' models.
Cautionary narrative	SIBs represent the inappropriate intrusion of private sector and financialised values in social policy. Reversion to pre-welfare state methods of service funding and provision.	Proving attribution may be very complex and expensive. Outcomes based commissioning has potential to aid shift to 'evidence based' work or away from process targets.	Risk calculation is technically complex and programme specific making generalisability difficult and maintaining high transaction costs. Private sector investors may be more risk-averse than some SIB proponents have claimed.

A consideration of competing public and private values alongside systems and practice is analysed through *Management Style*. This is derived conceptually from the broader public administration and management studies literature and is discussed below under analytical focus 3.

This analytical approach informs the analysis of the qualitative data collected during the course of the evaluation (interviews and documents) to explore the localised governance of the projects across the three identified conceptual dimensions. The impact of incentives and performance measurement is explored to reflect on how outcomes and targets affect implementation, with attention to how those both directing and implementing the different Trailblazer projects interpreted and responded to extrinsic rewards and the imposition of different types of performance measurement. Additionally, the ways in which different Trailblazer projects may operate within distinct model structures and risk distributions is explored.

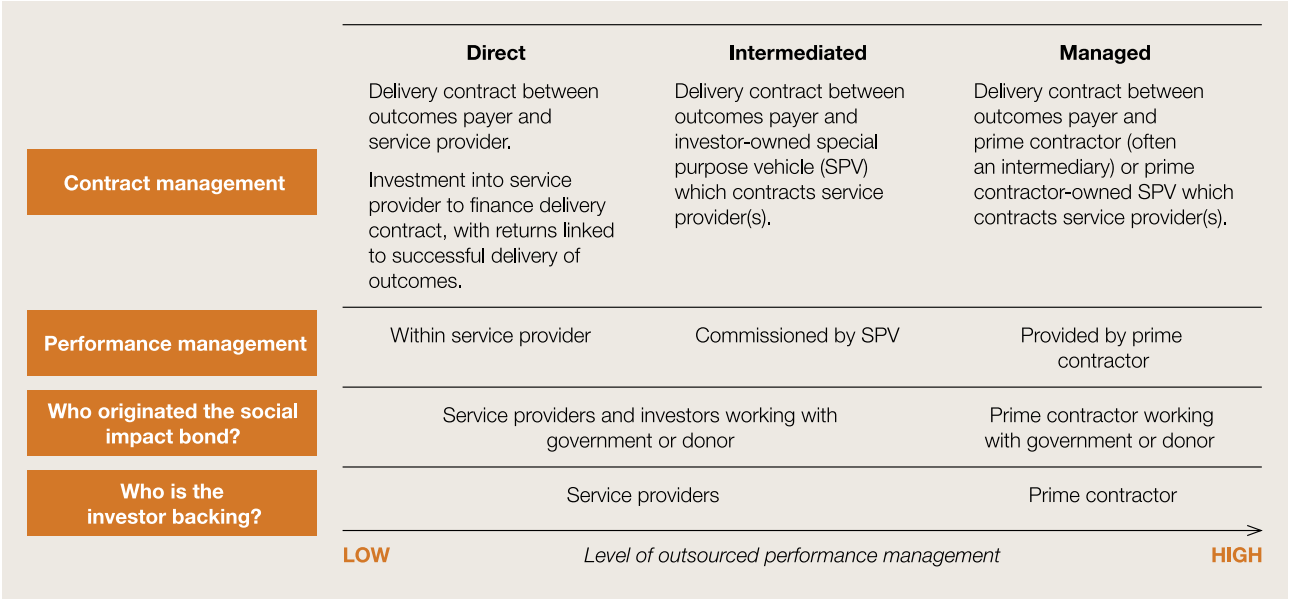
This analytical approach is also used to help understand the potential role and effects of SIBs *compared with other approaches to paying for public services* through the exploration of management style and incentive schemes in similar interventions that are not financed by SIBs. More details on the non-SIB financed comparator projects are given in the Methods chapter. Table 3.2 sets out the key questions explored using this analytical approach. The following sections provide more detail on each of the three foci of the analytical approach.

Analytical focus 1: SIB Model Structure

SIBs are a novel financing mechanism linking commissioners, investors, intermediaries and service providers in complex, multi-year service delivery contracts requiring the establishment of new forms of network governance (Newman, 2001). As a nascent option for financing public services, there is no standard format or agreed structure for structuring a SIB contract, despite early hopes that 'standard' contract templates could be developed (Disley et al., 2011). This has led to variability among the early SIB models developed so far. One of the aims of this research was to develop a typology of the different possible ways in which SIBs can be designed, in order to assess their theoretical implications in terms of the incentives faced by providers, investors and service commissioners, together with the risk-sharing arrangements. The research team drew on the themes related to risk that emerged from the data analysed in the interim report (see Tan et al., 2015) to identify three potential issues in the allocation of risk between the different organisations involved in the SIB: financial, reputational, or implementation risk.

In order to develop this typology, existing systems for categorising types of SIBs were scrutinised to understand whether the three types of risk identified (financial, reputational, or implementation) were related to different contractual structures for allocating risk. The work by Goodall on behalf of Bridges Ventures (Goodall, 2014) was instructive in this regard. Goodall highlights three emerging SIB model structures (Goodall, 2014; p20): *Direct, Intermediated*, and *Managed*, as summarised in Figure 3.1, below.

Figure 3.1 Emerging SIB Model Structures



Source: Goodall, 2014

The SIB Trailblazers evaluation drew on Goodall's characterisation, developing it in light of findings and observations from analyses of the signed SIB Trailblazer contracts, to devise a typology of the different ways in which the operational Trailblazer SIBs are designed and how that intersected with the three types of risk identified above. Mapping SIB model structures is of analytical interest because it graphically demonstrates the organisational and financial flows between a new group of SIB-related actors within existing health and social care organisational accountability structures and hierarchies. The introduction of new actors – in particular, social investors who provide finance for the intervention and the intermediary organisations – has the potential to introduce additional divergent interests into the local health and care system (financial risk). These new actors directly affect the conventional commissioning relationship between a service provider organisation and its public purchaser. In addition, social investors and intermediaries have a vested interest in 'building the market' for social investment whereas local commissioners may be required to establish a 'level playing field' between different types of provider and sources of finance (reputational risk). There may also be concerns about the impact on service users if providers are subject to oversight by investors or intermediaries pursuing highly financially incentivised outcome targets On the other hand, these groups could bring new ways of thinking that add value to service delivery (implementation risk).

To analyse the different SIB models and understand their likely impact on the allocation of risk among different actors at the financial, reputational, or implementation level, it was helpful to use a principal-agent model of relationships in the SIB (Arrow, 1963). A principal-agent relationship exists where the principal, for example, an employer or purchaser, enlists an agent, who can be an employee or organisation, to undertake a task, such as the delivery of services, on behalf of the principal. The central tenet of principal-agent theory is that the effort the agent exerts is not necessarily observable to the principal. Besides, the agent's interest may not be perfectly aligned with the principal's (for example, agents might seek to minimise their effort to the detriment of the principal's welfare or the users of the services that the principal has purchased). To mitigate this, principal-agent theory posits that contracts need to be designed in such a way as to transparently link the agent's rewards to its

effort, thereby aligning the agent's and principal's interests. This generally requires a system to collect information on the volume and quality of services provided by the agent. This incurs costs and it is not always clear whether such greater reporting achieves greater transparency and improves accountability sufficient to justify the cost (Lagarde et al., 2013, Eldridge & Palmer, 2009).

A SIB introduces a number of agency relationships, some of which are direct formal contractual relationships (e.g. SPV to service provider) while other are informal (e.g. provider staff to service users) or indirect (e.g. provider to public commissioner). From this perspective, the agent (here the lead service delivery provider) can be seen as having multiple principals, including its clients, the SPV, the investors, the public commissioners and, by extension, the members of the governance board of the SIB which can include representatives of the intermediary. Perhaps the most obvious potential tension this situation may generate for the managers and staff of the provider organisation is between the requirements of the contract with the SPV and the needs of the service users in implementation. What is in the best interests of the investor (the desired rate of return on the initial investment) may not necessarily be the best for the service users, though payment of investors on the basis of attributable outcomes is meant to resolve any tension in this relationship. Similarly, another potential tension in the pattern of principal-agent relationships may emerge for the intermediary who can be formally accountable to the investors whose money is at financial risk, while also having some informal accountability for the social welfare of the service users. Economic theory identifies several issues arising from such dual and even multiple agency relationships (Holmstrom & Milgrom, 1991), in particular, the risk of unintended negative consequences. There are significant risks that resources are used inefficiently. For example, a provider may attempt to select only the clients that are most likely to have the best outcomes, regardless of the aim of the service as specified by the public commissioner, while being paid to manage the full range of client types. Thus it is important to consider how the different model types (these are presented in Chapter 4, Section 4.2 in further detail) of SIB Trailblazers operate, especially in terms of how risk is distributed among different organisations and what impact that has in terms of under- or over-performance on predefined outcomes.

Indicative questions to be explored here include:

- *How do the different SIB models allocate risk across the different organisations involved?*
- *What is the nature of the reputational, implementation and financial risks at stake?*
- *How and to which parties are these risks transferred in the SIB process?*

Further detailed questions for this analysis are presented in Table 3.2.

Analytical focus 2: Incentivisation

The literature review undertaken for the current evaluation showed that there was very limited empirical evidence that SIBs deliver on the promises to increase accountability, measurement, and outcomes achievement. Given the dearth of empirical evidence on SIBs, it was instructive to look towards the economics and public finance literature on the use of incentives in public services. Indeed, SIBs can be analysed as a variant of payment for performance (P4P) schemes, where financial incentives, received conditional on achieving certain targets are expected to deliver better results than conventional forms of provider reimbursement used by governments.

The literature on P4P schemes used in the public and non-profit settings can help to identify potential issues around the use of incentives and extrinsic rewards for public and non-profit providers, and the design and the use of performance measurement in public services. P4P has been introduced widely across different social sectors (e.g. civil service, education, health) over the past 20 years. Reviews of the evidence have found some positive effect, particularly in health services, on clinical effectiveness and no negative effect for equity of access, but there was less evidence of positive impacts on coordination, continuity, patient-centeredness, or cost-effectiveness of services (Van Herck et al., 2010). There is some evidence in health services of adverse consequences, such as 'tunnel vision' – where the focus on incentivised targets improves the performance of what is measured to the detriment of other, unmeasured outcomes (Goddard et al., 2004), 'cherry-picking' patients for financial gain (Shen, 2003, Commons et al., 1997), perverse behaviour to avoid sanctions for failure (Bevan & Hood, 2006) or even gaming (Gravelle et al., 2010). Finally, the question of the cost-effectiveness of P4P programmes compared to other alternatives has not been properly addressed (Van Herck et al., 2010, Petersen et al., 2006). There is no clear empirical evidence on design issues and how these can affect relative effectiveness. For example, there is no consensus on the optimal size of incentives, or whether targets should be relative or absolute. There is mixed evidence about whether incentive schemes that use relative rewards (e.g. for the top 5% of performers) should only reward relatively high performers because that can present potential drawbacks, where some providers will realise that the targets are set so high that they are discouraged from trying to make the necessary efforts to improve. This can exacerbate the performance gap between high and low performers (Rosenthal & Dudley, 2007). In public services, this has the potential to be especially problematic as concerns for equal standards of service quality are prominent (Lagarde et al., 2013).

The impact of P4P is also affected by the underlying motivations of agents. The public sector is considered different from the private sector as agents often have different motivations. For example, public sector agents are expected to be motivated by a desire to serve the public good while private sector agents are expected to be profit-maximising so this can affect how different agents respond to financial incentives embedded in service contracts such as P4P targets (Francois, 2000). This suggests that contracting on the basis of outcomes in public services can be problematic in terms of unanticipated and negative consequences, if agents with profit-maximising motives are exposed to high-powered financial incentives embedded in contracts.

SIBs are also promoted as a mechanism to bring greater accountability to the public and non-profit sectors because they are supposed to focus on demonstrating results through measurement of impact (Leibman, 2011). The evidence on P4P in general suggests that measurement of results is crucial to the success of a P4P program and shows that information systems need to be put in place to facilitate prompt and reliable transfers of performance management data between providers and payers (Roland & Campbell, 2014; Van Herck et al., 2010; Werner et al., 2011). In practice, this can lead to demands for providers constantly to report on what they are doing, thereby disrupting the work of front-line staff and re-orienting them towards administrative work at the expense of time with service recipients (Chimhutu et al., 2014).Despite the mixed, and often limited, empirical evidence of clear benefits over costs, there remains much enthusiasm among policy makers in England for using financial incentives to improve provider performance (NAO, 2015).

Indicative questions to be explored under the incentivisation element of our analytical framework include:

- *How are outcomes agreed, prioritised, and incentivised?*
- *What kinds of performance measurement systems are devised and how are these monitored?*
- *How do the incentives related to performance differ in the SIB Trailblazers when compared to the non-SIB comparator sites?*

Further questions are presented in Table 3.2.

Analytical focus: Management style

Warner (2013) argues that SIBs may be seen to represent an extension of certain logics of New Public Management (NPM) (Hood, 1991; Ferlie et al., 1996), in particular, NPM's reliance on contracting mechanisms. In SIBs, significant control over service delivery is ceded to intermediary organisations, alongside an increased emphasis on performance management (Warner, 2013). In contrast, Fox and Albertson (2011; 2012) highlight SIBs' potential to lessen some of the harsher edges of NPM as they shift the focus from NPM's ***process*** measurement to ***outcomes*** measurement. In terms of management practice, such a shift might be seen as providing front-line professionals with greater discretion to flexibly meet client needs rather than submitting day to day work to the 'tyranny of targets'. Essentially, such a shift may be seen as better aligning the goals of service users, professionals, managers and policy makers.

Joy and Shields (2013) suggest that, rather than the NPM, SIBs represent a form of what Osborne (2006) calls New Public Governance (NPG). This is a theoretical paradigm which emphasises a move towards re-integration of previously separated public service commissioners and providers, requiring closer collaboration between commissioners and providers across public, private and not for profit sectors, and a diminution in NPM style competitive contracting processes. SIBs, seen through an NPG lens, may be interpreted as a variant of a Public Private Partnership (PPP). Proponents of PPPs suggest that they ideally promote long-term collaboration between public and private players:

> *"PPPs overcome the problems associated with agency and transaction cost theories (with their focus on legal contract specifications) by moving to relational contracts based on trust and shared understanding of the wider goals required of the service."* (Teicher et al., 2006; p87).

It is worth noting that this kind of rationale is prevalent in some of the most recent narratives relating to SIBs in the UK. In this way, SIBs presage a shift to 'neo-corporatist values' (Osborne, 2006) in the commissioning and delivery of public services in that they encourage collaborative co-design of complex care pathways and sustained commitments from key actors (providers, commissioners, intermediaries, investors) rather than short-term competitive contracting.

Such a perspective suggests that SIBs might be seen as heralding more trust-based regimes of governance – aligning more closely in theoretical terms to the NPG (Joy & Shield, 2013; Osborne, 2006). This would challenge the competitive logic of the quasi-market which has become prevalent in the commissioning of public services in England with its NPM focus on contracting and performance management regimes. However, this does not mean that such an approach to PPPs is without its drawbacks. Warner (2013) highlights that in the US inducements, seen as essential to attracting private investors to PPPs, such as non-compete clauses, confidentiality agreements and guaranteed market share, ultimately serve to 'undermine the market competition basis on which efficiency claims are made' (Warner, 2013; p308). Whilst Warner suggests that SIBs as a form of PPP may have the ***potential*** to avoid some of the worst problems identified with infrastructure PPPs in the US, overall she advocates for a cautionary approach to the uptake of SIBs as a form of PPP.

Insights drawn from the public administration and management literature encourage a focus on how SIBs may challenge or reinforce existing governance logics and management styles among actors. Questions relate in particular to logics of competition and collaboration in the new networks of actors established through SIB financed programmes. These new policy networks consist of the wide range of configurations of service providers, commissioners, investors and intermediary organisations that come together to design and implement SIB programmes. The term 'policy network' refers to 'sets of formal and informal institutional linkages between governmental and other actors structured around shared interests in public policy making and implementation' (Rhodes, 1997; p1244). Multiple organisations here are interdependent upon each other to achieve policy goals. Influenced by the network governance work of authors such as Newman (2001) and Bevir and Rhodes (2007), this study explores the cultivation of new relationships between actors and the establishment of new networks for service delivery which seem to occur during the development of SIBs. The localised development of a SIB financed project may seek to challenge the traditional response to policy problems through the establishment of new coalitions and networks of actors. In this sense SIBs may be considered to herald both disruptive and constructive foci of change and also seek to import new values and working practices. These dynamics are explored in Chapter 8.

Indicative questions to be explored under the management style element of the analytical framework include:

- *How do managers develop practices and systems to achieve Key Performance Indicators?*
- *What forms of knowledge, authority and power influence relationships amongst key actors delivering SIB financed interventions?*
- *How do these managerial styles differ in the non-SIB funded comparator sites?*

Further questions are presented in Table 3.2.

Table 3.2 Research questions used in the SIB versus non-SIB qualitative comparison

	SIB model structure	Incentivisation	Management style
SIB sites	• *Direct model/ Intermediated model/ Managed model/ other model?* • *How to characterise: Reputational risk? Operational risk? Financial risk?* • *'Public' versus 'investor' funds – how are these spread?* • *How do these new relationships alter existing networks of accountability?* • *Was risk actually transferred for commissioners?*	• *Measurement type(s) (e.g. qual/ quant) – and are these adequately aligned?* • *P4p element percentages?* • *Non-p4p element?* • *Savings (cashable/hypothetical)?* • *Counterfactual/attribution measured – if so how?* • *Impact on staff motivation?* • *Perverse incentives identified?* • *Changes to incentives over time?* • *Focus on outcomes or processes?* • *Wider societal benefits?* • *What is the impact upon local data collection?* • *Flexibility?* • *Has it led to the development of a new (preventative and community based) services which commissioners would not have commissioned otherwise/in a usual way?* • *Has the outcomes-based approach led to a greater focus on achieving these outcomes?* • *Has it led to better monitoring, measurement, etc.*	• *Manager/intermediary organisation style and practices – how are these characterised?* • *Have Social Investors brought greater capacity and wider perspectives to addressing the issue?* • *Have they led to adaptive management and a longer-term approach?* • *Reaction to missed KPIs – e.g. funding withheld?* • *Greater stability for provider(s)?* • *Middle management pressure?* • *Client-facing worker alienation/ empowerment?* • *Do we identify crisis points?* • *'Parachuting in' trouble-shooters?* • *Transparency/accountability enhanced?* • *Inter-organisational collaboration and service innovation?* • *Independent oversight?* • *Scale-up of services/ development of new services?* • *'Discipline of the market'?* • *'Personalisation' of services?*
Non SIB comparison sites	Similar questions as above wherever applicable.	Same questions as above wherever applicable.	Same questions as above wherever applicable.

3.4 Summary and implications

This chapter outlined an analytical approach to the evaluation of the SIB Trailblazers. The analytical approach drew, on the one hand, on an extensive review of the literature on SIBs (Fraser et al., 2016) and, on the other, on the wider literature from economics, public finance and public administration. Three key strands were identified to guide the analytical approach of this report – they are:

- SIB model structure
- Incentivisation
- Management style

In the following chapters this analytical approach will be employed to develop a typology of the different possible ways in which SIBs can be designed, in order to assess the implications of each for the incentives faced by providers, investors and commissioners, together with the risk-sharing arrangements. The approach is also used to seek to compare SIBs to other approaches to funding health and social services.

4. Overview of SIB Trailblazers

This chapter describes the main characteristics of the SIB Trailblazers.

Table 4.1 below presents a profile of the Trailblazers in May 2017. Of nine Trailblazers, five were or had been active, while four SIBs had not been commissioned. Most of the active sites commenced in 2015, and one Trailblazer SIB (Thames Reach) was completed in 2015.

This chapter starts with a narrative overview of the five sites that were commissioned, including key data and progress up to May 2017. Section 4.2 outlines the different SIB model types diagrammatically and presents the findings from the analysis of the SIB contracts of the five sites that were commissioned. The chapter concludes with a brief overview of the four Trailblazer sites that were not commissioned.

The chapter is based on document review and fieldwork conducted between May 2014 and May 2017. All efforts have been made to verify the information for the active sites reported in Sections 4.1 and 4.2 at May 2017. As part of the validation process, information on each Trailblazer was shared with all key stakeholders in the five sites, including commissioners, providers and SIB specialist organisations (intermediaries/ investment managers) where applicable. In some cases this resulted in contested views between the different parties involved, and where this is the case we indicate this.

Table 4.1 Summary profile of the Trailblazer SIBs in health and social care, May 2017

	Lead provider	Subcontracted provider(s)	Commissioner(s)	Intermediary/ investment manager	Geographic remit	Type of services	Outcome metrics	Status as of May 2017
Active Trailblazer sites								
London	Thames Reach	N/A	Greater London Authority (GLA), Department of Communities and Local Government (DCLG)	None	Greater London area	Navigators monitor cohort closely. Personalised approach tailored to individuals (e.g. assist to find housing, swimming lessons etc.)	Reduction in rough sleeping, move to stable accommodation, sustained reconnection, reduced A&E admissions, progress to employment, education or volunteering	Completed (2012-2015)
Manchester	Action for Children	N/A	Manchester City Council and the Cabinet Office	Bridges Fund Management	Manchester	Treatment Foster Care Oregon for Adolescents™ programme (TFCO-A™) providing behavioural interventions for foster children in family-based settings	Number of children moved from residential care to foster placements. 'Bonus' outcome metrics: improved school attendance, better behaviour and wider wellbeing	Active since 2014
Newcastle	Ways to Wellness	First Contact Clinical, Mental Health Concern, Healthworks Newcastle, Changing Lives	Newcastle Gateshead CCG, The Big Lottery Fund, Cabinet Office	Bridges Fund Management	Newcastle West	Social prescribing (through Link workers)	Achieved improvement of the outcomes on the Wellbeing Star and savings for secondary care acute usage	Active since 2015
Shared Lives	Manchester: PSS – Person Shaped Support; Lambeth: Grace Eyre	N/A	Manchester City Council; Lambeth Council	Social Finance	Manchester and Lambeth (London)	An alternative to home care and care homes for people in need of support, with support instead provided through living with a host family. Shared Lives offers personalised, quality care where carers share their lives and often their homes with those they support.	Number of new Shared Lives care placements established	Active since 2015
Worcester	Age UK Herefordshire and Worcestershire	Age UK Herefordshire and Worcestershire, Age UK Malvern, Onside Advocacy, Rooftop, Simply Limitless, Worcester Community Trust	Worcester County Council, Redditch and Bromsgrove CCG, South Worcestershire CCG, Wyre Forest CCG, Cabinet Office's Social Outcomes Fund and the Big Lottery Fund	Social Finance	Worcestershire	Personalised service packages to engage individuals in local community activities (e.g. befriending services, gardening club)	Reduction in self-reported loneliness (using UCLA-9 scale)	Active since 2015
Non-commissioned Trailblazer sites								
Cornwall	Age UK	N/A	Cornwall County Council	Social Finance	Cornwall	Early interventions for a cohort of 1000 frail older people with LTCs at risk of emergency admission	Reduced A&E admissions, improved well-being (Edinburgh and Warwick mental well-being scale)	Not commissioned
East Lancashire	Green Dreams	N/A	NHS East Lancashire CCG	No formal intermediary, but advice sought from different parties	East Lancashire	Provision of patient-specific tailored health and social care interventions to reduce isolation, unemployment and poor quality of life	Not confirmed at the time. Outcomes would have likely included reducing isolation and returning to work or education	Not commissioned
Leeds	Deep Green	N/A	Leeds CCGs (3)	No formal intermediary, but advice sought from different parties	Leeds	Setting up a 75-bed nursing facility and creating a community of care delivering nursing care to a mix of high-needs people	Not specified in detail. "Complex metrics" used, many outcomes, incl. money saved for the government by the interventions	Not commissioned
Sandwell and Birmingham	Marie Curie Cancer Care		Sandwell and West Birmingham CCG	Social Finance; Bevan Brittan LLP	Birmingham	Integrated community end-of-life care services	Increase in proportion of patients dying in their usual place of residence; decrease in unplanned emergency admission rate in final month of life	Not commissioned

4.1 Evolution of the commissioned Trailblazer SIBs

This and the following section focus on the five sites that have been commissioned. This section provides an update on developments in the five Trailblazer SIBs since the publication of the interim report in 2015 (Tan et al., 2015). The structure the update for each Trailblazer SIB is as follows: background on the SIB development, early implementation, responses to challenges that arose in the SIB and prospects for the future.

4.1.1 Manchester TFCO-A

Background

As detailed in the interim report (Tan et al., 2015; p43) Manchester City Council (MCC) invited collaborators to take part in the possible development of a social investment financed model to reduce the numbers of children in residential care in 2011. Social Finance did some early work for the Council. Neither Bridges Fund Management (BFM) nor the charity Action for Children (AFC) was involved in the design of the programme. Instead, BFM and AFC submitted a bid to provide the SIB intervention as part of an open procurement process. BFM and AFC had already worked together on the Essex Multi-Systemic Therapy (MST) SIB-financed programme. A bid to provide the service by AFC and BFM was accepted by Manchester City Council in December 2012. Different SIB structures and risk sharing options were discussed by BFM, MCC and AFC. In the original bid, BFM proposed to bear the operational risk directly and manage the contract – similar to the structure of the Essex MST SIB, in which AFC takes no financial risk if the SIB fails (see Sin, 2016). However, after the bid had been awarded, AFC requested to take on more of the operating and recruitment risk than in the original bid, and receive the majority of any surpluses, as in Table 4.2, below. Between contract award and launch, AFC's finance team also increased the operational targets for the programme, creating a business model with larger potential total surpluses.

Table 4.2 Distribution of risks between BFM and AFC

Type of risk	Bid structure	Final structure
Cost and operating efficiency	Bridges Fund Management	Majority Action for Children
Recruitment risk	Bridges Fund Management	Majority Action for Children
Success rate risk	Bridges Fund Management	Majority Bridges Fund Management

Early implementation

The contracts were signed in February 2014 and the main TFCO team was recruited that year. The first young person was placed on the scheme in October 2014. However, the team faced recruitment challenges – in particular, the recruitment of foster care families. This meant that significant Key Performance Indicators (KPIs) were missed in the early stages of the programme. The reasons given for the missed KPIs relate to the fact that the TFCO team was new to the area so had to build a presence from scratch. In addition, foster care family recruitment is known to be a challenge throughout the country, regardless of the novelty of the team, or the financing mechanism (Shuker, 2012).

Response to challenges

It was originally planned that once the first TFCO team was up and running (delivering the intervention for eight young people at a time), a second team would be established to double the team's capacity. However, at the time of writing, it had still not been possible to launch a second team as carer recruitment was not sufficiently high. It was reported that AFC requested that the structure of payments be adjusted to be more closely related to individual placements as this would be preferable for them financially. This has now been changed. Making placements happen has proved to be very difficult. There has been a great deal of collaborative work amongst the three main parties to solve the main operational challenges. Increased data collection and strong governance processes were cited as integral to the management of the programme.

Prospects

There was a general view amongst the main parties that the KPIs in both the original bid and the subsequent commissioning agreement may have been too ambitious. At the time of writing, the aims for those with a financial stake in the programme were focused on covering costs rather than making any significant surplus in the remaining years of the programme. However all parties stressed they have learned a great deal from their work over recent years in Manchester. The outcomes of the young people who have graduated from the programme were reported as positive. The council reported that it has made savings on each young person recruited.

Table 4.3 presents the key data and progress to date for the Manchester TFCO-A SIB.

Table 4.3 Summary overview of Manchester TFCO-A

Timeframe		
Start date	February 2014	
End date (expected)	July 2019	
Intervention		
Problem tackled by the SIB	High social and financial costs of young people in residential care	
Target population	95 children aged 11-14 with highest level of need who are placed in residential care and have challenging behaviour	
Type of services	Treatment Foster Care Oregon for Adolescents™ programme (TFCO-A™) providing behavioural interventions for foster children in family-based settings	
Geographic remit	The City of Manchester	
Overall cost	£7m over five years. This is an indicative projected overall cost. However, there is no contract cap for this SIB. The contract is effectively a pricing agreement for a series of individual per-child arrangements. There is no maximum number of children which could be put through the programme.	
Parties involved		
Commissioner(s)	Manchester City Council and the Cabinet Office	
Investment manager	Bridges Fund Management	
Investor(s)	Bridges Fund Management through its Social Impact Bond and Social Entrepreneurs Fund	
Lead service provider	Action for Children	
SIB progress at 1 May 2017	**Target**	**Actual**
Active client cohort (most recent quarter)	15	10
Total client cohort	29	19
Service user referrals	Not applicable	Not applicable
Performance management		
Investor funds drawn down	Data not provided/unconfirmed	Data not provided/unconfirmed
Outcome payments from commissioners	Data not provided/unconfirmed	Data not provided/unconfirmed
Outcome payments from other sources (e.g. Big Lottery Fund, Cabinet Office)	Data not provided/unconfirmed	Data not provided/unconfirmed
Total outcome payments received	Data not provided/unconfirmed	Data not provided/unconfirmed
Investor reimbursement	Data not provided/unconfirmed	Data not provided/unconfirmed
Rate of return	Data not provided/unconfirmed	Data not provided/unconfirmed
Intermediary/investment manager management fees	Data not provided/unconfirmed	Data not provided/unconfirmed
Success rate risk	Data not provided/unconfirmed	Data not provided/unconfirmed

4.1.2 London Thames Reach

Background

As detailed in the interim report (Tan et al., 2015; p 53), the Thames Reach SIB sought to reduce rough sleeping and improve social outcomes for a cohort of 415 people, identified as entrenched rough sleepers who were known to local services, in the Greater London area by delivering an intensive, personalised set of services through outreach navigators. The Department for Communities and Local Government (DCLG) and the Greater London Authority (GLA) initiated the project in 2012 with the goal of reducing homelessness in London through social investment. Social Finance assisted the DCLG and GLA, in an advisory role during the tender process. The GLA commissioned two provider organisations, Thames Reach and St. Mungo's Broadway to deliver concurrent SIBs, estimated at £4.5 million in total across both providers. The SIBs were launched in November 2012 and ran for three years. The DCLG paid against outcomes until October 2016. Thames Reach chose a direct provider investment model (see Section 4.2. for further details of SIB model type), providing its own upfront funds alongside several other socially-minded investors, including the Big Issue and the Department of Health's Social Enterprise Investment Fund. The Monument Trust also provided grant funds. The GLA and Thames Reach signed a contract where Thames Reach was reimbursed entirely by results.

Implementation

Of the nine SIB Trailblazers in Health and Social Care at the onset of this evaluation in January 2014, this was the only signed and operational SIB, and among the world's first SIBs. The SIB ran for the full contracted three year period from November 2012 to October 2015. The last outcomes for long term accommodation were paid out at the end of October 2016. The project was positively received by managers and front-line staff who felt that the outcomes-focused approach allowed them greater freedom and autonomy in working with their client population. SIB financing was seen to be beneficial for the target population, and allowed workers to provide ongoing support for individuals (instead of passing individuals between agencies) to lead less chaotic lives. Staff felt that such improvements would not have been possible without the operational freedom and flexibility that SIB financing entailed because conventionally funded services (e.g. block contracts) in this sector (e.g. for rough sleeping and housing transitions) tend to operate in silos, making it difficult, if not impossible, to follow up clients once they have been referred to other services or boroughs. Unlike conventionally funded projects, the SIB enabled a cross-borough, London-wide approach, and allowed staff 'navigators' to deliver highly personalised services and assistance.

Responses to challenges

Despite the successes described above, the SIB failed to meet important outcomes targets focused on a reduction in the cohort seen rough sleeping in the first year and therefore did not generate the revenue expected. This had an impact on the overall size of the team as the team transitioned from having individual caseloads to a model where each front-line worker focused on certain outcomes; for example, some staff would focus specifically on sustaining outcomes relating to accommodation or facilitating 'reconnections' (repatriation to country of origin for non-UK nationals). These changes in the service delivery model may also be attributed to changes in team management.

Prospects

This was the largest ever contract that Thames Reach had won for the delivery of outreach services from the Greater London Authority and success was seen as a high priority for the organisation. The SIB was widely seen as successful and credited with

facilitating new partnerships with high profile corporations and housing-related social enterprises. Thames Reach expressed interest in taking part in another SIB using the same contractual model described above. In the spring of 2017, the GLA announced that there will be a new SIB focussed on a new group of rough sleepers in London. At the time of writing, the bidding process was underway and Thames Reach had expressed their intent to be involved with this project (Mayor of London, 2017).

Table 4.4 presents the key data and progress to date for the London Thames Reach SIB.

Table 4.4 Summary overview of London Thames Reach

Timeframe		
Start date	November 2012	
End date (expected)	October 2015	
Intervention		
Problem tackled by the SIB	Homelessness	
Target population	415 entrenched rough sleepers over 3 years	
Type of services	Navigators monitor cohort closely. Personalised approach tailored to individuals (e.g. assist to find housing, swimming lessons etc.)	
Geographic remit	Greater London area	
Overall cost	£2.5m	
Parties involved		
Commissioner(s)	Greater London Authority (GLA), Department of Communities and Local Government (DCLG)	
Intermediary/investment manager	None, operated in-house by provider	
Investor(s)	Secured loan from The Big Issue, unsecured loan from the DH SEIF, additional grant funds not subject to repayment from The Monument Trust	
Lead service provider	Thames Reach	
Subcontracted service providers	Not applicable	
SIB progress at 31 October 2016	**Not applicable**	**Actual**
Total client cohort	415	415
Performance management		
Investor funds drawn down	Data not provided/unconfirmed	Data not provided/unconfirmed
Outcome payments from commissioners	Data not provided/unconfirmed	Data not provided/unconfirmed
Outcome payments from other sources (e.g. Big Lottery Fund, Cabinet Office)	Data not provided/unconfirmed	Data not provided/unconfirmed
Total outcome payments received	Data not provided/unconfirmed	Data not provided/unconfirmed
Investor reimbursement	Complete	Complete
Rate of return	Data not provided/unconfirmed	Data not provided/unconfirmed
Intermediary/investment manager management fees	Data not provided/unconfirmed	Data not provided/unconfirmed
Savings to commissioner	Data not provided/unconfirmed	Data not provided/unconfirmed
Attribution		
Progress against counterfactual	Not applicable	Not applicable
Progress against baseline	Not applicable	Not applicable

4.1.3 Newcastle Ways to Wellness

Background

As described in our interim report (Tan et al., 2015; p 47), the seeds of the Ways to Wellness (WtW) SIB Trailblazer project were sown by the Voluntary Organisations' Network North East (VONNE) in 2011 after learning of SIBs through Social Finance. Discussions with local commissioners and Bridges Fund Management (BFM) led to the establishment of this SIB-financed Social Prescribing project led by a Special Purpose Vehicle (SPV), Ways to Wellness Limited, established to act as the prime contractor overseeing the delivery of the programme by four local third sector providers. This SIB is structured around a SPV model. The SPV has a board which includes members of BFM, Newcastle West CCG and VONNE. BFM have provided upfront finance to the SPV. The project went live in April 2015 and is scheduled to run for seven years. The project is structured around two outcome measures. The first of these is known as 'Outcome A' and is based on patient-reported change in wellbeing measured against a 'Wellbeing Star'[4] at 6-month intervals. These outcomes were the primary measure for performance in the first two years of the project, with most of the funds coming from central government sources in the early years. The second outcome measurement, 'Outcome B', is based on the delivery of a cohort reduction in secondary care usage of WtW patients compared with a matched counterfactual group from another part of Newcastle. Outcome B measurements are due to come into play in the third year of the programme, from April 2018, and are funded from local commissioning funds.

Early implementation

The prime contractor – Ways to Wellness Limited – was contracted to receive investment funds from BFM based on pre-agreed milestones. They also receive outcome payments via the CCG linked to performance against Outcome A metrics (Outcome B does not generate payments until the third year of the programme). Recruitment of patients was impressive in years one and two across the four different providers (though there was some variation in performance amongst these subcontracted organisations and across the GP practices who refer patients). Patient reported improvements were much higher than expected. However, retention of patients – whilst impressive – was below ambitious KPI targets.

Response to challenges

The original contract was structured so that after two years, the performance of the four subcontracted providers would be reviewed. This review process has resulted in the recommissioning of the same four providers by the prime contractor, but on a new three-year contractual model that relied less on base payments, with a greater emphasis on performance-related payments – particularly with reference to patient retention, a challenging KPI in the early years. It has also been recognised that the recruitment targets were ambitious.

Prospects

The programme was ambitious for the future. Outcome B payments commence in April 2018, requiring the programme to demonstrate that it does deliver savings to local commissioners. There are some concerns that wider financial strains within the health sector in the North East might increase the challenges faced by the WtW team. Nevertheless, there was pride amongst those delivering the programme and a sense that they are delivering Social Prescribing Services at a scale not attempted before – with impressive results reported by patients for Outcome A. Furthermore, the attempt to prove attribution through the counterfactual measurement of the Outcome B metric marks this SIB out amongst the Trailblazers.

4 Wellbeing is measured using Triangle Consulting's 'Wellbeing Star' (Ronicle and Stanworth, 2015). More information on the 'Wellbeing Star' is available on Triangle Consulting's website: www.outcomesstar.org.uk/using-the-star/see-the-stars/well-being-star

Table 4.5 presents the key data and progress to date for the Newcastle Ways to Wellness SIB.

Table 4.5 Summary overview of Newcastle Ways to Wellness

Timeframe		
Start date	April 2015	
End date (expected)	July 2022	
Intervention		
Problem tackled by the SIB	Long-term health conditions	
Target population	14248 people with Long Term Conditions (LTC) living in West Newcastle	
Type of services	Social prescribing (through Link workers). GPs and their primary care teams use social prescribing to refer patients to the service. Ways to Wellness adds to and complements the medical support that people receive, to help them feel more confident to manage their long-term conditions and make positive lifestyle choices. The aim of the service is to improve patients' quality of life and reduce their use of mainstream health services by enabling them to lead healthier lives and better manage their conditions.	
Geographic remit	Newcastle West	
Overall cost	£12.85m (estimated)	
Parties involved		
Commissioner(s)	Newcastle Gateshead CCG, The Big Lottery Fund, Cabinet Office	
Investment manager	Bridges Fund Management	
Investor(s)	Bridges Fund Management through its Social Impact Bond and Social Entrepreneurs Fund	
Lead service provider	Ways to Wellness	
Subcontracted service providers	First Contact Clinical, Mental Health Concern, Healthworks Newcastle, Changing Lives	
SIB progress at 31 May 2017	**Target**	**Actual**
Active client cohort (most recent quarter)	1,768	1,842
Total client cohort	3,134	2,240
Service user referrals	3,443	2,911
Volunteers recruited	Not applicable	5
Performance management		
Investor funds drawn down	Data not provided/unconfirmed	Data not provided/unconfirmed
Outcome payments from commissioners	Data not provided/unconfirmed	Data not provided/unconfirmed
Outcome payments from other sources (e.g. Big Lottery Fund, Cabinet Office)	Data not provided/unconfirmed	Data not provided/unconfirmed
Total outcome payments received	Data not provided/unconfirmed	Data not provided/unconfirmed
Investor reimbursement	Data not provided/unconfirmed	Data not provided/unconfirmed
Rate of return	Data not provided/unconfirmed	Data not provided/unconfirmed
Investment manager management fees	Data not provided/unconfirmed	Data not provided/unconfirmed
Savings to commissioner	Data not provided/unconfirmed	Data not provided/unconfirmed

4.1.4 Worcester Reconnections

Background

As described in the interim report (Tan et al., 2015; p 56), Age UK Herefordshire and Worcestershire (Age UK H&W) worked in partnership with Social Finance to develop a service model to reduce loneliness among older people through increased social engagement. The local commissioners were interested in identifying potential interventions to tackle complex social issues affecting older people, and to assess the potential benefits and savings emerging from these interventions. Social Finance conducted a pre-feasibility study for a SIB, in collaboration with Age UK H&W. The Reconnections SIB was commissioned by Worcestershire County Council, Redditch and Bromsgrove CCG, South Worcestershire CCG, and Wyre Forest CCG in May 2015 and became operational in July 2015. Age UK H&W were the prime contractor for the service and there were six subcontracted local service providers (of which Age UK H&W was one) to carry out the intervention. Social Finance provided operational support and outcomes monitoring for the SIB. There were several referral routes into the intervention, such as by an individual's General Practitioner or other health and social care professionals, local Voluntary or Community Service (VCS) organisations, housing associations, family and friends, or self-referral. Once referred, a member of the Reconnections team administered the Revised-UCLA (R-UCLA) Loneliness Scale to the individual in question. To be eligible for the intervention, the person had to be 50+ years of age and score at least a 5[5], or more, on the 12 point loneliness scale, after which they were referred into the programme and received a personalised assessment and social engagement plan. The R-UCLA scale was to be administered again at 6-9 and 18 months. Outcome payments were to be made for aggregate reduction in loneliness scores for each quarterly cohort at 6-9 and 18 months after their entry into the intervention. In this SIB with SPV model (See Section 4.2. for further details of model type), the investors carried the financial risk while providers (with the exception of the prime contractor once all other parties were paid out and a level of return had been reached) did not have the opportunity to share in the potential profits of the project. Social Finance raised grant funds from the Centre for Social Action Innovation Fund, a joint venture of Nesta, the Cabinet Office and the Calouste Goulbenkian Foundation (UK Branch), to commission a concurrent evaluation of Reconnections, by the Personal Social Services Research Unit (PSSRU) at the London School of Economics.

Early implementation

This project experienced difficulties in recruiting both volunteer befrienders and clients in the pilot and early implementation stages, resulting in a failure to meet enrolment targets. These problems were, in part, attributed to the high barriers to entry set out in the initial contract as prospective participants needed to score at least an 8 out of 12 on the R-UCLA scale during the first year of operation, eligible individuals who declined to participate in the programme, and a long, multistep enrolment process where participants were referred through up to three to four different individuals before participation in the scheme began, with some duplication of effort. Subcontracted providers also struggled with the administrative burden of the process and output measures, and data management and information systems. The volunteer recruitment process was challenging but this was driven, to a degree, by referral numbers.

In response, the Reconnections Board, led by Social Finance, alongside the lead and subcontracted delivery partners, led a change management process throughout the winter and spring of 2016. This involved the renegotiation of aspects of the service design, such as eligibility criteria, with local commissioners. The redesigned service commenced in the summer of 2016. The changes were regarded as having improved

5 In the first year of operation, eligibility was limited to those who scored an 8 or higher on the 12-point scale. Only 20% of the overall participants could be an 8 on the scale, the rest needed to be a 9 or more to receive the intervention. Clients who scored a 7 along with 5 of the following 'Eligibility Risk Factors' were able eligible for the programme; these were some of the eligibility risk factors: living alone, poor health, over 75, any other health needs (AOHN), bereaved. In the second year of operations, the eligibility threshold was lowered to 5. In the new contract, there is no limit on the percentage of participants in each band.

relationships with sub-contracted providers by granting them minimum income guarantees each month, giving them a larger role in the assessment process, and reducing the administrative burden by decreasing the number of process and output measures and data-management requirements. The service delivery model in this site currently relies on a small SPV team, in the lead provider, to performance manage and monitor the six sub-contracted service delivery organisations.

Response to challenges

In response to the early implementation challenges at this site, the Reconnections Board assigned a director from Social Finance to Age UK H&W to lead a change management process to redesign the service. This project director had decision making powers for the SIB and will remain in post for the remainder of the project at the request of the investor board. The director brought operational experience from a number of SIBs to Reconnections. This move was welcomed by the staff at the lead provider and the subcontracted delivery partners that were interviewed. The Reconnections Board and staff at Age UK H&W were supportive of Social Finance's continued direct involvement in day to day management. The subcontracted providers were broadly positive about the new project management style and revised contract.

Prospects

The SIB was achieving higher than expected reductions in loneliness scores at the time of writing, with reported loneliness dropping by 1.3 points. This is higher than the 0.8 point reduction set out in the original model. The numbers engaged in the programme have remained substantially below expectation. This has been attributed to lower than anticipated referrals, referrals that do not meet the eligibility criteria, those who are eligible but decline to participate, and constraints on service capacity – particularly due to limited volunteer recruitment, and the high substantive needs of participants entering the programme. There has been discussion of possible contract renegotiations between the Reconnections Board and the commissioners around eligibility criteria include those receiving social care packages. It is hoped that this will increase overall recruitment into the intervention.

There is a strong focus on the social impact of this intervention, and the importance of capturing and sharing lessons from this experience. The project aims to minimise future financial losses. The investors sustained losses in the first two years, so this SIB is unlikely to be profitable in future given the losses already incurred. The sub-contracted providers vary in their performance, with some receiving additional support from the Reconnections staff, such as with county-wide volunteer recruitment, support with the data management system, or help with clients. The recruitment and mobilisation of volunteers remains challenging but there have been promising efforts to attract and retain new volunteers and improve the training they receive to take part. There have been concerted marketing efforts to promote the programme to potential participants and volunteers in Worcester County. It should be noted that many of the issues experienced by this SIB are largely attributable to the novel nature, and county-wide scope, of the intervention – especially as it was not previously piloted in any site.

Table 4.6 presents the key data and progress to date for the Worcester Reconnections SIB.

Table 4.6 Summary overview of Worcester Reconnections

Timeframe		
Start date	May 2015	
End date (expected)	April 2018	
Intervention		
Problem tackled by the SIB	Loneliness and social isolation among older people, measured with using 12-point R-UCLA scale	
Target population	3000 people identified as lonely aged 50+ years; reduced to 1800 people after contract renegotiation in Spring 2016	
Type of services	Personalised service packages to engage individuals in local community activities (e.g. befriending services, gardening club)	
Geographic remit	Worcestershire	
Overall cost	£1.7m	
Parties involved		
Commissioner(s)	Worcester County Council, Redditch and Bromsgrove CCG, South Worcestershire CCG, Wyre Forest CCG alongside the Cabinet Office's Social Outcomes Fund and the Big Lottery Fund	
Intermediary	Social Finance	
Investor(s)	Care and Wellbeing Fund, Nesta Impact Investments, Age UK National (non-decision making stakeholder)	
Lead service provider	Age UK Herefordshire and Worcestershire	
Subcontracted service providers	Age UK Herefordshire and Worcestershire, Age UK Malvern, Onside Advocacy, Rooftop, Simply Limitless, Worcester Community Trust	
SIB progress at 31 May 2017	**Target**	**Actual**
Active client cohort (most recent quarter)	420	230
Total client cohort	944	689
Service user referrals	2,146	1,129
Volunteers recruited	Not applicable	119
Performance management		
Investor funds drawn down	Redacted by research team[6]	Redacted by research team
Outcome payments from commissioners	Redacted by research team	Redacted by research team
Outcome payments from other sources (e.g. Big Lottery Fund, Cabinet Office)	Not known	Redacted by research team
Total outcome payments received	Redacted by research team	Redacted by research team
Investor reimbursement	Redacted by research team	Redacted by research team
Rate of return	Not known	Not applicable
Investment manager management fees	Not known	Not known
Savings to commissioner	Pending results of PSSRU evaluation	

6 Social Finance shared these figures which were then corroborated by the commissioners. The research team chose to redact these figures because the four other Trailblazer SIBs were not forthcoming with these figures and it was decided that it was not reasonable to publish findings from one site because it was impossible to generalise from one case. See Methods, Section 2.4 for a fuller discussion of this decision.

4.1.5 Shared Lives

Background

As detailed in the interim report (Tan et al., 2015; p 50), Shared Lives is a service where individual carers share their family and community lives with the disabled adults and older people in need of care, supporting them in daily life. In practice, this can mean that an individual is a regular daytime or overnight visitor to his or her carer's household, or that the individual moves in with the carer (Shared Lives Plus 2012a). Most local authorities manage or commission a Shared Lives service, but this service is often small-scale and directly managed by local authorities. Supported by the Cabinet Office, Social Finance, Shared Lives Plus and Community Catalysts worked with local authorities to develop a model to expand Shared Lives using social investment. Community Catalysts, MacIntyre, Social Finance and Shared Lives Plus partnered together to establish a Shared Lives Incubator, which aims to support the success of Shared Lives schemes that receive social or other investment for an agreed period (usually 3-5 years).

After independent procurement processes, preferred providers for delivery of the Shared Lives services were selected in Manchester (PSS) and the London Borough of Lambeth (Grace Eyre), and went live in 2015. In Lambeth, 18 existing Shared Lives clients and two members of staff came over to Grace Eyre from Mencap, the previous provider. In Manchester, Shared Lives services are now provided by both the existing in-house service of the City Council and the external service (PSS).[7]

Early implementation

The Shared Lives initiatives in both Lambeth and Manchester faced difficulties in the implementation stages and at the time of writing were behind on targets. In Lambeth, these problems were caused by a mix of factors. Firstly, the transition process of moving clients and staff from the former service (Mencap) to the new service (Grace Eyre) was a complex process. Furthermore, a key target for the Shared Lives team as part of the SIP is carer recruitment, and although recruiting of carers has been successful, this was initially hindered by long delays in achieving criminal checks (Disclosure and Barring Service checks) for new carers recruited by the scheme. Compounding this is a lack of referrals from social workers in the local authority. In Manchester, a lack of clarity concerning roles between the in-house Shared Lives provider at the City Council, the new external provider (PSS) and the commissioner (Manchester City Council) delayed the start of the new scheme. For a period of around twelve months, it was unclear to staff in the in-house service what the roles and responsibilities of the new, external service were and whether this would have an impact on the in-house service. According to stakeholders, this was not clearly communicated by the commissioning party to both the in-house and external service.

Response to challenges

In both Lambeth and Manchester Social Finance stepped in to provide support in tackling the challenges experienced in these sites. In Lambeth, a Performance Improvement Plan (PIP) was agreed after several KPIs were missed. In Manchester, the commissioner at Manchester City Council stepped in to clarify the newly established Shared Lives services and how both providers would operate, which reassured both the in-house service and PSS. The relationship between both parties also improved with the appointment and efforts of the newly appointed Strategic Lead for Learning Disabilities at Manchester City Council.

7 Later procurement processes in Haringey and in Thurrock led to the selection of new independent Shared Lives providers in each of these areas in 2016. Ategi Ltd launched Thurrock's first Shared Lives scheme in February 2017, while in May 2017 the same organisation took over the management of the Haringey Shared Lives scheme, previously run by the Council. These schemes are not covered by this report.

Prospects

At time of writing, both Shared Lives initiatives remained below target in terms of number of Shared Lives arrangements (see Table). Looking ahead however, in Lambeth, Grace Eyre and the Council had as of May 2017 mainly finalised new terms and conditions for the 'existing' 18 arrangements inherited by the new scheme, and were working much more closely with the Council and with Social Finance to try to increase the numbers of referrals from social workers. In Manchester, the relationship between both providers had improved and the in-house provider and PSS now had weekly meetings to discuss Shared Lives referrals (i.e. deciding who is most suitable to take up a new client). It was expected that the number of Shared Lives arrangements would increase following these arrangements.

These positive developments were mainly the result of strategic changes in both schemes. The different stakeholders involved realised that original calculations were based on unrealistic target-setting. They agreed on the necessity to 're-forecast' in order to reset achievable targets, with the latter now being better informed by the local context and specifics regarding the target cohort. Some flexibility has been added to the referral pipeline: if there are carers available, as recruited by the SIP provider, but no suitable referrals from the local authority, referrals could be sought from other, non-SIP areas. In this format, the other non-SIP local authority would pay a fixed price per person in the scheme per week, and the Incubator would be repaid by this local authority (via the provider). As of May 2017 the different parties involved were discussing whether this new structure might lead to possible changes in risks for the provider or Incubator, and whether accompanying documents for this new structure were required (in particular relating to receiving referrals from non-SIP areas).

Table 4.7 presents the key data and progress to date for the Shared Lives SIP.

Table 4.7 Summary overview of Shared Lives (Lambeth/Manchester)

Timeframe		
Start date	2015	
End date (expected)	2018 (three-year contracts with providers with option to extend by two years)	
Intervention		
Problem tackled by the SIB	Lack of community care options for vulnerable adults; high cost of existing forms of care	
Target population	Disabled adults and older people in need of care (89 adults in Lambeth and 75 adults in Manchester)	
Type of services	An alternative to home care and care homes for people in need of support, with support instead provided through living with a host family. Shared Lives offers personalised, quality care where carers share their lives and often their homes with those they support.	
Geographic remit	Manchester and Lambeth (London)	
Overall cost	Initial investment per site ranges from £100,000 to £350,000 (£1.1m across 3-5 Shared Lives sites) Manchester investment: £315,288 Lambeth investment: £196,884	
Parties involved		
Commissioner(s)	Manchester: Manchester City Council; Lambeth: Lambeth Council for Lambeth	
Intermediary	Social Finance	
Investor(s)	Shared Lives Investments LP	
Lead service provider	Manchester: PSS – Person Shaped Support; Lambeth: Grace Eyre	
Subcontracted service providers	Not applicable	
SIB progress at 1 May 2017	**Target**	**Actual**
Active client cohort (most recent quarter)	41 (Manchester); 47 (Lambeth)	11 (Manchester); 20 (Lambeth – this includes the 18 existing schemes moved from Mencap)
Total client cohort	As above	As above
Service user referrals	Not applicable (no referral targets set)	Not applicable (no referral targets set)
Performance management		
Investor funds drawn down	Redacted by research team	Redacted by research team
Outcome payments from commissioners	The local authority pays a management fee for every week a Shared Lives arrangement is in place. Part of this can be used to repay investment. *Exact number could not be provided due to this being commercially sensitive information.*	Payment of the weekly per-arrangement management fee is in place for the arrangements established (see above). *Exact number could not be provided due to this being commercially sensitive information.*
Outcome payments from other sources (e.g. Big Lottery Fund, Cabinet Office)	Not applicable	Not applicable
Total outcome payments received	Not applicable	Not applicable
Investor reimbursement	Not applicable	Both schemes have started to reimburse investment but slower than anticipated
Rate of return	A mid- single figure digit return was planned for investors	Not applicable
Investment manager management fees	Data not provided/unconfirmed	Data not provided/unconfirmed
Savings to commissioner	Pending results of PSSRU evaluation	

4.2 Analysis of SIB contracts

4.2.1 Introduction

As a novel financial mechanism for funding public services, SIB contracts do not follow a standard format or agreed structure. This has led to some variability among the SIB Trailblazers especially in the allocation of risk between actors, and governance arrangements. Through analyses of the signed SIB contracts in the five Trailblazers sites that were commissioned, three distinct SIB models could be identified:

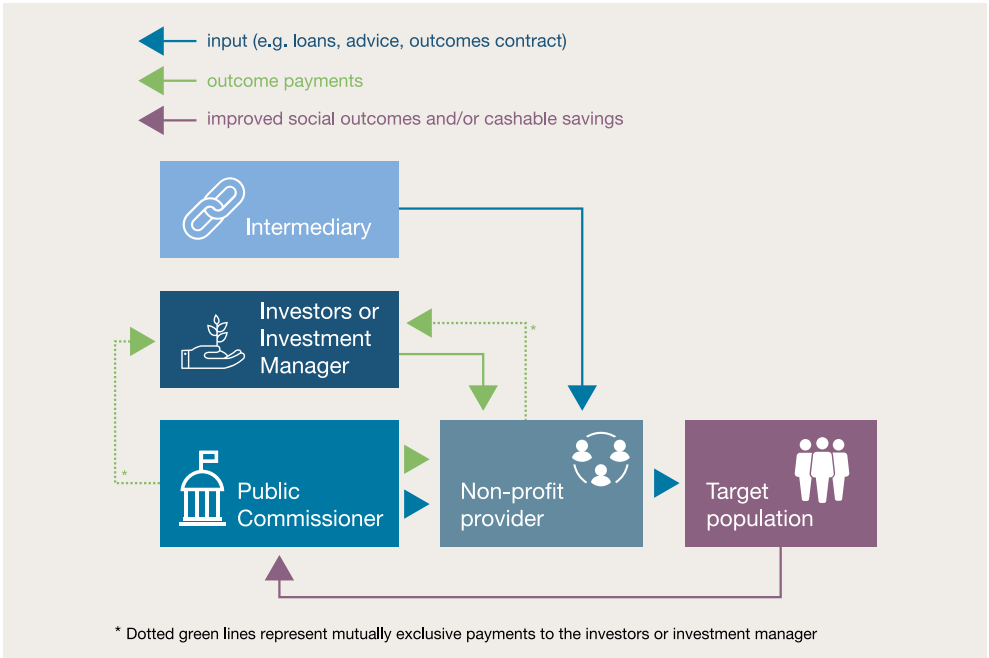
1. Direct Provider SIB model (London Thames Reach; Manchester TFCO-A)
2. SIB with SPV model (Newcastle Ways to Wellness, Worcester Reconnections
3. Social Investment Partnership (SIP) model (Shared Lives)

This section presents the three SIB models in turn. After presenting the models in generic terms, each of the site-specific models are described showing the stakeholders involved, financial flows, savings and management oversight. Next, findings from the contract analysis are described with a particular focus on the implications for the different parties in a SIB in terms of incentives and risk-sharing arrangements.

4.2.2 Model 1: Direct Provider SIB model

Under a Direct Provider SIB model, as presented in Figure 4.1: Direct Provider SIB model below, financial inputs and outputs flow directly between the provider and the investor(s) or investment manager. In this model, payments and other input from the commissioner also feed into the provider organisation, and in some instances the commissioner makes outcome payments to the investor. Inputs from the intermediary, such as loans or advice, feed directly into the provider organisation.

Figure 4.1 Direct Provider SIB model



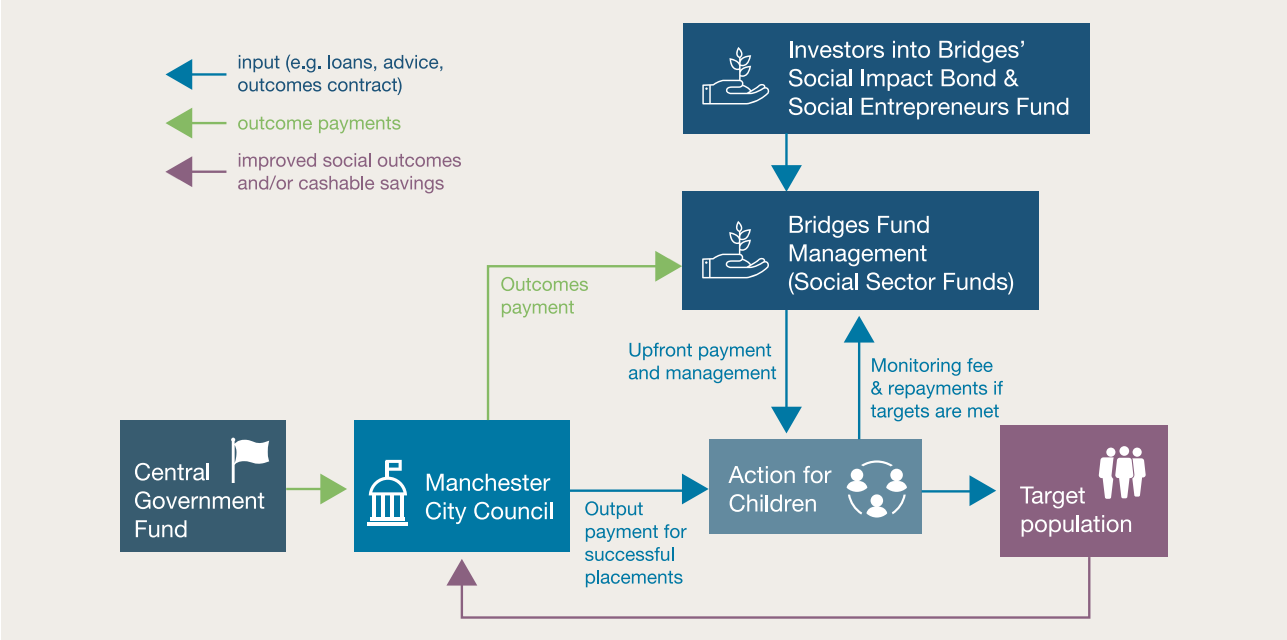
The Manchester TFCO-A and London Thames Reach Trailblazers were Direct Provider SIB models and are described with specific diagrams below.

Manchester TFCO-A

Contract background

The Manchester TFCO SIB was the second SIB in which BFM and Action for Children (AFC) collaborated – the first being the Essex County Council Multi-Systemic Therapy (MST) SIB. BFM operates two investment funds from which it finances the Trailblazers (and other SIBs): (1) Bridges Social Impact Bond Fund and (2) Bridges Social Entrepreneurship Fund. These represent an overall fund of £35m, mostly raised from philanthropic foundations and government funds. BFM has a limited partnership agreement that requires it to pass back any gains to investors. In the initial contract, a management/monitoring fee should have been received by BFM from AFC. However BFM stated that they had not received any payment thus far to cover the cost of their time managing the TFCO project over the last 4 years. BFM was able to draw the funds down as needed, which then went to the provider (AFC) at agreed times subject to certain KPIs being met. BFM suggested that across its portfolio of 15-20 SIBs, delivered over 10 years, it aims to generate sufficient surpluses for its investors from the successful projects to compensate for those projects where capital is lost, and also to retrospectively cover the cost of the time input by the three BFM team members to launch and manage all 15-20 projects. This cost of management time is paid for upfront by the investors into the BFM Funds, and is ultimately repaid by commissioners if the projects are successful. BFM receive pro bono legal work from Freshfields Bruckhaus Deringer LLP, a legal firm that has provided pro bono services for other SIB intermediaries including Social Finance and Numbers for Good. The other parties (commissioners, providers etc.) in the contractual relationship fund their own legal advice. It was reported that all parties experienced higher levels of management time and cost than anticipated in order to analyse data and drive performance.

Figure 4.2 Direct Provider SIB model: Manchester TFCO-A



In this SIB, the Cabinet Office contributes outcome payment funds to Manchester City Council. The Council has a contract with AFC for the delivery of TFCO-A. The Council pay AFC an agreed sum whilst a young person is undergoing the intensive phase of the intervention. Part of this agreed sum is paid to the foster carer with whom the young person lives during the intervention. AFC receives finance from Bridges to cover upfront (staff recruitment etc.) and ongoing costs contingent upon meeting agreed KPIs. AFC repays Bridges over the course of the contract. Bridges also receives outcome payments from the Council based on recorded behavioural markers for each young person that receives the intervention.

Incentives and risk sharing for investors
The commissioning agreement between BFM and AFC was structured so that investors' money would be paid directly to the provider from the start of the project bi-annually (i.e. 6 payments over 3 years). The payments were dependent upon (non-outcome related – for example, staff recruitment) KPIs being met by the provider and were structured to reflect the agreed sharing of risk, as per the table above. The investors' finance was ultimately at risk because the investor returns were supposed to come from commissioner payments based on outcomes to BFM – these funds would in turn passed back to the investment fund. If the agreed outcomes were not met, then the investors would not be repaid. This finance represents neither equity investment nor a loan. The investor instead pays revenue to the provider, and as such is effectively a co-commissioner. Under the commissioning agreement, BFM would have received payments from the AFC in the form of a fee each year for the investment manager's monitoring of the provider's provision of the services under the P4P contract (this is termed a monitoring fee). The monitoring fee was scheduled to be payable semi-annually. The original intention was that the monitoring fee would be deducted from the commissioning payments (although this had yet to happen). According to BFM, the monitoring fee is much less than the actual cost of managing the project. It is unclear to us if, through what mechanism, and how much, BFM have been paid for their involvement in this particular Trailblazer so far, or expect to be paid in the future.

Incentives and risk sharing for intermediary
No external intermediary was involved in the operation or performance management of this site. However, contractors have been brought in to help manage aspects of the programme at different times.

Incentives and risk sharing for provider
Contingent upon the provider meeting specific KPIs, BFM is contractually committed to make a payment to the provider on a regular basis (a regular sum every six months in years one to three) to cover set up costs before commissioner funds become payable, i.e. once young people have undergone the intervention. The commissioning agreement stipulates that should changes be required to the implementation plan or ongoing operational arrangements under the P4P contract, the division of risk is such that: (a) ongoing operational costs (e.g. staff payments etc.) is carried by AFC; (b) risk of number of referrals is shared between BFM and AFC, but with the majority of the risk carried by AFC; and (c) risk of graduands not staying in foster care as long as expected is shared between BFM and AFC but with the majority of that risk carried by BFM. This is represented in Table 4.2 above.

Incentives and risk sharing for commissioner
In this Trailblazer, investor money is used to set the scheme up and the public commissioner pays for the rest including outcomes. The commissioner pays weekly fees a month in arrears to the provider for each week a young person is successfully engaged in TFCO programme. The commissioner also pays a weekly placement outcome payment for graduates of the TFCO programme who successfully transition from

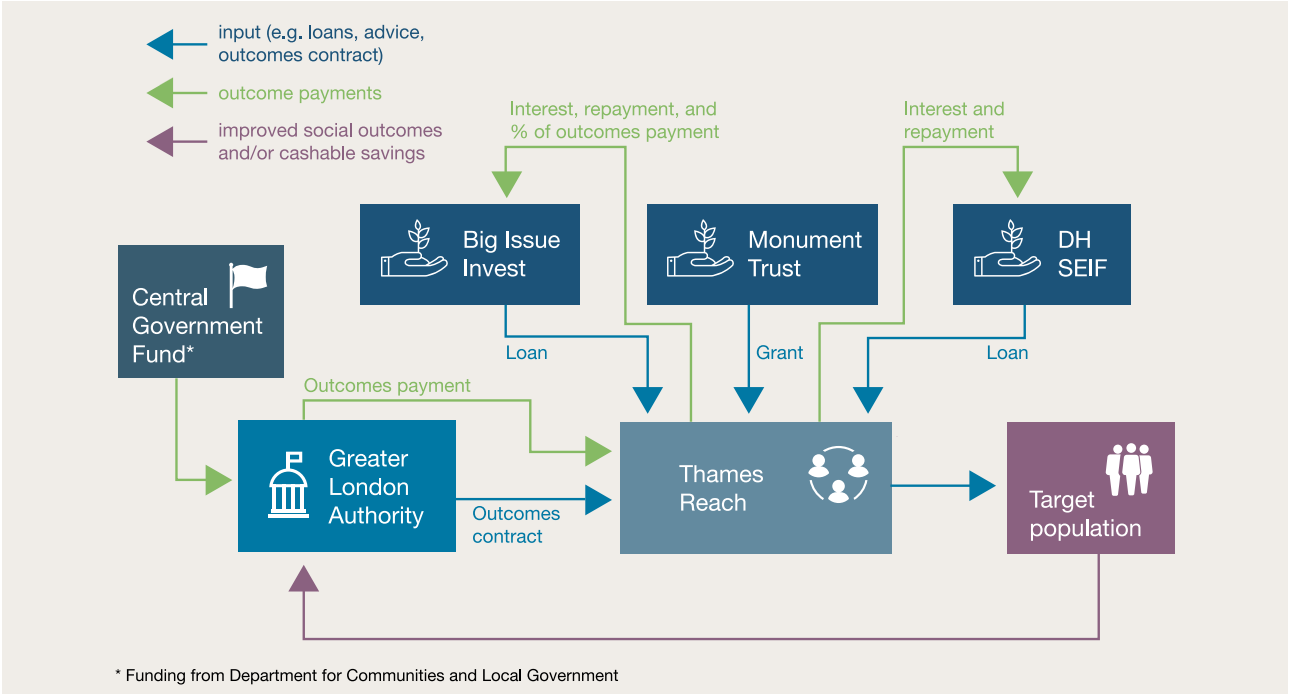
residential to foster care. The commissioner additionally pays two bonus payments based on School attendance, Strengths and Difficulties Questionnaire (SDQ) scores, improved behaviour at school, reduction/avoidance of safeguarding incidents and positive activities. Effectiveness is judged in three ways: (1) youngsters on the TFCO programme and graduations; (2) youngsters in foster care post TFCO (i.e. not in residential care any longer); and (3) behavioural metrics related to youngsters (based on before/after analysis). The commissioner has the potential to make cashable savings as part of this SIB. There is no financial risk for the commissioner in this model, because the commissioner only starts to make payments once a child has successfully moved out of a residential placement.

London Thames Reach

Contract background

The Greater London Authority (GLA) (lead commissioner for homelessness services in London), in partnership with the Department of Communities and Local Government (DCLG), commissioned two Social Impact Bonds to reduce rough sleeping among a cohort of 830 entrenched rough sleepers (divided into two cohorts of 415 individuals) in London, UK in 2012. Thames Reach was one of two registered UK charities, selected to deliver one of the SIBs after a competitive bidding process. Investors were recruited separately by the provider organisations after the competitive bidding process or consultation with the GLA ended. Social Finance acted in an advisory role to the GLA in developing the tender and throughout the bidding and selection process. There were five paid outcomes. The primary outcomes were a reduction in rough sleeping, as recorded by street outreach teams against a historical baseline and a move to settled accommodation (not a hostel) with payments if accommodation was secured, and sustained for 12, and 18 consecutive months. The secondary outcomes were: reconnections with home country; to be in employment or training (e.g. obtaining NVQ2, volunteering or self-employed for 8+ hours a week, being in part or full time employment); and, a reduction in visits to A&E.

Figure 4.3 Direct Provider SIB model: London Thames Reach



In this SIB, the DCLG contributed outcome payment funds to the GLA. The GLA had a contract with Thames Reach where the GLA provided payments to Thames Reach for outcomes achieved on a quarterly basis. Thames Reach repaid their loans to the Big Issue Invest and the DH SEIF on a quarterly basis with interest, and for the Big Issue Invest, a percentage of outcomes payment received.

Incentives and risk sharing for investors

To fund the upfront costs of the SIB, Thames Reach received the following amounts: Department of Health Social Enterprise Investment Fund (DH SEIF) provided an unsecured loan of £250,000; Big Issue Invest provided £250,000 (as secured loan facility) and Thames Reach contributed at least £250,000 from its own reserves. The Monument Trust provided a grant of £100,000 that was not subject to repayment. The investors (Big Issue Invest and DH SEIF) provided funds directly to Thames Reach and were repaid on a quarterly basis with fixed interest rates with payments commencing within the first year of operations. Loan repayments were not based on outcomes achievement, so unlike under a conventionally funded SIB, as long as the provider did not default on its loans and become financially insolvent, investors did not assume any degree of risk if the project failed. One investor, Big Issue Invest, also received a percentage of outcomes paid in addition to its loan repayments with interest so had the potential to share in the outcomes payments received from the GLA.

Incentives and risk sharing for intermediary

No external intermediary or performance manager was involved in the operation or performance management of this site.

Incentives and risk sharing for provider

As a Direct Provider Investment SIB, Thames Reach assumed the direct financial risks of low performance. Thames Reach chose to use the direct provider model to minimise the transaction costs associated with establishing a SIB contract, as they felt they lacked the financial resources necessary to cover the legal fees associated with establishing a Special Purpose Vehicle (SPV), a subsidiary entity that can be used to deliver a project without putting the larger organisation at risk in the event of failure. They matched the funds from Big Issue Invest and the DH SEIF from their own reserves. Thames Reach was required to pay quarterly repayments with 4% interest to the Big Issue Invest and the DH SEIF. Big Issue Invest also received a portion of one of the primary outcomes (set at 1.75% of payments from the GLA). This financial arrangement increased the financial risk of failure for Thames Reach as the organisation itself was liable for their loan from the two investors. There was no provider risk associated with the funds from the Monument Trust as they were grant funds that did not have to be repaid. Big Issue Invest's funds allowed it to gain observer status on the charity's board of directors. In this model, the provider assumed all the financial risk, so if they failed to generate revenue, they would therefore be unable to repay interest, or repay their own investment from their operational reserves. This also meant that if successful, Thames Reach could gain substantial surpluses from the outcomes payments from the GLA, funded by the DCLG, after repaying the two investor loans to put toward other organisational programming or priorities.

Incentives and risk sharing for commissioner

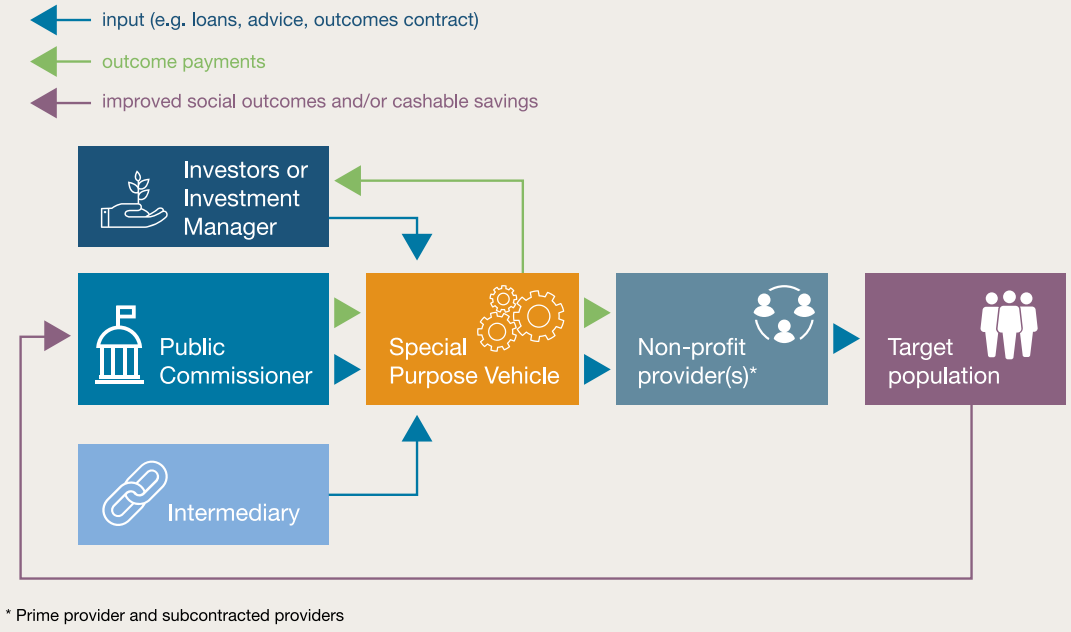
The commissioner, the GLA, was liable for the following outcomes schedule: a reduction in rough sleeping, as recorded by street outreach teams; a move to settled accommodation (not a hostel) with tariffs paid out if accommodation was secured, and sustained for 12, and 18 consecutive months; reconnections with home country; to be in employment or training (e.g. obtaining NVQ2, volunteering or self-employed for 8+ hours a week, being in part or full time employment); and, a reduction in visits

to A&E. The commissioner was only required to issue payments based on quarterly outcomes achievement as reported by the provider. Outcomes payments were funded by the DCLG so the local commissioner bore no financial risk. These quarterly reports were audited by a programme officer at the GLA. If the provider did not report outcomes, the commissioner did not provide any money and so shared no financial risk for low performance.

4.2.3 Model 2: SIB with SPV model

The main difference between the SIB with SPV model presented in Figure 4.4 and the Direct Provider model previously presented is the involvement of a Special Purpose Vehicle (SPV). Instead of inputs flowing from investors, commissioners and intermediaries directly to the provider, this now takes place through the SPV. Similarly, outcome payments to the investors or investment manager are made through the SPV.

Figure 4.4 SIB with SPV model



The Newcastle Ways to Wellness and Worcester Reconnections Trailblazer sites are SIBs with SPVs and are described further below alongside a visual overview of each.

Newcastle Ways to Wellness

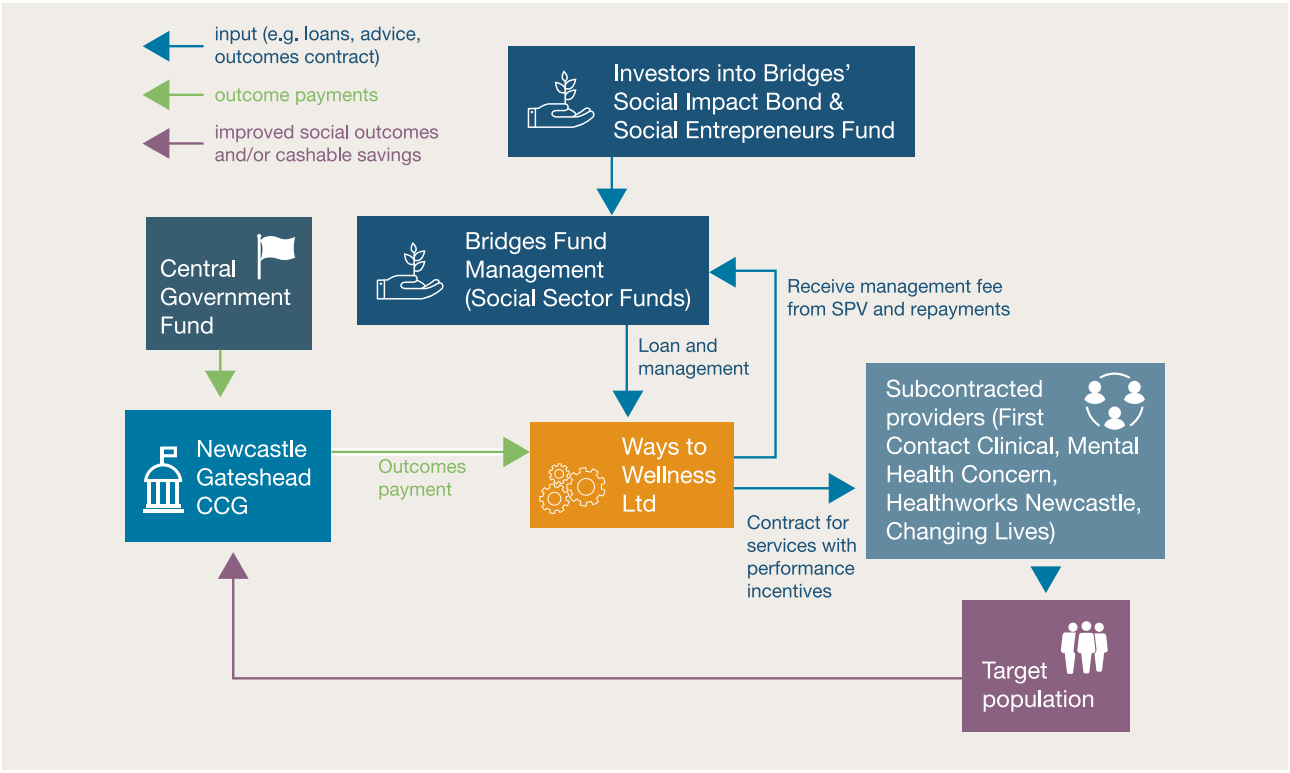
Contract background

This SIB is structured through an SPV. The SPV is managed by WtW as the prime contractor with oversight from a Board, with BFM represented on the Board. WtW have a loan agreement with BFM that should amount to £1.65m over the first three years of the project paid in five tranches dependent upon the achievement of pre-agreed milestones. BFM accesses funds from its Social Entrepreneurs Fund and its Social Impact Bond Fund. WtW is the prime contractor and holds the contract with the local CCG via the SPV to deliver the full social prescribing service. The prime contractor is owned in full by the WtW Foundation. BFM investment is made as a loan to the prime contractor. The debt is advanced onto the balance sheet of the SPV. The interest rate is tied to contract performance. BFM has 'swamping rights' to replace the CEO, Chair, and/or the Finance and Contracts Manager of the prime contractor if contract KPIs are not met. Although this right might be seen to mitigate some of the risk for BFM, we do not know if BFM accepts a lower interest/outcome repayment rate in return. In terms of governance, the board of directors of WtW consists of an independent chair, and representative from BFM alongside six other directors. The prime contractor employs a CEO and a Finance and Contracts Manager and is responsible for the management of the four sub-contracted service providers. WtW sub-contracts the delivery of the programme to four local provider organisations. These organisations initially had two yearlong contracts that enabled WtW to review performance and potentially award the contract to other providers in the light of underperformance. Section 4.1.3 highlights how this changed .

This is a long-term project of seven years. It is also the largest contract of the Trailblazers in cash terms. In addition to the proposed £1.65m from BFM, the CCG estimates paying £8.2m, plus the CCG receives funding for 'top-up' payments of £1m from the Cabinet Office through the Social Outcomes Fund and £2m from the Big Lottery through the Commissioning Better Outcomes Fund (CBO Evaluation, 2015). The programme has two outcome payment metrics – A and B. Outcome A relates to Wellbeing Star measurements linked to improved management of long term health conditions. These outcomes are self-reported and paid by the £3m 'top up' funds from the Cabinet Office and Big Lottery from year 1-7, as well as £2.1m from the CCG from year 2-7. Outcome B relates to reduced secondary care usage. These outcomes are calculated by the North of England Commissioning Support (NECS) unit on behalf of the CCG. These are based on quantitative data analysis that aims to conduct a matched comparison of the secondary and ambulatory care use for those undergoing the WtW intervention in Newcastle West with a control group based in another part of the city. These outcome payments could equate to £4.6m and the CCG alone will be liable to pay from year 3 of the project onwards.

The CCG has a contract with Ways to Wellness for the delivery of the Social Prescribing Service (SPS). The SPV has contracts with four local providers to deliver the SPS. The SPV receives finance from Bridges to cover upfront (staff recruitment etc.) and ongoing costs contingent upon meeting agreed KPIs. The SPV repays Bridges over the course of the contract. There are two outcome payments from the CCG that fund these repayments.

Figure 4.5 SIB with SPV model: Newcastle Ways to Wellness



Incentives and risk sharing for investors

A total of £1.65m was available to be invested in the SIB as part of five tranches from February 2015 to October 2016 dependent upon performance against agreed KPIs (CBO evaluation, 2015). The investors were scheduled to be repaid in three instalments due at specific dates. The payments from BFM to WtW are loans. BFM receives a payment from WtW on its loans. The total payments have a cap. BFM is also paid a 'monitoring fee' by WtW for their involvement. As the investment manager, BFM is in a powerful position because, as per its contract with WtW, it can 'elect to step in and appoint new senior management' should the 'borrower' (WtW) fail to meet any KPI minimum levels. BFM can also instruct WtW to develop a Performance Improvement Plan and can choose whether or not to accept the terms of this.

Incentives and risk sharing for intermediary

No external intermediary was involved in the operation or performance management of this site.

Incentives and risk sharing for provider

In terms of patient recruitment, WtW committed to recruiting 1091 new patients and having 866 cumulative engaged patients in year one, rising to 2418 new patients per year and having cumulatively engaged 4100 patients by the end of year ten.
WtW subcontracts the delivery of the intervention to four local small service providers:

1. First Contact Clinical
2. Mental Health Concern
3. HealthWORKS Newcastle
4. Changing Lives

According to Schedule 2 of the initial contract (years 1-2 – as noted above, this changes from year 3), WtW pays the subcontractors based on 18 metrics across four headings:

1. Employing link-workers
2. Working with patients
3. Working with GP practices
4. Working with WtW

These metrics relate to completion of Wellbeing Stars within specified timeframes, follow up measurements and evidence of improvement, appropriateness of referrals, reporting requirements. In the event of 'consistent failure', WtW can withhold payments to the provider(s), suspend the service and allocate the service to a different provider. The main payments to providers in the initial contract (years 1-2) are as follows:

1. A social provider block payment– as a proportion of the total number of link workers allocated to the GP practices served, in return for having sufficient suitable staff in place.
2. A tariff paid by WtW per referral as follows:
   i. First payment on successful referral and completion of baseline Wellbeing Star
   ii. Second payment on completion of second Wellbeing Star
   iii. Continuing tariff commencing 15 months after successful referral, payable in half yearly instalments and on completion of subsequent Wellbeing Stars weighted accordingly to Outcome A until the patient leaves the programme.

WtW and the service providers share the same volume targets relating explicitly to patient referral numbers. The provider organisations are not paid according to Outcome B targets.
The prime contractor and the provider organisations appear to have none of their own money at risk in this programme.

Incentives and risk sharing for commissioner
The CCG pays WtW directly through three local tariffs:

1. Outcome A Support Tariff: A specified amount per patient each year from years 1-6 six monthly in arrears. This will continue until the financial cap £3m (£1m from the Cabinet Office & £2m from the Big Lottery Fund) is reached or until the end of year 6 (this is paid monthly).
2. Outcome A CCG Tariff – 12 months post commencement. This increases in value from year 1 to year 7.
3. Outcome B CCG Tariff – 24 months post commencement. This increases in value from year 3 to year 7.

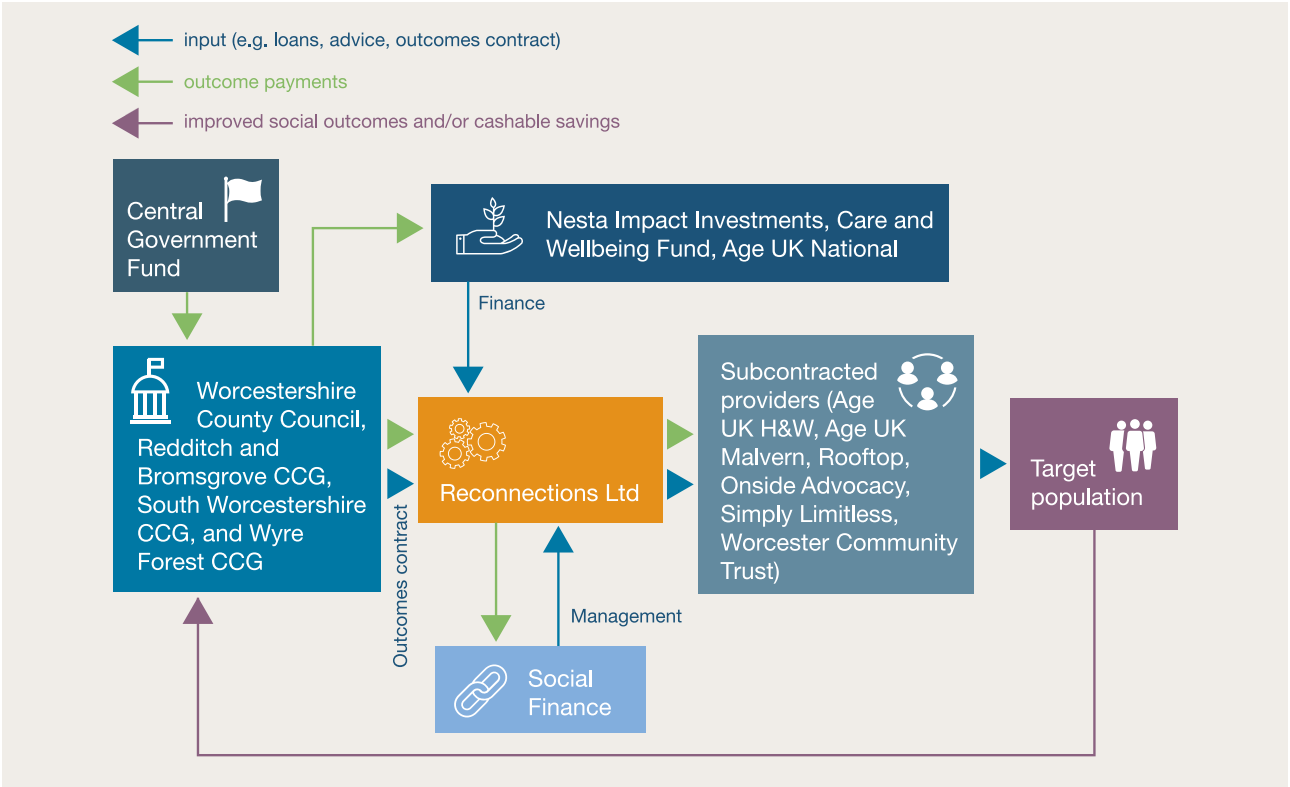
These payments are related to performance – (1) recruitment; (2) Wellbeing Star improvement; (3) reduced secondary care admissions [in year 3 onwards, measured savings in secondary care costs attributable to WtW cohort are observed]. These targets include minimum levels that increase over subsequent years. The savings for the commissioner as per outcome B are hypothetical rather than cashable.

Worcester Reconnections

Contract background

The Reconnections SIB was developed in partnership between Social Finance, Age UK Herefordshire and Worcestershire, and Worcestershire County Council. Commissioning has been led by Worcestershire County Council alongside Redditch and Bromsgrove CCG, South Worcestershire CCG, and Wyre Forest CCG. The providers are led by Age UK Herefordshire and Worcestershire and involve six delivery organisations (see Figure 4.6 below for further details of all delivery partners). It was commissioned in May 2015 with investment from Big Society Capital and Nesta. Shortly after the contract was signed, Big Society Capital transferred the majority of its stake in the SIB to the Care and Wellbeing Fund (see below), with a smaller amount going to Age UK National. In the initial contract, Social Finance was the performance manager and was meant to be paid through a quarterly percentage of distributable resources. In practice, Social Finance has reported that they are paid through a set management fee, which was waived during the redevelopment period. Social Finance also receives grant funding for developing and sharing learning from the Reconnections project.

Figure 4.6 SIB with SPV model: Worcester Reconnections



Worcester County Council has a contract with Reconnections Limited for the delivery of a social isolation intervention. The SPV has contracts with six local providers, one of which is Age UK H&W who are also the lead providers and a subcontractor, to deliver the intervention.

Incentives and risk sharing for investors

Big Society Capital (BSC), Nesta Impact investments (NII) are named as investors in the initial investment contract. BSC transferred its investment to the Care and Wellbeing Fund (CWF) and Age UK National shortly after the project began. The Care and Wellbeing Fund comprises of investment from Macmillan Cancer Support and Big Society Capital and is managed by a fund management team within Social Finance and is overseen by an independent investment committee. In total, £850,000 in upfront funding was raised to fund this intervention from three sources: Nesta Impact Investments £450,000, the Care and Wellbeing Fund, £350,000, and Age UK National £50,000. Reconnections is paid quarterly based on the average per point reduction in measured loneliness across the cohort. It receives £460/person at the 6-9 month assessment and £240/person at the 18 month assessment. These initial outcomes payments are used to fund future years of programming. The investors aim to receive their capital back and a return only after these operational costs are met.

Incentives and risk sharing for intermediary

In the initial contract, Social Finance received quarterly payments, based on a percentage of distributable resources (the percentage was redacted from the contracts made available to the research team). There does not appear to be a cap on this amount once the investors have received their capital investment and total preferred return. The SPV to service provider contract outlines the roles and responsibilities that Social Finance has in overseeing the provider's performance, namely, monitoring and reviewing compliance with the service specification, and reviewing and deciding upon any changes to service provision for service provider or sub-contractors. Since the CWF became an investor in the process, Social Finance reported that the contractual arrangements were simplified. In the new relationship, Social Finance receives a set management fee. It is unknown what general management fees are paid for these performance management services.

Incentives and risk sharing for provider

The lead provider receives block funding to support a project manager, project administrators and front-line staff. In the case of overperformance on volume, the lead provider would share in the proceeds of the outcomes payments after all other parties are paid out. Each subcontracted provider (including the lead provider) also receives block funding on a monthly basis, billed on a quarterly basis, for their services. There are no explicit financial incentives for the subcontracted providers. However, there is the possibility of additional payments over a threshold in recognition of extra work involved, such as for recruiting more individuals to the programme. The providers do not share the risk of low performance. The original contract stipulates that there are penalties for missed KPIs (both outcome related and non-outcome related). However, the contract for subcontracted providers was renegotiated substantially in the spring and summer of 2016, changing to the contract described above in place of a previous one that paid providers on throughput. This contract was amended as the incentives in it were not found to incentivise or facilitate the intervention across all the providers. The Reconnections Board holds the right to terminate the provider contract altogether if a provider fails to remedy performance to KPIs within two months of being served notice.

Incentives and risk sharing for commissioner

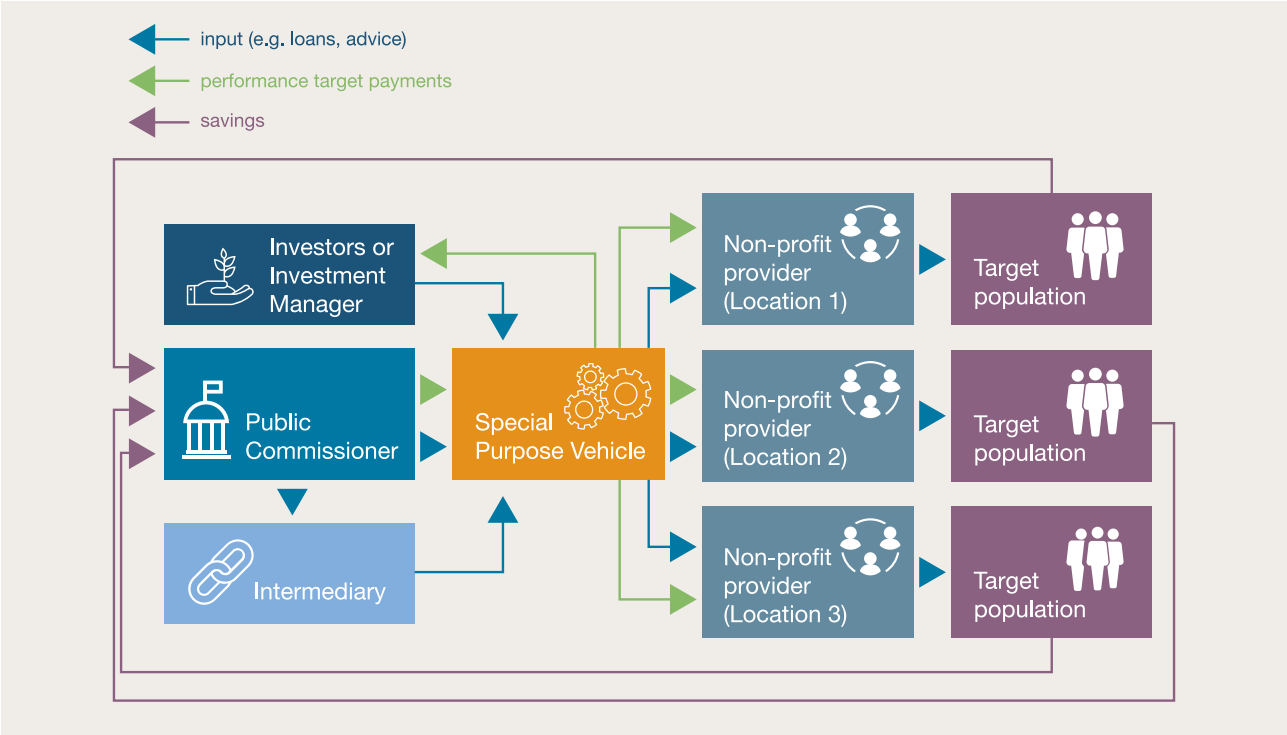
The financial risks for local commissioners are relatively low. The local commissioners are responsible for 51% of total outcomes payments and these are shared by four commissioners and paid out of their public health budgets. The other 49% of payments for the SIB come from additional outcomes funding from the Cabinet Office Social Outcomes Fund (SOF) and the Big Lottery Fund's Commissioning Better Outcomes Fund (CBO). There is no financial risk to the commissioner if the project fails to deliver

outcomes, or if the commissioners choose to withdraw from the contract for a valid reason (e.g. related to safeguarding). The commissioner pays the SPV based on the reported aggregated cohort reduction in reported loneliness at 6 and 18 months after joining the intervention on a quarterly basis. The main incentives that exist are reputational ones, as the commissioners have a vested interest in the success of the project and to serve a wider objective of improving social outcomes for lonely older people.

4.2.4 Model 3: Social Investment Partnership (SIP) model

The term 'Social Impact Partnership' was coined and used by Social Finance to describe a commissioning approach which may include SIBs but encompasses wider collaboration among commissioners, providers and investors to design and deliver services (Jupp, 2017). The Social Investment Partnership (SIP) model presented in Figure 4.7 is similar to the SIB with SPV model in terms of input and output flowing via an SPV into the provider organisation, and via the SPV back to investors. The main difference compared to the traditional SPV model is the upscaling element: through one SPV, several SIPs can be set up across multiple locations, providing the same service.

Figure 4.7 Social Investment Partnership model [8,9]

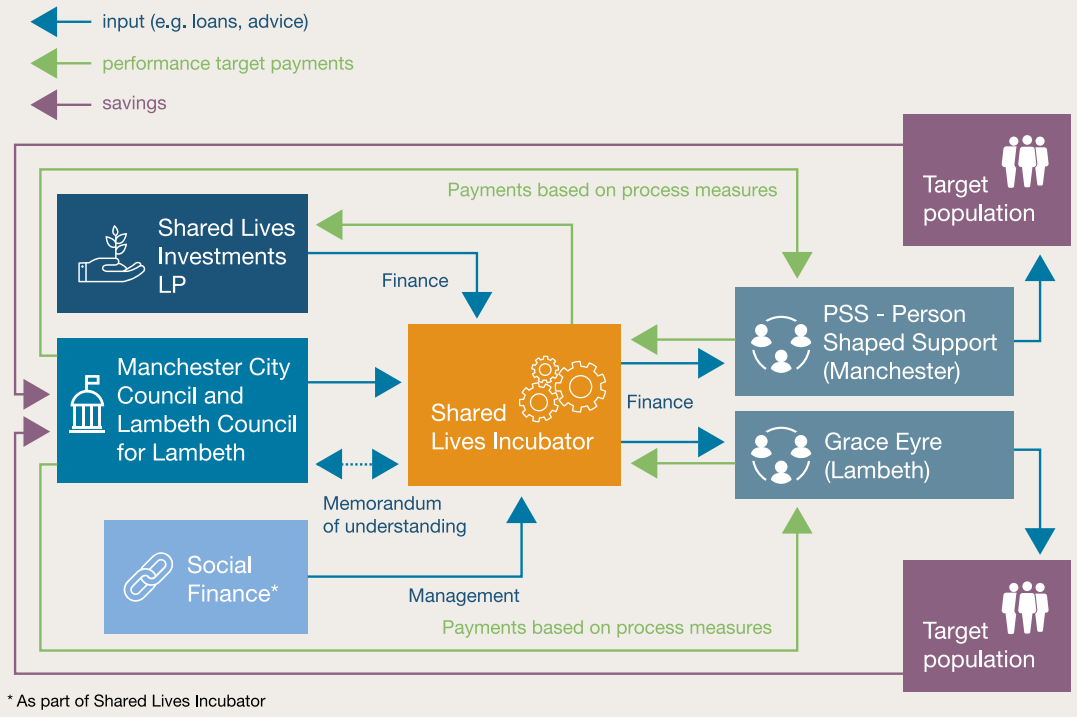


The Shared Lives Trailblazer sites represent an example of the Social Investment Partnership model. Figure 4.8 below presents a visual overview of the Shared Lives model.

8 This model is a payment for performance (P4P) model using process measures as a basis for performance payments.

9 Other SIBs with SPVs can operate across multiple locations.

Figure 4.8 Social Investment Partnership model: Shared Lives



In this SIP model, several parties feed into the Shared Lives Incubator (the SPV) and in turn the Incubator channels funding to different providers. For example, the investments from Shared Lives Investment LP flow through the SPV into the different Shared Lives providers. The output payments derived from the intervention in turn flow back from the providers to the investors via the Incubator. The commissioner pays the Shared Lives service provider an additional fee for outputs, in this case for overseeing the new care arrangement. The intermediary, Social Finance, as part of the Incubator, has a managerial role in this SIP. The process of setting up and running the Shared Lives SIP is described in more detail in the next sections.

Shared Lives

Contract background

This project is not technically a SIB in that is not based on outcome payments, but rather ongoing per-placement fees for each service user successfully placed into a local Shared Lives (SL) programme. The model has been termed a Social Investment Partnership, or SIP by Social Finance, the key intermediary organisation. There are a number of different SL projects that have been developed throughout the lifetime of the evaluation. Two sites explored the development of SL services through a SIP mechanism (Newham and Leeds) but ultimately chose not to pursue the model. Two sites commenced the service in 2015 (Lambeth and Manchester). Two more sites have come on line in 2017 (Haringey and Thurrock). Most of the operational data in this report come from the Lambeth SIP with some further data based on the Manchester SIP. We secured the relevant contracts for the Lambeth SIP and we were informed that the Lambeth and Manchester contracts are very similar.

There are a number of organisations involved in this SIP. Community Catalysts (a Social enterprise and Community Interest Company established by and working in close partnership with the charity Shared Lives Plus), Social Finance and Shared Lives Plus (the UK network for Shared Lives and Homeshare Programmes) partnered to establish a Shared Lives Incubator (MacIntyre – a national charity that supports people with learning disabilities – was also involved in the original concept but has not played an active role since implementation). The Incubator is financed by a number of (social) investors: Big Society Capital, Esmée Fairbairn, John Ellerman and the Joseph Rowntree Foundation – these are the limited partners. Social Finance Shared Lives (GP) is the General Partner, and Social Finance Ltd is the Manager. These are key strategic and operational roles held by Social Finance.

The process of setting up and running a Shared Lives SIP can be characterised as follows. First, a local commissioner (usually a Local Authority, LA) partners with the Shared Lives Incubator and agrees to commission a SL service using social investment. Normally, the idea is to expand SL provision to a larger number of potential service users – this has both quality improvement and cost savings implications for the commissioner. Next, the Incubator supports the LA to find and procure a suitable SL provider organisation to develop the new service. The provider receives funds from the investors to help cover upfront costs for the roll out of the scheme (typically training, recruitment, management support). The LA then begins to refer potential service users to the provider organisation which, in parallel, recruits new carers, and matches services users and carers. The service provider pays carers a weekly fee for their work (with funds received from the LA). The LA pays the service provider an additional fee for overseeing the new care arrangement. Social Finance has managerial oversight role to ensure this happens as smoothly as possible. Over time, as the number of service users placed with carers increases, the income for the service provider increases too so that the service provider repays the original investment – ideally with a return for investors too. As a result, the LA might be able to gradually reduce its reliance on more expensive residential care places and therefore create a financial surplus.

Incentives and risk sharing for investors

Big Society Capital, Esmée Fairburn Foundation, John Ellerman Foundation and the Joseph Rowntree Foundation are named in the Limited Partnership Agreement of Shared Lives Investments LP. While the investment amount was redacted in the contracts made available to the research team, it is known that £1.1m has been raised to cover four local authorities (Social Finance, 2015). The investment is classed as 'quasi-equity'. The investors are repaid through revenues received from the LA for services provided.

Incentives and risk sharing for intermediary

Social Finance is both the 'General Partner' and the 'Manager' of the 'Partnership', but is referred to as the intermediary here. The intermediary has entered into a Limited Partnership Agreement with the investors, and 'immediately following execution of this agreement, each [of the investors] shall contribute their Capital Contribution to the Partnership]'. The General Partner gets various expenses and fees paid plus an annual priority profit share from the partnership – these amounts were redacted in the contracts seen. Social Finance is paid for specific services linked to management and monitoring of processes. It is entitled to a 'priority profit share' which is fixed at certain levels in years 1-2, changing in years 3-5. Its fees are not incentivised.

Incentives and risk sharing for provider
The provider is not an investor so in theory should not have its own money at risk. It receives six quarterly payments from the investors that are linked to KPIs based on service user recruitment. Failure to meet KPIs leads to a Performance Improvement Plan and the possibility of funds being withheld.

Incentives and risk sharing for commissioner
The commissioner pays a regular fee per client placed on the SL scheme directly to the provider organisation. The commissioner should make cashable savings if service users are moving from (more expensive) residential care to (less expensive) SL care provided in someone's home. Ultimately, this may lead to a reduction in reliance on higher cost residential care. In both Lambeth and Manchester, the commissioner has no minimum referral numbers, so it has no contractual incentive to refer service users into the scheme.

4.3 Non-commissioned Trailblazer SIBs

Out of the nine Trailblazer sites that received SEIF funding, four did not commissioned SIB. Similar to the commissioned sites, this section provides an update on key developments in the four Trailblazer sites SIBs since the information available in the interim report (Tan et al., 2015). Table 4.1 above, provides a descriptive overview of the key elements of these four non-commissioned Trailblazer SIBs, and the current section provides a brief narrative of the developments in these sites. The analysis of the non-commissioned Trailblazer SIBs in Chapter 5 builds on these descriptions by attempting to explain why these Trailblazers did not go ahead.

4.3.1 Cornwall

The proposed SIB was to be used to reduce dependence on public sector health and social care services by engaging voluntary sector organisations (VSOs) to deliver personalised care packages for patients with high service use and multiple long-term conditions. This collaborative service model was developed between voluntary sector organisations and local commissioners in health and social care, initiated by Age UK Cornwall and the Isles of Scilly, in 2010. The project aimed to develop a proof of concept model of integrated health and social care services that would improve patient outcomes and produce measurable cost savings, specifically in secondary acute care.

4.3.2 East Lancashire

This project proposed to provide local, community-based solutions to unemployment, social isolation and poor quality of life by individual GP practices with project managers from Green Dreams who would provide one-to-one support to patients. The project had been funded by healthcare commissioners since 2011. The commissioners asked Green Dreams to look into P4P options for funding in 2013 because commissioning the intervention through a block contract was not considered to be sustainable over the longer term, since the benefits of the project spanned across different commissioners. In addition, both the commissioner and the provider were interested in alternative funding opportunities.

4.3.3 Leeds

This SIB plan was developed by a Care Community Interest Company (CIC) and aimed to deliver active case management for a cohort of 70-100 patients between the ages of 18-64 with very complex needs due to physical health conditions. The proof of concept proposition intended to use an existing nursing facility with 20-35 beds alongside a mobile community nurse specialist team to deliver an integrated care service for patients that would allow admissions to the facility for intermediate care, help avoid admissions to hospitals and improve outcomes for patients living at home and provide an alternative to standard residential homes for those who became unable to live at home. This was a purely provider-instigated and led initiative. There was no commissioner input at any stage in project design or development.

4.3.4 Sandwell and Birmingham

In 2012, a healthcare commissioner-initiated project identified End of Life Care (EOLC) redesign as a priority given existing levels of fragmentation in service delivery. At the same time, the NHS Confederation and a public sector legal specialist firm were in separate and unrelated discussions to develop a health and social care SIB which led to negotiations with a large national charity and SIB specialist organisation, and a successful application for SEIF money to support the development of an EOLC programme based on a SIB. From July 2013 to May 2014 these organisations worked collaboratively to engage stakeholders through a series of public events and developed a new service model. However, this Trailblazer did not proceed, for reasons that are discussed in detail in the next chapter.

5. Trailblazers that were not commissioned

Four of the original nine Trailblazers did not commission SIB financed services. In this chapter we explore the reasons behind the decisions not to commission these Trailblazers. This is important for a number of reasons. There is very little literature exploring the reasons why proposed SIB projects are not commissioned. Furthermore, this is not an issue confined to the health and social care Trailblazers – we know, for example, that at least 12 other proposed SIBs have failed to be commissioned since 2014 in the UK (Ecorys & PIRU, 2017). Many proposed SIB projects receive public funding, from schemes such as the SEIF as well as other sources (e.g. Commissioning for Better Outcomes, Big Lottery Fund) to help with their establishment, so understanding why some do not proceed may help inform the future decisions of such grant-makers. Moreover, many SIBs which ***are*** commissioned suffer long delays in set up and implementation. These are often due to the technical complexities involved in establishing new contractual agreements, and performance metrics, and distributing risk and accountability across often new networks of organisations and individuals (Disley et al., 2011; Social Finance, 2011a; Dugger & Litan, 2012; Rudd et al., 2013; McKay, 2013a; Pauly & Swanson, 2013; Rotheroe et al., 2013; KPMG, 2014; DWP, 2014; DCLG, 2014; 2015; Tan et al., 2015). Thus reflections on why SIBs fail to be commissioned or run into delays may be of practical use to interested parties and policy makers more broadly.

5.1 Site overview

The four proposed SIB projects were very diverse in terms of target populations and types of intervention. Likewise, the localities displayed different historical, social and economic trajectories. It is important to note that some of these sites made a decision not to commission a SIB at a relatively early point (after less than twelve months of preparation), whilst others pursued SIB development for a longer period of time (over twelve months). Chapter 4, Section 4.3, and Chapter 4 of the interim Trailblazer Report (Tan et al., 2015) provides further details of these sites. We were keen to understand these differences as well as the contribution of local circumstances, the intervention, the target population and existing service provision in understanding how and why decisions were made about ceasing the local development of the projects.

Given these differences in local context, project aims, and duration of efforts, it would have been obvious to present data from each site individually and highlight local narratives and detail the situated agency of key actors in each 'story'. We chose not to do so for two main reasons – one practical and one conceptual. In practical terms, such an approach makes the anonymisation of sites very difficult, and thus our commitment to informants to respect their right to speak freely without the fear of *post hoc* identification – especially given that the number of projects is relatively small and therefore sites may be deemed potentially identifiable. In conceptual terms, a more thematically driven presentation of the data encourages the consideration of theoretical generalisation and the broader contribution of the research. Whilst maintaining a reflective awareness of the limitations of our work, we hope that we can offer some general learning points for those with an interest in why SIBs may sometimes not be commissioned through the following three themes which emerged strongly from the data across all four sites: (1) technical complexity; (2) relationship issues; and (3) governance challenges.

5.2 Findings

Theme 1: technical complexity

It has been shown elsewhere that the development and management of SIB contracts between relevant actors may require new forms of knowledge, calculative methods and skills (Disley et al., 2011; Rudd et al., 2013; McKay, 2013a; Pauly & Swanson, 2013; Rotheroe et al., 2013; DWP, 2014; DCLG, 2014; 2015; Tan et al., 2015). The local development of SIBs involves 'technical' complexities around the design of metrics, negotiation of baseline data, costs and practical concerns around how best to manage commissioning processes. In this section we show how and why technical complexities were perceived to have inhibited SIB commissioning in the four sites.

Across all sites, informants suggested that at the core of the problem of SIB development were: the increased requirement to use novel methods of outcome and cost measurement; the need to be able to attribute service users' outcomes to particular interventions; and the design of outcome-related contracts, as follows:

> *"[T]he problem with projects like these is not that they're badly formed projects, it's that there isn't a sophisticated enough mechanism to evaluate and quantify their worth, and until we get that, these sorts of things will always… fall."* (Commissioner)

These technical difficulties existed from the earliest to the latest stages of the proposed SIB programmes. Three out of four sites attempted to instigate new practices or radically different approaches to solving existing issues. This had practical implications in terms of the need to harness evidence of intervention effectiveness, develop new outcome metrics and link these to payments. Unsurprisingly, this was challenging for those tasked with aligning the evidence, metrics and payments. In none of the four sites were these barriers ultimately overcome. One site that progressed relatively far towards commissioning a SIB through effective collaborative multi-agency working in the early stages of the programme ultimately encountered difficulties during the late negotiation stage. At the time this proposed SIB service was due to go to tender, a review by a new financial team within the CCG identified what they considered to be a problem with the analysis upon which the metrics of the proposed SIB had been based. The result of this was that the commissioner proposed that the activity in year one of the contract should be treated as the baseline rather than the previous year, and that subsequent outcome payments for years two and three should be based on changes in relation to the year one data. However, for any potential bidders this led to confusion about: (a) just ***what*** they were bidding for, with implications for their respective calculations of risk; and (b) their ability to make a return on any investment given the likely tighter margins since it might be expected that outcomes would already have improved during year one (the new baseline) compared with the pre-intervention state. Ultimately, this resulted in no compliant bids being received by the commissioner for the SIB service. The technical complexity of designing a contract with reliable validated metrics must be recognised as key to the contracting process.

One of the four sites was already delivering an intervention which was under consideration for renewal as a SIB. In this case, the commissioners highlighted that the transaction costs involved in setting up the SIB were likely to be high in comparison to any likely savings generated by shifting the intervention into a SIB vehicle, as it was already running reasonably well under conventional financing arrangements. This was given as a key reason for the decision to halt SIB development discussions. In practical

terms, it seems that SIBs need to be sufficiently attractive financially to a commissioner in order to justify the additional complex technical and legal work of contract development, design and agreement of performance metrics:

> *"I think it is a combination of feeling that [this intervention] was [already] offering a good service, giving good outcomes, and the availability of non-repetitive resources. It was partly convenience; it was partly because the case had been won that this was a valuable service."* (Commissioner)

Significantly, as noted in this quote, at the time of the SIB development discussions, local health care commissioners identified a time-limited budgetary underspend (funds that needed to either be used by the end of the financial year or returned to central government). Given this unexpected underspend, the commissioners' key goal became not so much a desire to harness otherwise unavailable external funds and share costs with the Local Authority commissioners (often promises associated with SIBs), but rather a way to allocate this unexpected budgetary surplus and maintain a valued service.

The key actors across all sites appeared to be those in commissioning roles. In all four sites, the commissioners had to be convinced that the technical complexities linked to SIB development were resolvable, and that the SIB contracting model would add value above and beyond standard or traditional methods. We found such views either lacking or contested amongst commissioners across these sites to the extent that the perception of 'technical complexity' was perceived to be a barrier to SIB commissioning by some actors. At some (but not all) sites some informants suggested that finance officers based in commissioning organisations harnessed arguments relating to the 'technical complexity' and wider transactions costs associated with overcoming these 'technical' issues to justify risk aversive positions and ultimately stymie efforts at SIB development.

Theme 2: relationship issues

Like 'technical complexity', the importance of relationships, flexibility and ongoing dialogue between different actors has been noted as significant elsewhere in the literature on SIB practice and development (Disley et al., 2015; Tan et al., 2015). We identify three particular relationship issues: first, around developing relationships and shared definitions of problems to be solved by a putative SIB; second, communication breakdowns; and third, a site that did not struggle with the first two issues, but nevertheless chose not to pursue a SIB.

In one site, the initial SEIF funding for the proposed SIB went directly and exclusively to the provider. It was therefore incumbent upon the provider leadership to convince other actors of the value of the proposed project. The provider failed to substantively engage a SIB specialist organisation and therefore had to approach the three relevant local health care commissioning bodies itself. The provider was time limited in this endeavour, as it was required to demonstrate that there was a formal collaboration in place with the commissioners by a specific date in order to draw down the next tranche of publically provided development finance. This ultimately proved impossible as the commissioners declined to sign up to a collaborative relationship within the requisite timeframe. This highlights the dominant position of commissioner organisations with respect to whether and, if so, how, any deeper relationships or shared understandings of broader local health care requirements develop. Ultimately,

the provider was unable to receive further development funds and abandoned the proposal in this area. The provider and commissioners were unable to agree that the SIB proposal addressed a sufficiently pressing problem for local health care users and that the provider was a sufficiently credible organisation:

> *"[W]e were just concerned that the product that they were offering… wasn't something that we would necessarily see was a benefit to the population or the people that we're responsible for commissioning for. So basically they were looking to provide a care environment but they didn't have any credible history of delivering that care environment. So there just wasn't any confidence in their ability to provide services for the niche market they were looking to deliver into."* (Commissioner)

There was a lack of shared understanding about the nature and extent of the problem identified by the potential provider organisation in this geographic area. Whilst the provider organisation felt this was a pressing problem, the commissioner did not.

In other sites, there was greater consensus around the nature of the health and social care issues in need of resolution, yet still, relationships between actors could become strained at times, which in turn influenced SIB development. In a number of sites, there was resistance to the proposed SIB projects. This resistance was manifested in different ways. For example, in some sites informants suggested that there was public pressure on commissioners not to proceed from local opponents who saw the SIB mechanism as a form of 'privatisation' of health services:

> *"[P]eople thought of it as too new and too frightening and therefore it must be wrong and if you're using [private] finance… the NHS will be the loser."* (Provider)

Such perceptions led to rumours about potentially excessively high rates of return for investors in the proposed SIB schemes in two of the sites. This public resistance put pressure on commissioners and could also be used by SIB sceptics within commissioning organisations to delay and hinder negotiations towards SIB contracts. Within commissioning organisations, there were also sometimes 'SIB champions' and instances where internal political factions within a commissioning group might promote or resist a proposed SIB programme as part of these wider organisational power struggles.

A second form of resistance that was identified is linked to existing provider concerns about losing contracts should new models of care be commissioned along SIB lines. The SIB encouraged new, larger providers with greater resources to handle the complexities associated with a SIB to bid for services in areas that they may not have previously been active:

> *"[Existing providers] thought they would lose some business and were very anxious and were breathing down the necks of the [commissioners] at every stage."* (Provider)

Across the sites, it was informants with commissioning responsibilities who felt these pressures most fully as they not only had to try to redesign services for the future, but also maintain productive relationships with existing providers serving other clients outside the SIB service.

Conversely, whilst the possibility of shifting to a SIB type contracting mechanism for an existing service was being considered at another site, provider and commissioner organisations had maintained good relations, including sharing an understanding of the goals and benefits of the programme for local citizens. In this case, the decision was taken to cease discussions over SIB contracting and maintain current relationships by re-commissioning the existing service through a more traditional financing model, rather than incurring the transaction costs associated with a SIB.

Through the introduction of new actors and new organisations that lack shared working histories, SIBs pose a number of relationship challenges. These challenges occur within a local context of power dynamics within and between organisations. SIBs may also bring added political complications through their links with private and philanthropic finance that may embolden critics within stakeholder organisations and the wider public. These existing and new relationships furthermore must be pursued within established norms of governing local commissioning. As the following demonstrates, SIBs may also challenge key tenets of existing commissioning orthodoxy.

Theme 3: governance challenges

Efforts to develop a SIB in health and social care may challenge the established governance framework through which services are locally designed, specified, tendered, and bid for in NHS commissioning practice based on quasi-market competitive principles. This emerged as a salient issue in three of the four sites. Commissioning representatives expressed concern about accusations of perceived conflicts of interest that resulted from the increased and early collaboration between different parties brought about by the SIB development process. Similar issues were noted in the interim Trailblazer evaluation report (Tan et al., 2015). At some sites, it was suggested that commissioner concerns to avoid actual and perceived conflicts of interest discouraged them from going ahead with SIB development.

In one site, where the provider organisation was leading the proposed SIB, if the proposed programme was to develop, it needed the commissioners to give formal support to the proposal in order to access further development funds at a relatively early stage. However, the local commissioners were unwilling to do so as their underlying commissioning principle was one of 'open competition' so the requirement for early support for one provider went against their commissioning ethos which was structured around competitive tendering by multiple providers.

In other sites, there was greater flexibility and willingness to collaborate between commissioning, provider and SIB specialist organisations, yet perceptions of conflicts of interest emerged in these sites too:

> *"We made it very clear that if we were going to commission it, there would have to be a procurement process… [T]here are so many interrelationships between people in [this area of the country] that, you know, the conflicts of interest map looks like a spider's web."* (Commissioner)

In effect, these perceived conflicts of interest may have interacted with the existing technical complexities and relationship dynamics to embolden local critics resistant to the proposed SIB development. Given the determination of the commissioners at these sites to follow existing competitive procurement procedures in the SIB development, two further governance issues emerged. One might be termed

'stepping away', whilst the second relates to the immaturity of the SIB market place. Both appear to be intimately linked in these sites and are discussed in turn below.

Discussions around SIB development encourage provider, SIB specialist and commissioning organisations to collaborate closely on understanding local social problems and approaches to resolve these at a very early stage. However, this collaborative approach may clash with the governance structures of NHS commissioning which encourage competitive tendering and procurement. Effective early collaboration appears essential to overcoming some of the technical difficulties of SIB design, as well as encouraging the development of a shared understanding of the nature of the problem and good interpersonal, multi-organisational relationships but it may ultimately limit the commissioners' ability to procure a SIB contract competitively. This is because such early collaborative work can be interpreted as giving the provider and SIB specialist organisations involved a competitive advantage, should they choose to bid for the SIB contract at a later stage.

In order to minimise the perception of a conflict of interest in such an instance at one of the sites, SIB specialist and provider organisations chose to 'step away' from their collaborative work with the commissioner at a specific point in the process. However, this move may have been detrimental to maintaining shared understandings and productive relationships, and the provision of ongoing technical support across organisations involved in the SIB design:

> *"So we formed ourselves into one of the potential providers, so we then had to move away from the preparation of the process. Of course, that's absolutely classically right from a procurement point of view, but of course what it did is it then left the [commissioners] to do their own thing… I'm sure that reduced its chance of success in that people would be involved in driving and working together as a team, that thing is then broken up, they're starting again."*
> (Provider)

Furthermore, 'stepping away' may not sufficiently assuage the fears of local critics – particularly given the second issue identified – the immaturity of the SIB market place. The relatively small number of SIB specialist organisations and investors can make traditional procurement processes which rely on a number of bids difficult. It may be very hard for the commissioner to demonstrate the kind of competitive procurement process it may have hoped to foster given the limited nature of the nascent SIB market place. Once more this places further stress on the governance of these processes.

5.3 Summary and implications

It is important to acknowledge that a decision not to proceed with a SIB should not be seen as a failure, but rather as an alternative outcome to a commissioning process. Any service commissioning process can ultimately lead to a decision not to commission a particular service. In addition, exploratory work between commissioners, providers and SIB specialist organisations, even if it did not lead to a SIB contract being signed, was not necessarily wasted. It may subsequently be drawn on elsewhere in further service redesign projects. In all the sites, the actors representing health care commissioning bodies had most influence in deciding whether and how extensively to explore the application of SIB funding. This is unsurprising given that commissioners have firstly, a legislative responsibility for ensuring health care provision for communities; secondly, decision-making power

relating to which organisations are chosen to deliver that care; and, thirdly, they hold the purse strings. Certain leading individuals within commissioning organisations have crucially important roles in shaping the organisational responses to the efforts of external provider and SIB specialist organisations to promote SIB-financed projects. The ways in which these leading actors within commissioning organisations perceive the potential gains offered by SIBs, and how they interpret situations, are highly significant in influencing whether prospective networks are established or not. For (non-commissioner) proponents of potential SIB projects, managing to access such individuals and convincing them of the potential benefits offered by their SIB proposals is centrally important.

In these four sites, commissioners perceived the SIB mechanism as adding ***technical complexity*** without offering sufficient compensatory benefits. This complexity has been reported elsewhere and ranges from the difficulty in generating high transaction costs associated with multi-agency negotiations to difficulties designing robust metrics for SIBs (Disley et al., 2011; Dugger & Litan, 2012; DCLG, 2014; 2015; Tan et al., 2015; Giacocomantonio, 2017). Proponents of SIBs argue that such complexity can be lessened if SIBs can be made more attractive to commissioners. Such work is underway in the UK, for example, with the production of the Cabinet Office 'SIB toolbox' which is available online. This attempts to simplify and streamline the process of SIB development. A counter-view from the SIBs literature would be that such simplification is unlikely to be successful because SIBs need to be tailored to local conditions, which constrains the easy translation of learning from one area to another (McKay, 2013a; Pauly & Swanson, 2013).

Relationships are shaped and developed through shared understandings (Bevir & Rhodes, 2007; Bevir & Richards, 2009). This is not unique to SIB development, of course – efforts to redefine social problems and introduce new actors and organisations into existing networks may often be problematic elsewhere in public sector commissioning. However, there were undoubtedly significant ***relationship issues*** and ***governance challenges*** across the four sites. These were rooted in tensions between the competing values of collaboration on the one hand, and competition on the other in the design and commissioning of health services and suggest that SIB development (as pursued in these sites) can exacerbate such tensions located in the governance of NHS procurement (Newman, 2001). SIB development encouraged pre-contractual collaboration between different actors, signalling some form of re-integration of commissioning and provision of services in the shape of informal local PPPs but in the absence of formal permission to do so (Osborne, 2006; Dunleavy et al., 2011; Joy & Shields, 2013; Bovaird, 2004). Such an approach is important in aiding the local establishment of shared understandings conducive to the nascent SIB solution (Bevir & Rhodes, 2007; Bevir & Richards, 2009). However, at the same time, informants emphasised the importance for commissioners of competitive tendering and contracting processes as a way of showing local stakeholders that the proposed SIB financed programmes would respect the value of established relationships and minimise perceptions of conflicts of interest. This tension for commissioners – to develop collaborations with new actors ***and also*** to be seen to maintain a competitive framework if and when SIB contracts might be put out to tender – put strains on both the development of new relationships as well as the maintenance of existing ones. The immaturity of the market for SIB specialist organisations aggravates these tensions further.

There are limitations in this analysis. *Post hoc* rationalisation around decisions and events must be acknowledged as one of these with respect to interviews conducted

after decisions had been made to halt SIB development – though many of the interviews occurring beforehand also identified many of these difficulties. Whilst three themes were identified across the four sites, given the importance of local contextual and historical factors, and the influence of the different intervention types in shaping the ultimate decisions made by local actors, the generalisability of these findings should be considered cautiously. The findings may also have been shaped by the wider national context of health care commissioning in the English NHS at the time of data collection. NHS commissioners were undergoing significant organisational turbulence as part of the changes brought about by the Health and Social Care Act 2012. This may also have affected how the Trailblazer SIB projects were prioritised and managed locally.

6. SIB model structure: risk allocation

This section provides findings in relation to the following indicative questions outlined in Chapter 3:

- How do the different SIB models allocate risk across the different organisations involved?
- What is the nature of the reputational, implementation and financial risks at stake?
- How and to which parties were these risks transferred in the SIB process?

6.1 Types of risk

Through the analysis of the SIB contracts and fieldwork in the Trailblazer sites, we identified different types of risk: financial; implementation; reputational; and residual risk. In this context, we define financial risk as the risk to investors and providers of losing financial contributions that were already made to the SIB, or the risk to providers of not receiving future expected tranches of funding and/or outcome payments (in the case of not performing against pre-defined targets). Financial risk to commissioners is harder to define, but could manifest through making a payment when the data are unreliable or when the achieved outcomes do not lead to cashable savings. We found little information on whether SIB specialist organisations face financial risks and if so, what this entails – however, one SIB specialist organisation may face losses if its ten-year investment fund does not produce its minimum below market rate of return consistent with its social goals. Implementation risk occurs where the service does not run as intended, for instance, if there are insufficient members of staff to provide the service or a lack of referrals into the scheme. Different parties involved in the SIB bear risks to the good name of the organisation or services they represent (reputational risk). This is particularly relevant as SIB initiatives are often widely publicised, and thus any problems or goals not achieved may be high profile. Finally, through our analysis of interview data, we also identified another risk: 'residual risk'. Residual risks occur mainly for commissioners, who in some cases bear a statutory obligation to provide a particular service to specific populations regardless of whether providers or investors have failed in their responsibilities.

This chapter describes how these different types of risks occurred in the Trailblazer sites. Information about financial risk was drawn from the analysis of 14 contracts across all Trailblazer sites (more information can be found in Chapters 2 (Methods) and 4 (Overview of the SIB Trailblazers), which enabled us to examine how risk was formally allocated across the different SIB model structures. In addition, data from interviews were used to analyse if and how these risks occurred in practice. The subsequent description of findings on implementation, reputational and residual risks is also based on interview data. The final section identifies some cross-cutting themes and draws out the implications of the findings.

Financial risk

One of the proposed benefits of SIBs, in principle, is that commissioners and providers are protected from the financial risk of delivering services that prove not to be effective (Mulgan et al., 2011; Social Finance, 2011b; Callanan & Law, 2012; Rotheroe et al., 2013) as financial risk is transferred to investors. In this evaluation, the way in which financial risks were allocated between different parties in a SIB was explored in each of the three different SIB models previously identified in the research: (1) Direct Provider (2) SIB with SPV and (3) Social Investment Partnership (SIP).

Financial risk allocation in the Direct Provider model SIBs

In the Direct Provider model, the provider takes on financial risk if the pre-specified targets are not met, but could conversely gain surpluses from outcome payments if successful. In one of the two Trailblazer sites that operated under a Direct Provider model this materialised as the provider made a small surplus over the course of the evaluation. In this case, the provider had carried a high degree of financial risk as it made regular repayments to investors with interest regardless of outcomes achieved. In addition, the provider also invested its own money in the project, so assumed an even higher degree of financial risk in doing so. In another of the Direct Provider SIBs, financial risk to providers materialised because funds were withheld when pre-defined targets were not met.

The financial risk to investors was lower in the two Trailblazer sites operating under this model compared to a SIB with an SPV and SIP, given that part of the financial risk was borne by the provider. In one of these sites, for example, investors did not assume a high degree of risk if the project failed. For example, one investor felt that investing in the Direct Provider Model was less risky than investing in an SPV because, in the SPV model, the investor's financial risk would be higher in the case of low performance because the provider could abandon the project:

> *"Again, with an SPV, if things aren't going quite so well for the organisation perhaps and they're not making as much money, what's to stop them saying, "We're not going to bother with that because we might have a more attractive contract within the wider business."* (Investor 3, comment made in early stages of Trailblazers, 2014)

In the Direct Provider model, there ought to be no financial risk for the commissioner (who only makes a payment if outcomes are achieved) or SIB specialist organisations. In one site using a Direct Provider model, however, the commissioner decided to make an outcome payment to the provider even though there were no data available, due to a change in data access laws around identifiable patient-level data to establish whether or not the outcome had been achieved. The commissioner reported that it had made the decision to do this as an act of good faith in recognition of the positive outcomes achieved by the SIB across the other outcome measures.

Financial risk allocation in the SPV model SIBs

Interview accounts and analysis of contracts suggest that in all Trailblazer SIBs with an SPV, providers were formally shielded from financial risk in the event of failure, as the investors carried all the financial risk. However, even in SPV models some financial risks were passed to providers through contract provisions that allowed some funding to be withheld if pre-defined targets were not met (and these provisions were actually used in one site, as described further in Chapter 8). Contract provisions allowing for funds to be withheld from providers if targets were not met were also seen in two other Trailblazer models (Direct Provider and SIP model).

In theory, commissioners are protected from financial risks in the SPV model. In one of the two sites operating under this model, however, interview accounts suggested that commissioners were potentially not as protected from risk as they had hoped. Commissioners interviewed said that the financial risk, which was formally shifted to investors, was in fact still (at least in part) held by the commissioner. This resulted from two particular features of this SIB site – although, it is worth noting these

features are common in attempts to shift public sector risk onto private actors. Firstly, commissioners agreed that the target for one output measure linked to payments had been set too low and was therefore easily achieved, and therefore commissioners always paid out. This can be seen as an example of the private sector shifting the risk back onto the public commissioner as much as an error in specifying the terms of the contract. Secondly, at the time of writing, it was not expected that the second payable outcome to reduce secondary care admissions would be achieved – therefore, the commissioner would in effect still be paying for these admissions. This is essentially a residual risk translating into financial risk. In interviews, commissioners reported they felt like they were paying twice (i.e. that they were paying for a preventive intervention – the first payment – and where if it did not prevent admissions, they were then also paying for admissions – the second 'payment').

We were unable to obtain much information about financial risk to SIB specialist organisations in the SPV SIBs.

Financial risk allocation in the SIP model SIBs

In this model, providers are shielded from financial risk in the event of failure as the investors carry all the financial risk. However, as with the SPV and Direct Provider model, failure to meet KPIs could lead to the development of a performance improvement plan (PIP) and the possibility of funds being withheld, according to the terms of the provider's contract. In the one SIP site analysed, a PIP was developed following underperformance against pre-defined targets, although we did not have any evidence that that funds were actually withheld, and thus financial risk did not materialise to the provider in this case.

One stakeholder indicated that commissioners in the SIP site were shielded from financial risks:

> *"So […] currently [end of 2015] and that's not to say that the model won't change over time, but as it stands there is no risk with the local authority other than they have committed to this [making a payment if results are achieved]. But in terms of a financial risk, very little. Other than they know that this […] could deliver them savings."* (SIB specialist organisation 14, comment made in early stages of Trailblazers, 2015)

In one SIP site, however, we identified contested narratives between commissioners, with one commissioner arguing that financial risk lay with the social investors, while the other commissioner thought this risk lay with the commissioner.

Similar to the SIB with SPV model, we were unable to obtain sufficient information about financial risk to SIB specialist organisations in the SIP model.

Financial risk across the different SIB models: in sum

Our analysis found that the way the SIBs were designed did impact upon the allocation of financial risks. Under a Direct Provider SIB model, there was increased financial risk for the provider, whilst risk was more limited for providers in the SIBs with SPV and SIP models. There were more financial risks for the investor in the SIBs with SPV and SIP models. Across the different models, commissioners were generally shielded from financial risks. However, the financial risk transfer, in practice,

was somewhat more nuanced than might be indicated by the rhetoric about SIBs, in which the key benefit is the transfer of financial risk from providers and commissioners to investors. We reflect upon this further in the conclusion of this chapter, below.

In most instances, the financial risks reported by stakeholders were hypothetical; during the course of the evaluation, there were few examples where these financial risks materialised. The findings are likely to be representative of a particular period in the development of the SIBs when the time for possible outcome payments had not yet arisen.

Two other factors shaped the attitude to and management of financial risk in the Trailblazers. Firstly, in four Trailblazer sites, a share of the developmental costs and/or outcome payments was provided by central government and Big Lottery funds. This can be seen as a form of mitigation of future financial risks, and this was experienced by interviewees as helping to make the SIB viable. In one of the Trailblazer sites, government funding had been essential to getting the project up and running, as the local NHS commissioners suggested that they would not have been in a position to fund the development of the SIB and/or commit to making the outcome payments without central government support. Secondly, a finding that is applicable to all models is that the majority of investors across the different Trailblazers were prepared to lose their initial investments on the grounds that the value of the Trailblazers lay in testing a new approach to social investment. Seen in this way, even if a SIB did not result in financial returns, it was still likely to lead to a worthwhile social return on the investment and some learning.

Implementation risk

Implementation risk occurs when the service cannot run as intended, which in turn could have an effect on the continuation of service provision to the target population. Our analysis showed that, at least in the early stages of the Trailblazers, implementation risk was the most likely risk to materialise and to have an impact on the functioning of the SIB.

In four Trailblazer sites, implementation risks materialised due to issues with referrals into the service. For example, this occurred when commissioners were not required under the SIB contract to purchase a particular level of service, and were not required to guarantee a flow of referrals to SIB providers. Another implementation challenge in one SIB related to difficulties in recruiting unpaid volunteer carers for a particularly demanding role related to the intervention. In two other cases, implementation risk related to scaling up an intervention. However, few if any of these implementation risks could be attributed to the existence of the SIB per se. Rather they tended to be the result of over-ambitious planning and target setting, or could be seen as applicable to the voluntary sector more broadly (such as high staff turnover).

The strategies used by some of the Trailblazer SIBs to mitigate the implementation risks that materialised are further described in Chapter 8.

Reputational risk

In line with the literature on SIBs (Fraser et al., 2016), reputational risk was a concern raised in all Trailblazer sites, mainly by informants who were commissioners and prime providers.

The first form of reputational risk reported by commissioners from two Trailblazer sites related to the high profile nature of a SIB. The commissioners viewed the novelty of the SIB as intertwined with the reputational risk. In particular, informants expressed a desire for the SIB to succeed because it would help to establish or reinforce the entrepreneurial and forward thinking standing of their respective local authorities.

Across two sites, the ability to deliver cost savings was closely linked to the reputations of both the commissioner and the provider. In one Trailblazer site, for example, it emerged from interviews that the commissioner and providers involved had spent a large amount of time and energy on the intervention, and were therefore keen to show that it was able to deliver better user outcomes as well as cost savings to justify the time investment already made.

Elsewhere, a commissioner reported feeling reputational pressure related to ensuring that the projects were a success because of the role played by central government and the Big Lottery Fund in paying for a share of the outcomes:

> *"[…] on one level there's an outcomes based payment so if you don't do it you don't get paid. [...] But obviously […] because of the role of Cabinet Office and Big Lottery and yourselves and evaluation […] there is a whole kind of reputational thing so I had to […] take that kind of slightly […] harder commissioning line on it. So we're kind of treading our way carefully through that but making it clear that we can't just tear it all up and start again jut so that they can get their money back and we can then all spin a success story at the back end of it."* (Commissioner9, comment made in second stage of Trailblazer interviews, 2016)

Some types of reputational risks that commissioners reported were also noted by providers. For instance, it was suggested that providers might face reputational risk because of the high profile nature of a SIB, how involved they were in the intervention or service, and how much responsibility they had for it.

A commissioner from another Trailblazer site also commented on this risk for providers in light of the high profile nature of a SIB:

> *"You know, it's like banks, make it too big to fail. The way it's been set up [...] you know, they live and die by the success of this, they've got to make it work. Um, so there's a real pull, um, uh, from those organisations, from the practices. The [referring organisations] are being, uh, you know, not forced to but are being hugely encouraged to get their referrals going, um and so on, and, and so the mechanisms mean that, um, it's much, much less likely to be forgot."* (Commissioner 17, comment made in later stages of Trailblazers, 2017)

In sum, commissioners and prime providers held most of the reputational risk in four of the Trailblazer SIBs. Both parties expressed a desire to deliver a successful intervention and felt that it was a risk to their reputation if this failed. Reputational risks derived mainly from the fact that the service was to be provided through a SIB instead of traditional commissioning. The novelty and high profile nature of a SIB contributed to these feelings of reputational pressure among commissioners and providers. Finally, and whilst not explicitly raised in interviews, it could be argued that SIB specialist organisations also hold a high degree of reputational risk given the niche in which they operate in the SIB market, and as such, have a interest in SIBs succeeding.

Residual risk

One of the risks identified through interviews was residual risk. Residual risk was reported to be a unique issue for commissioners in two Trailblazer sites because of their responsibilities to ensure provision of services to specific populations and/or their legal safeguarding role (in the case of local authorities), which meant that even though the financial risks did not sit with the commissioner, they were still responsible for providing care to the target population if the SIB did not succeed. This risk, however, did not materialise in the two Trailblazer sites over the course of the evaluation – although, as described above, at time of writing it was expected that in one SIB site a residual risk for a commissioner may translate into a financial risk (in having to pay for secondary care admissions, which had not been successfully reduced to a specified target).

6.2 Summary and implications

SIB contracts introduce new actors into commissioner-provider relationships and inscribe new rules for the governance of specific services. These contracts also distribute risk across actors in new ways. A number of cross-cutting themes in terms of risk allocation are worth emphasising.

Firstly, SIBs are often presented as an opportunity for commissioners and providers to transfer financial risk to private or social investors (HM Government, 2011; 2013). In practice, however, we found that there were more risks identified in the Trailblazer SIBs, and there were a variety of ways in which providers, commissioners, SIB specialist organisations and investors reflected on, and interpreted, these risks embedded in the SIB Trailblazers' contracts. In the case of financial risks, these were not always transferred from public commissioners or third sector providers to private or social investors. In fact, in one of the Trailblazers, the commissioner still bore some financial risk even under an SPV model. Providers could still face financial risks, whether through choosing to take on more risk under a Direct Provider model or through signing up to contract terms that included provider penalties in case of underperformance.

Secondly, the analysis also shows how, in the different SIB models, financial and implementation risks are intertwined with reputational risks (due to the high profile nature of these pilot SIBs), both in case of success or failure. Finally, while under some models (SIP and SIB with SPV), the financial risks are shifted from the providers to the investors, the way that contracts are managed in practice may still mean that there are consequences for the providers if a service does not perform as planned. As such, the distribution of financial risk was not entirely fixed by the original contractual relationship, but was subject to change depending on whether KPIs were met or missed. It remained difficult to assess the nature and level of risk assumed by the SIB specialist organisations since little information was forthcoming as to how they were remunerated.

7. Incentives: data collection and outcome measurement, and their impacts on service delivery

The SIB Trailblazers varied in their remit and contractual structures but all sought to provide, or scale up, innovative approaches to public services to address social problems that were not seen to be addressed through existing service provision. The SIB contracts introduced an incentive structure of financial rewards for meeting agreed outcome measures in the five SIB Trailblazers. These were introduced to align providers' efforts or performance to results that the public commissioner desires. Incentives were expected to deliver better results than conventional forms of funding used by governments, such as block contracts. Here, we define incentives as rewards, encouragement, praise, or criticism to promote effort or performance (Benabou & Tirole, 2003). This chapter examines the impact of these incentives for outcomes and performance measurement on providers and service delivery.

The hypothesis that incentives drive better data collection, outcomes measurement, and service delivery is rooted in part, in the public sector reform narrative found in the SIB literature (Fraser et al., 2016). Advocates of this narrative promote the application of private sector management techniques and values, such as introducing market incentives and 'market discipline', including a focus on outcomes, to remedy the shortcomings of public and third sector organisations in terms of service design, delivery, outcomes and accountability (Mulgan et al., 2011; HM Government, 2011, 2013; Liebman, 2011). Such arrangements are also expected to bring about greater accountability for the use of public money if service providers are required to record and evidence their efforts to generate outcomes (Cox 2011; Leibman, 2011).

However, it is difficult to design schemes that link performance measures to financial rewards because such incentives can generate unplanned and perverse outcomes (Prendergast, 1999). In particular, it is not easy to predict the impact of P4P financial incentives on service delivery organisations, particularly on the ethos of third sector service providers (Joy & Shields, 2013). Drawing on interview data, this chapter examines the influence of increased data collection and outcomes measurement to ascertain whether, and in what ways, incentives for better outcomes measurement affected service delivery in the SIB Trailblazer sites and in five-non SIB-funded comparator sites. This chapter first discusses the impact of greater data collection on service providers. Second, it explores whether, and how, the incentives led to attribution and cashable savings. Lastly, it explores the implications of incentives for outcomes-based payments on provider behaviours to understand the impact of SIB incentives on service delivery.

7.1 Collection of data for outcome and output measurement

In the SIB Trailblazers, the introduction of the SIB contracts entailed the introduction, or scaling up, of data collection capacity to enable the greater outcome and output measurement required. The need for this is well-discussed in the wider SIB literature that stressed the importance of robust data collection to measure outcomes (Cox, 2011; Liebman, 2011). SIBs are also expected to bring better data monitoring techniques and skills to third sector providers which have traditionally been regarded as having limited capacity to monitor their own behaviour and validate achieved outcomes (Callanan & Law, 2012).

Increased data collection was discerned across all of the five Trailblazers, where interviewees reported that more data were collected in the SIB-funded services to demonstrate outcomes (i.e. providers collected data to validate an outcome for which the commissioner provided payments) than in their previous work (or commissioning) within the sector. More data were also collected in four of the five Trailblazers in

order to monitor process or output measures (e.g. weekly phone calls to clients, regular recording of front-line staff interactions with clients within a fixed time period) compared to their experiences in other projects. Informants from all stakeholder groups in the five Trailblazer sites perceived that the contract and performance management arrangements linked to SIB outcomes monitoring increased the robustness of data collection (i.e. data were collected more routinely, more accurately and that management information databases were more completely populated). There was also more managerial rigour (i.e. there was more use of management information by supervisors to check whether services were delivered as planned, and to identify areas where systems and processes could be improved, etc.). Most of the public and third sector organisations involved in the projects reported that there was greater data collection and more rigour in data collection in the SIB projects in comparison with otherwise similar non-SIB financed programmes of which they had experience. This suggested that more data were collected for both outcome and process measurement in the SIB Trailblazers than in conventionally financed services.

Yet, data collection was time consuming and required administrative and managerial resources to maintain. We found mixed reactions among the Trailblazers to the increased reporting demands. At the provider level, providers' feelings about the new data collection and outcomes regimes were related to the novelty of the systems and whether they perceived any benefits from data collection for their work. For example, providers who learned to use new information systems reported that it was difficult and burdensome, while those using existing information systems said that the SIB imposed additional work but were positive about the benefits of greater data collection. In one SIB site, all parties expressed frustration with the data management system. Here, the SIB specialist organisation, and sub-contracted providers, reported that issues emerged because some actors perceived the information system as poorly designed, or unnecessarily complex, and that it therefore created substantial additional administrative burdens for staff in both provider and subcontracted provider organisations. This information system had been selected because it was already being used by the lead provider organisation; it was then adapted for use in the SIB. All but one of the staff members involved in SIB delivery were new to the organisation and were recruited specifically for the SIB. The subcontracted service providers interviewed (half of the subcontracted providers were interviewed) had no previous experience with this information system. One informant from a SIB specialist organisation summarised the issues with the information system as follows:

> *"It's not what we need at all on this project and it's a real distraction for the delivery partners and something they spend a lot of time doing [it], to the detriment of service delivery, but we are stuck with it and so what we did is we invested in creating a training manual for [the providers] so that we could try and improve the quality of the data that we were collecting. So that then in turn when we receive the data back to them it's meaningful and makes sense because it's something that reflects reality. We are, I would say moving towards a position where it's reflecting reality but there's a long way to go yet."*
> (SIB specialist organisation 12, second interview)

In two of the SIB sites, the providers delivering the service had existing local data collection capacity and members of staff responsible for organisational data management. In these sites, the new demands for data collation and monitoring introduced as part of the SIB were accommodated through existing capacity and information systems. Staff at these providers agreed that more work was required to meet the new data collection and monitoring requirements but noted that this was not necessarily a bad thing in the sector.

In these sites, additional work was necessary to ensure the local information management systems were fit for purpose, such as introducing new fields for data collection or modifying drop down menus to include SIB-relevant data collection. These modifications were necessary in cases where the information system did not already collect data needed for the SIB (e.g. a field to enter a client's score on a measure related to an outcomes-based payment or to document that an individual had remained in a particular accommodation for a fixed period). In just one of the SIB sites, there was a dedicated data manager at the provider level responsible for collating and interpreting data, and sharing it with the SIB specialist organisation.

In understanding the additional data collection needed, it is important to distinguish between reporting on outcomes and the process/outputs measures found in the SPV to service provider contracts. We found that there were detailed data collection requirements for process or output-related KPIs. For example, in one Trailblazer where a SIB specialist organisation was involved, providers were required to add information to the database about contacts with the client cohort at weekly to monthly intervals. This reflects the high amount of data collected in SIBs working with a SIB specialist organisation, in order to allow the performance manager to carry out its management and oversight roles. In these cases, the variables collected were generally likely to be pre-defined at the onset of the contract. There were greater administrative demands in the two SIBs with SPVs where SIB specialist organisations were responsible for outcomes management than in the two direct provider SIB models where data collection were defined and carried out in-house either by existing data management capacity or by staff delivering the SIB intervention. In the non-SIB comparator sites, there were fewer requirements for such detailed data collection.

However, where SIB specialist organisations were responsible for data analysis, provider staff reported that performance data were used positively to identify where there were opportunities to change or improve service delivery. For example, the data analysis suggested that there was potential to improve recruitment into the SIB-funded service through better follow up among referred clients within a fixed time-period. This allowed SIB specialist organisations to identify issues which could maximise the chances of achieving outcome targets. Similarly, one informant reported that the level of data collected allowed staff to make suggestions at governance board meetings based on process-driven KPI data:

> *"So the key, our experience in all of these projects is getting really clear granular data showing exactly what's working, exactly what isn't, exactly what needs to happen next and then whether you have any formal influence over people or not, if [providers] come to the meeting and they see this, it's quite hard to say we don't want to do that."* (SIB specialist organisation 10)

Commissioners noted that the introduction of external performance management (in the form of a SIB specialist organisation acting as a data manager), resulted in better data collection and knowledge about progress towards outcomes. This exerted a positive influence on providers. One commissioner felt that the effect of the performance manager's focus on data collection and outcomes management was to encourage a more professional approach to service planning and delivery than in its experience with services commissioned in other ways:

> *"[the SIB specialist organisation has] actually enhanced the staffing, they've invested more money in, in helping [the provider] to be much more analytical in their approach to the whole program. I mean they've started off from a very*

third sectorish [sic] kind of relatively soft, I suppose, what they've been used to in terms of relationship with the local authority, [provider], I mean yeah. So that's what they were used to, so [the SIB specialist organisation] have come in and said can't do that, you, you need, you need to understand what you're doing, how much it's costing you, who does it, how do you analyse the data, how do you analyse how many, how many attempts you've made to get [participants], how many attempts, you know, analyse what the problems are, why you're not getting the referrals, what are you doing about that. So there's a, they've kind of professionalised, they've attempted to professionalise them really in terms of business practice." (Commissioner 33)

By contrast, in the non-SIB sites, we found that data collection was not formalised within a strict timeframe for reporting. There was also more flexibility in the non-SIB sites to add new metrics or process measures on an ad-hoc basis as necessary compared with the SIB sites where outcome metrics were fixed. For instance, in the SIBs with SPVs, the process or output measures were set out in the initial contract by SIB specialist organisations. Information systems and reporting were less detailed in the non-SIB sites than in the SIB sites. Performance management existed to a degree in some of the non-SIB comparators but there were no managers specifically responsible for performance monitoring, and it appeared to be less strongly driven by data and was not linked to tangible consequences for providers, such as payments or contract and grant renewal. In some cases, it appeared that data and information systems in non-SIB sites were less comprehensive, with one informant saying that the data collected tended to be what a front-line staff member felt was relevant to their day-to-day work with clients, instead of the data that could have been relevant to a more strategic analysis of the service as a whole and how it was run. Generally, data were available but were less detailed than in the SIB site:

"I suppose we think like that because we're always asked to do that in our cases as social workers, but no-one ever says "Do that" […] so my thing was like I would just record bits of information but there wasn't a set plan, it was just, there's an Excel spreadsheet which just gives me lots of data, and it's not set for specific questions but I could figure out stuff and then go in the files, and. So if I looked at it, it wouldn't tell me how many's [sic] gone home necessarily, it might give an initial "Gone to a family member". I'd have to do more investigating, but it gives you a starting point to go back and ask those questions, which I suppose you've had to do and I've had to do… So if you had a community impact bond [sic] then yes, I think you get more … you're asked more questions to justify what you're doing." (Provider 53: SIB and non-SIB experience)

In one non-SIB site, performance management was seen as evolving 'organically' rather than agreed metrics being imposed right from the start:

"Performance management, yeah, so it's kind of evolved, if you like. Some of it was sort of like being able to collect enough data to see what was happening, so you can then start to, sort of, like, see what expectations might be. So targets sort of like probably weren't there that much to start with, it was more, kind of, collecting data to sort of get a good picture and then it's as things have evolved that we've started setting more targets because we're being able to compare things." (Provider 19: non-SIB)

The focus on data collection for outcome and process measures was established at the onset, and of greater priority, in the SIB sites than the non-SIB sites.

7.2 Approaches to measuring and attributing outcomes and cashable savings to SIBs

The literature on SIBs has tended to stress that the approach to measuring outcomes should involve extensive ongoing performance monitoring and concurrent independent evaluation that is sophisticated enough to determine whether any observed changes can be attributed to the SIB-funded intervention or not (Cox, 2011; Burand, 2012; Leventhal, 2012; Nicholls, 2013). The reason for doing this is to avoid a situation where an outcome payment is made for outcomes that would have been achieved anyway. An analysis of the literature describing SIBs and how to set them up shows that designing outcome measurement approaches that allow, or attempt, some causal attribution was central to the rhetoric and thinking behind SIBs, at least in the early days. To attribute change to an intervention, it is necessary to understand the effect relative to a counterfactual using methods that allow causal attribution or, failing that, those that do not, such as a before and after comparison, to demonstrate what would have happened if the SIB-funded intervention had not been available. The world's first SIB at Peterborough prison used a counterfactual, by comparing the individuals receiving the SIB-funded intervention with a similar matched comparison group who did not receive the intervention. Other possible ways of establishing a counterfactual in a SIB could include using a randomised controlled study or comparing actual outcomes to predicted outcomes. The literature on SIBs has highlighted that there is a trade-off between the benefits from using the most robust counterfactual/attribution approach and the costs of doing so (Disley et al., 2014).

None of the five Trailblazer sites employed outcome measurement approaches that used causal attribution with experimental design (e.g. randomised-control trials). Two sites attempted causal attribution through quasi-experimental design, of which one abandoned efforts after it became impossible to gather the cohort's data, much less construct a matched control group. The other one used a quasi-experimental approach to demonstrate causal attribution against a matched control group. In four of the five Trailblazers, there were no explicit efforts to demonstrate that the SIB intervention had (causally) generated the outcome which attracted payment. In three of the four sites, there was an implicit assumption that the intervention was responsible for observed outcomes, while in the other, a pragmatic decision was taken to pay the provider as through the full outcomes target had been met, due to issues with accessing individually identifiable data. In two sites, the SIBs were introduced to meet an unmet need so service provision was largely experimental in that the SIB was seen as a means of trialling a new service. For one of these, an independent evaluation was also commissioned to explore how and why questions about the intervention. While the independent evaluation was tasked with demonstrating the potential for reduced use of health and social case services, this work was not related to a potential outcomes payment. This was because the commissioner involved was concerned that this measurement approach had the potential to create perverse incentives for providers to deter clients from seeking health care if outcomes were linked to payments in a pilot programme.

Interviews with SIB specialist organisations and commissioners revealed a number of reasons why such approaches were not used for the lack of counterfactual approaches. First, there were practical and valid challenges to establishing a robust counterfactual because similar populations or good quality data were not available. The evaluation team attempted to undertake a counterfactual analysis (even where these were not used by the SIB), but was unable to gain access to the routine administrative datasets that would have allowed the construction of

a control group or even a simpler before and after comparison (see Chapter 2, section 2.6 for further details). Second, the use of such measurement approaches was not a priority among commissioners and, to a lesser extent, SIB specialist organisations due to their high costs. There was a widespread sense from SIB specialist organisations, commissioners and providers in the five sites that it was the role of concurrent evaluations funded by central government or grant funds associated with the intervention to provide the data required to evidence attribution, not the sites themselves. It was not a central concern of those involved with the SIBs who largely felt that they had been commissioned to provide a service according to agreed outcomes. Third, there was a perception among some local commissioners that the use of an RCT as a counterfactual would be unethical in some way to those who were randomly selected not to receive the interventions. The lack of robust measurement approaches using causal attribution (specifically experimental design and quasi-experimental design) or those that do not allow causal attribution (i.e. before and after measurement) again points to the difference between SIBs as proposed by its early proponents and how the Trailblazers have operated in actuality.

In the case of the one SIB Trailblazer that used quasi-experimental design to demonstrate causal attribution, the outcome was to be paid based on a reduction in secondary or ambulatory care use in the cohort compared to a control group matched for age, sex, co-morbidities and deprivation using routine administrative data. At the time of writing, the construction of the control group remained contested due to issues around data sharing, and just one of the relevant stakeholders was able to access the data and confirm that it was happy with how the control group was constructed and the methods of comparison.

In this site, issues emerged about who could access identifiable data. A data management contractor to the lead commissioner was the only party able to view the data for the intervention's client cohort due to issues around the sharing of administrative data. This party is therefore responsible for using these data to generate a matched control group from a neighbouring area. Use of secondary and ambulatory care among the group subject to the SIB is compared to the control group, to ascertain whether there has been a reduction in overall use of secondary and ambulatory care. While this pragmatic approach allows a comparison group to be constructed, there were concerns from other stakeholders that there is no way, from their perspective, to validate whether, and, if so, how, this counterfactual group represents a 'fair' comparison with the SIB participants:

> *"[T]he problem is, we don't have the control of actually running the data ourselves, and we don't have the transparency to say, oh, we've caught an error in the way you're running it."* (Provider 88)

There was limited sympathy from commissioners in this site to these concerns, as the commissioners reported that payment for another outcome in the SIB was on the basis of the provider's self-reported data, and the validity and auditability of this was not being questioned:

> *"I can see where they're coming from about, can you truly say the cohorts matched, but there's been a lot of work done by [commissioner's data manager] and [the data manager's] team to look at the cohort, and [their] view is that the cohort is, is, the cohort does match, it is an appropriate cohort to use so, yeah, I see what you're saying but I, I certainly don't think that it's a much of an issue as what people may make out that it is."* (Commissioner 15)

In this case, therefore, a measurement approach using a counterfactual to demonstrate causal attribution, did not bring about confidence that the outcome could authoritatively be attributed to the intervention. Instead it became a matter of disagreement between different stakeholders and the approach did not have the confidence of all involved. This seems to reflect some issues in the relationships between the parties involved in this specific SIB Trailblazer. It remains to be seen whether all stakeholders will be satisfied with payments being made on the basis of the current analysis conducted by the commissioner.

Overall, establishing an appropriate comparison group for the service users that were the target of the Trailblazer SIBs was very challenging. The service users often had a combination of vulnerabilities which means that other service user groups are not similar enough to form a good comparison. Aside from the difficulty of establishing robust counterfactual groups, interviews with SIB specialist organisations provided evidence that there was strong support for the role of independent evaluations alongside SIB interventions but that there was a lack of funding available to support the costs of robust counterfactual measurement approaches similar to that used in the Peterborough SIB. In one case, the SIB specialist organisation secured grant funds for an evaluation to explore whether the intervention affected the intervention group's use of health and social care services. In other cases, the SIB specialist organisations stressed that there were ample data that could be analysed to provide some indication of the impact of the intervention on the users. However, interviews with commissioners indicated that there was a lack of funding and political priority (e.g. in the form of central government funding for independent evaluations) in support of independent evaluations and robust counterfactual measurement approaches, even if data were available.

There were also data access issues in the two sites where an outcome payment was dependent on the cohort's performance against a counterfactual comparison group; in one site, the counterfactual comparisons were abandoned; while in the other (at the time of writing in the Summer of 2017) there were ongoing efforts to demonstrate attribution against a counterfactual. Interviews with service delivery organisations indicated that in some providers, there was limited understanding about counterfactual approaches (i.e. how to design measurement approaches that could attribute change). Across the Trailblazers, pragmatism was the driving concern and 'before and after' approaches to measurement were considered good enough, particularly in contrast to 'no evaluation' or measurement.

Approaches to identifying cashable savings

Early advocates for SIBs encouraged a focus on paying for outcomes that were expected to lead to cost savings for commissioners (Cohen, 2011; Corrigan, 2011; Mulgan et al., 2011; Social Finance, 2011; 2012; Cabinet Office, 2012; OECD, 2016; Bridges Fund Management, 2015). The emphasis on prevention in the SIB literature relates in large part to the idea that all or part of the pay-out by the public commissioner to the investor will be funded from actual or hypothetical 'savings' in public service budgets generated by improving outcomes (e.g. lower recidivism rates will accrue savings in police services, for prisons and probation). The literature has, however, identified the difficulty of realising cashable savings (Disley et al., 2011; McKay, 2013b).

In interviews, we asked commissioners, SIB specialist organisations and providers whether cashable savings had been achieved and whether they were expected in the future. While all the Trailblazers were initially intended to lead to cashable or hypothetical

savings (Tan et al., 2015), at the time of writing, it was not clear whether they were still expected, how they would be measured, or indeed, whether cashable or hypothetical savings were even something that stakeholders still thought were crucial for the success of the Trailblazers. Interviews revealed three divergent approaches to the notion of savings: first, that the SIBs would generate real cashable savings; second, that they would generate hypothetical savings; or, third, that they would be cost-neutral.

In one of the Trailblazer sites, interviewees reported that the SIB interventions were delivering cashable savings for the commissioner, largely due to the high costs associated with delivering existing services to the client cohort. In this site, the cost of the typical service that clients received was very high compared to the alternative service offered through the SIB, so clear cashable savings were considered possible if clients took up the alternative service instead.

In another Trailblazer site, there was an assumption that the SIB intervention would generate savings – although there appeared to be no analysis undertaken to evidence this, or calculations based on data. In a third site, the SIB specialist organisation and commissioner both said that an independent evaluation would seek to demonstrate cashable savings, while the provider was unsure whether there were likely to be cashable savings but felt that it was the commissioner's responsibility to embed such requirements into the SIB contract:

> *Respondent: "Well, the saving is ... the saving is the ... the reduction in cost to the health and social care system. I think the ... I think, bearing in mind that the ... the way the payment was calibrated, it was only on savings in certain areas of health and social care; there was still a whole range of things that they couldn't calibrate, basically, or they didn't want to because it was ... it was getting more and more complex… Yes, the state is measuring those. That's their problem, not mine…Well, it's the [local commissioners] and the, and social care, have... will be measuring that."*
>
> *Interviewer: "Are they? How are they doing that?"*
>
> *Respondent: "Well, I don't know, is the short answer. I'm assuming that they are doing that. Given the state of health and social care at the moment, I'm not entirely convinced."* (Provider 3, first wave of interviews)

In a fourth Trailblazer site, comments made by commissioners and providers suggested that they believed there might be the possibility of hypothetical savings if outcomes were achieved, but it was unclear how these would be identified. In the final Trailblazer site, the SIB was intended to deliver services to a cohort with previously unmet needs so it was unlikely, at least in the short term, that the intervention would deliver cashable savings. In the long term, it was suggested that it was still possible that such an intervention could be cost saving. Provider staff felt that it was possible that this intervention increased overall costs because success required providing new services to this group to enable their reintegration into wider society. For example, through this intervention, a client could be helped to access social security entitlements. In this case, the commissioners made a pragmatic decision to emphasise the social value of the intervention:

> *"And sometimes you spend more money because you're putting people into accommodation and they're claiming [welfare entitlement] and maybe you're having to treat their health conditions and all that stuff, so you might be better off leaving them on the streets to rot in terms of how much money you spend*

> *for the public purse, but we had a remit and Ministers are very keen to do something more on [specific social problem]. So it was as much about doing something for a group of [these clients] that would be as effective as possible rather than really being motivated on cash [savings] per se."* (Commissioner 12)

In summary, by June 2017, of the five operational Trailblazers, just one had reported that it had delivered net savings for a commissioner (though these were lower than the savings expected by that date in the original business case). In some cases, neither cashable nor hypothetical savings were expected during the period of the evaluation fieldwork (though it is possible that savings may eventually be delivered). In other cases, net cashable savings were not expected at all. In these cases, this was because the Trailblazer project was framed as pilot programming to try and improve social outcomes (where savings were not a primary consideration), or that it met unmet need, so cashable savings were unlikely. This points to the intrinsic difficulty of designing interventions that simultaneously do better than their predecessors and save money.

7.3 Impact on service delivery

This section presents findings about how the fact that interventions were funded by a SIB had an impact on the service delivered. Two potential mechanisms are discussed: (1) the absolute level of resources for the SIB-funded interventions (2) whether financial incentives to achieve specified outcomes affected providers' behaviour in their work with service users.

Impact of financing

In three sites, the SIB model provided financing for new services that had not previously been provided in the area. In two other sites, the SIB model provided financing for a new third sector provider in each site to deliver a service previously delivered by the local authority.

In one SIB site, informants said that without the SIB financing mechanism, the service would not have been commissioned at all as it would not have been viewed as offering good value to the local authority in an era of austerity. This raises the question of whether the SIB is likely ultimately to prove to be cost effective, and whether this is important in cases where the SIBs fill a gap in services and potentially have long-term benefits.

The second observation about financing is that that in three of the SIB sites, providers reported that the SIB intervention was better funded than in comparator areas where a similar intervention was funded through alternative financing mechanisms (e.g. block contracting, spot purchasing and grants). The most significant way in which this more generous funding appeared to have an effect, operationally, was that the SIB funding enabled provider organisations to fund a distinct team that did not work on other projects. It appears that this, in turn, facilitated a clear focus among members of staff. In all provider sites, team managers and front-line staff that comprised the SIB team expressed a clear understanding of their project's goals and targets, and felt that there was a sense of political priority that came out of being part of a SIB. In three of the sites, interviews with staff at the prime contractor level, and to a lesser degree, at the subcontracted level, described the SIBs as clearly defined, innovative projects with fixed goals; for example, to reduce social isolation and improve the quality of individuals' lives. Conversely, in four of the non-SIB sites, projects were not implemented as part of a distinct delivery team – staff worked on multiple projects. In

four of the non-SIB sites, interviewees said that they were unable to build dedicated project teams because of pressures from grant funders or local authorities to take out the costs of managerial and staff time from service delivery proposals at the onset of the intervention, so staff expected to cross-subsidise services from existing staff capacity. Conversely, staff in SIB-funded services felt that their work had a strong, common objective on which they could focus on to the exclusion of other work. This enabled the SIB intervention to be ring-fenced in terms of staff time and financing in ways which were not always financially possible through conventional forms of commissioning during an era of austerity.

It should be noted that while funds were available for dedicated staff teams in SIB sites, there was some evidence in one site that subcontracted providers were reluctant to ask for funds for managerial and staff time. For example, in this site a small number of subcontracted providers struggled to keep up with collecting and inputting data related to process measures because they did not have a dedicated staff member to work on the performance monitoring and data elements of the SIB. For the SIB specialist organisations and prime providers in this SIB site, this was a source of frustration as they watched as existing staff struggled to balance multiple projects and priorities. The SIB specialist organisation said that the funds could have been available for a dedicated staff member if the subcontracted provider had been more proactive in asking for resources for extra temporary staff. For subcontracted providers in this site, SIB financing did not allow them the ability to recruit extra, dedicated staff capacity. Instead, both the sub-contracted SIB providers, like the non-SIB providers in the area, faced similar challenges about staffing and capacity and so tended to use existing capacity to implement projects, rather than bringing on new dedicated staff members. It is perhaps unsurprising that no new staff were brought on since both the subcontracted non-SIB providers were on short 12-24 month contracts. This was different than the lead provider of this SIB which held a contract. It appeared that the more generous funding model was most helpful in a single provider model, or for the lead provider.

The third observation related to financing is that the SIB financing mechanism enabled greater flexibility in service provision by allowing, for example, spot-purchasing of items for service users (e.g. tablets, mobile phones, or public transport travel cards) and individualisation of services by providers in response to client needs in ways that may be impossible or less likely under more traditional approaches to service commissioning. This reflects the experience of other SIB evaluations (Disley et al., 2011; Mason et al., 2017) but this advantage is not necessarily exclusive to SIB-financed services, since there are other ways to commission personalised services, such as through various forms of personal budgets allocated to clients by local authorities, from which they can purchase the services they judge best suited to their needs. In one comparator site, the non-SIB was able to offer the same ring-fencing despite being core-funded by a local authority. In this case, the non-SIB also had a flexible pool of funding that could be used to respond relatively quickly to client needs.

Finally, we found that one of the key advantages of SIB financing was that it offered longer term contracts to providers, thereby increasing stability, especially for smaller, charitable organisations. All the Trailblazer SIB projects had contracts which ran for upwards of three years, although subcontracted organisations within the Trailblazers sometimes had just 12 month service provision contracts. The non-SIB providers tended to have short term grants of less than a year, or ones that were renewed on an annual basis. While both non-SIB providers and subcontracted SIB providers had shorter term contracts, the SIB providers were more confident that their projects would be renewed than the non-SIB providers, although this finding should be placed

in the context of financial austerity (particularly in local authorities) that prevailed at the time of data collection. This longer-term financing of SIB services was appreciated by the subcontracted providers. This was true of one SIB with subcontractors despite the shorter 12 month contracts. This was likely because there was a good chance that they would be renewed each year because of the longer-term funding commitment was assured by the SIB contract:

> *"[T]he seven year thing was good [...] to build that rapport because you could say… We're not a flash in the pan service, we're here for a long time."* (Provider 91)

Impact on provider behaviour

The SIB Trailblazers introduced financial incentives to providers that were expected to promote more effort and better performance. Interview data from all five Trailblazer SIBs indicated that front-line delivery staff in provider organisations were aware of process and outcome targets, and this meant they had a very clear idea of the aim of their work. They were also aware that achieving these targets could have financial implications for their organisations or others. Interviews with provider staff in non-SIB sites revealed that they understood what their aims were, but these were articulated with less precision, detail and focus. It appears that provider staff in SIB sites better understood the goals of their projects, and were more aware of a linkage between their actions and the potential for financial rewards.

While there was awareness of financial targets, in all sites there was also a strong emphasis on the importance of improving lives alongside the potential for financial return. There was a sense of 'ownership' of the respective services among staff in these sites and those involved expressed pride in the value of their services, independent of the link to financial incentives. In one site, the manager emphasised that the SIB was an innovative way to help address a social problem first, rather than as a financial opportunity for their organisation:

> *"It's such an amazing project to be part of. I mean, the fact that it's such an innovative pilot project, I think, you know, the team are incredibly proud to be a part of that and to know that, you know, it's a Social Impact Bond, to know that we're making a difference and to know that we're a part of … uh, you know, obviously they're all, the staff involved in all the monitoring and, you know, we know that, but actually it's helping those people at the end of the day... That's what's, you know, what's the most important to all of us."* (Provider 35)

A volunteer at a subcontracted provider in the same Trailblazer echoed these sentiments that the SIB intervention was an innovative way to help address a social problem for their organisation while delivering social value to their community:

> *"It was just completely what we're about. It fitted so well. It wasn't like taking on something that was brand new in that sense, for us. It fitted with our ethos and values, and our real desire to meet the needs of the community, really. And, it's so easy, and the concept is so easy, actually. I'm not saying there aren't other complications on the way, but the concept of just being able to visit, and include everybody, is amazing, really."* (Provider 68)

However it was not consistent across all the Trailblazer sites. Interviews with staff in a different SIB suggested that the financial outcomes were as important as the

social value, with one subcontracted provider saying: "The financial sustainability is as important as [client] outcomes" (Provider 89). One interviewee from a Direct Provider investment SIB suggested that reputational benefits were unimportant if the provider was not financially sound at the end of the intervention, suggesting that some providers approached programme planning from an affordability perspective:

> *"We want to make sure that we're financially robust, but also, that's important, we had to prove to ourselves that it could be done, because what we don't want to do is embark on lots of exciting SIBs that give us high profile, and we find out that we're essentially spending our reserves."* (Provider 5, third wave of interviews)

This suggests that providers varied in their responses to the introduction of SIB-related financial incentives, with some providers primarily focusing on the social value of the interventions while others were somewhat more focused on mitigating the potential financial repercussions of SIB involvement for their organisations.

All providers interviewed reflected during interviews on whether the pressure to meet targets impacted the way they worked with clients. This was found in interviews with team managers in all sites and with front-line staff in two sites. For example, some front-line providers at two sites expressed concerns about whether they were engaging with a particular client, or suggesting a certain course of action, simply because of the potential to generate outcome payments. All providers were aware of the potential for a mismatch between doing what is the best for the client and doing something to meet a target, but in four of the SIBs there was no evidence that providers had undertaken cherry-picking or 'parking' (i.e. not actively working with clients who were unlikely to generate an outcome). This is not to say that such behaviours did not, or could not occur, but that the research team did not find explicit examples of such behaviours in four of the SIB sites.

Interviews with staff in these four organisations found that staff did reflect on the potential of the SIB's financial incentives for perverse behaviour but that they did not prioritise the organisation's finances ahead of what was best for their clients. It should be noted that in two of those four sites, the projects were staffed by professional social workers, who were particularly clear about this and that this was rooted in their professional ethos. For example, a staff member at one site expressed ambivalence between their own motivations and the impact of SIB incentives in guiding their work but it was unclear to what extent these sentiments did or did not change their behaviour:

> *"[T]he kind of thing about social work anyway, is like anything in life, it's always an important thing to keep the main thing the main thing. And if the main thing isn't the main thing anymore, then you've got to really question are we doing, are we doing this right [?]… and anything that pulls us away from that, I think, has got to be really challenged. And there is a danger of it, if you don't get it right, is that you end up … but that's the situation that you could end up in, I think, where you're not focused on, on producing the best for the [target population]."* (Provider 40)

There was evidence from one SIB site that staff felt pressure to meet the recruitment targets to ensure that the service continued. While staff were unsure about the precise consequences of missing targets the felt threatened nevertheless:

> *"So when I hear things like if we don't reach our targets we could be out of a job in a few months' time, I kind of go, well, what about the existing [service provided]? They can't just abandon them."* (Provider 99)

In other SIB sites, there was very limited evidence that outcomes-related incentives on front-line staff left them conflicted about the trade-offs between achieving targets and doing what was best for a client. For example, in two SIB sites, managers described their role as shielding staff from the pressures that accompanied the introduction of outcome-related financial rewards.

There was a view that the target population was vulnerable in some SIB sites, so there was an expectation that providers would act with caution because of the potential for adverse events. When asked about the potential for perverse incentives, one commissioner said:

> *"It's interesting. I mean I … if anything, I'd say the opposite. I think there's quite a lot of caution and it's difficult, because we all work really differently […]I think they've been quite cautious about matching… I don't want to place somebody and then in six months' time [have] it all fall apart. Primarily for the service user, because that's a horrible experience, but also where they're left with somebody to place that, that's had a horrible experience."* (Commissioner 14)

Overall, our findings about the impact of incentives on provider behaviour suggest that extrinsic incentives had the ***potential*** to result in 'moral dilemmas' among providers – described as the potential for a mismatch between doing what is the best for the client and doing something to meet targets – and provider staff themselves reflected on this. There was some evidence across all SIB sites that providers engaged with the idea that the outcomes had the potential to become perverse incentives, or expressed some concerns about whether they were engaging with a particular client, or suggesting a certain course of action, because of the SIB's potential to generate outcome payments rather than their best professional judgement. These incidents appeared to be more pronounced in the sites where the SIB providers had assumed some financial risk. However, there was only evidence in one site that providers had actually changed their working practices with clients in order to meet targets while being concerned that this was not completely aligned with clients' best interests.

Comparative findings from two SIBs

It was not possible to recruit a non-SIB comparator site for one of the SIB Trailblazer sites due to the novel approach it took to service delivery (see Chapter 2, Section 2.3 for further details). The two SIBs projects ran concurrently and provided a unique opportunity to compare how the incentives generated by the different allocations of risk found in a Direct Provider SIB and a SIB with SPV model affected the ways that two similar service providers worked with the same target population.

The findings from the Direct Provider site suggest that the introduction of extrinsic incentives may have led to increased pressure on managers to generate outcome payments. In this site, the lead provider had assumed some financial risk. As a result of the perceived pressure to achieve outcomes, one front-line staff member at this site described his/her approach to outcomes achievement as follows:

> *"In the beginning, it was a lot easier, because we were looking at the easy wins. Now we've got clients which are very difficult to fit into that kind of payment bracket."* (Provider 17, second round of interviews)

In the SIB with SPV site, the SPV isolated the provider organisation from the risk of failure. Interviewee accounts reflect that there was less managerial pressure to

generate outcomes payments for the organisation but that front-line staff were instructed to pursue a client-centred approach to service delivery. One team manager presented a more cautious approach to the potential for revenue generation:

> *"And, because we are a […] charity, we've been able to just ignore the potential issues with payment by results, which are that you cherry-pick and you don't work with the most in need. We have, anyway, just because we see that as our role. Reputationally, it'd be rubbish for us to just say, well, we're going to work with these easy people, and morally – why would you work for an organisation like this if you're going to do that?"* (Provider 30, SIB comparator)

It is not clear whether this difference was just due to lower-geared incentives as a result of the SIB with SPV model, but does suggests that the way incentives and strategic priorities are communicated through organisations strongly influences SIB implementation.

> *"We don't have that, you know, like, I don't know, the knife, you know, over our heads with that from our managers, probably it's not that, you know, it's not that it doesn't worry me that much, and so I think with the outcomes, no, it just gives me a little bit guide where I should go, and that's it."* (Provider 31, SIB comparator)

Managers in the Direct Provider site reported that they had provided instructions to staff to encourage ways of working that would maximise the chances of meeting targets. For example, they reminded staff that it was important not to focus solely on high-needs clients (who required more time and resource which might not generate payments) because financial incentives were also attached to lower needs clients from whom outcome payments could also be generated. Of course, it is legitimate to consider cost or cost-effectiveness in making decisions about how to allocate collective societal resources, and it was possible that such guidance to staff was not intended to encourage cherry picking or parking. In fact, these instructions could encourage early intervention. However, interviews with a small number of front-line staff in this site suggested that there was some evidence of gaming where staff intentionally used creative approaches to claim outcome payments that their efforts had not necessarily earned, though the client was not worse off than they would have been in the absence of the incentive. Overall, it is clear that the outcomes focus in a SIB could affect the pattern of service delivery.

> *"I always say someone could be low needs but if they're left long enough they become high needs. You know, so you need to make sure that, um, you check in with people on a regular basis and, 'cos, we always want, we want to be with the sexy clients, but then the other ones are not so sexy you leave them and that's, that's the danger, but they're our bread and butter [for outcomes payments] here today."* (Provider 37)

In the SIB with SPV site, staff were aware that there were financial figures associated with outcomes, but they demonstrated less clarity over precise financial figures:

> *"You just do what best for clients and you try, and if you know that it's working, you're just kind of supporting them as, as we will usually do, and we were not thinking how much money we can get for them, for that. Obviously we all got a list and we knew that that's how much we got for specific outcome, but to be honest with you, I don't even remember how much we can get."*
> (Provider 49, SIB comparator)

The evidence that outcomes related targets informed decisions about who to work with at the Direct Provider site was unsurprising given the strong managerial pressures to break even financially:

> *"We had to select our client[s]. So it wasn't that the management said you're going to work with this or this… It was a bit more, it was sensitive. But it was in a way logical. Because why you should go out and try to talk to someone who doesn't want to talk to you. Or who doesn't come to the meeting, or you don't know for sure where he is. Spend time looking for them somewhere, where you have a client who is more connected and more open to change. So it wasn't actually a bad thing. It wasn't a bad thing. It was, I don't know. We have been told that we should focus on this client group.*" (Provider 46)

By contrast, the team managers in the SIB with SPV site did not report such strong organisational pressure to generate outcomes. There did not appear to be a precise relationship between outcomes achievement and financial rewards. There also emerged a distinct sense among team managers that they needed to be quite cautious given the potential for adverse behaviour:

> *"…people were concerned at the start about whether we would push people into things too early just to get the payment, when they weren't ready. I really don't think we did that. I think that's part of the maybe slightly different approach we took, because we thought, well, that's a, sort of, [project] approach; that's not going to work with everyone. We've got three years; we might as well take our time and give people a chance to get there eventually... That's got more chance of sticking in the long run."* (Provider 54, SIB comparator)

This quote reflects a more cautious approach to outcomes achievement in the site with an SPV. This was reinforced by all managers interviewed, with one manager adding that the managers' role was to shield workers from outcome-related pressures, specifically stating that in the first instance, managers should worry about missed outcomes not the front-line staff. If targets were missed in one area, it was their role as managers to work out how to compensate elsewhere. They were confident that over the course of the contract, if given time for the project to bed in and for the front-line staff to establish relationships with the target population, they would be successful.

7.4 Summary and implications

Overall, among the SIB Trailblazers, it appeared that the contracts introduced stronger incentives for outcomes achievement than those found in conventional forms of contracting for public services. In examining the impact of incentives on the SIB Trailblazers, five key themes emerged. First, the introduction of the SIB increased the collection of data for outcome and output measurement; second, sites varied in their approach to attribution and the use of counterfactuals in outcome assessment, but this was generally very limited; third, there were mixed results regarding whether these projects generated cashable or hypothetical savings (or none at all); fourth, SIB financing provided flexibility and longer-term contracts for staff delivering the interventions; and lastly, the introduction of incentives affected provider behavior in that front-line staff were more focused on their project's goals and aware of the financial implications of their actions. This could have benefits to service users in terms of improving their outcomes, although there was evidence reported in interviews of parking and creaming in one site.

8. Management style: performance management and the role of SIB specialist organisations

8.1 Introduction

This chapter is divided into three sections. The first and most extensive section focuses on the roles of the SIB specialist organisations in the four (out of five) Trailblazers where they were central to the development of performance management programmes. The section firstly highlights how increased data generated as part of the Trailblazer interventions allowed proactive project management by the SIB specialist organisations. Next, the section describes the role of the organisations with respect to project management and overall changes to improve performance based on the data they ensured were collected. The section then characterises the contrasting management styles demonstrated by the two SIB specialist organisations involved in four of the Trailblazers (two sites per organisation).

The second section of the chapter discusses findings relating to multi-party collaboration and flexibility in the face of underperformance against pre-agreed metrics. The final short section reflects upon how the different SIB models identified influence the way power may be distributed between different SIB actors when attempts are made to tackle underperformance.

Before presenting the findings, there are two important points to be made – the first practical, and the second conceptual. The practical point is that under-performance was an issue in the early stages of all the Trailblazer projects. There were problems related to staff, service user and volunteer recruitment and retention to different degrees across the five Trailblazers. Such issues were not unexpected given the novelty of these programmes. It is important to highlight that the findings in this Chapter relate to the early stages of implementation covering the first 12-18 months of operation and as such it may be possible that the management styles that develop as the Trailblazers mature may differ, as, for example, early recruitment issues are overcome. Conversely, it may be that some of the 'wicked' (Rittel & Webber, 1973) social problems that the Trailblazers set out to solve by their very nature will always pose serious performance challenges requiring extensive performance management – indeed, one of the proposed advantages of the SIB model is to bring more rigorous management approaches to public and third sector organisations on a permanent basis (Cohen, 2011; Callanan & Law, 2012).

In conceptual terms, it is important to clearly define *performance management*. Performance management is the ongoing process by which a supervisor (or supervisory organisation) and an employee (or subordinate organisation) monitor and negotiate progress towards pre-agreed (and sometimes emergent) personal (or organisational) goals as set out in a service delivery agreement, potentially including financial Key Performance Indicators (KPIs) (i.e. those that are financially incentivised) and non-financial KPIs (i.e. those that are not). Performance management includes steps taken to address actual or potential failures to meet key targets, outcomes and outputs. Existing research into performance management regimes in the public sector suggests that the relationship between the supervisory and subordinate individual (or organisation), may be characterised in a number of different ways; for example, it may emphasise flexibility and adaptation, or control and standardisation (Newman, 2001).

This research into the Trailblazers also explores *contract management*. Contract management is the process by which organisational actors negotiate, monitor, and if necessary, enforce progress towards pre-agreed goals inscribed in legally binding contracts signed by all parties. Contract management can include discussion and interpretation of contract provisions which, in practice, turn out to be ambiguous or

to have unintended consequences. It includes responding to emergent issues that were not foreseen and accounted for in contracts signed at the start of a SIB, which must be negotiated and agreed by those who are party to the contracts. Contract management also includes resolving how rewards or sanctions in contracts are to be applied in practice.

In both performance management and contract management, supervisory actors have discretion as how rigidly or flexibly these regimes of management are enacted (Newman, 2001). As described in Chapter 3, NPM style management is characterised by a (rhetorical at least) firmness in both contract and performance management (Hood, 1991; Ferlie et al., 1996), whilst post-NPM style management, based on more open models and forms of network governance and neo-corporatist principles, stresses trust and flexibility in terms of how performance and contracts might be managed (Newman, 2001; Osborne, 2006). This approach is informed by a recognition, perhaps under-appreciated in early NPM, that contracts for many types of human services are rarely capable of being completely specified. Thus, de facto there has to be reliance, in part at least, on building trusting relationships between purchasers and providers. Through the analysis of how the Trailblazers were managed, the broader theoretical implications of SIB management styles are considered; i.e. whether these styles should be seen as simply an extension, or heightening of the NPM as argued by Warner (2012), or as a shift to more open systems as judged by Joy and Shields (2013).

8.2 Management by the SIB specialist organisation

Project management by SIB specialist organisations

In four out of five of the Trailblazers, the collection of detailed management data about processes and outputs provided the essential tools for performance management. The one exception was the Trailblazer that did not have the active involvement of a SIB specialist organisation.

In the four Trailblazers where data were monitored regularly (in real time) by the respective SIB specialist organisation, this enabled them to pick up early warning signs of potential problems. These problems were often similar across the different Trailblazers. They included delays to staff and volunteer recruitment, as well as hold ups in processes aimed at ensuring sufficient numbers of service users were be referred to the respective programmes.

Regular data monitoring systems also enabled prime providers and SIB specialist organisations to understand performance differentials across different subcontracted providers in the two SPV model Trailblazers where multiple subcontracted providers delivered the interventions. The data generated were then presented at regular (often monthly) meetings to inform both operational and strategic decision making. In contrast, in the Trailblazer that did not have SIB specialist organisation involvement, there was less sign of an attempt to identify potential problems at an early stage. Likewise, data on service usage to guide project management was less prominent in the non-SIB comparison sites:

> *"[T]here's a lot of data processing that needs doing there and we haven't got the capacity to do it, and probably not the knowledge to do that."* (Provider 19, non-SIB comparator)

As highlighted in the quote above, the knowledge and capacity around data management and interpretation was less developed in the non-SIB comparison projects.

Role of SIB specialist organisations in project and performance management

In reaction to early warning signals from monitoring data, in four Trailblazers (all but the one without SIB specialist organisation involvement), significant changes were made in response to lower than expected performance of the type listed in the preceding section during the first two years of operation. In two of the Trailblazers, the same SIB specialist organisation drafted in external management consultants to review procedures and recommend improvements. In two other Trailblazers, the other SIB specialist organisation 'parachuted' in staff from their own organisation to work closely with existing provider staff to review procedures and recommend improvements. In these latter cases, the arrangements were longer term than in the former cases.

The reactions of the providers to these actions by the SIB specialist organisations varied. In the cases where a SIB specialist organisation brought in an external management consultant to provide advice on the progress of a Trailblazer with a SPV, mixed feelings about this were expressed by the prime provider and the subcontracted providers. The subcontracted providers interpreted the move in a positive way – seeing this as a useful opportunity to review overall processes, voice dissatisfaction with particular data requirements, and recalibrate targets and metrics. In contrast, the prime provider was more wary of the move – stating that the move might be interpreted as undermining its authority as the manager of the subcontracted providers. Similar initial fears were expressed in the other SPV model Trailblazer by the prime contractor – however, the prime contractor in this site was ultimately positive about the impact that the move to bring managerial expertise from outside the original management team had overall.

The actions of the two SIB specialist organisations (in the four Trailblazers where they operated) in identifying and attempting to tackle sub-optimal performance was different to anything found in the non-SIB comparison sites and the Trailblazer without SIB specialist organisation involvement, even though the performance problems were similar. As noted above, such actions might include the introduction of external management consultants or the relocation of staff members from other parts of the SIB specialist organisation, or, in at least two cases, the recommendation that a member of staff from the provider organisation work more closely, or become embedded within the commissioner organisation to aid the flow of referrals into the respective Trailblazer programmes. Existing poor quality leadership, inadequacies of strategic planning and intra-organisational communication among third sector providers were lamented by SIB specialist organisation informants in two of the Trailblazers.

The SIB specialist organisations enjoyed a unique place, sitting between the providers and commissioners, and were able to influence the decisions of both and, furthermore, they became very involved in the direction of day-to-day service delivery. The SIB specialist organisations played a key role in the Trailblazers they were involved in by challenging providers to change their established methods, in some cases stopping investor payments, and restructuring contracts unless changes were made. As articulated below by one SIB specialist organisation informant (a view shared by a majority of other SIB specialist organisation actors), it was not enough that third sector workers were highly motivated, rather they needed to be highly motivated ***and*** steered towards clear-cut goals for better outcomes for service users:

> *"[A]mazing stuff goes on in the voluntary sector and you do get some really passionate people but I think you can't just sort of let the project float and say oh the voluntary sector will look after that because they love the client group. Um, you know, it stills needs the focus, it still needs the drive, it still needs the tweaking and, um ... I think that's kind of part of what needs to be done as well."* (SIB specialist organisation 12)

This finding aligns with the public sector narrative identified by Fraser et al., (2016) and the 'professionalising' of third sector providers that SIB proponents have described (Cohen, 2011; Callanan & Law, 2012). In contrast, in the Trailblazer site that did not have SIB specialist organisation support for the provider, operational changes were not so significant or fundamental when problems were detected, suggesting that the role played by the SIB specialist organisations is likely to be central to the way in which management techniques were developed and experimented with across the Trailblazers. These techniques are characterised and discussed in the following section.

Management styles demonstrated by SIB specialist organisations

All five Trailblazers had to deal with underperformance in the early stages of implementation. All the Trailblazer projects included experimental elements (either in terms of the interventions themselves, and/or their financing mechanisms). Many of the Trailblazers sought to either scale up existing services through new providers, or to introduce completely new interventions through new providers who often had not previously worked in the respective geographical areas. The research identified two different approaches to provider performance management taken by the two SIB specialist organisations involved in the Trailblazers. These are referred to as (1) *an informal approach to performance problems* – whereby terms of the contracts between parties were interpreted flexibly and the resolution of problems was sought by reference to extra-contractual, relational means, including building up rather than penalising providers; and (2) *a more formal approach to performance problems* whereby the terms of contracts were more closely followed. There were two different SIB specialist organisations that oversaw four of the five Trailblazers. Each of these organisations oversaw two Trailblazers each. One SIB specialist organisation oversaw an SPV model SIB and a Direct Provider model SIB. The other organisation oversaw an SPV model SIB and a SIP model SIB.

It is important to highlight that, firstly, the data collected during our research do not provide evidence that one or other of these management styles was more or less effective in improving performance and secondly, that a collaborative approach to problem solving was taken in both the informal and formal approaches (and is discussed in the following section). Both SIB specialist organisations withheld finance from some providers at some times and both required Performance Improvement Plans from some providers in the light of underperformance. Nevertheless, these data suggest that both the ***quantity*** and ***quality*** of actions were objectively different, and furthermore they were perceived differently by the provider organisations working with the different SIB specialist organisations. These two management styles are discussed in turn below.

In the informal approach to SIB management identified in the Trailblazers, the relevant SIB specialist organisation emphasised the experimental nature of the projects it was involved in (regardless of how novel or established the intervention itself was). It highlighted that a large part of its role was to help build local third sector provider organisational capacity and better collaborative working with commissioners, and

that a focus on improving these relationships (as opposed to a focus on the financial impact of the projects) might bring additional risks to investors' capital, but that there would be longer term collective benefits to all parties through working together:

> *"So there's the question of being much more explicit with investors that this isn't, you know, the risk here is not just about the fact that it for some unidentified reason might not work, but the risk is that, you know, we need to work with the council to do this, we need to work the provider to do this, so sort of, I think, you know, is it about grant funding to do that sort of charity development work. But thinking about other ways to, to boost the capacity of the providers that we're working with, and, and the providers and the, and the councils and the social teams."* (SIB specialist organisation 13)

In the informal approach, official recourse to original contracts, or loan agreements was minimal. The contracts were not used as tools to improve performance. Instead, performance against KPIs that ***could*** have resulted in the withholding of investor funds was not immediately acted upon in this way:

> *"[T]he problem with withholding funds is that [any specific problem] gets worse, doesn't it? So that's a fairly nuclear option, I would have thought. There are loads of things you do before you got to that point."* (Investor 5)

The above quote was from an investor involved in a Trailblazer that demonstrated an informal approach rather than a SIB specialist organisation informant. Nevertheless, this perspective neatly captures the ethos of the particular SIB specialist organisation. It must be noted that this SIB specialist organisation did withhold funds at times in one of the two Trailblazers it was involved in. However, the amounts withheld were proportionately less than those withheld by the other SIB specialist organisation in its two Trailblazers. In addition, the manner in which this was done was more informal and short-term, and, significantly, the perception of the provider with relation to the seriousness of the decision of the SIB specialist organisation to withhold funds was very different – as described further below.

In the formal approach to performance management identified in two of the Trailblazers, the relevant SIB specialist organisation developed an approach whereby contractual terms and obligations featured explicitly and prominently in their methods used to improve provider performance. The decision by the SIB specialist organisation to withhold funds from its providers is significant and aligns with the 'hard' market discipline that SIBs are purported to bring to public service delivery and third sector providers, as well as with the public sector reform narrative (Fraser et al., 2016) and broader trends of NPM reflected in SIBs (Warner, 2013).These decisions had an important psychological impact upon the relevant provider organisations:

> *"[T]he cards that the [SIB specialist organisation] plays, in terms of if they say 'We're now not giving you money', everyone sort of sits up and goes, 'What, they're not ...? What? What are you doing wrong that they're not giving you the money?"* (Provider 88)

> *"And it changed the relationship. There was a period when it, it felt like, you know, mummy and daddy were withholding our pocket money, and there was that mood in there, um, which I think was partly, you know, created some tension in me. And, and I don't… and maybe it was unfairly, but it definitely did. I thought I'm not used to being treated this way, you know."* (Provider 86)

From the perspective of the SIB specialist organisation employing this approach, withholding funds was just one of many tools they drew on to both highlight that there might be a serious problem and ultimately to achieve change provider behaviour:

> *"[I]f… something is not working to the extent that we want it to work, we need to find some method of escalating that and getting people to do something about it, and we tried going down the route of we haven't helped as many [service users] as we hoped, and that has had no effect at all, and so, one method is to sort of issue a formal performance improvement plan; one method is to hold back funding; one method is to sort of compare the performance to other area; one method is to talk to the commissioner and get them to escalate it; one method is to just go directly to the trustees or, you know, there's various methods of trying to get change. [I]nterestingly, holding back funding ... in some cases it highlights the problem and in some cases it, it doesn't… I don't know, of all those things I described I don't know which one it was or which combination of those things has made the change… [You] just try and do whatever you can to, to get the change."* (SIB specialist organisation 10)

The actions of this SIB specialist organisation can be seen as experiments with a number of different techniques to disrupt institutional norms (for example, escalating issues to trustees and executives within the provider organisation, calling on commissioners to help push for change from the provider, as well as withholding finance from the provider) in order to provoke behaviour change in those provider organisations to whom it provided finance and performance management input. Informants from this SIB specialist organisation stated that informal (i.e. non-financial or non-contractual) approaches – such as highlighting that insufficient numbers of service users had been helped – had little impact upon one of the provider organisations, and that even by going back to contractual clauses and withholding finance, it did not always 'highlight the problem' to the extent that might have been wished – particularly in the Direct Provider model. In the two Trailblazers where this SIB specialist organisation withheld finance, informants from the provider organisations reported that this was stressful for their staff. However, for one senior provider manager, the increased stress associated with this formal (i.e. explicit link between under performance and withholding of finance) approach could be interpreted as a positive contribution of the SIB:

> *"I think… my overall view, [my colleague] may differ, [laughs], my overall view is that it's it is probably useful in terms of stress, in terms of really, if you like, forcing you to think through what the issues are and begin to look at how the issues can best be addressed."* (Provider 85)

This is further evidence of the public sector narrative that aligns SIB management with the NPM tradition (Warner, 2012; Fraser et al., 2016), including the imposition of market discipline on third sector organisations, which was welcomed by this informant. In contrast, another informant described the following situation whereby the increased scrutiny and pressure, including withholding finance, had a negative impact on provider staff as observed in regular joint multi-party meetings between the key organisations:

> *"I sit with [a member of staff from the provider organisation] in the meetings and I always feel sorry for him. He's absolutely desperately trying to do this. He... works all the hours and, uh, he has the, welfare of the [service users] at heart and yet he has got all these other pressures and he's got pressure about the money and he sets these meetings and, you know, whereas… [the SIB specialist organisation representative] is aggressive about the, [general progress]… that's the downside of the discipline of the… SIB, but I think that, I would imagine that [if it] was*

working better, it wouldn't be so bad. So I think we need to be aware that once it go-starts going wrong, then those pressures mount very quickly." (Other 1)

Increased pressure here was linked to underperformance and missed KPIs. As performance against agreed milestones slipped, pressure from the SIB specialist organisation felt by managers working in provider organisations increased. In both these sites, provider informants reflected that some of the KPIs that were set in contracts and that they had agreed to work towards (particularly relating to recruitment numbers) were, in retrospect, set too high, augmenting the pressure on front-line workers with potentially negative implications:

"[W]e were performance managing front-line providers to hit targets which were not achievable, and I think we knew that." (Provider 86)

A pattern emerged in the two sites in which the formal approach was developed by the SIB specialist organisation. Precise KPIs were written in to Trailblazer contracts and agreed by all parties at the outset. When (as often happened – see data tables comparing target versus actual performance in Chapter 4) these KPIs were missed in years one and two, this led to one of, or a combination of, the following: a revision of the KPIs themselves; a revision of the timeframe within which they were to be delivered; or alternatively, the development of new incentives for providers. In one of these sites, these processes were formalised by a Performance Improvement Plan (PIP). In the other site, this appears to have been negotiated in a less official manner – though finance was still withheld from the provider. In the site where a formal PIP was required, the negotiation around the PIP was a long process which had financial impacts upon the provider:

"[It has] been about nine to 12 months actually since we've been in renegotiation of the contractual terms with [the SIB specialist organisation]. Over that period, we've kind of been funding the service ourselves which was not the intention of entering into SIB, so I think we've probably been subject to more financial risk than was anticipated in this instance." (Provider 59)

The SIB specialist organisation, in the light of missed KPIs, was empowered to assert authority over the provider organisations through the pursuit of a formal approach to improvement as mandated contractually. The terms of the loan agreements between investors and service providers, managed by the SIB specialist organisation, were such that when KPIs were missed, a decision on whether to continue or to withhold finance to the provider was at the discretion of the SIB specialist organisation.

In both Trailblazers overseen by this particular SIB specialist organisation, the SIB specialist organisation withheld funds from the providers and, in these cases, the amount of finance withheld was seen by providers as substantial. Because the SIB specialist organisation was contractually entitled to withhold finance from the provider organisations in the light of underperformance, should the provider organisation wish to keep its contract, it was required to find the funds from elsewhere. In the Direct Provider model Trailblazer, these funds came from the provider organisation itself, whilst in the SPV model Trailblazer, these came through internal prime provider recalibrations of how funds were to be distributed amongst different parties.

Importantly too, the formal approach to the management of SIB contracts enabled the SIB specialist organisation to protect investor funds. A commissioner involved in one of the Trailblazers where the SIB specialist organisation took a contract-based approach made the following observation:

> *"[W]hen you work with them for a while you soon realise for, and forgive me here, for the [SIB specialist organisation] that we've got they have absolutely no intention of losing any money… They really have absolutely no intention of losing any money. So I sometimes question just how valid [the idea that those with a financial stake in SIB projects are willing to lose part of their investment] really is… So [the SIB specialist organisation] brings with it that level of private business acumen and, and ruthlessness, to be honest. But… they're not fluffy, they're not pink and fluffy… they are being, I wouldn't say aggressive, but they are already positioning themselves to challenge [outcome data]."* (Commissioner 16)

In this site, a number of commissioning informants suggested that the SIB specialist organisation pursuing a formal management style was prone to take a hard line with them too and challenge outcome data whilst seeking to revisit original contractual assumptions. This sentiment is in contrast to that found in the sites where the informal approach to management was described by informants. This distinction in management styles is an important one and, as far as we are aware, not highlighted in other SIB evaluations. It is possible that these distinctions are linked to the ways in which the SIB specialist organisations are reimbursed. Whilst both organisations were reluctant to detail how much they were reimbursed and the terms upon which this was calculated, it appears to be the case that the SIB specialist organisation demonstrating the more 'informal' approach receives fees for its services, whilst the one demonstrating the more 'formal' approach relies on a share of overall long-term investment returns from the SIB projects it is involved with. If so, its desire to minimise investment losses (as described in the quote above) makes sense.

The potential implications of this finding will be discussed later. However, it is important also that this finding does not overshadow the significant similarities in terms of the approaches to performance improvement pursued by all key SIB actors across the five Trailblazers. These are discussed below.

8.3 Approach to performance improvement

Whilst, as demonstrated above, the SIB specialist organisations used divergent methods in performance management, a constant finding in the four Trailblazers with a SIB specialist organisation was that the approaches to performance improvement were ***collaborative***. There was a clear and consistent recognition that performance improvement had to involve commissioners, providers and SIB specialist organisations in a genuinely joint problem-solving approach – often involving regular face-to-face meetings. This commitment to regular discussion and oversight was not as evident in the non-SIB comparison sites, where there was less joint management of performance improvement, and less performance management altogether. Across the four Trailblazers, a collective approach to problem solving was generally depicted in positive terms:

> *"[W]e are working really closely with [the provider] and that's been a really positive experience. I think [the SIB specialist organisation] are absolutely with us and, and it feels like a good partnership."* (Commissioner 14)

Indeed, the role of commissioners as 'partners' in these four Trailblazers was pronounced. Commissioners were more involved in addressing performance issues than some of them might have expected at the outset. The Commissioner quoted below used the term 'deliver' to capture both monitoring and implementation of the service, making the point that the commissioners of a SIB only had to concern

themselves with whether agreed metrics were met – aligning with the 'black-box' logic of P4P (and potentially not unique to SIBs):

> *"For me that's the whole point, so any outcomes based contract, which is what this is; an outcomes based contract, I pay them for the outcome. What happens in between is between [the providers and the SIB specialist organisation]. How they deliver it, [I] don't really mind."* (Commissioner 9)

However, when re-interviewed, the same commissioner reflected upon how lower than expected performance had led the commissioning group to become more closely involved in contract management:

> *"I think there's a recognition from our part that we… needed to provide more assistance as commissioners to make this work, so it's possible we took … too much of a backseat role. And I think that … we've kind of shifted to slightly more joint ownership of the success of the contract."* (Commissioner 9)

The 'joint ownership' refers to work alongside the SIB specialist organisation, the prime provider and subcontracted providers in this particular SPV model SIB. A common reason for commissioner involvement in performance improvement in these four Trailblazers was linked to problems of service user referrals into the respective Trailblazer programmes and a recognition that commissioners had an important part to play in potentially solving some of these referral issues, and also for agreeing changes to service specifications and ensuring that new procedures linked to the SIB were properly understood by other staff working in aligned services. For example, it took time for all the relevant staff involved in up-stream decisions that might impact upon whether or not service users were referred to new Trailblazer services to do so more routinely. This had implications for the workloads of commissioners:

> *"I think initially I've spent an awful lot of time recently in meetings and talking to [specific staff groups] and having workshops and raising profile in them and managing how we track people who are, who we think are appropriate for [the intervention] […]it's not really appropriate that, I guess, as a head of service I'm doing a lot of operational stuff that's just not, um, it's just not sustainable."* (Commissioner 35)

Elsewhere, commissioners in the other Trailblazers with SIB specialist organisation oversight, whilst stating that the SIB represented more work and required a greater level of input than perhaps they had anticipated, felt that the collaborative relationships fostered with providers and other actors were positive because they facilitated joint problem solving, better services to users and potentially therefore better outcomes. This finding was more pronounced in the Trailblazer sites than in the non-SIB comparison sites. It was the SIB specialist organisations that called the commissioners in to help with performance improvement, because it was recognised that commissioners held certain levers to address challenges such as referral blockages. This was particularly the case in SIBs where services were being 'scaled up' (three out of five of the Trailblazers). Whilst the commissioners were involved in performance improvement, this was instigated and led by the SIB specialist organisations.

Our data indicated that the majority of Trailblazer projects drew on commissioner input very extensively in terms of increased work on contract management and performance management, particularly in the form of smoothing out referral pathways, and where applicable, plans for service users post-intervention (at one site in particular). As a

consequence of this, across these four Trailblazers, we found that commissioners were developing relationships with SIB specialist organisations and provider organisations characterised by regular meetings, joint problem solving and regular sharing of data. This time investment work appears to be integral to the SIB model of working rather than just the Trailblazers – for example, similar findings emerged recently as part of the evaluation of a SIB funding Multi Systemic Therapy (Sin & Cameron, 2016). Available qualitative evidence indicates that SIBs require ***more*** rather than ***less*** commissioner input compared with non-SIB financed interventions – at least in the early stages of a SIB. This finding will be discussed further in the final chapter.

In contrast, the involvement of investors in these collaborations, which is often highlighted as an important potential benefit of SIBs by proponents (Callanan & Law, 2012), was not very prominent in the Trailblazers. The influence of investors differed depending upon whether the investment was routed via an investment fund or channelled directly into a chosen Trailblazer project. In two of the Trailblazers, investors paid into investment funds that were managed by a SIB specialist organisation. These investors were thus somewhat removed from a detailed understanding of, or involvement in, the operational and strategic issues of the Trailblazers that their funds may have been used to finance. These informants, who tended to delegate any responsibility to the SIB specialist organisation, were therefore extremely 'hands-off' and were not involved in regular collaborative meetings with the other key actors (commissioners, providers etc.). In the other three Trailblazers, investors (often philanthropic or grant giving organisations rather than private individuals) had directly invested into named Trailblazers and they could become more involved – for example, receiving regular updates on progress and attending some meetings. However, even in these instances, it was the SIB specialist organisation to which investors deferred:

> *"[A]ll we can do is show up every quarter, read the data, read the reports, and put things in train but it's the performance manager [SIB specialist organisation] that does it [i.e. takes any actions forward]."* (Investor 11)

Overall in the Trailblazers, the investors played a smaller role in management oversight than might have been expected, given the emphasis placed on their role in the original concept of the SIB (Cohen, 2011; Mulgan et al., Cabinet Office, 2012). Findings from the Trailblazers highlight the importance of the collaboration between SIB specialist organisations, commissioners and providers in developing and managing the Trailblazers. A further finding was that in both SPV SIB model Trailblazers, the 'prime provider' played a key role in the collaborative work developed to improve performance. However, prime provider informants reported that they were somewhat 'squeezed' by pressure coming from above (the SIB specialist organisation and the SPV board) and resistance from below (the subcontracted providers) as the following prime provider describes:

> *"So, I think what a lot of it has come down to is, we ... we went in with ... and contracts are like this, almost with a lack of trust, and how are we going to use the contract to manage with, and then that's almost driven our relationship with [the subcontracted providers], and really, we should've ... been more trusting from the beginning, and we would've got a better relationship... I think, the service provision would've been better supported, had we been more trusting from the beginning. But, the Special Purpose Vehicle, it's a little bit hard to manage that sometimes, especially when your mandate from the board [and the SIB specialist organisation]is to be strict, to drive [the subcontracted providers] hard, really contract manage in a strict way, and that was the messaging we were getting."* (Provider 88)

The 'strict' approach described here, which was pursued by the prime provider in the early years of this project, increased the pressure on the teams delivering the intervention in the subcontracted providers to perform to the contractual requirements. When collaborating with the other parties, the prime provider in an SPV model may find itself in quite a difficult situation trying to satisfy other actors with aims and management styles that may not always be perfectly aligned with its own, and often lacking the levers to improve performance. Overall, the collaborative, or multilateral approach to performance improvement, noted between the three key actors (SIB specialist organisations, commissioners and providers) was an important facet of SIB development in the Trailblazers, but can sometimes lead to tensions between different actors. Nonetheless, it did help focus the respective parties on particular problems and how to solve them. Indeed, the capacity and focus on problem solving were more apparent in the Trailblazers than in the non-SIB comparison sites.

A further important factor is the ***flexibility*** the SIB appears to allow with respect to responding to underperformance. This was a finding across all four Trailblazers with SIB specialist organisation involvement. Where service providers were struggling to achieve KPIs, there was a willingness, led once more by the SIB specialist organisation, to challenge key aspects of the original Trailblazer implementation plan. Such flexibility was not found in the non-SIB comparison sites and was also less prominent in the Trailblazer that did not have a SIB specialist organisation. An example of this flexibility may be highlighted by comparing the progress of the two different SPV model SIBs in their first couple of years. In the first of these Trailblazers, the subcontracted providers had been provided with an payment model that was designed to encourage them to recruit service users at an agreed rate. After a sustained period (around a year) when it was clear that the subcontracted providers were struggling to meet these recruitment targets, the SIB specialist organisation, commissioner and prime provider redesigned the payment model so that it focused more on base payments and less on incentivised payments in the hope that this would improve recruitment target achievement.
At the second SPV model SIB Trailblazer, the picture was the reverse – here, the subcontracted providers were initially paid through a predominantly base payment model in which the majority of the payment was in the form of a budget to provide the service. However, in response to similar under-performance issues, in particular, related to retention of service users, a decision was made – once more collaboratively by a (different) SIB specialist organisation, commissioner and prime provider – to re-structure subcontracted provider payments along a new, revised model with a higher proportion of payment triggered by meeting outcome targets after the first two years.

There was no consistency in the direction of these changes with respect to provider incentives as demonstrated above – but there was a consistent willingness to experiment and try new ways to shape and deliver services. There was also a finding in one Trailblazer that the contract between the SPV and the commissioners was open to challenge:

> *"[N]ormally the contract is the contract … the idea of a contract's not to be flexible. You know, it is to create that black and white, whereas with [the SIB], you know, there's a lot of grey."* (Commissioner 15)

In this Trailblazer, informants spoke of a potential stand-off between the different parties linked to different interpretations of outcome measurements and contractual payment obligations. This highlights the limits of flexibility and how the SIB (with its experimental ethos) may challenge established approaches to commissioning services where contracts are deemed to be inflexible. In a different SIB, where the

required data to generate payments relating to a specific outcome could not be ascertained (for data confidentiality reasons), the commissioner chose to pay the provider as though the outcome had been achieved despite the lack of evidence. Overall, the Trailblazers demonstrated a high degree of strategic and operational flexibility, particularly in relation to efforts to counter underperformance.

8.4 Differences between the SIB models

Through the analysis of the relevant loan agreements and contracts, this research highlighted some differences between how attempts to improve performance in the different SIB model types affected the power dynamics between the different actors involved in the Trailblazers– SIB specialist organisations, commissioners, prime and subcontracted providers (where applicable) and investors. In the SPV SIB model, prime and subcontracted providers were sheltered from financial risk by the investment finance (as far as this was drawn down). However, the power that the prime-provider had to guide service implementation was ceded to the SIB specialist organisation once KPIs were missed. This was identified in both SPV model Trailblazers. There was a trade-off between degrees of financial security and autonomy. The SPV model prioritises the former over the latter for prime providers. In contrast, in the Direct Provider model, the providers are exposed to greater financial risk if investment is ceased due to under-performance linked to KPIs. However, the provider organisations have greater scope to resist the influence of the SIB specialist organisation where applicable (should they want to). The SIP model functions in a similar way to the SPV (and is a type of SPV essentially) in terms of implementation and financial risk. The transaction costs are likely to be less with a SIP as it 'piggy-backs' on to an existing SPV. This finding should be of interest to all parties negotiating future SIB contracts.

8.5 Summary and implications

This chapter has highlighted the central performance management role played by SIB specialist organisations in four out of five Trailblazers. Increased data collection and analysis enabled a proactive approach to deal with common early implementation problems encountered across the Trailblazer sites. Two divergent SIB Specialist Organisation management styles were identified and described. The first is termed 'informal' and the second is termed 'formal'. The informal approach promoted close inter-organisational cooperation across commissioners, providers (and to a lesser extent investors), and a spirit of safe risk taking. It may expose investors to greater risk of losing their investment as minimising investor losses does not appear to be so central to this approach, which instead prioritised inter-organisational learning. This approach appears to be aligned with tenets of Osborne's NPG (2006), a post-NPM governance framework (Joy & Shields, 2013), described in Chapter 3.

In contrast, the formal approach relied more on contractually established legal obligations between different parties, and individual organisational accountability for performance. The formal approach appears better suited to instilling the 'discipline of the market' ethos welcomed by many SIB proponents (HM Government 2011, 2013; Liebman, 2011), plus, by minimising investor losses, it may be more likely to lead to a sustainable 'SIB market' which is attractive to investors. The formal approach may increase pressure on staff to deliver outcomes more directly than the informal approach. Plus, in Direct Model SIBs, it may lead to greater financial risk being taken by provider organisations themselves, as it may limit investor exposure to losses. This approach appears to be more closely aligned to a furtherance of NPM principles in

SIB development based on contractual obligations rather than a more open or trust-based regime (Newman, 2001; Warner, 2012).

However, the chapter also highlighted that both the formal and informal approaches shared an interest in increased data monitoring and deep collaborative working between the parties. As a result of this, the Trailblazers were well able to detect and respond to under-performance at an early point. Moreover, the SIB mechanism, particularly its explicit KPIs and the empowerment of SIB specialist organisations to intervene to challenge under-performance, proved highly flexible in practice. The Trailblazers developed structures to identify poor performance at an early stage and empowered management specialists to design new methods to try to improve performance, including bringing in extra (often external) staff to advise on service delivery changes..

9. Discussion

This chapter summarises the research findings, then focuses on the contributions of the research, the implications for policy, implications for future research and some concluding thoughts. The chapter begins with a recap of the overall aims and objectives of the evaluation.

9.1 Aims and objectives of the evaluation of the Trailblazers

In December 2013, the Department of Health's Policy Research Programme commissioned the Policy Innovation Research Unit (PIRU) at the London School of Hygiene and Tropical Medicine, in partnership with RAND Europe, to undertake an independent evaluation of the nine Trailblazers with the aim of exploring their potential benefits and costs.

The study was planned initially to take place over two years between January 2014 and December 2015, and had the following four objectives to:

1. Develop a conceptual framework to help understand the potential role and effects of SIBs compared with other approaches to paying for public services. This component will help orientate the subsequent empirical parts of the project;
2. Describe and assess the development of the nine SIB Trailblazers in order to identify obstacles and enabling factors in finalising SIB contracts;
3. Describe and characterise the signed SIB contracts in order to unpack the implications in terms of incentives and risk-sharing arrangements for the different parties;
4. Assess, if feasible, in a second phase, whether and how the SIB contract mechanism enables achievement of better outcomes than alternative funding mechanisms, and if so, to explore the ways through which such benefits appear.

The evaluation was planned in two phases from the outset because of the uncertainty about the speed of development of the Trailblazers and the feasibility of undertaking a quantitative comparison of the same services delivered through SIBs and conventionally (objective 4, above).

After the initial data collection in phase 1 during 2014, designed to understand the nature of the Trailblazers, a peer-reviewed interim report was published in spring 2015 (see Tan et al., 2015). The first phase included work to assess the feasibility of a quantitative evaluation, and the research team submitted a more detailed proposal for this and other work in June 2015. This proposed an extended second phase of the evaluation since it was clear that the original objectives of the study could not be accomplished by December 2015 because of the slower than planned progress of the Trailblazers towards putting in place SIBs.

The proposal for the extended second phase, emphasising objectives 3 and 4, was accepted by the Department of Health with the following revised objectives for the remainder of the evaluation which took place between January 2016 and June 2017:

1. To finalise an analytical framework to help understand the factors involved in the decisions made by the different parties to fund a project through a SIB compared with other approaches to paying for public services;
2. To continue and deepen the description and assessment of the Trailblazers in order to identify obstacles and enabling factors in finalising SIB contracts;
3. To undertake the description and characterisation of the signed SIB contracts in order to unpack their implications in terms of incentives and risk-sharing arrangements for the different parties;

4. To assess whether, and if so, how, the SIB contract mechanism enables achievement of better outcomes than alternative funding mechanisms, with two sub-objectives:
   a. To explore qualitatively how any benefits appear, through in-depth interviews at strategic and operational levels, and, if appropriate and feasible, with service users, including comparative research with other non-SIB funded similar or equivalent services elsewhere in the country to answer the following questions:
      i. What are the roles played by investors in the shaping and delivery of the SIB service?
      ii. How does a SIB change the way providers operate at a strategic level in terms of workforce organisation and performance monitoring?
      iii. How does a SIB change the way providers work at an operational level in terms of the relationships between front-line workers and local managers?
      iv. How and in what ways do the regular outcomes payment schedules affect the work of provider organisations in the periods before payments?
      v. How and in what ways does the SIB change the services received by users?
   b. To explore quantitatively, in sites where appropriate comparators can be identified, whether SIB contracts enable the achievement of better outcomes than other contractual arrangements (e.g. normal P4P contracts or block contracts or cost and volume contracts).

9.2 Summary of the research

The SIB Trailblazers in Health and Social Care

The Department of Health's Social Enterprise Investment Fund provided grants to nine sites in England to support early work to assess whether SIBs could be developed to fund health and social care services. The sites are referred to as the SIB Trailblazers in Health and Social Care. This evaluation, conducted between January 2014-June 2017, followed the progress of each Trailblazer from project development to early implementation (or to project termination), and at one site through to completion of the contracted SIB term. Of the nine SIB Trailblazers, five went on to become operational SIBs while four did not proceed to commission a SIB. The five SIB Trailblazers that were commissioned provided services to a diverse range of service recipients, namely, older people who are socially isolated, people with multiple chronic conditions, entrenched rough sleepers, adolescent children in the care of the local authority and people with disabilities requiring long-term supported living arrangements. The Trailblazers provided preventive and community based services that might not otherwise have been commissioned by local commissioners in the absence of the SIB funding mechanism.

Reasons for not proceeding to a SIB

In the four SIB Trailblazers where a decision was made not to commission an intervention through a SIB financing mechanism, there was no single reason why this occurred. In one, the intervention was re-commissioned using conventional (non-SIB) financing due to an unexpected budgetary surplus. In another, work done as part of the SIB development influenced the design of a new service that was ultimately also commissioned conventionally. One of the proposed Trailblazers did not proceed in the geographic area where it had been pursued because local commissioners were unconvinced about the need for the proposed service. The final project, whilst not commissioned during the evaluation period, still had local champions exploring other (non-SIB) routes for financing the proposed services at the time of writing. It is

worth noting that some informants in the sites that did not develop a SIB suggested that some of the development work as part of the Trailblazer had been drawn on in subsequent (non-SIB financed) programmes elsewhere.

Funding
The Trailblazer SIBs provided 'ring-fenced' funds for interventions, which enabled staff to concentrate their efforts exclusively on each respective intervention. This also permitted commissioners, SIB specialist organisations and providers more time to work together to solve problems of implementation or ongoing service delivery than would have been typical with other approaches to commissioning. This suggests that some of the effects attributed to SIBs may be the product of higher levels of funding available for initial service development and subsequent oversight. Dedicating protected funding to a specific problem and its response is not intrinsic either to P4P programmes or SIBs, and can be undertaken within conventional approaches to commissioning by 'earmarking' funds for a priority service within a service contract. The main obstacle in this case would be how to obtain sufficient funds to meet the upfront costs of service development.

The SIB Trailblazers operated with more stable funding for prime contractor provider organisations (although some providers' contracts were typically shorter than the duration of the Trailblazers themselves to enable the investors to replace or modify the contract for poorly performing sub-contracted providers should this be necessary) and longer-term contracts for the staff delivering the interventions than were present typically under conventional form of financing.

Flexibility and responsiveness in service delivery
The evaluation found that the SIB financing mechanism enabled greater flexibility in terms of both overall management approaches and also in service delivery by allowing, for example, spot-purchasing of items for beneficiaries (e.g. tablets, mobile phones, or public transport travel cards) and individualisation of services by providers in response to client needs in ways that might have been impossible or less likely under more traditional approaches to service commissioning.

Framework for analysis

One of the research objectives was to develop a conceptual framework to use in the evaluation of the SIB Trailblazers. This framework for analysis was developed through a review of the UK and international literature on SIBs (in full in Appendix 1 and see Chapter 3). It differentiates the Trailblazers according to three features:

- Risk and SIB model structure: contractual and financial relationships between the parties involved and risk-sharing arrangements;
- Incentivisation and outcome measurement: incentives faced by providers, investors and commissioners;
- Management style: the effect of management on service delivery.

This analytical approach was employed to develop a typology of the different possible ways in which SIBs can be designed which differed in terms of their risk-sharing arrangements, the incentives faced by providers, investors and commissioners, and the impact of the Trailblazer's management style on service delivery (see section 4.2). The key findings from these three strands are presented below.

Risk and SIB model structure
SIB contracts introduce new actors into commissioner-provider relationships and establish new rules for the governance of specific services. These contracts also distribute risk across actors in new ways.

Through analyses of the five signed SIB contracts, three distinct SIB models were identified:

1. Direct Provider SIB model (London Thames Reach, Manchester TFCO-A)
2. SIB with SPV model (Newcastle Ways to Wellness, Worcester Reconnections
3. Social Investment Partnership (SIP) model (Shared Lives)

Section 4.2 provides more detail on these models. Other models may be present in other SIB programmes.

Risk allocation in practice
SIBs are often presented as an opportunity for commissioners and providers to transfer the financial risk of paying for services that are not effective to private or social investors. However, financial risk was not always transferred from public commissioners or providers to private or social investors in the Trailblazers. Firstly, providers chose to take on financial risks in some cases; this was explicitly and by design under a Direct Provider model. Secondly, there was also evidence of providers taking on financial risk within SPV and SIP with SPV models, which should, in principle, have shifted financial risk from providers to investors. This happened when contract terms allowed providers to be penalised by having finance for service delivery withheld in the event of underperformance against throughput targets. In this sense, the way that contracts were managed created financial consequences for the providers when a service did not perform as planned. However, this kind of financial risk exposure of providers in SIBs with SPV and the SIP with SPV models was lower than that experienced by providers in the Direct Provider SIBs. Moreover, the distribution of financial risk was not entirely fixed by the original contractual relationship, but was subject to change during implementation, partly because of the flexibility with which the SIB specialist organisations responded to underperformance.

Flow of funding from investors to providers
In only one of the five operational Trailblazer sites did all parties agree to share financial data with the evaluation team that were sufficiently detailed and agreed to be reported here. This was the Worcester site. In two sites – Manchester TFCO and Newcastle Ways to Wellness – the local commissioners and service providers were willing to share financial data but the SIB specialist organisation ultimately declined to confirm these data. We have therefore not included these data in the report. The other two sites, London rough sleeping and Shared Lives also did not disclose detailed financial data to the research team. We are grateful to Worcester for sharing their data. We have decided that presenting these data alone would be of limited value, so have not included the analysis of these data in this report. Nevertheless, through qualitative work (analysing the contracts and loan agreements, receiving project updates, and interviews with stakeholders), we are able to report that funds were often paid to providers in the Trailblazer sites in instalments according to their contracts with the investors, based on planned targets for recruitment of specific numbers of clients and other metrics. In three of the Trailblazers, funds were withheld when throughput targets were not met. Since client numbers tended to rise more slowly than planned in the majority of the Trailblazers, not all of the planned funding had been paid to SPVs or providers by June 2017.

Commissioner financial risk mitigation through central Government support
Up to June 2017, the majority of the outcome payments received by SPVs or providers in most of the Trailblazers had come from central government or other national public sources (e.g. the Big Lottery Fund) and a smaller sum had come from local commissioners (the Manchester TFCO-A Trailblazer is an exception with the majority of payments coming from the commissioner). It is likely that the proportion provided by local commissioners will rise in subsequent years across all the Trailblazers due to how the contracts are structured. In all the sites, outcome payments appeared to have been recycled into running the SIB services rather than being taken out as profit by investors. Central government financial support facilitated the initial involvement of local commissioners. Since the SIB Trailblazers represented early, and, in some cases, the first, iterations of SIBs in their respective areas of health and social care, central government financial support for outcome-related payments is aligned with the policy priority ascribed to the development and growth of SIBs by the Government. However, it is important to consider whether this degree of central government and other national body financial support will, or should be, sustained for the next generation of SIBs.

Financial risk compared to the extent of savings and set-up costs
It can take time for potentially realisable net financial savings to be generated by a novel intervention. In some cases, such savings were not expected during the period of the evaluation fieldwork (e.g. Newcastle). In other cases (e.g. Worcestershire), net cashable savings were not expected. By June 2017, of the five operational Trailblazers, just one had reported that it had delivered net savings for a commissioner, though these were lower than the savings expected by that date in the original business case. This was the TFCO-A programme in Manchester. This highlights the sort of service area in which a SIB model can potentially deliver significant savings to a commissioner – i.e. an existing very high cost service which is spot-purchased on a per client basis. However, it is unclear if the Manchester programme will deliver a net saving when the full costs of development and establishment are taken into account.

The absence of obvious financial savings, at least in the first few years, at four out of five Trailblazers, raises the possibility that that successful achievement of outcomes may come at increased cost as far as the local commissioners are concerned, at least in the short to medium term, when set-up costs are taken into account. Considerable initial time and financial costs were reported by interviewees involved in setting up the Trailblazer SIBs, which were not reported by interviewees at non-SIB comparison sites in terms of the cost of commissioning services though other funding mechanisms. The costs of developing a SIB need to be set against any potential savings or better outcomes that may accrue later from more effective delivery of services funded by SIBs (Giacomantonio, 2017). From interviews with staff involved in commissioning and providing similar services on a P4P basis, with and without a SIB, it appears, that the set up costs were reported to be large in the SIB sites (compared to non-SIB commissioning) because of the added legal complexities and time commitment of numerous staff. On the other hand, the SIB Trailblazers were all established from scratch, so one might expect higher initial costs than comparable services being commissioned or funded under approaches in relation to which commissioners have previous experience.

Incentivisation and outcomes measurement

The theory behind the SIB model is that investors are incentivised to achieve some return on their investment, even if it is below a commercial rate of return. Thus, investors in SIBs are expected to encourage a sharper outcome focus within service delivery organisations by specifying, measuring and encouraging providers to focus on improving client outcomes. In at least one Trailblazer, this theory was never intended to operate, since, unusually, the entire 'investment' was in the form of two loans from public sources at fixed rates of interest, almost entirely unrelated to the achievement of pre-specified client outcomes or other performance metrics. One of the two lenders received a very small percentage of one of the five outcomes payments in addition to the 4% interest it received on a quarterly basis for the loan. This unusual arrangement largely protected the 'investors' from the financial risk associated with the provider failing to achieve the outcome targets (unless the provider faced bankruptcy). It also meant that the incentivisation mechanism usually presumed in SIBs was absent.

Within the Direct Provider Trailblazers, the provider organisations had a direct financial incentive to achieve results. In the other two Trailblazer models, providers were paid, at least in part, only if they delivered a certain throughput. Thus they also had some financial incentives to achieve targets, though the targets related to outputs rather than outcomes.

It appears that differences in the allocation of incentives in the different SIB models had implications for the manner of service delivery. This was shown most clearly by comparing one Direct Provider SIB and one SIB with SPV, both of which were contracted to deliver similar services to a similar client population. Interviews with staff at the Direct Provider SIB indicated that managers perceived themselves to be under greater pressure to meet targets linked to payments than in the SIB with SPV, since in the former, the lead provider had assumed greater financial risk for outcomes. There was some evidence from interviews in this site of potential instances of 'parking' difficult cases in favour of focusing staff time on clients that would generate outcomes payments. By contrast, the SIB with SPV model (mostly) isolated the provider organisation from financial risk if targets were not met, thereby generating a different incentive structure. Interviewees' accounts under this model reflected less managerial pressure on front-line staff to change their ways of working with clients in order to meet targets linked to payments, and none of the informants in these sites talked about instances of 'parking'. The front-line members of staff were also less aware of the precise relationship between outcome achievement and financial rewards. Instead, managers in the SIB with SPV model sites had decided that their role was to shield client-facing staff from the direct pressure to achieve particular outcomes. If there were performance issues relating to missed outcomes, it was the job of the managers to plan how to improve subsequent performance, rather than putting direct pressure on staff to take this responsibility. While it can be argued that this was a managerial decision rather than an intrinsic feature of the SIB model, it is nonetheless worth reporting as a behavioural response to a particular SIB model.

In relation to outcome measurement, front-line workers in all of the providers operating in the Trailblazer SIBs were more aware of their targets and the financial implications of both meeting and of failing to meet these, compared to their counterparts in non-SIB financed services. It appeared that the contracts in the Trailblazers enabled a stronger focus on performance through explicit incentives for outcome achievement than was to be found in conventional forms of contracting for public services, resulting in staff being more focused on project goals and more aware of the financial implications of their work.

While the Trailblazers demonstrated greater focus on outcome measurement and had more rigorous data collection and performance management approaches than non-SIB services, it is important to distinguish this collection of management information from robust evidence of effectiveness. Only one Trailblazer tried to use causal attribution through quasi-experimental design to attribute outcomes to the SIB intervention using a matched control group as a counterfactual. There are various reasons for this, including the cost of undertaking outcome measurement using counterfactual approaches that requires causal attribution or quasi-experimental design, and of collecting outcome data at individual client level over time, the research expertise required, data access issues related to information governance in health and social care, and the small size of some of the client groups which precluded meaningful quantitative analysis.

Management style

Only two SIB specialist organisations (one a social investment fund manager and one an intermediary) were involved in the Trailblazers. Both played critical roles in the design of the five Trailblazers and in the implementation and management of four of the Trailblazers (the fifth did not involve a SIB specialist organisation in the implementation and management of the programme). These two organisations displayed both similarities and differences in their overall management styles. Both approached delivery and problem solving with their respective partners in very flexible and largely collaborative ways, searched for unconventional solutions to address underperformance, and demonstrated a willingness to change the service if improvements could be made. Providers were encouraged to develop more extensive oversight of staff performance compared to the non-SIB financed providers studied.

However, one organisation demonstrated a more 'informal' style of management which promoted closer cooperation between commissioners, providers and, to a lesser extent, investors, aimed to engender a culture of 'safe' risk taking together and downplayed the need to minimise investor exposure to the financial risk if providers under-performed against agreed key performance indicators. The second organisation demonstrated a more 'formal' management style that relied more explicitly on contractually established obligations between the different parties, emphasised individual organisational accountability for performance and included a more pronounced willingness to minimise investor exposure to financial risk in the light of provider under-performance against agreed key performance indicators by withholding tranches of investor finance from provider organisations. The more 'formal' managerial style appeared to lead to more pressure on staff in provider organisations to deliver outcomes. It was not possible during the period of the current evaluation to identify which, if either, of these managerial styles is likely ultimately to deliver better outcomes for service users.

Interestingly, the divergence in management style mirrors a broader shift in the discourse used by key informants from the two respective organisations during the period of the evaluation. For one of these organisations, the articulated *raison d'être* of the SIB as a concept was to foster experimentation, collaborative learning and social impact; in this organisation, a focus on 'hard' metrics relating to outcomes and investor returns was secondary. The lack of counterfactual modelling found in all but one of the Trailblazers, and an absence of commissioner savings in all but one of the Trailblazers were not seen as fundamentally problematic from this perspective; rather, issues of attribution and commissioner savings were viewed as subordinate to

the overall learning process and development of innovative ways of working with the potential to counter important social problems. In contrast, the other SIB specialist organisation took the view that SIBs ought to be considered as a mechanism principally devoted to the development of effective PbR schemes. This SIB specialist organisation took the view that a SIB should raise some external funding to enable a service to be delivered on behalf of the commissioners; and that this service should be designed to be at least as effective, and, preferably, cheaper, than that provided previously, thereby generating savings alongside social outcomes and guaranteeing, as far as possible, a return for investors, though not necessarily at a commercial rate.

Further empirical findings

Effectiveness and cost effectiveness of the SIB-funded services

In all sites (both the Trailblazers that proceeded to commission a SIB and the comparator non-SIB sites), there was a unanimous view (from commissioners and providers, and investors and SIB specialist organisations where applicable), that their interventions were having a positive effect on participants. Local evaluations of the Newcastle, Worcester and London Rough Sleeping SIB Trailblazer are available (see Mason et al., 2017; McDaid et al., 2016; Moffatt et al., 2017). The findings of these local evaluations resonate with those from evaluations of other early UK SIBs, which also reported that those involved perceived that the SIB-financed services added value (DWP, 2014; Disley et al., 2015; Sin & Cameron, 2016).

In relation to the question of whether SIB-financed interventions are more effective at lower cost than conventionally procured services (i.e. that they deliver improved social outcomes and cashable savings for the public purse), taking into account the relative costs of the two methods of commissioning, the evaluation team were not able to obtain any of the information needed to answer this question satisfactorily – i.e. information about the cost of the commissioning and contracting process, the costs of delivering the service and individual-level data about effectiveness. We cannot quantify whether SIB contracts enabled the achievement of better outcomes than other contractual arrangements (e.g. normal P4P contracts or block contracts or cost and volume contracts) as we had proposed to do at the outset of the evaluation. This is a significant finding given the importance placed by SIB proponents (at least in the early days) on attribution of outcomes through rigorous counterfactual evaluation and the potential for SIBs to achieve cost savings (Cohen, 2011; Corrigan, 2011; Mulgan et al., 2011; Social Finance, 2011; Cabinet Office, 2012). Eight years from the launch of the first SIB at HMP Peterborough, the only quantitative evaluations of any of the effectiveness of the interventions delivered by UK SIBs are the year one (Jolliffe & Hederman, 2014) and year two (Anders & Dorsett, 2017) analyses of the Peterborough cohort data. As described in Chapter 2 (Methods), Section 2.6., quantitative data were provided by one of the Trailblazer SIBs, the London Rough Sleeping SIB, but these were of insufficient quality to be used in this evaluation to undertake a robust assessment of the effectiveness of that SIB-funded service. In one other Trailblazer site a quantitative comparative analysis of outcomes from the SIB-funded intervention (using routine hospital use data) might have been possible, but this ultimately proved impossible for us to negotiate data access within the timeframe of this evaluation. Evidence of effectiveness may emerge from that site in the future, and possibly from one other, where data are being collected on levels of use of secondary and ambulatory care those who have undergone the SIB-funded intervention and individuals in a control group from elsewhere in the city. A comparative analysis of these data are expected in coming years. At the time of writing, after three and a half years of the Trailblazer

evaluation, during which the evaluation team have looked for data on which to base an assessment of effectiveness of the interventions funded in the Trailblazer sites, and after over two years of SIB operation in four of the five sites, there remains a paucity of quantitative evidence of effectiveness of these SIB financed programmes, either from simple before and after analyses or any kind of counterfactual comparison. This reflects what has been seen in other UK SIBs and their evaluations, which have not been able to acquire the necessary quantitative data on costs and outcomes needed to answer questions about the effectiveness of SIB-funded services in a robust way (DWP, 2014; Sin & Cameron, 2016; Mason et al., 2015; 2017).

Ability of the Trailblazer SIBs to scale up interventions

An explicit claim of SIB proponents relates to the potential for SIBs in scaling up programmes that have a social impact (Social Finance, 2012; Big Society Capital 2017; OECD, 2016; Bridges Fund Management, 2015). To investigate this, Chapter 4 describes how the five active Trailblazer SIBs performed in terms of service user recruitment. The non-SIB financed sites are of limited use as comparators in this particular regard, as scaling up was not a goal of those projects. Among the Trailblazers, Newcastle's Ways to Wellness programme performed impressively against the original recruitment targets agreed by all parties, and to this extent did result in scaling up Social Prescribing Services locally. Manchester TFCO-A did not meet targets for the number of service users recruited, but (as noted in Chapter 4) recruitment compared very favourably with other TFCO-A projects in the UK. Service user recruitment in the Worcester Reconnections project was below target although it should be noted that it was improving at the time of writing and that this was a previously untried intervention, rather than a 'scale up' of previously delivered services. As with the Worcester project, recruitment was below target in both the Lambeth and Manchester Shared Lives projects. Thames Reach, one of London's two Rough Sleeping SIBs, worked with a fixed, predefined cohort of rough sleepers so cannot be evaluated against this criterion.

9.3 The contribution of the current study to the evidence on SIBs

Empirical contribution

The first contribution stems from the fact that that this evaluation was undertaken from an independent perspective and based on empirical data collected from SIBs operating in practice. This is important as, hitherto, much of the literature that focuses on these questions has been produced by interested parties – as we highlighted in the literature review we produced (Fraser et al., 2016), or draws on reports by interested parties and presents arguments for instituting SIBs without strong references to empirical data (Wilson, 2014). This report is the first to describe and compare a number of SIBs (and potential SIBs) and discuss their relative strengths and weaknesses from different actor perspectives. It is also the first UK evaluation to focus exclusively on the potential that SIBs hold for health and social care.

The second contribution stems from the work in this evaluation on risk, SIB model typologies and the management of SIBs undertaken by SIB specialist organisations. This offers new insights into how different contractual arrangements and financial and management models may affect service delivery as a result of: different incentive structures; the interaction between financial, reputational and implementation risk; and different approaches to performance management. This is important to those evaluating future SIB, and to commissioners, providers and other parties considering involvement in future SIBs.

Thirdly, this evaluation makes a contribution as a result of undertaking a detailed investigation into financial flows and outcome payments. It was though this detailed empirical work that we found that the majority of outcome payments come from sources other than local commissioners and that in one of the Trailblazers the 'investment' was a loan at a fixed rate of interest, unrelated to the achievement of pre-specified client outcomes. This is important as it demonstrates that, in practice, SIBs do not confirm to simple market-based narratives about financial incentives for outcomes, and thus the mechanisms through which any specific SIB hopes to improve outcomes for service users should be subject to assessment taking into account the particular contractual, financial and legal arrangements.

Fourthly, this evaluation makes a contribution through examining how outcomes were measured in the Trailblazers and by highlighting the absence of robust data on the effectiveness of the SIB-funded interventions, set up costs and cost savings. It was common in the Trailblazer SIBs for outcome payments to be linked to outputs (such as throughput) rather than outcomes and measurement approaches that would allow causal attribution or quasi-experimental approaches to validate outcomes. At the time of writing, causal attribution was attempted in only one of the sites. We had also hoped to examine quantitative data on the financing of the programmes (where data for these were accessible) and data on cost savings. But by the end of the evaluation period only one of the five sites had shared data with the evaluation team, leading us to make a decision not to report these data.

Finally, this evaluation makes an important contribution by undertaking a qualitative comparison of the experience of staff delivering similar interventions with and without a SIB – an approach that other studies have not employed – and as a result of this identifies some potential 'SIB effects'.

Conceptual contribution

It was an important aim of this research to link empirical study of the Trailblazer SIBs with a study of relevant literatures from a range of disciplines – drawing together thinking about SIBs that have, in the most part, talked past each other to date. It therefore makes a contribution by placing SIBs in the context of a wider body of theoretical literature from public policy, management, business and economic disciplines. The literature review in Chapter 3 identified three distinct narratives in what has so far been written about SIBs. These are termed the' public sector reform narrative', the 'private financial sector reform narrative' and the 'cautionary narrative' (Fraser et al., 2016).

The current research has shown that the Trailblazers were well aligned with the public sector reform narrative in that a central assumption behind all five Trailblazers was that traditional approaches to their respective policy problems were inadequate and that bringing together public, private and third sector organisations to collaborate to develop new ways of solving such problems would deliver better outcomes than the status quo ante (Callanan and Law, 2012). Much was made of the potential these programmes offered to increase and improve performance data collection to support a much stronger managerial focus on outcomes. A significant finding was the centrality of the two SIB specialist organisations in leading these collaborations, and, furthermore, their different managerial styles. The conceptual importance of these different managerial approaches relates to the theoretical debate about whether SIBs represent an extension and potential hardening of the New Public Management

(NPM), as shown by their use of external financial management, a reliance on strictly enforced KPIs and firm contract management (Warner, 2012); or, whether they represent a more neo-corporatist, New Public Governance (NPG)-type of Public Private Partnership (PPP) based on post-NPM principles (Osborn, 2006; Joy & Shields, 2013), less dependent upon the use of process targets (Fox and Albertson 2011, 2012; Fox et al. 2013). The Trailblazer evaluation suggests that SIBs may represent an extension of NPM principles, as some analysts have predicted (Warner, 2012). This was shown by the ***formal approach*** to project management adopted in some of the SIBs. At the same time, the ***informal approach*** identified in other Trailblazers is conceptually more closely aligned to NPG principles (Joy and Shields, 2013). It seems that, depending on the ethos instilled into Trailblazers by the particular SIB specialist organisation (as the catalysing organisation driving local public sector delivery reform), both an 'extended NPM' and a 'post-NPM, NPG', or partnership-based managerial style, may emerge.

The Trailblazers did not appear to align closely to the private financial sector reform narrative which maintains that blending public and private values will offer private sector actors (particularly financial institutions) an opportunity to effect socially worthwhile change through social entrepreneurship whilst simultaneously pursuing commercial interests (Social Investment Task Force 2010; Cohen 2011; Liebman, 2011; Mosenson 2013; Nicholls and Murdock 2012; Moore et al. 2012). Overall, the importance of private finance and investor input (other than how this legitimised the presence of SIB specialist organisations) was relatively small. The extent to which the financial sector reform narrative emphasizes the expertise that new players such as management consultancies and SIB specialist organisations, in particular, may bring by linking public, private, non-profit and voluntary sector actors was strongly identified. The suggestion that these SIB specialist organisations are crucial to the implementation of SIBs (Bafford 2012; Haffar 2014) was borne out in four of the five Trailblazers. It was notable that the lack of SIB specialist organisation involvement emerged as a significant element in three of the four Trailblazers that were not commissioned through SIB contracts, as it was difficult for these Trailblazers to navigate the development process without intermediary assistance to provide bridging funding and to help in building relationships with commissioners. Whilst some SIB specialist organisation actors and investors spoke of their desire to see the SIB market grow – a key aim of SIB proponents (HM Government 2011, 2013; Liebman 2011; Cohen 2011; Clark et al. 2014) – the vast majority of the Trailblazer finance came from organisations that were primarily 'philanthropically or socially minded.' This research found little evidence that the opportunity to invest in the Trailblazer programmes was perceived by more commercially minded private investors as offering a sufficiently attractive new investment opportunity (Wilson 2014).

The picture is mixed when the Trailblazers are assessed according to the cautionary narrative. It is possible to argue that that the ***formal*** management approach pursued by one of the SIB specialist organisations aligns with the cautionary narrative's concern about the imposition of private sector values (e.g. profitability) on the public sphere. Additionally, the reported reluctance of the SIB specialist organisation that pursued this approach to countenance any investment losses aligns with the logic of 'financialisation' in which a private financial return on investment is prioritised (Dowling & Harvie, 2014; Lake, 2015). On the other hand, the ***informal*** approach as pursued by the other SIB specialist organisation in which financial returns for the investor are seemingly less fundamental to the SIB concept appears to have a different ethos that is qualitatively distinct from the 'financialised' logic of SIBs identified by SIB critics (Whitfield 2012; McHugh et al. 2013; Malcolmson 2014; Sinclair et al. 2014). Once more this potential divergence in the evolving logic and thus nature of the SIB emerges.

The cautionary narrative laments the lack of transparency in SIBs compared to traditional contracting (Warner, 2012). Once more, the findings from the Trailblazer evaluation are mixed. The research team managed to access a large selection of contracts and loan agreements (discussed in Chapter 4) from the respective parties (commissioners, providers, SIB specialist organisations). Following initial requests, some of these documents arrived very quickly and seemingly un-redacted; others took more effort to access, and when they did arrive, they were more heavily redacted. Overall, most organisations involved in this research were helpfully open and willing to share financial and other data and to give time to engage with the evaluation team. It must be noted, however, that there are some important data that were not revealed to the evaluation team – sometimes on grounds of commercial confidentiality. Crucially, these relate to rates of return for investors, and the ways in which SIB specialist organisations were reimbursed. This hindered the detailed understanding of risk calculation and financial flows in some of the Trailblazers. This may have real implications for understanding why management styles diverge as they do between Trailblazers. The challenges faced by the evaluation team in gaining access to data raise broader questions about what kinds of transparency should be expected from SIBs, and how this compares to other public sector contracting approaches. SIBs involve commitments to spend public money and should thus be subject to scrutiny around value for money, risk taking and the effectiveness (and even potential harmfulness) of the services they fund. The nature of the interests involved in SIBs, their context dependency and the complexity of the relationships (and the fact that no two SIBs are the same in terms of the technical and legal make-up) appear to make transparency and accountability more difficult.

9.4 The limitations of this study

While making the contributions outlined above, the evaluation was subject to a number of limitations.

Limitations of the analytical approach

Whilst the analytical approach set out in Chapter 3 functioned well, aiding a logical and comprehensive engagement with the qualitative data collected, some limitations with the approach are noted. An important finding from the analysis was that participants perceived a benefit of SIB projects related to the fact that they effectively 'ring-fenced' funds for the development, delivery and improvement of the intervention, particularly in terms of providing dedicated staff. This permitted greater time and space for commissioners, SIB specialist organisations and providers to come together to consider ways to tackle both large and small problems around implementation or service delivery than would have been usual with other approaches to commissioning. This finding did not relate directly to any of the three analytic strands. Yet, is highly significant, as it demonstrates that 'hypothecating' funds to act on a clearly defined social problem, developing specialised networks of individuals to develop services over a sustained period of time (drawing on different skills and backgrounds,) and giving a specific programme a relatively high profile locally is very much welcomed by all parties and it might be more likely to produce better outcomes or at least better quality services through an ability to collect and monitor performance data, and respond to problems emerging with adaptations to the provision. This inference needs to be caveated by the lack of comparative cost data. It may well be that this approach increases as opposed to reduces overall costs. It is also worthy of note that dedicating protected funding to a specific problem and its response is not intrinsic either to P4P programmes or SIBs. It can be undertaken within conventional

approaches to commissioning and reimbursing providers for services. However, under a conventional approach, the main obstacle would be how to obtain sufficient funds to meet the upfront costs of service development.

A second limitation of the analytical approach was that it paid little or no explicit attention to the types of intervention proposed in each Trailblazer; for instance, whether or not the proposed interventions were 'evidence-based', 'research-based' or merely 'promising' (Perkins, 2010; Nutley, Powell & Davies, 2013). These distinctions might affect incentives, risk perception and management styles. Third, the approach is limited in explaining why four of the Trailblazers were not commissioned as the focus on the analytical approach was on operational SIBs. For this reason, the analysis of the non-commissioned SIBs drew on a different approach to explore the reasons behind the ***absence*** of a SIB as opposed to the ***operationalisation*** of one (see Chapter 5 for a fuller explanation of this).

Limitations of the empirical evaluation

As noted already, the inability to access suitable quantitative data to compare costs and outcomes of SIB and non-SIB services for similar clients delivered by similar providers meant that it was not possible to address one of the objectives of the project. It was possible to undertake a qualitative comparison between similar SIB and non-SIB financed projects involving local managers and front-line staff. However, the findings must be interpreted cautiously as these were not 'perfect' comparisons and the number of interviewees in some of the non-SIB sites was small.

A further caveat is that, with the exception of one Trailblazer which ended during the evaluation, the other four operational SIBs were evaluated during their early to mid-period of implementation. It is possible that the performance of these projects will change before they conclude in two to five years' time.

In a small number of the Trailblazers, some informants presented narratives relating to the trajectory of the Trailblazer (both those that were and were not ultimately commissioned) that sometimes conflicted with those of other informants. While it is within the scope of research to attempt to reach a verdict on the basis of the weight of evidence supporting one interpretation of events versus another, in some cases, this was not possible. In these situations, the report presents each of the narratives and identifies the points of divergence.

The relatively small number of Trailblazers and their distinctive profiles made anonymisation of interviewees and other participants an important consideration in the empirical data presentation (see Chapters 6-8 of the report). There was an inevitable trade-off between respecting anonymity and providing detailed contextual information which could have revealed the identity of respondents in the qualitative analysis.

The heterogeneity of the different Trailblazer interventions also made generalisation across the sites difficult. To counter this, the empirical chapters endeavoured to highlight when findings were specific to a particular site, or number of sites and when they seemed more widely generalisable because they were consistent with the intrinsic incentives of SIBs.

Lastly, this study's remit was to provide an evaluation of the SIB as a financing mechanism in commissioning health and social care services in England. It was not to conduct a service evaluation that focused on the impact of the services delivered on

their users. For this reason, extensive service user input was not part of the conduct of the research. However, a review of earlier drafts of the findings by representatives from patient groups was positive about the overall approach taken by the research team. Recommendations from the patient representatives' panel have influenced the writing of the final report.

9.5 Implications for policy and practice

SIBs are unlikely to be applied to a wide range of commissioning situations

The level of political attention paid to SIBs is high relative to their overall contract value. Despite the central government and related funds that have been used to foster the growth of the sector, SIBs are not necessarily a suitable mechanism for many kinds of health and social care, and are likely to be best used for tackling entrenched issues where there is a clearly definable target population and relatively easily measured and attributable outcomes. They are also likely to appeal particularly to public health and care commissioners in situations where there appears to be a reasonable likelihood of being able to identify and realise appreciable financial savings to the public purse as a result of an effective intervention with better outcomes.

SIB specialist organisations add value, but their different approaches prioritise different SIB goals

An important finding is the centrality of SIB specialist organisations to the early design, sometimes the commissioning, and frequently, important elements of the management (both strategic and operational) of the Trailblazers' interventions. This evaluation identified both similarities and divergences in management styles between the two SIB specialist organisations working in the Trailblazers. The divergence appeared to mirror the discourses used by informants in the two respective organisations, with one organisation articulating that SIBs should foster experimentation, and the other taking the view that SIBs should raise some external funding for delivering services, ideally in an effective and cost-saving way. This divergence in approach highlights how the overall idea of what a SIB is, or should be, is imbued with what Smith (2013) terms 'chameleonic' characteristics. The policy has a high degree of strategic ambiguity. This is to say that SIBs are amenable to being framed in 'very different ways to contrasting audiences' (Smith, 2017, p167). SIBs offer different benefits and challenges to each party (commissioner, provider, investor, SIB specialist organisation) and there are different reasons why each of these kinds of organisation might consider a SIB to be the right approach to deliver its specific goals.

A central feature of SIBs is that they can be framed as 'social' innovations to those with a primarily social ethos. At the same time, SIBs can be framed as 'financial' innovations for those who wish to prioritise the harnessing of new forms of non-traditional investment for public service delivery. It could be argued that a properly aligned SIB should only be able to generate the planned financial return if the sought for social outcome improvement has been achieved. Thus, ideally, SIBs seek the 'sweet-spot' where better than conventional social outcomes, cost savings for the commissioner and a consequent financial return for the investor are all achieved, but our analysis (albeit of mainly early to mid-phase projects in health and social care) highlights some of the practical difficulties in reconciling these goals.

It may be the case that the ways in which a SIB specialist organisation is reimbursed for its involvement in individual projects influences the emphasis it places on wider financial or social impacts of these projects and its consequent managerial style (i.e. 'formal' use of contractual clauses that withhold investor payment to providers based upon performance versus more 'informal' ways of improving provider performance). For example, where a SIB specialist organisation is paid through a proportion of overall investment returns, it might be expected to be more prudent in its use of investment funds and thus emphasise a more 'formal' management style. Where a SIB specialist organisation is paid as a performance manager via a block contract, it might have more scope to develop a more 'informal' management style that is more 'hands-on' and less concerned with minimising the financial risk to the investor.

The empirical and conceptual analysis of the Trailblazers suggests that individual SIB projects tend to prioritise one of these agendas (either maximising social impact, or minimising investment risk) over the other in how they operate. While this may be a reflection of the reimbursement incentives facing the SIB specialist organisation, it is conceivable that it may also be influenced by the specific context, the social problem being tackled, the nature of the intervention, the other local organisations involved and so on.

Policy makers may wish to consider the implications of these different emphases when considering future SIB projects in health and social care, and commissioners assessing whether or not to use SIBs may wish to decide whether their priority for a potential SIB is to encourage closer collaborative working, develop greater capacity within third sector *with the risk that the SIB may not necessarily deliver savings*; or if the priority is to deliver savings to the commissioner and a return to investors, even if this means that third sector provider organisations are required or encouraged to take on a greater share of the transferred financial risk. Even if commissioners may hope to achieve all of these elements, the implications of our findings are that to be fully prepared to take on a SIB, they should be aware of a risk that a trade-off might be needed and to agree in advance what that should be.

As highlighted in the interim report (Tan et al., 2015), some actors raised the potential for conflicts of interest in SIB specialist organisations. There are a small number of these organisations and the two involved in the Trailblazers have relatively dominant position in the market for intermediaries and investment management. As described in Chapter 5, such concerns hindered the establishment of SIB contracts in at least one of the four sites that opted not to commission a SIB. However, the market for technical assistance is developing rapidly and it appears from more recent experience (e.g. the Life Chances Fund) that there are many more organisations entering the market. Even so, the lack of an agreed governance framework may be an issue that policy makers wish to remedy.

Attribution of outcomes to the SIB-financed intervention should be prioritised in future projects

While it appears that SIBs, in general, do encourage a stronger focus on measuring outcomes (e.g. projects at least measuring progress against a historic baseline), there is currently a lack of robust quantitative analysis using causal attribution or quasi-experimental design to assess the effectiveness of the interventions funded by the Trailblazer SIBs, and a lack of comparative analysis into SIB-financed interventions compared to the same interventions commissioned without a SIB.

In terms of the effectiveness of the Trailblazer interventions, in some respects, this was due to difficulties within the Trailblazers in accessing suitable outcome data (e.g. from Clinical Commissioning Groups and Local Authorities). In other cases, it was a reflection of the low priority attached to formal evaluation as the basis for calculating and making outcome payments. The Ways to Wellness programme in Newcastle, exceptionally among the Trailblazers, is attempting to evaluate whether the SIB social prescribing intervention will reduce the use of hospital care among people with long term health conditions compared with a control group of patients from another part of the city, thereby enabling verified reduced use of hospitals to generate the outcome payments. However, policy makers may wish to consider the implications for SIB policy of SIB-financed programmes that do not include robust counterfactual quantitative evaluations. This lack of attributable outcome analysis since the first SIB in Peterborough is apparent across most SIBs in the UK. There are undoubtedly practical and methodological issues with the kind of evaluation undertaken in Peterborough (which involved a quasi-experimental method involving the construction of a matched control group) since clearly such assessments are costly and cannot resolve all issues of interest. Some (particularly small scale) SIB-financed programmes may not be amenable to quantitative evaluation through controlled methods due to a lack of statistical power due to small numbers of service users. Nevertheless, the lack of robust quantitative data to evaluate the SIB effect, is somewhat paradoxical given their focus on outcomes, and raises important questions about whether and how SIBs might further evidence-informed policy. As long as SIBs remain experimental and a focus for learning, it may be appropriate to insist that they not only use independent evaluation of outcomes against a counterfactual as the basis of paying for outcomes within the SIB project but also to contribute to the stock of robust knowledge about which sorts of SIBs work for which types of interventions, for which clients and in which contexts.

SIBs need to demonstrate cost-effectiveness

As well as unanswered questions relating to intervention effectiveness, four and a half years into the longer Trailblazer programme, there are also important questions relating to cost-effectiveness borne out by the progress of the Trailblazers. For example, the Trailblazers have thus far demonstrated savings for one commissioner only despite the fact that savings are frequently put forward as part of the rationale for commissioning via SIBs.

A key finding of our interim report related to the transaction costs of commissioning a SIB in health and social care. The report highlighted that commissioner commitments in terms of time and staff resource may increase rather than decrease in some Trailblazers (compared with non-SIB service commissioning) once SIB contracts are signed (see Chapter 4 of the current report). This aligns with the findings of an evaluation of a SIB in Essex (Sin and Cameron, 2016). Extra commissioning costs may, of course, be a good thing if they allow better multi-agency working to be fostered, leading to better services. On the other hand, at present, most if not all health and care commissioners are not financially able to spend more on commissioning even if this leads to more cost-effective services. For example, SIBs involve greater legal costs for charities and commissioners than conventional service commissioning.

Central government money was integral to getting these Trailblazers up and running, as well as covering many early outcome payments. Policy makers might wish to consider the extent to which SIB-financed programmes are likely to reduce or increase overall public spending in the future. Commercial financing of a public project, such as through a SIB, will generally incur significantly higher financing costs

than conventional procurement, especially where the risk of failure is high or hard to estimate ex ante (Giacomantonio, 2017). On the other hand, philanthropies may sometimes be more willing to fund risky projects of which they approve, than public sector commissioners as part of their societal role as promoting innovation. At the time of writing, it appears likely that the Trailblazers have been net cost-increasing. Of course, this does not necessarily mean that they will not eventually prove cost-effective or even cost-reducing in the longer term as they reach maturity.

The choice of SIB model is important since it shapes the allocation of financial risk

In future, the nature and likely allocation of financial risks could be taken into account more explicitly and at an earlier stage by both commissioners and providers interested in developing a SIB, based on the experience of the Trailblazers. For instance, while an SPV takes time to set up, this could be a suitable option for small providers as they are usually shielded from financial risk under this model. This model could also be considered for testing interventions that are thought to be more risky, or untested, because any losses accrue to the SPV, and therefore the investors are the main parties bearing the financial risk. Large providers who are interested in gaining possible surpluses from a SIB could opt for a Direct Provider model in which they bear more of the financial risk of not meeting pre-defined targets, yet can also gain premiums from achieving outcome targets, if successful. Finally, if providers or commissioners intend to scale up (existing) services, a financial advantage of the SIP model is that it involves lower transaction costs for the different parties involved compared to the other models, as once one site has been set up, other sites can relatively easily join an existing SPV.

9.6 Implications for further research

As highlighted in this chapter, a significant weakness in overall understanding in relation to SIBs relates to the paucity of quantitative studies of the effectiveness and cost effectiveness of SIBs versus more conventional forms of finance and procurement for health and social care. To do this well requires access to the same service, provided for the same purpose to the same type of people by the same provider in both 'intervention' (SIB) and 'control' (non-SIB) settings. This is difficult to achieve without designing a genuine experiment, planned explicitly to enable the SIB non-SIB comparison to be made. The Trailblazer programme was not set up to facilitate such rigorous evaluation. Instead, as evaluators we had to make the best of the data available. Better local evaluations should be organised and supported in future as a condition for taking part in a SIB.

A related question is whether, to what extent, and how, the different interventions financed by SIBs should be evaluated. For example, should proposed interventions that might be classified as 'evidence based', 'research based' or merely 'promising' (Perkins, 2010; Nutley, Powell & Davies, 2013) be evaluated in similar or different ways? Cross-sectoral and international comparative analysis of how such issues are explored in other countries may be useful here.

A further stream of research might be concerned with developing a deeper understanding of the divergence in SIB management styles and overall ethos identified in this research. To what extent are such trends identified in other SIB-financed projects? What long-run effects, if any, do they have on provider organisations, their staff, and the quality and effectiveness of their services?

9.7 Conclusion

Reflecting on the data collected across the Trailblazer sites across the three years of this evaluation and the analysis presented in this report, we conclude with some high level, sometimes tentative, indications of which elements of the Trailblazers appear to be contributing to the likelihood of better outcomes in the future and which elements seem to be hindering this. Taken together, they give some indication of actions to encourage and others to avoid when implementing SIBs in health and social care in the future. However, our data do not allow us to answer the question of whether SIBs are likely to be superior to other approaches to commissioning in the service areas chosen by the Trailblazers.

It appears that SIBs have the potential to be a useful health and social care commissioning tool to put in place evidence-informed, or untested interventions for complex problems in specific circumstances. For example, where there are relatively easily measured and attributable outcomes and/or where there are relatively easily identifiable and potentially realisable cost savings. The Trailblazers demonstrate that SIBs can encourage collaborative approaches to the design of interventions (bringing together providers and commissioners alongside new actors such as investors and SIB specialist organisations) and seem well-suited to funding interventions that deliver highly individualised support. This is not to say that other approaches to commissioning could not achieve this if the resources were available for the intensive work required (Disley et al., 2015).

The Trailblazers demonstrate greater managerial attention to, and greater flexibility in, service delivery than was apparent in non-SIB comparator services. SIBs also appear to encourage greater provider focus on demonstrating results and more rigorous collection of performance data. The effective 'ring-fencing' of funds and staff time to dedicate to commissioning specific programmes is helpful. The Trailblazers demonstrate innovative approaches to long-standing problems – such new thinking is welcome. Linked to this, SIB specialist organisations, in particular in the Trailblazers, challenged institutional norms and championed new methods and models of delivery. Some of the Trailblazers encouraged evidence-based interventions (e.g. Manchester TFCO-A), or research-based interventions (e.g. Newcastle Ways to Wellness Social Prescribing Service) and are thereby generating useful knowledge and learning about the applicability of such interventions in different contexts. Other Trailblazers offer the space to develop the economic case for new untested interventions to explore what might work in tackling stubborn social problems (e.g. Worcester Reconnections). Finally, the Trailblazers also offer longer-term planning and relative financial stability for some of the third sector provider organisations involved.

The research identified other elements that appear to reduce the odds of improving outcomes. The monetisation of process targets and social outcomes can clash with the professional values of third sector provider organisations and some of their staff. This may lead to increased managerial pressure on staff to perform in particular ways, resulting in staff alienation, 'gaming' and increased staff turnover in some instances. Somewhat overly optimistic client recruitment rates and performance targets exacerbated these problems in some sites. Misunderstandings between partner organisations about risk allocation, access to finance and the implications of underperformance may lead to inter-organisational turbulence. Accessing and interpreting data were contested in a small number of Trailblazers with implications for assessing performance and inter-organisational trust. The Trailblazers seem to operate, at least in health and social care so far, with less reliance on outcome data than might

have been expected given the emphasis given to the focus on paying for outcomes in the justification generally given for SIBs. The absence of outcome and costs data at this point in time limits the extent to which they can be independently evaluated.

Whilst SIB specialist organisations can be credited with getting five of the Trailblazers that eventually started off the ground, and in four of the five, facilitating project management and problem solving, there are some transparency issues associated with the costs associated with their roles in contracting and delivering a SIB, that policy makers should be aware of before they enter into such contractual arrangements.

It is noteworthy that the Trailblazers in practice appeared to depart from the original idea of an outcome-focused, investor-driven model of commissioning and paying for public services that deliver cashable savings (Cohen, 2011; Corrigan, 2011; Mulgan et al., 2011; Social Finance, 2011; Cabinet Office, 2012) in the following significant ways. Firstly, at least so far, payment to investors by commissioners on the basis of outcomes was relatively little emphasised, compared with achievement of other performance targets such as recruitment or throughput of clients. Secondly, in four of the five Trailblazers, there was no outcome analysis against a counterfactual, thus it was impossible to judge robustly whether the outcomes achieved were a product of the SIB-financed intervention or not. Thirdly, provider organisations took on varying levels of financial risk (rather than the investors exclusively) since they were remunerated, in part, on the basis of performance, including on outcomes achieved. Fourthly, in one Trailblazer, some of the upfront investment was not outcome-contingent but provided as an interest-bearing loan to the provider from public sources.

It is important also to highlight that the upfront investment in the Trailblazers came from philanthropies and socially minded investors rather than purely commercial investors (this is similar to SIBs in other sectors in the UK). Additionally, at least so far, outcome payments were typically re-invested in the intervention/service rather than taken as profit by the investors (this relates to the nature of the investors, above). A large proportion of these outcome payments (where relevant) were typically paid not by local commissioners from savings generated by client outcome improvements but by central government and national charities such as the Big Lottery on a variety of bases in most Trailblazers (the Manchester TFCO-A Trailblazer may be an exception). Finally, we find that the ability to make cashable savings as a result of successful interventions was not always a prominent consideration in the design or implementation of the Trailblazers overall.

Ultimately, the Trailblazer evaluation shows that the practice and thus the concept of a SIB, and what it should be, continues to evolve with different voices emphasising different aspects of the activities which take place under its auspices. This leads to differences of view as to whether a SIB should even be considered as a financing instrument at all rather than simply an approach to local partnership development designed to improve the specification and delivery of responses to embedded social problems. For example, the third Trailblazer model identified in the current study (referred to as the Social Investment Partnership) would not qualify as a SIB according to some definitions because it does not include any investor payments based on the achievement of pre-specified social outcomes. This, in turn, potentially alters the basis of judging the success or otherwise of the SIB approach, though it should still be possible to assess the extent to which any of the SIB models improves people's lives and by how much compared with more conventional approaches to commissioning services and the overall cost implications of doing so.

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