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Evaluation of the Social Impact Bond

Lessons from planning and early implementation at HMP Peterborough

At a time when government finances are stretched there is growing interest in finding new ways to fund public services and improve social outcomes.

Under a “Social Impact Bond” (SIB) funding is obtained from private, non-government investors and is used to pay for public services – for example, to reduce reoffending or to improve health outcomes. If these SIB-funded services succeed in improving outcomes amongst their target group this should result in savings to government – from reduced demand on services such as prisons and hospitals – as well as wider benefits to society. As part of a SIB, the government agrees to pay a proportion of these savings back to the investors as a return on their investment. If outcomes do not improve, investors do not receive a return.

RAND Europe was commissioned by the UK Ministry of Justice to evaluate the world’s first SIB. Implemented in a prison in Peterborough in the east of England, it aims to reduce reoffending by prisoners who have served short custodial sentences (of less than 12 months). RAND Europe’s evaluation will be conducted over the lifetime of the Peterborough SIB – potentially until 2018. It looks in detail at how the SIB operates and at the services it delivers to offenders on release from HMP Peterborough.

The first report from RAND Europe’s evaluation, published in May 2011, identifies early lessons from the SIB. In doing so it informs the development of other payment-by-results pilots under consideration by the Ministry of Justice, other government departments and other countries. The report is based on the findings from interviews with individuals from the organisations involved in the development and implementation of the SIB at Peterborough.

The evaluation

Outcome measures

Outcome measures in the Peterborough SIB aim to:

- allow change in reconviction events to be attributed to the SIB-funded intervention

Abstract

A SIB is a new way of funding public services. By using investment from private individuals and charities, a SIB removes the upfront costs of service delivery from government. This means that private investors, rather than government, bear the financial risk of paying for services which turn out to be ineffective. A SIB is a form of payment by results, but unlike some payment-by-results mechanisms, service providers are paid upfront. This may allow greater scope for not-for-profit and third sector organisations – who could otherwise not bear the financial risk of payment on a results basis - to play a role. In the Peterborough SIB, a financial intermediary called Social Finance obtained approximately five million pounds of investment funding from foundations and private individuals. If reconvictions amongst ex-prisoners receiving SIB-funded interventions fall by 10 percent or more (compared to a matched control group) the Ministry of Justice, with support from the Big Lottery Fund, will make an outcome payment and investors will have made a return on their investment.

- reduce incentives for providers to “cherry-pick” and work with offenders who are the easiest to engage
- ensure statistical significance (that changes identified in reconviction events are more likely to be due to the SIB-funded interventions than due to chance)

The development of a methodologically robust outcome measure, which had the confidence of all stakeholders, was a time-consuming and analytically complex process. Those involved in future SIBs and payment-by-results arrangements may wish to take into account the time and skills needed to develop robust outcome measures.

Payment model

Working out what the Ministry of Justice and the Big Lottery Fund would pay for reduced reconviction amongst Peterborough cohort

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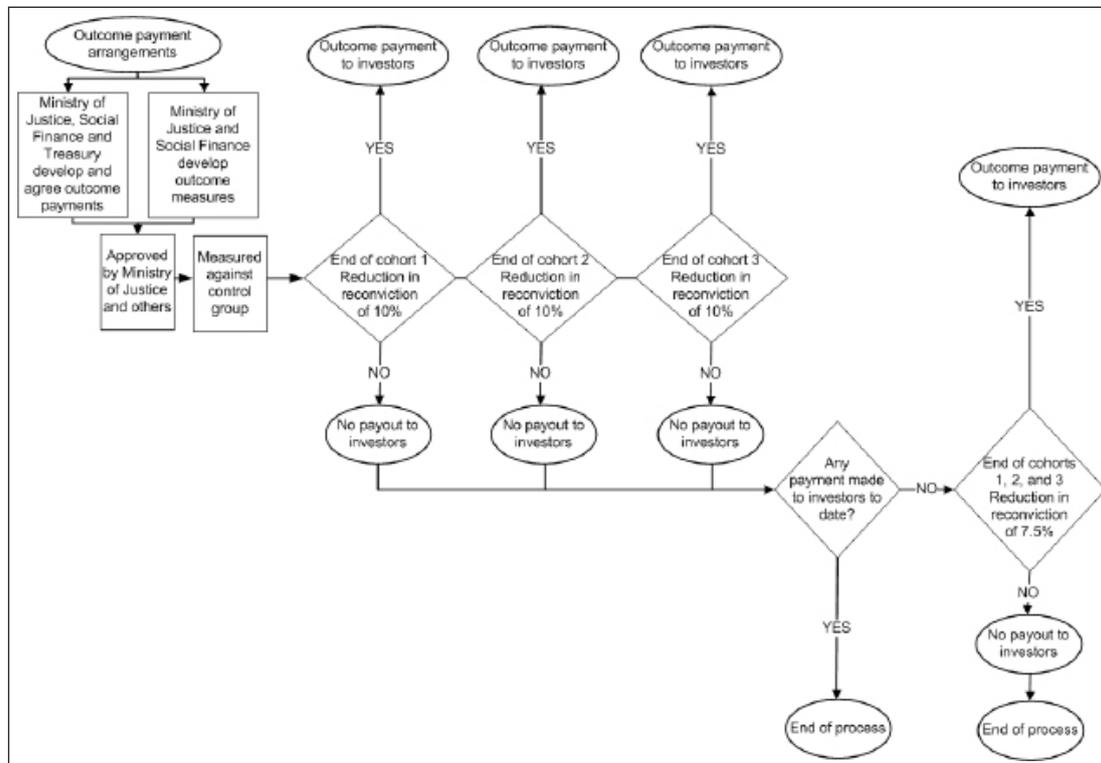


Figure 1: Process map of financial processes in the Peterborough SIB

demanded considerable analytical resources. It relied upon the availability of Ministry of Justice data about the cost of reconviction events. These calculations are central to whether the SIB represents value for money for government. Those developing new SIBs and other payment-by-results mechanisms may wish to consider the extent to which similar cost data are available.

The ability of the SIB model to lead to identifiable savings for government is yet to be tested. This could only occur if the SIB model was implemented on a larger scale.

Future SIBs may face the challenge of sharing outcome payments across central and local government departments or other agencies. In the Peterborough SIB only the Ministry of Justice (supported by the Big Lottery Fund) will contribute to outcome payments. However, other departments, for example Health or Work and Pensions, could still potentially

benefit through the provision of SIB-funded services.

Investment

Social Finance readily secured the necessary investment in the Peterborough SIB. There appeared to be a strong appetite for “mission-aligned” investment.

Investors’ motivations included the desire to support an innovative funding mechanism, to support offender rehabilitation and to encourage smaller providers. Future SIBs and payment-by-results pilots may consider how to similarly attract investment.

The evidence RAND collected suggests that the Peterborough pilot has attracted *new* funding, but future SIBs and payment-by-results pilots should monitor whether funding is diverted from existing spending – checking “additionality” of funding. ■

Further reading

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