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TECHNICAL
REPORT

Lessons learned from the planning and early implementation of the Social Impact Bond at HMP Peterborough

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Prepared for the Ministry of Justice

RAND EUROPE

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Preface

This report was produced for the Ministry of Justice and sets out findings from the first phase of the independent evaluation of the Social Impact Bond at Peterborough. It is available on the Ministry of Justice website: www.justice.gov.uk/publications/research.htm, and is posted on the RAND Europe website with permission from the Ministry of Justice.

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Summary

The aim of this report is to identify early lessons from the development and implementation of the Social Impact Bond (SIB) at HMP Peterborough. Such lessons may inform future SIBs or wider payment-by-results (PBR) pilots under consideration by the Ministry of Justice and other government departments.

This is the first output of an independent evaluation of the Peterborough SIB commissioned by the Ministry of Justice. It is based on the findings from interviews with 22 individuals from organisations involved in the development and implementation of the SIB at Peterborough. The interviewees were well-informed about the SIB, having been closely involved in its development. However, given the early stage of development of the Peterborough SIB, we are unable to draw conclusions about or comment on outcomes. Furthermore, because the interviewees' expertise relates specifically to their experience of Peterborough, we raise issues and potential lessons for other SIBs and initiatives, but are cautious in attempting to generalise lessons from the interviews for wider roll-out of SIBs or other PBR arrangements. Rather, this report is a first step towards developing a more robust evidence base on this new funding mechanism and raising some of the issues that this stage of the research has surfaced. Therefore, we have gathered and independently reported the views of key individuals involved in the development of the SIB, drawing out where possible potential lessons for wider roll-out.

A SIB is a form of PBR, potentially benefiting a range of stakeholders.

- **For government** a SIB aims to remove the financial risk that government pays for services that prove to be ineffective at addressing social needs and improving outcomes. Also, in a SIB it is a delivery agency or intermediary, rather than government, that commissions service providers.
- **For investors** a SIB offers a 'mission-aligned' investment opportunity, as well as potential return on investment.
- **For service providers** a SIB provides upfront funding for the delivery of services (so they do not carry the risk of not being paid).
- **For the public and service users** funding raised through a SIB may pay for services that fill a gap in existing provision.

Contractual arrangements

Interviewees perceived contractual relationships behind the Peterborough SIB to be complex. This is understandable, given the novelty of the SIB at Peterborough, and the need to

capture methodologically detailed arrangements for determining outcomes and payments. The nature of the legal relationships between the parties to the Peterborough SIB may provide, in part, a transferable model for future SIBs in offender management or other policy areas.

Investment

The SIB at HMP Peterborough provides an opportunity to test the concept of a payment-by-results model which raises funds through, and shifts risk to, non-governmental investors. Funding for the SIB at HMP Peterborough is largely from foundations and charities. Features of the Peterborough SIB which may have attracted investment include trust in Social Finance (the financial intermediary) and the service providers commissioned by Social Finance, the desire to support a potentially innovative, emerging funding mechanism, and alignment with a charitable interest in criminal justice and offender rehabilitation.

There was an appetite for mission-aligned investing among the charitable organisations interviewed for this report. Many of the charitable investors in the Peterborough SIB invested using their endowment capital rather than by giving a grant. Measures which might encourage investment in future SIBs and other PBR pilots include clarifying trustees' fiduciary duties as regards social investments and offering tax incentives for investing.

The Peterborough SIB appears to have attracted some new sources of funding. A SIB aims to provide new funding to deliver public services, and some of the investors in the Peterborough SIB had not previously funded criminal justice interventions. Those developing and operating future SIBs may wish to monitor the additionality of funding.

Risk transfer

Interviewees believed that financial risks appeared to have been successfully transferred from both the Ministry of Justice and small providers to the private investors. However, at this early stage the success of assigning risk in the Peterborough SIB contracts is yet to be tested. All parties involved bear some reputational risks from participation in the world's first SIB. For providers (which are paid upfront and not by results in the Peterborough SIB) this may provide an important motivation to perform well.

Delivery agencies or intermediaries

The ability of Social Finance to engage and negotiate with different stakeholders appears to have enabled development of the Peterborough SIB. Interviewees from the Ministry of Justice said it is likely that if there are SIBs in the future, the delivery agency will be appointed by competitive tender. The range of skills associated with a successful intermediary may include technical skills (in negotiating contracts), financial knowledge, expert knowledge (or the ability to get up to speed quickly) in the relevant policy areas, and skill to negotiate with a range of stakeholders including the government, investors, and local organisations and agencies potentially affected by implementing a SIB.

Commissioning

The Peterborough SIB potentially involves a new commissioning relationship. In other payment-by-results arrangements, government has tended to maintain some control over the selection of providers. In the Peterborough SIB the government leaves that selection to

an intermediary (such as Social Finance in the Peterborough SIB) and has no direct relationship with the service provider.

The Peterborough SIB raises questions about the role and quality of evidence demanded by intermediaries and investors. In selecting organisations to provide SIB-funded services, investors and intermediaries have an interest in selecting those who can provide evidence of their effectiveness. Future SIBs might test whether such robust evidence is available, and how it features in investors' decision making.

Outcome measures

The Peterborough SIB tests whether and how, in this instance, stakeholders can develop feasible and suitable outcome metrics in the area of offender interventions. The development of a methodologically robust outcome measure, which had the confidence of all stakeholders, was a time-consuming and analytically complex process. Future SIBs and/or PBR arrangements in new policy areas may wish to take into account the time and skills needed to develop outcome measures.

Statistical significance and attributing change to the SIB-funded intervention were crucial elements in negotiation of the outcome measure for the Peterborough SIB. These measurement issues are likely to be central in future SIBs and other PBR mechanisms in offender management and other policy areas. There is a balance to be achieved between the robustness of the outcome measure and time, simplicity, resources and data availability.

The design of the Peterborough SIB aims to reduce incentives to 'cherry-pick'. A risk in PBR models is that providers focus on members of the target group who are the easiest to help. In Peterborough, outcomes are measured among all offenders discharged from HMP Peterborough, rather than just those who engage with SIB-funded services. Furthermore, frequency of reconviction is measured as the key outcome rather than a binary measure of whether offenders were reconvicted or not. However, if the approach were rolled out nationally, there could be incentives to 'cherry-pick' by prison or area.

Outcome measurement in the Peterborough SIB relies upon a comparison with a control group, but this cannot be rolled out nationally. If all short-sentenced prisoners received SIB-funded interventions, there would be no control group with which to compare the effects of the intervention. Future SIBs must develop and test other ways of measuring counterfactuals (for example, before-and-after measures).

Payment model

The Peterborough SIB tests whether and how, in this instance, stakeholders can agree upon a payment model. Development of the payment model demanded considerable analytical resources and relied upon the availability of Ministry of Justice data about the cost of reconviction events. Those developing new SIBs and other payment-by-results mechanisms in new policy areas may wish to consider the extent to which robust cost data are available.

The Peterborough SIB is likely to provide the first evidence of the performance of SIBs as a new kind of financial product, at least in the area of offender interventions. Developing a track record of investment is crucial to building an investor base and improving understanding of outcome risk.

The Peterborough SIB is too small to deliver substantial 'cashable' savings (monetised benefits). The ability of the SIB model to lead to identifiable savings for government is yet to be tested, if the SIB model is implemented on a larger scale.

Future SIBs may face the challenge of sharing outcome payments across central and local government departments or other agencies. Outcome payments are made by the Ministry of Justice and the Big Lottery Fund in the Peterborough SIB, but potentially a range of local and national government departments could benefit.

CHAPTER 1 Introduction

This report presents the findings of interviews with 22 individuals involved in the development and implementation of the Social Impact Bond (SIB), launched at HMP Peterborough in September 2010. It draws on stakeholders' experiences of this process to identify, where possible, early lessons from this SIB which might usefully inform future SIBs or other payment-by-results (PBR) pilots under consideration by the Ministry of Justice and other government departments.

Given the early stage of development and the reliance on stakeholder views and experiences to date (we did not interview individuals who were outside the process or who had not been involved in the development of the SIB), this document represents some first steps on the path to developing an evidence base on SIBs.

1.1 What is a Social Impact Bond?

Payment by results allows the funding of public services whereby government pays for services if and when they show improvements in defined and measured outcomes for their target group. In previous PBR arrangements it is the service provider that is paid by results.[1] However, there has long been concern that some, especially smaller, providers (who may be well-placed to deliver services that respond to the needs of their local communities) may be unable to bear the upfront costs of providing services under PBR schemes (see for example, Community Links, 2010).

A SIB[2] is a form of PBR. In a SIB, investment funding is obtained from private, non-government investors to provide upfront funding for the provision of interventions to improve social outcomes. If these programmes succeed in improving social outcomes, this could result in savings to government (which will not need to pay for services that otherwise would be used by individuals with poor social outcomes) and wider benefits to society. As part of a SIB, the government agrees to pay a proportion of these savings back to the investors. If the outcomes do not improve, investors lose their investment.

[1] For example, the Department for Work and Pensions held outcome-based contracts with private and voluntary providers in the provider-led Pathways to Work Initiative (Hudson, et al., 2010).

[2] While this term has now been widely adopted to describe the current initiative, the term 'bond' is not entirely accurate as the payment is not guaranteed. Social Finance describes it 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, 2010c).

As a form of payment by results, a SIB has the following potential benefits for different stakeholders.

- **For the government** – a SIB is a form of payment by results which removes the upfront costs of service delivery from government and shifts the financial risk to private investors, who lose their investment if interventions do not improve outcomes (Social Finance, 2010e, p. 53).
- For **service providers** – unlike other PBR mechanisms, service providers are not paid by results and do not bear the risk in the SIB. Providers are paid upfront, which provides opportunities for not-for-profit and third sector organisations, which could not bear the risk under traditional PBR arrangements, to deliver services. Another way in which SIBs are different from other PBR schemes is that under a SIB, several different providers can deliver services that contribute to improved outcomes.
- For **investors** – SIBs offer a new investment opportunity with a 'blended return' (Mulgan, et al., 2010); investors receive some financial return but also value the social returns on their investments.
- For **society** – SIBs may improve outcomes and quality of life by funding service provision where there previously was none. It is claimed (New Philanthropy Capital, 2010) that SIBs might be particularly used to fund preventative interventions, or other kinds of service delivery which governments might not prioritise for funding – especially in a time of limited resources.[3] In a SIB the government is not prescriptive as to the way in which services are delivered; it is hoped this may encourage innovation in service provision. Further, in some of the literature on SIBs it is suggested that private donors and organisations may be willing to consider more innovative and/or riskier projects than government is likely to fund (Loder, et al., 2010). Whether SIBs will encourage innovation is as yet untested, and is something which will be explored in later stages of this evaluation.
- For **service users** – some groups, including offenders, may be less attractive beneficiaries for both charitable giving and government spending. SIBs may raise funding to deliver interventions to these groups (Loder, et al., 2010).

1.2 The world's first SIB at HMP Peterborough

In September 2010[4] the Ministry of Justice entered into a SIB mechanism for funding public services (Gurria, 2010; Strickland, 2010). Social Finance,[5] a financial intermediary,

[3] Preventative programmes such as early childhood interventions may take years for their effects to be realised, meaning that investors have a long wait for return on investment

[4] This is the date of the launch – the contracts for the Peterborough SIB were signed in March 2010.

[5] 'Social Finance is a London based organisation created in 2007 with the express aim of developing an effective social investment market in the UK. The organisation provides access to capital and advice to investors and social sector entities interested in delivering significant social impact' (Ministry of Justice, 2010c)

obtained approximately £5 million of investment funding from private individuals and charities. This fund is being used to pay for interventions for offenders serving short prison sentences (less than 12 months) at HMP Peterborough. Currently, short-sentenced adult offenders are not given any statutory supervision by the Probation Service on release from prison.

The Ministry of Justice has appointed[6] independent assessors from QinetiQ and the University of Leicester to undertake data analysis in order to determine whether offenders who receive interventions on release from Peterborough are reconvicted less than similar 'matched' offenders from other prisons who do not have access to SIB-funded intervention. If members of the Peterborough cohort are reconvicted[7] less than offenders in the comparison group in the year following their release from prison, then the SIB will have entailed benefits for the Ministry of Justice and wider society, in the form of improved outcomes for the offenders and for their communities, which experience less crime. In addition, there will be benefit to the government which, in theory, will have saved money through reduced costs of policing, court cases, prison places, and so on. If the independent assessor calculates that reoffending has reduced by at least 10% for each cohort, compared with a matched comparison group, the Ministry of Justice and the Big Lottery Fund have undertaken to pay a return on investment to investors for this improved outcome.

For the Ministry of Justice, the aims of the SIB at Peterborough are as follows:

- to test the concept of payment by results and provide lessons to inform future PBR projects. In addition to the SIB at Peterborough, the Ministry of Justice has committed to pilot other PBR programmes across the country for the rehabilitation of offenders on community sentences and for short-sentenced prisoners (Ministry of Justice, 2010a, p. 42); and
- to (potentially) reduce reoffending by short-sentenced prisoners.[8]

1.3 Aims of this evaluation and of the report

The Ministry of Justice has commissioned RAND Europe to conduct an independent evaluation of the SIB at HMP Peterborough. This evaluation is conducted separately to, but in co-operation with, the work of the independent assessor who is responsible for examining reconviction events among the cohort and matched comparison group.

The key research questions for this evaluation are as follows.

1. What were the strengths and weaknesses of the SIB contractual model as implemented?

[6] The independent assessors were contracted via a competitive tendering process and with the approval of Social Finance

[7] In the SIB at Peterborough the outcome being measured is reconviction events – the number of times that an offender receives a conviction in court. Reconviction is a proxy measure for actual reoffending.

[8] Outcome payments are to be made by the Ministry of Justice and the Big Lottery Fund.

2. To what extent – and how and why – did stakeholders feel that the SIB led to greater innovation and/or efficiency?
3. How, if at all, did the pilot lead to better outcomes of reduced reoffending? The focus of this evaluation is the operation and process of delivering SIB-funded interventions, rather than determining whether or not outcomes changed, although we will draw upon data produced by the independent assessor about reconviction events.
4. How did the actual economic costs and benefits of the SIB compare to those stated in the business case? Using data about reconviction events produced by the independent assessor we will conduct an economic analysis.
5. What does this pilot tell us about the viability of further payment-by-results models in offender management, and how these should be designed or managed?

This report is the first output of the independent evaluation and primarily contributes to answering questions (1) and (5). The aim of the report is to identify any initial lessons from setting up the SIB at Peterborough which may inform future SIBs or wider PBR pilots under consideration by the Ministry of Justice and other government departments. Later stages of the evaluation will address the other research questions, as well as providing further evidence in relation to questions (1) and (5). The second report from the evaluation will follow once data are available from the independent assessor on the reoffending outcomes relating to the first cohort of offenders.

1.4 Research approach and limitations

Key informant interviews

This report is primarily based on semi-structured interviews with 22 stakeholders and key informants from the Ministry of Justice, Social Finance, the National Offender Management Service (NOMS), HM Treasury, the Big Lottery Fund, HMP Peterborough and the St Giles Trust. We also interviewed three representatives from organisations who had invested in the Peterborough SIB (see Table 1). These interviews were conducted in December 2010 and January 2011 (the interview protocol is included in Appendix B). As indicated in the protocol, we explored some topics in more depth with some interviewees than with others, according to their role in the development of the SIB. However, we allowed and encouraged interviewees to raise and respond to a range of issues, including those outside their particular role in the development of the Peterborough SIB.

Table 1 List of interviewees

Interviewee number	Organisation	Role
1	National Offender Management Service (NOMS) East	Regional Manager for Commissioning
2	St Giles Trust	Director
3	Ministry of Justice	Senior Civil Servant
4	Social Finance	Director
5	Social Finance	Director
6	National Offender Management Service (NOMS) East	Director of Offender Management
7	Ministry of Justice	Policy Advisor
8	Ministry of Justice	Representative from Analytical Services
9	Big Lottery Fund	Deputy Director
10	Treasury	Member of Home and Legal Spending Team
11	Ministry of Justice	Senior Civil Servant
12	National Offender Management Service (NOMS)	Director of Service Development
13	Ministry of Justice	Representative from Procurement
14	St Giles Trust	Head of Community Services
15	St Giles Trust	Community Services Manager
16	Panahpur	Investor
17	Social Finance	Reducing Reoffending Director
18	HMP Peterborough	Director
19	HMP Peterborough	Deputy Director
20	LankellyChase	Investor
21	HMP Peterborough	Former Director (Director at the time of SIB development)
22	Esmeé Fairbairn Foundation	Investor

The focus of this research was on the experiences and views of a sample of those involved in this first SIB. We interviewed at least one person (and in several cases, two or three people) from each of the organisations and stakeholder groups that we had identified as being involved in the development of the SIB. While we aimed through this process to capture a range of perspectives, we are not able to say how representative our interviewees were of their organisation.

Given the constraints of resources and scope agreed with the commissioning team, we did not interview other potential stakeholders who were not involved in developing the SIB and who may have provided a different perspective. In addition, this report does not include the perspectives of service users.[9]

As an evidence base, key informant interviews have strengths and weaknesses. On the one hand, given that this is the first SIB to be developed and implemented, those involved in its development have specialist knowledge based on their unique experiences. On the other hand, inevitably they are partial, given their close involvement.

The interviews were audiotaped and fully transcribed. The interviews were analysed independently by three members of the research team. The starting point for our analysis was the top-down themes drawn from the key research questions. We then returned to the transcripts and took a more bottom-up approach, looking for ideas, issues, information, successes and concerns which the interviewees raised but which did not correspond to

[9] For further discussion of the approach and methodology, see Appendix A.

particular research questions. We drew up a long list of these topics, issues and ideas and discussed them at an internal synthesis workshop. We considered three aspects:

- whether the issue or idea has relevance to an implicit or explicit theory of the operation of the SIB;
- whether the issue or idea raises a barrier or facilitator to implementation and success not previously identified; and
- whether the idea was relevant to applying the SIB to wider criminal justice or other policy areas.

Across the stakeholder groups there was a considerable degree of consensus, both in the accounts of how the SIB was developed (and the organisations involved in and driving this), and regarding the risks and benefits of the SIB. During the later stages of this evaluation we will revisit these views and explore change and any divergence over time.

Review of contracts

In addition to conducting interviews the research team viewed some sections of the redacted contract between the Ministry of Justice and Social Finance. This provided an independent verification of factual information about the outcome measures as well as some information about the relationship between Social Finance and the Ministry of Justice.[10] However, the research team did not see other contracts (see Figure 1 for an overview of the contractual processes).

Descriptive statistical analysis of Police National Computer data

We were provided with data by the Ministry of Justice from the Ministry of Justice's extract of the Police National Computer. This data provides information about the age and ethnicity of offenders in the Peterborough cohort as at March 2011. In addition, comparative data on a national sample of short-sentenced offenders discharged from prisons nationally in the first quarter of 2008 (the most recently published data) was provided by the Ministry of Justice.

Review of the limited available literature on SIBs

While we reviewed publications by the Ministry of Justice and Social Finance, there is as yet little written on SIBs. As the first example of this funding mechanism there are no other experiences or examples with which to compare the Peterborough SIB.

Of course, we recognise that there is a considerable literature on and experience of payment-by-results initiatives in the UK and abroad. However, within the timeframe and budget for this first phase of the research, our remit was not to review this but to gather specific learning from stakeholders involved in the early implementation of the SIB, rather than to identify wider and potentially transferable lessons from other experiences of PBR, private finance, and so on.

[10] The contract was redacted to protect commercially sensitive information.

1.5 What can the Peterborough SIB test, and what are its limitations?

Given that the aim of this report is to identify, where possible, lessons from the set-up of the SIB at Peterborough which might inform future SIBs and other PBR pilots, it is helpful to outline those issues which can be tested by the Peterborough SIB, and those which cannot.

The Peterborough SIB might be thought of as a 'proof of concept' of this form of PBR rather than a pilot, because there are some questions and issues which the Peterborough SIB will not be able to test.

We identify the following five key areas in which the Ministry of Justice may be able to draw lessons from the Peterborough SIB for the wider roll-out of PBR models.

1. The SIB at HMP Peterborough provides an opportunity to test the concept of a PBR model which raises funds through, and shifts the risk to, private, non-governmental investors.
2. The Peterborough SIB tests whether and how, in this instance, stakeholders can develop feasible and suitable outcome metrics in the area of offender interventions, and agree upon a model to pay if outcomes are improved according to those metrics.
3. The Peterborough SIB may provide evidence of the performance of SIBs as a new kind of financial product, at least in the area of offender interventions. Developing this track-record of investment will be crucial to building an investor base and improving understanding of outcome risk, all of which is necessary to open up a larger pool of capital.
4. The Peterborough SIB potentially involves a new commissioning relationship. In other payment-by-results arrangements, government has tended to maintain some control over the selection of providers, whereas in the Peterborough SIB the government leaves the selection to an intermediary (such as Social Finance), and has no direct relationship with the service provider.
5. Although the intervention funded by the SIB at Peterborough (mentoring offenders) itself is not new, the SIB is an opportunity to test the impact of working intensively with short-sentenced prisoners. It is an opportunity to begin to build a robust evidence base on whether and how this was effective.

We identify the following as some issues which cannot be tested in the Peterborough SIB.

Outcome measurements relying on comparison with a control group cannot be rolled out nationally

Improved outcomes among the Peterborough cohort are measured by comparison to a matched control group which is not receiving the intervention. If every short-sentenced prisoner in England and Wales could be part of a SIB, there would be no control group with which to compare. Therefore, any future SIBs and PBR projects might test other ways of measuring counterfactuals (for example, before-and-after measures).

A small-scale SIB will not deliver substantial cashable savings

Clearly, while there are other good reasons for seeking to improve outcomes for the target group in this SIB, the SIB model is based on the premise that the interventions funded will deliver cashable savings to government within the period of the bond (Social Finance, 2010e, p. 52). The SIB at HMP Peterborough is not likely to result in substantial cashable savings to the Ministry of Justice or other government departments, which can be achieved only through significant reductions in the prison population or the number of court cases, etc. Of course, there are other, non-cashable benefits to the public and victims if the Peterborough cohort reoffends less, in which the Ministry of Justice is interested. There is also the benefit of testing payment by results at a time of great pressure on public sector budgets.

Future SIBs face the challenge of sharing outcome payments across the central and local government departments and agencies that accrue savings

If reoffending within the Peterborough cohort is reduced, departments other than the Ministry of Justice could make savings – for example, health services or the Department for Work and Pensions. In addition, local agencies – for example, the police – might see a reduced workload.

The SIB at Peterborough does not test whether and how different departments can share outcome payments, but the potential for cross-departmental PBR schemes is mentioned in the Ministry of Justice Green Paper (Ministry of Justice, 2010a, pp. 42-43), including plans to work with the Department of Health and Department for Work and Pensions. At the local level, local incentive schemes are being piloted in London and Manchester, in which several agencies could reinvest the savings resulting from joint working to reduce reoffending. This is in line with planned changes to NOMS for the devolution of commissioning to local levels (Ministry of Justice, 2010a, p. 48).

Future SIBs may potentially focus on areas where there are existing statutory services. Currently, short-sentence prisoners – the target of this SIB – do not receive any statutory services. The clear advantage of this is that the SIB creates an opportunity for the Ministry of Justice to improve rehabilitation outcomes for offenders without risking capital or resources upfront. It also makes attribution easier, as the control group of offenders does not otherwise receive statutory provision of services. SIBs in areas that currently receive statutory provision will need to devise outcome metrics that enable the government to isolate the effect of SIB-funded interventions from existing statutory services. Moreover, focusing on services where there is otherwise no statutory provision avoids the many difficult issues raised by the possible need to decommission statutory services in such circumstances – another possible challenge for future SIBs.

1.6 Timeline and process of developing the SIB at Peterborough

It is helpful to present the story of the development of the SIB at Peterborough that emerged from the interviews with stakeholders for this phase of the research. As explained previously, there was a broad consensus about the progress of this process across the interviewees from all stakeholder groups.

Developing the SIB took approximately 18 months from the point at which Social Finance initially discussed the concept with civil servants, to its launch in September 2010 (see Appendix E for an overview of the timeframe). The Peterborough SIB, which aims to reduce reoffending, was selected from among a number of policy areas under consideration by Social Finance which it was raising with civil servants, including children in care, education, NEETS (people not in education, employment or training) and hospital admissions (Social Finance, 2009, p. 5). According to the interviewees from Social Finance,[11] short-sentenced offenders were selected because:

- they were a group which had poor outcomes (i.e. frequent reoffending);
- there were clearly potential savings from improving those outcomes (i.e. the cost of delivering interventions was less than the possible savings to the public sector); and
- there was currently no statutory provision of services for this group.[12]

Once short-sentenced offenders were chosen as the target group for a SIB, a selection process began to identify a site for the SIB. The factors which the interviewees from Social Finance, Ministry of Justice and National Offender Management Service (NOMS)[13] reported to be among those relevant to the selection of a site were the need for a sufficient number of discharged offenders, to recruit a sufficiently large cohort of offenders in order to detect a statistically significant change,[14] within a reasonable time period. However, the more offenders, the more funding would be needed from investors to deliver the interventions, so there was also consideration of the need to keep the level of upfront funding achievable.

HMP Peterborough's discharge rate means that a cohort of 1,000 offenders should be recruited within about two years. This should be a sufficiently large enough sample to detect a statistically significant reduction in reconviction events of 10%.[15] HMP Peterborough also has a relatively high proportion of local releases. In making this selection it was felt that this geographic would help to facilitate the delivery of through-the-gate interventions over a sustained period and tracking the outcomes of those interventions.

[11] Interviewees 4 and 5.

[12] For offenders who are sentenced to fewer than 12 months in custody, there is no requirement for supervision by the Probation Service unless they are between 18 and 21 years old.

[13] NOMS is an executive agency of the Ministry of Justice, bringing together the headquarters of the Probation Service and HM Prison Service to enable more effective delivery of services. NOMS is responsible for commissioning and delivering adult offender management services, in custody and in the community, in England and Wales.

[14] That is, to increase confidence that any change was due to the SIB-funded interventions rather than due to chance.

[15] See section 4.3 which discusses steps taken by the Ministry of Justice to ensure statistical significance in the outcome measures.

1.7 Structure of the report

Chapter 2 describes the contractual arrangements for the SIB at Peterborough, the process of negotiating these contracts and the assignment of risk among the parties by these contracts. While we have seen the redacted contract between the Ministry of Justice and Social Finance, our understanding of the other contractual relationships and the negotiation process relies on interviewees' accounts. Chapter 2 also outlines some of the non-financial risks and benefits to participation in the SIB, as reported by the interviewees.

Chapter 3 is about investment in the SIB. Based on interviews with representatives from three investing organisations, it highlights some of their reasons for investing as well as perceived barriers to SIB investments. The chapter also notes the issues which interviewees mentioned may affect future investment in SIBs or similar payment-by-results schemes.

Chapter 4 focuses on the outcome measure, which in this SIB is 'reduced reconviction events' against a matched comparison group. It outlines what the interviewees report was a complex analytical process for both the Ministry of Justice and Social Finance, selecting a robust outcome measure which balanced a number of methodological concerns with the interests of investors. It outlines the interviewees' perceptions of the strengths and weaknesses of the outcome measurements in this SIB.

Chapter 5 describes the model for outcome payments to be made to investors. Again, based on interviewees' accounts,[16] it outlines the development and negotiation of outcome payment arrangements, the factors reported to play a role in this negotiation, and the way in which any outcome payments will be calculated.

Chapter 6 largely reports on the information provided by interviewees from the St Giles Trust and the reducing reoffending director from Social Finance, as well as from HMP Peterborough. The chapter describes the intervention model funded by the SIB and considers early reports of uptake among Peterborough prisoners between September and November 2010. It examines the ways in which the prison and local agencies reportedly have responded to implementation of the SIB.

Chapter 7 draws out the lessons learned from developing and implementing the SIB, in the hope of providing some possible early learning for future SIBs and other payment-by-results models.

[16] Due to commercial sensitivity we did not see official documentation relating to this.

CHAPTER 2 Contractual arrangements for the SIB and risks and benefits to stakeholders

2.1 Contractual relationships in the Peterborough SIB

From our interviews we have identified six key contractual relationships within the Peterborough SIB. These are between:

- Ministry of Justice and Social Impact Partnership – the limited partnership set up by Social Finance which is the contracting entity in the SIB
- Social Impact Partnership and investors
- Social Impact Partnership and providers (for example, St Giles Trust)
- Ministry of Justice and independent assessors
- Ministry of Justice and Peterborough Prison Management Limited[17]
- Social Finance and the Big Lottery Fund.[18]

Figure 1 outlines our understanding of the processes through which each contract was negotiated. This understanding is based upon interviewees' perceptions of the process of negotiation, and their views of the assignment of risk and responsibility. As outlined in section 1.4 (Review of contracts), we had sight of some sections of the contract between Social Finance and the Ministry of Justice, but have not seen any of the other contracts.

In this section we outline some challenges to drafting the contracts and how they were overcome

A novel arrangement

There was consensus among the interviewees from Social Finance, Ministry of Justice Procurement and HM Treasury[19] that the SIB represented an entirely new funding model for service provision. Similarly, one interviewee from NOMS noted that this was not

[17] The consortium which holds the private finance initiative contract for HMP Peterborough.

[18] 'The Big Lottery Fund's investment in SIBs is part of Replication and Innovation, a new UK-wide funding programme that aims to use BIG's networks and funding experience to target deep-rooted social problems. Over five years the programme will fund strategic initiatives working in carefully researched and identified areas of need' (Big Lottery Fund, 2010).

[19] Interviewees 4, 5, 7, 10 and 13.

something that it had done before. Financing, commissioning, contractual arrangements and even some of the analytical questions raised are different from how government usually operates in service delivery.

> [It is] a novel complex venture for the Department our procurement team and their lawyers and I think also for Social Finance.
>
> **(Interviewee 7, Policy Advisor, Ministry of Justice)**

Under usual circumstances, government departments would seek to procure contractors through a competitive tendering process that is viewed as increasing the likelihood of best value for money from contractors. The contract between the Ministry of Justice and Social Finance was not procured through such a process. Two interviewees from the Ministry of Justice said the decision not to competitively tender this contract was taken on the basis that Social Finance came forward with a proposal that appeared to be worth testing.[20] These interviewees noted that there was high-level departmental support in the Ministry of Justice to undertake a 'proof-of-concept' pilot. Two interviewees[21] from the Ministry of Justice stressed that the SIB was signed off by HM Treasury as representing value for money for the department, and this was confirmed by an interviewee from HM Treasury. The Ministry of Justice conducted detailed analytical work on which to base a business case (we did not have sight of this as part of the research, so we are unable to comment on its content).

Nonetheless, there remained a perception among the interviewees from the Ministry of Justice[22] (and this was noted by two interviewees from NOMS)[23] that the Ministry of Justice *may* have been able to drive a more competitive agreement on the value of the outcome payments by competitively tendering the contract. The interviewees from Social Finance were of the view that it would be difficult to procure a SIB through a traditional tendering process on the grounds that building a SIB was a 'collaborative effort'.[24] An interviewee from NOMS expressed a similar view:

> I don't know how we would have translated their [Social Finance] original approach into a procurement.
>
> **(Interviewee 6, Director of Offender Management, NOMS East)**

Developing a competitive market for SIB delivery agencies

Interviewees from the Ministry of Justice and NOMS[25] said that there is interest in competitively tendering any future SIBs, and Social Finance itself anticipates that a competitive market will develop for SIB delivery agencies. Indeed, it has suggested that

[20] Interviewees 10 and 12. However, one interviewee from the Ministry of Justice stressed that Social Finance did not own the idea of a SIB, merely that they proposed this one.

[21] Interviewees 3 and 11.

[22] Interviewees 3, 7, 11 and 13.

[23] Interviewees 5 and 12.

[24] Interviewee 4.

[25] Interviewee 1.

developing this wider competitive market will be essential if SIBs are to be used on a larger scale (Social Finance, 2010e).

Developing such a market for delivery agencies may have implications for the wider commissioning landscape, since it means government contracts with intermediaries (rather than providers), and commissions for outcomes rather than processes. In doing so, the government delegates a role and relationship that it formerly held with service providers through which it might be able to direct and control service delivery more closely. This was commented on by an interviewee[26] from the Ministry of Justice and the Big Lottery Fund.[27]

Analytical resources

Social Finance and the Ministry of Justice described the development of this SIB – in particular, determining the outcome measurements and payment model – as complex and time-consuming, requiring significant resources in the development stages. This was mentioned also by one interviewee from NOMS. For example, the analytical work and negotiations were time-consuming for the Ministry of Justice, HM Treasury, Social Finance and investors. The Ministry of Justice spent a considerable amount of time ensuring that the proposition was one that the department should pursue.[28] Social Finance has estimated that it has invested approximately 2.5 person-years of its resources, and more than 300 hours of legal advice (provided *pro bono*), as well as specialist tax advice, in developing the SIB.[29]

All three investors with whom we spoke perceived the contracts to be complex.[30] Some of the smaller foundations shared legal advice or 'piggybacked' on others' legal assessments, while others took their cue from the fact that larger foundations (such as the Esmeé Fairbairn Foundation) had accepted the terms of the contract:

> We effectively took a common-sense approach and said, if it's good enough for Esmeé Fairbairn, it's good enough for us – and did a light-touch due diligence.
>
> **(Interviewee 16, Investor)**

Contracting with HMP Peterborough as a private prison

An additional element of the contractual processes in setting up the SIB was the existing private finance initiative contract between the Ministry of Justice and Peterborough Prison Management Limited, which operates and maintains HMP Peterborough (which in turn subcontracts the operation of HMP Peterborough to Sodexo).[31] The Ministry of Justice

[26] Interviewee 11.

[27] The contracts for the Peterborough SIB specify that any delivery agent must comply with the Ministry of Justice's legal duty of care towards prisoners.

[28] Interviewees 3, 7, and 8.

[29] Taken from a presentation given by Social Finance (Social Finance, 2010b).

[30] Interviewees 16, 20 and 22.

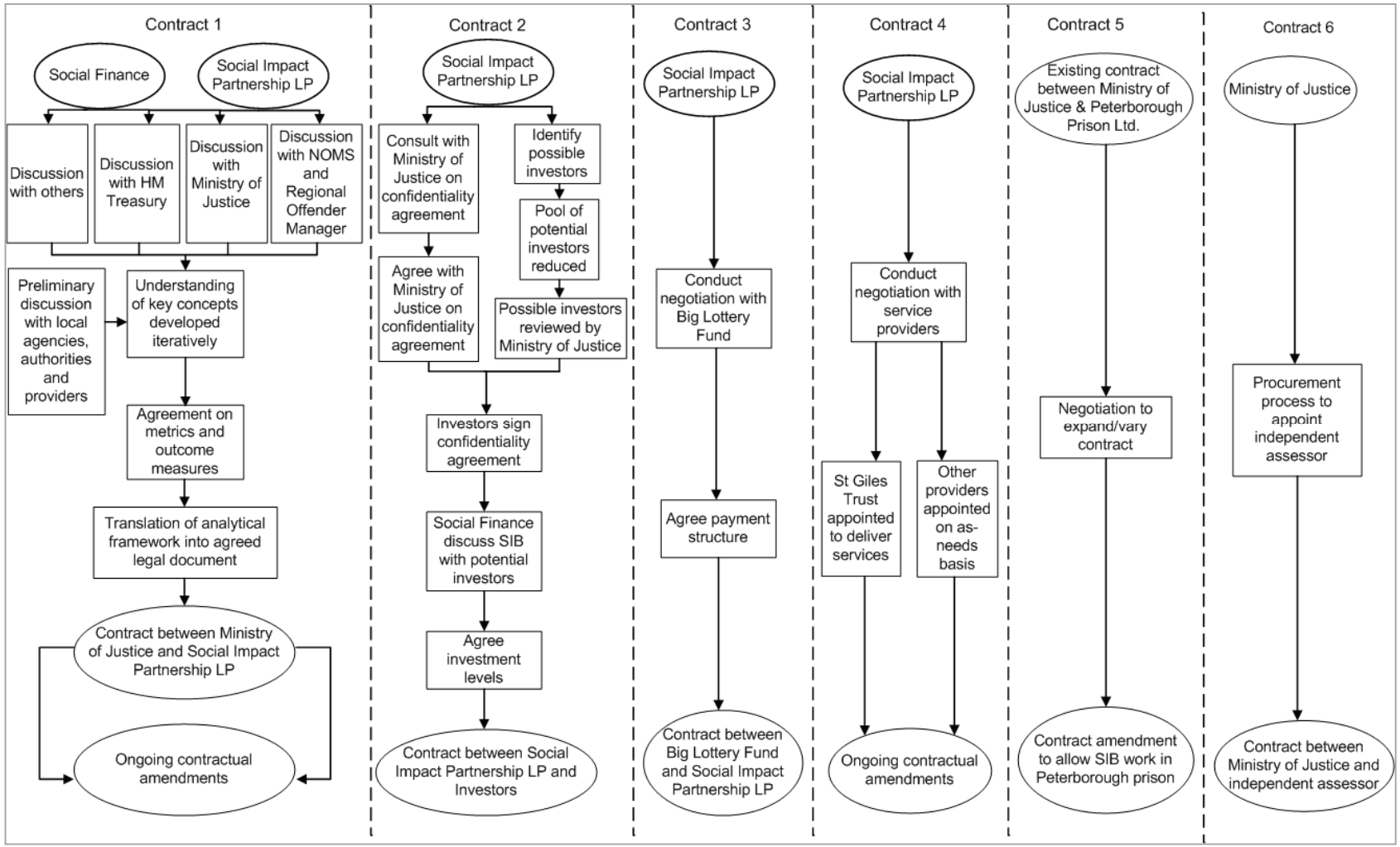
[31] Previously Kalyx.

negotiated a no-cost amendment to the private finance initiative contract to ensure that providers under the SIB could enter the prison, use prison premises and access prisoners in order to deliver interventions. This amendment to the contract was signed off by Peterborough Prison Management Limited parties.

From reading the contract between the Ministry of Justice and Social Finance, we learned that this requires Social Finance to work with HMP Peterborough to develop the implementation plan with the prison.

Figure 1: The processes of negotiating and drafting contractual arrangements for the SIB

Source: Interviewees' accounts analysed by RAND Europe



2.2 Risks under the SIB

The interviewees perceived that the contracts for the SIB at HMP Peterborough transfer financial risk away from government and small providers and onto social investors.

Financial risk to the Ministry of Justice

The Ministry of Justice and the Big Lottery Fund will only make the outcome payments in the event that reoffending is reduced by an agreed level (10% in each cohort or 7.5% over all three cohorts as agreed by the stakeholders) compared to a matched comparison group. Although, as mentioned above (in section 2.1), two interviewees from the Ministry of Justice and all the interviewees from NOMS noted the less-than-usual scope for negotiation in this SIB contract, because the supplier (Social Finance) had been agreed by the time that final negotiations were undertaken. The value of the payment-per-reconviction event was perceived by some within the Ministry of Justice to be generous, and in this sense some felt that the Ministry of Justice was taking on some risk.

However, we note that the interviewees from the Ministry of Justice stressed that considerable analytical effort went into assessing the suitability of the outcome metrics and payments, in order to ensure that Ministry of Justice's financial risk was limited, and that contractual stipulations were put in place to ensure this was the case (for example, an overall outcome payment cap was put in place, which is discussed further in Chapter 5). Later stages of this evaluation will include analysis of the costs and benefits of the Peterborough SIB.

Financial risk to providers

The interviewees from the St Giles Trust did not identify any major financial risks to their organisation: it is paid to provide its services irrespective of the outcomes. Further, because the SIB does not account for a very large proportion of its overall activities (we were told that the SIB contract represents about 6 or 7% of St Giles Trust's work), the Trust did not consider itself to be overly dependent on the success or failure of the initiative financially, at least.[32]

Financial risk to Social Finance

None of the participants to this part of the research commented on the benefits and risks of the SIB arrangement to Social Finance, or to the limited partnership set up for the SIB. These

risks and benefits may encompass commercially sensitive information, which may make it difficult to shed light on them through such research. However, these are questions that merit further exploration in future phases of the research.

Reputational risk to all stakeholders

The SIB at HMP Peterborough has generated an enormous amount of policy and wider public interest and media attention. This interest has been evident not only nationally but also internationally,[33] including requests for briefings from international audiences.[34] Because of this

[32] Interviewee 2.

[33] For example, it was mentioned at an Organisation for Economic Co-operation and Development (OECD) conference (Gurria, 2010), and in the press in Australia (see for example, Pro-Bono Australia, 2010) and the United States (see for example, Clinton, 2010).

[34] One interviewee noted that the Ministry of Justice has been requested to brief the White House on the SIB, as there is US interest in development of the model.

wide and intense interest, the Ministry of Justice, Social Finance, HMP Peterborough and providers such as the St Giles Trust all bear some reputational risks:

> [T]here was quite a lot of media attention around the model and ministers visiting ... it highlighted how important it was and how many people were watching what happened.
>
> **(Interviewee 19, Deputy Director, HMP Peterborough)**

> St Giles Trust ... is very squarely seen as one of the key delivery agents. We've spent ... 50 years ... building up a reputation that we're a very robust service-delivery charity that makes a real impact on clients, so it's not so much the financial risks I'm facing, but it's certainly reputational risk – and therefore we're very keen to make this work, because it's a financing model that deserves to thrive.
>
> **(Interviewee 2, Director, St Giles Trust)**

While this has not been tested yet, one possible implication that we may draw from this is that this reputational motivation for providers may be important in future SIBs, in which providers are not incentivised on a payment-by-results basis.

The three investors interviewed[35] did not mention any reputational risk to themselves. The conclusion we draw from the interviews is that although investors are keen for the SIB to succeed, they are aware that, regardless of outcome, they will have fulfilled their mission by investing in the SIB. As indicated by this quotation, they invested to help develop and test the idea as well as to provide interventions for offenders (investors' motivations for investing are discussed in section 3.5):

> For us, the compelling reason was the proof of concept. Because if this Social Impact Bond, as a new financial product or asset class, can be developed, then actually significant sums of private capital can be unlocked into investing in prevention of negative social problems.
>
> **(Interviewee 16, Investor)**

2.3 Broader, non-contractual benefits to parties under the SIB

Benefits to the Ministry of Justice

One interviewee from the Ministry of Justice and one from NOMS explicitly mentioned that the Ministry of Justice valued a potential reduction in reoffending as a result of the SIB and the benefits this brings to the public and victims:

> The benefits are that we actually do make a real difference in reoffending ... it will work with a group of offenders which [are] identified as our biggest gap and our biggest priority to try and do something about.
>
> **(Interviewee 1, Regional Manager for Commissioning, NOMS East)**

[35] Interviewees 16, 20 and 22.

> I think we all want to see how it works, and I don't think it's in anyone's interest for it to fail. That's not what we're about. We actually want to see huge cuts in reoffending. If we can deliver significant reductions in reoffending in a way that we can measure, we can attribute and we can transfer, we'd be very happy. So I think we have a huge amount of goodwill around it.
>
> **(Interviewee 7, Policy Advisor, Ministry of Justice)**

Another benefit mentioned by three interviewees[36] was that of testing the idea of a SIB and informing wider roll-out of SIBs, as this quotation indicates:

> So this is very important to us ... you'll have seen the centrality of the payment-by-results proposals to how we want the world to be a different place. I think from a lot of points of view, Peterborough was a really, really important step forward for us.
>
> **(Interviewee 3, Senior Civil Servant, Ministry of Justice)**

Beyond the benefits expressly mentioned by interviewees, we suggest that given the extent of media coverage and interest in the pilot, the Ministry of Justice may gain beneficial profile as well as being subject to attendant reputational risk. In agreeing to test the SIB at HMP Peterborough, the Ministry has taken a leading role in testing alternative PBR funding mechanisms, and this has boosted visibility and interest in its work from other departments and parts of government, both nationally and internationally (see for example, Cabinet Office, 2010).

Benefits to providers

Social Finance reported that their intention is to fund the St Giles Trust to deliver services for five or six years under the Peterborough SIB.[37] An interviewee[38] from the St Giles Trust indicated that this is much longer than the average length of funding received by the organisation, which was 22 months at the time of interview. Short-term funding can be a barrier to continuity of service in addressing social challenges (Disley, et al., 2009). The stable funding provided under the SIB may be an advantage in terms of organisational sustainability and less disrupted service provision (Clark, et al., 2009).

One interviewee from St Giles Trust mentioned the benefit that the SIB contract allows them to deliver services (as part of a payment-by-results contract) without the risk of, or the need to, find upfront funding:

> I'm not taking the risks ... we are very fortunate to be selected as one of the delivery agents, and therefore we get a funding stream which is stable.
>
> **(Interviewee 2, Director, St Giles Trust)**

This is in line with the commitment by the Ministry of Justice, articulated in the Green Paper, to remove barriers to smaller providers in delivering services (Ministry of Justice, 2010a, p.41).

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[36] Interviewees 1, 3 and 12.

[37] However, Social Finance also reported that the contracts with all current providers under the Peterborough SIB are agreed on a year-by-year basis, and only last only one year at a time. This is intended to allow space for the services provided to be adapted if necessary to meet the needs of the target population.

[38] Interviewees 2, 14 and 15.

Benefits to investors

Investors noted that they were interested in developing an investment model that would better align their investments and their social aims. The SIB provides a possible way for them to obtain a 'blended return', that is, a financial return on investment that may not be as high as their other highest possible returns, but one which allows them to fulfil their charitable mission and invest capital in an area that fits with their specific interests at the same time. Furthermore, testing this funding model may allow them to obtain a return on investment while helping to foster innovation and test a new funding model.

Benefits to HMP Peterborough

An interviewee from NOMS suggested that some of the work done in the prison as part of the SIB could contribute positively to the outcomes on which HMP Peterborough are measured: for example, positive interventions with offenders.[39] The two interviewees from the prison did not mention this specific contribution to their targets, but they did report a benefit to their overall mission from hosting the SIB:

> Part of our job is protecting the public, so it is nice to not just protect them by keeping them [offenders] behind a gate and in a secure environment; it is nice to be able to protect the public because actually we are trying to help people not offend again. So I think that is kind of the advantage and the credit to us in being part of the project, which is not about targets and money and everything else.
>
> **(Interviewee 19, Deputy Director, HMP Peterborough)**

Ongoing monitoring and performance management of contracts

During the interviews with Social Finance, investors and representatives from NOMS, we heard about the following arrangements for regular reporting and contact between Social Finance and the key stakeholders.

- The Ministry of Justice has regular meetings with Social Finance and will receive updates about the intervention.
- Similarly, the Big Lottery Fund receives updates from Social Finance.
- There is a SIB governance/advisory group that advises Social Finance on the delivery of the service. The advisory group includes a former chief constable, a magistrate and individuals with financial expertise. The advisory group is independent from the Ministry of Justice.
- Social Finance has regular meetings with NOMS East of England representatives and the prison Controller (who is employed by the Ministry of Justice); as well as regular joint meetings between the Prison director, HMP Peterborough resettlement managers and St Giles Trust staff; and multi-agency meetings with local providers. The Social Finance Reducing Reoffending Director is a guest member of the Cambridgeshire local criminal justice board and a member of the Safer Peterborough Community Safety Partnership.
- Investors receive quarterly updates on progress, engagement and key activities.

[39] Interviewee 6.

n the Ministry of Justice, Procurement and Legal teams will monitor the contract, and make amendments if necessary, in consultation with Social Finance. There is also a SIB Data Management Group attended by Social Finance, representatives from Ministry of Justice Analytical Services and Procurement, as well as by the independent assessor. This group deals with any issues arising around collection and recording of management data and how this relates to outcome measures or cohort definitions. This group has already agreed upon a number of proposed contractual clarifications or amendments which aim to ensure that the contracts describe accurately and precisely the data that will be extracted from recording systems in calculating outcomes. The need for such a group to resolve these measurement issues, and ensure that these arrangements are accurately reflected in the contracts, may be a learning point for future SIBs.

During the interviews we learned about the information that Social Finance aims to collect in order to oversee the work of providers and monitor the intervention model.[40] Data will be entered into a bespoke database by staff (in the prison and the community) who are working with offenders. This database will hold information on uptake, engagement, contact between offenders and providers, the services to which offenders have been signposted, and so on. Social Finance's capacity to analyse this data and hold subcontractors to account is as yet untested, but Social Finance has employed a Reducing Reoffending Director, part of whose role is to monitor the day-to-day operation of the intervention.

2.4 Conclusion and potential lessons for future SIBs

Based upon evidence from our interviewees at this early stage of operation of the Peterborough SIB, we suggest the following potential lessons for future roll-out of other SIBs.

Developing a competitive market for delivery agents. It is likely that future SIBs will be tendered, and this may require the development of a competitive market for SIB delivery agencies or intermediaries.

SIBs appear to involve a new commissioning landscape where government has no direct relationship with service providers. Those developing future SIBs may wish to consider the extent to which government is willing to delegate choices to delivery agencies.

Interviewees suggested that some legal structures of the Peterborough SIB may be transferable to future SIBs. Specialist legal and tax advice, contract models and legal arrangements in the Peterborough SIB (for example, setting up the limited liability partnership) might be transferable to SIBs in new policy areas.

SIBs in new policy areas will always pose new analytic challenges. Outcome metrics and payment mechanisms are particular to the topic area of the Peterborough SIB, and will not necessarily provide transferable lessons for future SIBs addressing other social problems.

Implementation in a private prison is not necessarily a barrier, but it may be worth considering whether and how to align performance metrics. The Peterborough SIB is based in a private prison: this adds another contractual relationship, but the interviewees did not believe that the process of implementation and buy-in was more difficult because of this. Future SIBs

[40] At time of interview this database was in the development stages, and was not yet 'live'.

implemented in private prisons may wish to ensure alignment between prison performance indicators and the aims of the SIB.

Interviewees believed that financial and reputational risks appear to have been transferred. The SIB at Peterborough does appear to have transferred financial risk from the Ministry of Justice and providers to the investors. All the parties involved bear some reputational risks (and benefits) from participation in the world's first SIB. For providers – who are not paid by results in the Peterborough SIB – this provides an important motivation to do well. The reputational stake of providers might be an important element for future SIBs.

CHAPTER 3 Investment in the SIB

3.1 Investors and investment in the SIB at HMP Peterborough

Social Finance secured the necessary level of investment for the SIB at HMP Peterborough. The majority of investors were charities or foundations, [41] including the Barrow Cadbury Charitable Trust, Esmée Fairbairn Foundation, Friends Provident Foundation, The Henry Smith Charity, Johansson Family Foundation, LankellyChase Foundation, The Monument Trust, Panahpur Charitable Trust, Paul Hamlyn Foundation and the Tudor Trust (Social Finance, 2010a).[42]

Social Finance hopes that over time a wider investor base will develop, including more private individuals, banks and financial institutions, pension funds and corporate social responsibility funds (Social Finance, 2010e, p. 23). Among the three investors that were interviewed there appeared to be a strong appetite for investment among charities and foundations, as illustrated by this quotation:

> It opens the door – this is a real torchbearer for investors to invest in a new way.
>
> **(Interviewee 16, Investor)**

Social Finance informed us that almost all of the investors that expressed an interest proceeded to invest. It reported that among those that chose not to invest the decision was because criminal justice was not within their usual field of giving, or in one case because the investor would have been a non-charitable organisation outside the UK, which appeared to raise legal complexities that Social Finance and the investor agreed might be best avoided in this first SIB.[43]

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[41] Interviewees from Social Finance noted that some 'high net-worth individuals' also had invested in the SIB, but they have not been identified.

[42] An interviewee (13) from the Ministry of Justice explained that they did undertake some process of checking or approving investors, so that they knew who they were and that they were 'the right type of organisation'. This was not mentioned by other interviewees, and did not appear to be a sticking point in this SIB.

[43] We were unable to identify potential investors who chose not to invest, which would have allowed us to explore the reasons for this.

3.2 The SIB appears to have attracted some new funding to criminal justice

One of the aims of the SIB, as expressed by Social Finance, is to bring in new sources of funding for public services. Social Finance told us that 'over half the investment (by value) and half the investors (by number) in the Peterborough SIB are either using their endowment or investing in the UK criminal justice area for the first time'.[44] There is no evidence from our interviews to contradict this, and one of the investors we interviewed reported that his organisation had not previously invested in criminal justice. Another investor[45] had funded the St Giles Trust previously. However, this previous funding appears to be via a grant to the St Giles Trust, whereas it has invested in the SIB from its endowment capital (described further in section 3.4).

In order to make an assessment as to whether this SIB, or future SIBs, displaces existing funding from charities and foundations, it would be necessary to analyse the funding otherwise provided by these organisations to this type of intervention both before and after the SIB. Future SIBs may wish to monitor the additionality of funding attracted.

3.3 Structure of investment in the SIB

Social Finance told us that investors in the SIB commit investment upfront, with funds drawn down as needed. There are also different phases of funding – new investors can be brought on board in new funding phases. Social Finance said that this phased funding allows it to commence interventions while continuing the capital-raising process with investors.

3.4 Grant versus investment funding

On a continuum of funding activity, at one end are outright gifts or grants for which little or nothing is expected in return (except usually some sort of reporting), and at the other end are investments made on a purely commercial basis, for which a return on investment is expected. Social investment – which is the broad 'type' of investment in a SIB – is somewhere along this continuum. Social investment is distinct from a grant, in which money is given away, in that a financial return, however small, is expected (Kingston and Bolton, 2004, pp. 113-114).

While the majority of the investors are foundations and charitable trusts, both Social Finance and the three investors with whom we spoke explained that different investors invested through different channels. Some made grants, and others funded the SIB through endowment capital (money that they would usually invest to achieve returns, which then help to fill up the grant-making pot).[46] There appeared to be an appetite

[44] Personal communication with Social Finance.

[45] Esmée Fairbairn Foundation. We looked at records of grants available online; for example: http://www.esmeefairbairn.org.uk/grants2009/main.pdf, (accessed 4 February 2011), whereas it has invested in the SIB from its endowment capital (described further in section 3.4).

[46] Investors had a choice of investing directly in the limited partnership or via a corporate feeder vehicle. The feeder vehicle was set up to enable UK charitable investors to receive any outcome payments as donations.

among the investors to use mission-aligned investing rather than making a grant, as expressed by this investor:

> We have a long running interest in social investment ... the idea of not only making grants to charities we invested in, but actually investing in them with loans or other forms of equity.
>
> **(Interviewee 22, Investor)**

However, this investor could see a case for investing in the Peterborough SIB through either of these channels:

> Although this is very firmly an investment for us on the social investment side, I could put it up to the Trustees and ... I would have recommended a ... grant, because it's a strong proposition.
>
> **(Interviewee 22, Investor)**

3.5 Reasons for investing in the SIB

Making the most of networks and contacts to secure investment

According to Social Finance and all three investors with whom we spoke, Social Finance approached some investors at an early stage while the idea of a SIB was still in development,[47] and in parallel with negotiations with the Ministry of Justice. This early contact and testing the possible funding waters appears to have been important, as Social Finance needed some confidence that it could raise sufficient investment if the Ministry of Justice agreed to go ahead with the SIB.[48]

Social Finance described (and this was corroborated by an investor) how it secured investment from a few key foundations which drew upon their networks of funders interested in criminal justice to invite others to meet Social Finance and hear about the proposed SIB.[49] One of the investors heard about the SIB at a conference for social entrepreneurs.[50] Some of the larger foundations offered to provide enough funding to implement the SIB if other investors could not be found, but also agreed to scale back their investment if others came forward, in order to allow Social Finance to broaden out the investor group.

All three investors reported that they saw Social Finance as a trusted partner:

> Social Finance knew what they were doing; they've gone about it in the right way. They have engaged with the right partners and we have every reasonable confidence that they would succeed.
>
> **(Interviewee 16, Investor)**

[47] Interviewee 20.

[48] Interviewee 4.

[49] Interviewee 20.

[50] Interviewee 16.

There were existing relationships between Social Finance and some of the investors and, as mentioned above, one of the investors (Esmée Fairbairn Foundation) had funded the St Giles Trust previously. Another investor with whom we spoke met with St Giles Trust to ensure due diligence in their investment in the SIB, and had worked previously with the YMCA (another provider at Peterborough).[51]

From these comments, we suggest that the successful pulling together of many of the partners and funding for this SIB appears to have been associated with existing relationships, track record and trust between some of the partners.

What made the SIB an investment that was attractive to investors?

During the interviews with three investors, the following reasons were given for their decisions to invest in the SIB at Peterborough.[52]

- The desire to support development of the SIB as a new kind of payment-by-results financial product or asset class – they were attracted by its potential to improve the criminal justice system and its application to other areas, thus to benefit the public and society.
- Charities' desire to invest money more ethically and in ways that were more aligned with their missions.
- Interest from some (but not all) investors in funding programmes in the area of criminal justice to improve outcomes for offenders. They had confidence in provider organisations (St Giles Trust) and the staff hired by Social Finance (reducing reoffending director) to do this.
- The opportunity to learn about social investment was welcomed.
- The idea of delivering upfront funding to providers was attractive.
- An estimation by investors that there was a good chance of receiving a return on their investment.

3.6 Securing investment in future SIBs

While we understand from the interviews that sufficient funding for this SIB was secured in a timely manner, a number of possible issues were raised in relation to securing investment in future SIBs or similar payment-by-results models, which merit some elaboration in the following sections.

Building information about a new asset class

> Investors typically like three things: track record, track record and track record. And this [the SIB] is new. It's never been done before, and investors just don't do new things
>
> **(Interviewee 16, Investor)**

[51] Interviewee 16.

[52] Interviewees 16, 20 and 22. Not all reasons were given by all investors.

> It is really tricky – you look at it [the SIB] and go, 'Is this an asset class?' No. 'What's the track record?' No. 'Have you ever done this before?' No. 'Has anybody ever done this before?' Not quite like this, no.
>
> **(Interviewee 22, Investor)**

The available grey literature on SIBs (Mulgan, et al., 2010; Social Finance, 2010e, p. 45) as well as our interviews with Social Finance and investors highlight that the SIB is a new kind of financial product lacking a track record that investors can use to estimate their likely return on investment.

Social Finance informed us during our interview (and this aim is echoed in publications (Social Finance 2010e)) that it hopes that this SIB will start to build a track record in delivering social outcomes to generate a financial return, and that the SIB will begin the process of increasing investors' understanding and ability to assess outcome risk:

> The risks that [investors] are taking are so immeasurable ... that you're only going to be getting [investment] from people who are interested in the social value ... Over time we're building this track record for this investor base, so that you can broaden it.
>
> **(Interviewee 4, Director, Social Finance)**

Similarly, this quotation from an investor highlights the unknown risk in SIBs:

> I don't think that the financial return is sufficient to reflect the risk, because it's new
>
> **(Interviewee 16, Investor)**

Social Finance hope that, as with other products, the cost of capital should decline over time as investors and markets get more comfortable with what outcomes are achievable, in which areas, and by and for whom.

Measuring social return and weighing it against risk

Although the idea of social investment is not new, the ability of investors and markets to deal in (social) outcomes risk is currently underdeveloped (Nicholls and Pharoah, 2008): few agreed that metrics exist for quantifying social outcomes, whether positive or negative; conventional finance markets do not price social value creation; and consequently, there is a lack of comparable performance information (metrics) to support the creation of a new or modified social investment marketplace. One investor who participated in this research noted that when assessing the sufficiency of proposed return, accounting for social return on investment is difficult.[53] However, the decision to invest in this SIB described a fairly straightforward decision-making process:

> We looked at this and we thought, are we likely to get our money back? We took the judgement that we were. We said, 'Is there a compelling reason to do this from a social perspective?' For us, the compelling reason was the [provision of] proof of concept.
>
> **(Interviewee 16, Investor)**

[53] Interviewee 16.

However, this investor added that even if they did not receive a return, the worst-case scenario was that they had supported the delivery of quality services for offenders.[54]

No secondary market for social investments

Tied to the fact that the SIB is a new asset class, the interviewees from Social Finance pointed out that there is not yet a secondary market that would allow investors to sell on their investment. An investor also made this point:

> Well, again, liquidity is a bit of an issue because it is essentially a seven or eight-year product. Now, from there in terms of tying up the funds ... it means we can't do other things with those funds during that time. Which is why we are very interested [in] ... a secondary market, so some sort of social stock exchange.
>
> **(Interviewee 16, Investor)**

Resolving trustees' duty to maximise financial return with accepting a blended return

One investor[55] reported concerns that undertaking social investment (and accepting a blended return) may conflict with their fiduciary obligations as trustees of charities to maximise return on investment. When we asked Social Finance about such concerns, it suggested that these stem from a lack of clarity in current charity investment guidance.[56] Currently, the Charity Commission is consulting on a draft revision of the Charity Investment Guidance (CC14).

Interviewees from Social Finance were of the view that foundations are building expertise in the area of social investment: some are using financial advisers, and some financial advisers are developing specific expertise in this area, all of which is part of the developing marketplace for investing in social outcomes.

Tax incentives to mission-aligned and social impact investing

All three investor interviewees mentioned that tax rules may provide a barrier to charities that wish to invest from their endowment (i.e. mission-aligned investing), rather than by giving a grant.

We asked Social Finance how this had been dealt with: they told us that in the Peterborough SIB, charities can receive outcome payments as donations by investing through a charity feeder instrument (which was set up by Social Finance in this SIB).

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[54] This investor added that the SIB would not have been eligible for a grant from their foundation, which did not usually grant in the area of offender rehabilitation.

[55] Interviewee 16.

[56] Social Finance provided the following explanation of the legal position: legally (according to the Trustees Act 2000), trustees are required to consider whether a particular investment type is suitable to their organisation's needs (including considerations of the need for capital growth and income), whether a specific investment is a good example of that kind of investment, and whether their investment portfolio is suitably diversified. None of this should be prohibitive to social investment, as it is left to the trustees' discretion as to whether their charitable aims will be best furthered through grants or investment. To the extent to which case law is cited as supporting the need to maximise financial return (e.g. *Harries* v. *The Church Commissioners for England* [1992] 1 WLR 1241), current examples have limited applicability to most charities as they are drawn from judgments around pension funds rather than endowments or accumulated assets.

However, one investor[57] said that this creates another layer of bureaucracy and involves additional contractual and governance arrangements.

Might the government have a role in developing a market?

While the potential for the government to act to develop the market was not something that commonly arose in our interviews, one interviewee from the Ministry of Justice recognised that:

> It is in the interest of the Ministry of Justice and other government departments that the commissioning landscape is right for the SIB model to work; for example, that providers of different sizes might play a role, etc.
>
> **(Interviewee 7, Policy Advisor, Ministry of Justice)**

In its publications, Social Finance has identified some things that government could do to encourage the development of a market and investment: for example, providing investment incentives such as through taxation rules conducive to such investments (Social Finance, 2010d).

3.7 Summary and lessons for future SIBs

Based upon the evidence from our interviewees at this early stage of operation of the Peterborough SIB, we suggest the following potential lessons for future roll-out of other SIBs.

Social Finance appear to have attracted some new investment for the SIB at HMP Peterborough. Future SIBs in offender management or other policy areas may wish to monitor the additionality of funding attracted.

Trust in Social Finance and the providers, the desire to support an innovative, emerging funding mechanism, and alignment with a criminal justice mission, attracted investors to the Peterborough SIB. It may be helpful for future SIBs to consider how they might also tie into the motivations, existing networks and relationships of core funders in a given issue area.

It may be necessary for a social investment market to develop further to attract a greater number and wider range of investors. Investment in future SIBs may be more likely, once a track record is developed in SIBs as an asset class. Once this has occurred, investors will have better information about investing in outcomes, and can begin to make more informed assessments about the value and appropriate level of blended returns.

There appeared to be an appetite for mission-aligned investing among the charitable organisations interviewed for this report**. This might be developed further if trustees' fiduciary duties can be clarified. In addition, there may be scope for tax incentives for investing in future SIBs**

[57] Interviewee 22.

CHAPTER 4 Outcome measures

4.1 Reconviction events: the outcome measure

In the SIB at Peterborough the outcome being measured is reconviction events – a proxy measure for reoffending.[58] A reconviction event is defined as an occasion on which an offender is convicted in court for a new offence or offences.

The mean number of reconviction events for those discharged from HMP Peterborough from a sentence of 12 months or less is compared to the mean number of reconviction events in a matched comparison group. The mean number of reconviction events in the Peterborough group is then subtracted from the mean number of reconviction events in the matched, non-SIB group, to calculate the difference.

The SIB outcome measure includes reconviction events that relate to offences committed during the 12 months after a prisoner is discharged from custody[59]. The data for this measure are drawn from the Ministry of Justice extract of the Police National Computer.[60]

Reconviction events will be measured in three cohorts of offenders. Each cohort will include approximately 1,000 men[61] discharged from short prison sentences at HMP Peterborough.

There are two targets for reducing reconviction events, which can result in an outcome payment to investors if they are reached.

1. A reduction of 10% in each cohort (from the baseline generated by the matched comparison group) – for a cohort of 1,000 prisoners, this is the level of reduction likely to be required to produce a statistically significant difference from the

[58] Reconviction is a proxy measure for reoffending. Reconviction is the last step in a criminal justice process, in which there are high rates of attrition: an actual offence must be reported to the police, recorded by the police, a suspect must be detected, a criminal prosecution be taken against them and a conviction secured at court. Thus reconviction is likely to underestimate the actual number of reoffences. However, interviewees from the Ministry of Justice pointed out that frequency of reconviction events provides a useful measure, because it is likely to have a close relationship with costs to the criminal justice system

[59] The reconviction event itself must occur within 18 months of release in order for it to be counted.

[60] There are currently six different measures of reoffending, but in response to a Ministry of Justice consultation on improvements in Statistics this will reduce to one measure of reoffending at national and local levels that is clear to the public (Ministry of Justice, 2010b).

[61] The first cohort will close after the SIB has been in operation for two years, or when 1,000 offenders have been discharged, whichever happens first.

control group.[62] Therefore, a reduction of this magnitude with this sample size indicates that the Ministry of Justice can be reasonably confident that the reduction has not just been achieved by chance, and reduces the risk that the Ministry of Justice is paying for an outcome that may not have been caused by the SIB intervention. A minimum of 10% reduction for each cohort needs to be achieved in order for investors to receive outcome payments for each cohort.

2. If a 10% reduction in reconviction events is not detected for any of the three cohorts, at the end of the entire SIB period, the three cohorts will be evaluated together. If a reduction in conviction events of 7.5% or more is detected across all 3,000 offenders, when measured against a matched comparison group, investors will be paid an agreed fixed sum per reduced reconviction event. The 7.5% was calculated as the level of reduction likely to be required to reach statistical significance for a total sample of 3,000 prisoners.

We were told by interviewees from the Ministry of Justice, NOMS[63] and Social Finance that these reduction targets were arrived at following detailed work by the Ministry of Justice analytical team. The process described to us appears to have been iterative, with considerations and the interests of different groups weighed up:

> It was a new process – we hadn't done it before. How [do] you define what the [sic] payments should be made on, the timescale of that payment, the number of people in the cohort that you have, and then how you test that against a control group?
>
> **(Interviewee 13, Procurement, Ministry of Justice)**

> When you're trying to develop what the outcome measures ought to be, the question is: what measures will incentivise the behaviour that you want, rather than what measures capture entire truth and are perfect? Because the latter is usually impossible.
>
> **(Interviewee 4, Director, Social Finance)**

4.2 The Peterborough cohorts

During the life of the Peterborough SIB there will be three cohorts of approximately 1,000 men. The offenders who are eligible to be part of the contract are males who are:

- at least 18 years of age at the time of sentencing; and
- sentenced for a consecutive period of less than 365 days; and
- discharged from HMP Peterborough after serving the sentence referred to above (or any part thereof[64]) at HMP Peterborough.

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[62] These calculations were based on historical data on the mean frequencies of reconviction events for short-sentenced prisoners discharged from HMP Peterborough, using a 90% level of statistical significance with a power of 80% and a 1:10 matched control group.

[63] Interviewee 1.

[64] Prisoners who serve the whole of their sentence on remand and are discharged from Peterborough on the day that they receive their sentence will not be included in the cohort.

A prisoner will be counted as a member of the cohort whether or not they engage with the SIB-funded services. The inclusion of those who do not engage in the intervention removes any incentive for the service provider to 'cherry-pick' the easiest offenders with whom to work, as this interviewee from NOMS commented:

> I was always very clear in my mind that we had to have the whole cohort of people being released from Peterborough prison as the cohort, rather than just people that they'd intervened with, because the alternative is that you get ... distortions by just having the people they actually engage with, [and] because you clearly would be dealing with the group who were the easiest to engage with.
>
> **(Interviewee 1, Regional Manager for Commissioning, NOMS East)**

Although this was not raised by interviewees, there might be an incentive to 'cherry-pick' an area or a prison if SIBs were rolled out more widely. For example, prisons with strong inspection reports or better facilities might be more attractive targets for intermediaries and investors, in the hope that outcomes would be easier to achieve with offenders discharged from those establishments. Robust approaches to measuring the counterfactual may be able to overcome this risk.

4.3 Stakeholder views on using frequency of reconviction

When asked, the interviewees mentioned the following advantages to the selected outcome measure, which is perceived by them as:

- a clear, single metric;
- a metric that is already measured and for which good data is available;
- a measure that helps to prevent 'cherry-picking'[65] – compared to a more simple yes/no reconviction measure, which could introduce an incentive to focus on those least likely to reoffend at all; and
- a measure that has the most direct link to costs.

One interviewee from NOMS[66] saw this outcome measure as only one of several options for measuring rehabilitation outcomes for offenders, but one which represented a sensible and pragmatic choice for this pilot. Another interviewee from HMP Peterborough called it 'realistic'.[67] Another representative from NOMS said that no one had come up with anything better yet. The interviewees from Social Finance had a similar view:

> It was a balance between operational feasibility and measurement because ... we had originally looked at ... short-sentence prisoners being discharged to Cambridgeshire. The

[65] An alternative way to ensure that the outcome measure does not encourage 'cherry-picking', as suggested by Social Finance, would be to introduce an escalator into the value of the outcome payment: the per-person payments would increase with the proportion of offenders who have not been reconvicted (Social Finance, 2009, p. 6).

[66] Interviewee 12.

[67] Interviewee 18.

> trouble was that population was too small to be statistically significant, and so it was a back and forth of changing the cohort terms and definition to be statistically significant, but then also assessing the operational feasibility of whether we could make that work, what the cost of delivering that would be.
>
> **(Interviewee 5, Director, Social Finance)**

4.4 The control group

The offenders in the three Peterborough cohorts will be compared to matched control groups. Each control group will be drawn from all prisoners released from sentences of less than 12 months, within the same time period from other prisons nationally. One-to-many propensity score-matching will be used to select the control group: this means that each cohort prisoner will be matched to up to 10 control group prisoners. According to an interviewee from the Ministry of Justice, the strength of using propensity score-matching (PSM) as an approach to building the control group is that it allows the assessor to control for different characteristics of the offenders.[68, 69]

The independent assessor

The Ministry of Justice has appointed an independent assessor through a competitive tendering exercise. The independent assessor will identify the comparison group[70] and compare reconviction events between the experimental and control groups on the basis of data from the Police National Computer. One interviewee from the Ministry of Justice mentioned that in future SIBs, the National Statistic measure of reoffending may be used rather than an independent assessor.[71] Other interviewees did not comment on the desirability or value-added of an independent assessor, or whether an independent assessor would be used in future SIBs.

Statistical significance

The Ministry of Justice analytical team sought to ensure that the outcome payment will be made only if the reduction in reoffending is statistically significant,[72] that is, if the reduction is large enough to provide confidence that it is significantly more likely to be due to the intervention, rather than to chance.[73]

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[68] Interviewee 8.

[69] The contract between the Ministry of Justice and Social Finance specifies a number of explanatory variables to be considered for inclusion in the PSM model: age; nationality; ethnicity; current offence characteristics (e.g. type of offence, discharge date and length of sentence); offending history (e.g. number of previous convictions, age at first sentence and length of criminal career).

[70] The independent assessor will make a decision on the final variables to be included in the propensity score-matching (PSM), and the need for assessing interactions and non-linear effects upon data investigation in the final PSM model. The contract between the Ministry of Justice and Social Finance specifies that only statistically significant explanatory variables will be built into the final PSM model.

[71] Interviewee 13.

[72] Interviewee 8.

[73] The analysis of the cohort size needed to show a statistically significant reduction in reconviction events of 10% is based upon historical Ministry of Justice data on the mean frequencies of reconviction events for short-sentenced offenders discharged from HMP Peterborough. The actual cohort size needed to ensure statistical

The size of the cohort is central to ensuring statistically significant results, and this consideration to deciding where to conduct the SIB. For example, conducting the SIB in several prisons to get greater numbers of offenders leaving prison could have been desirable, as this would have meant a larger cohort (or at least, that the cohort would fill up more quickly). However, there was also consideration of the need to keep the level of upfront funding[74] and outcome payments achievable: the more offenders, the more funding would be needed from investors to deliver the interventions, which would have to be reflected in the size of the potential outcome payment.

Other ways of measuring and attributing outcomes

Another approach to measuring outcomes generated by a SIB, which was mentioned by one interviewee at the Ministry of Justice,[75] would be running a randomised control trial. This would entail comparing the outcomes of some offenders leaving HMP Peterborough and receiving the SIB intervention, with the outcomes of a matched group of offenders leaving HMP Peterborough who did not receive the intervention.

This interviewee at the Ministry of Justice told us that there had been careful consideration about whether the Peterborough SIB should be tested using a randomised control trial. This approach would have the advantage of making causality more certain, because the control group would be subject to the same or similar economic and social conditions in Peterborough as the intervention group. The matched comparison group will experience a range of different social and economic environments, depending on which communities they are released into and the opportunities that exist for them there. According to an interviewee from the Ministry of Justice Analytical Services, the main reason that a randomised control trial was not undertaken was that there was no appetite for a situation where offenders who volunteered or were eligible for SIB-funded programmes would have to be kept out of the programme in order to serve as the control group.

The same interviewee from the Ministry of Justice Analytical Services reported some residual uncertainty about whether the correct balance was struck in the SIB: perhaps whether a much simpler measurement mechanism would have sufficed, or in fact a much more rigorous testing of outcomes was needed.[76] An interviewee from NOMS[77] also mentioned that it was not yet clear whether the measure was right.

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significance will not be known until data is collected on the Peterborough cohorts, and the mean frequency of reconviction events is known. The cohort size was selected by Ministry of Justice analysts as being likely to be statistically significant, and therefore limiting the risk of a false-positive result to the Ministry of Justice, that a reduction of reoffending is detected in the cohort which is not due to the SIB-funded interventions. It also balances the risk to Social Finance and investors of a false-negative result: that no reduction in reconviction events is detected when in fact the interventions were effective.

[74] Interviewee 8.

[75] Interviewee 8.

[76] One way in which differences between the control group approach and a randomised approach could have been explored would have been to implement both, and to compare the findings of the two measures. This is no longer possible, since all short-sentenced prisoners discharged from HMP Peterborough are included in the intervention cohort; none have been randomised into a control group.

[77] Interviewee 1.

4.5 Attribution issues if SIBs or other PBR initiates are rolled out more widely

There is a possibility that wider roll-out of SIBs or other PBR pilots may create a situation where service users are the beneficiaries of several different services funded by separate SIBs. This might cause problems in identifying which SIB- or PBR-funded service caused an outcome. The possibility of SIB-funded services overlapping (geographically and with a particular client base) might be one factor to take into consideration in selecting which SIB-funded interventions to implement where and with whom. There is a risk that government and others involved in payouts could be asked to 'pay twice' for the same outcomes.

4.6 Summary: conclusions and potential lessons for future SIBs

Based upon evidence from our interviewees at this early stage of operation of the Peterborough SIB, we suggest the following potential lessons for future roll-out of other SIBs.

The development of a methodologically robust outcome measure, which had the confidence of all stakeholders, was a time-consuming and analytically complex process in the Peterborough SIB. An outcome measure will be central to all future SIBs and other forms of payment by results. There may be transferable lessons from the Peterborough SIB to future SIBs in offender management and other PBR arrangements in the field of offender management. However, detailed questions regarding control groups and statistical significance will have to be analysed for each new issue area or intended outcome, taking into account the nature of the target population and the desired outcomes. Future SIBs in new policy areas, and payment-by-results arrangements in new policy areas, should anticipate the time, skills and capacities that are likely to be needed from both intermediaries and government to develop outcome measures.

In the Peterborough SIB, stakeholders reported that they tried to balance the need for the outcome measures to be robust with considerations of the time, resources and data needed to operationalise the measure. The SIB at HMP Peterborough used a matched control group, but reportedly other options were considered by the Ministry of Justice – including a randomised control trial. This may have been more time-consuming and costly to operationalise, but may have provided a more robust causal attribution. Future SIBs and PBR arrangements may have to make similar trade-offs.

CHAPTER 5 Outcome payments

If reconviction events are reduced by 10% or more in cohorts 1, 2 and/or 3, investors will receive an outcome payment. If a 10% reduction in conviction events has *not* been detected for any of the three cohorts at the end of the entire SIB period, the three cohorts will be evaluated together. If a 7.5% reduction in conviction events is detected, investors will receive an outcome payment.

Our understanding of the financial processes in the SIB, drawn from our interviews, is set out in a process map in Figure 2.

The value of the outcome payment is determined by two elements:

1. an (undisclosed) value for each reduced reconviction event – negotiated and agreed between Social Finance and the Ministry of Justice; and
2. the number of reduced reconviction events – based on the difference in mean reconviction events between the Peterborough cohort and the comparison group.

The Ministry of Justice has placed a cap on the outcome payments, ensuring that its liability is limited: once the reduction in reconviction events reaches the specified absolute cap in terms of pounds, the outcome payment will not increase.

5.1 Expected return on investment and time lag until payments

Social Finance indicated that if reconviction events are reduced by 10% in one or more individual cohorts, investors are expecting an annual internal rate of return of around 7.5% (up to a maximum of around 13%, depending on the scale of the reduction in reconviction events).

Under this payment model, investors can expect their first outcome payment to be made approximately three to four years after their initial investment, providing the SIB achieves its target of reducing reconviction events by at least 10% for cohort 1. This lag is due to a number of factors. It is likely to take almost two years to recruit a cohort of 1,000 unique offenders discharged from HMP Peterborough, based on current discharge rates.[78] The reoffending of these prisoners is then assessed over a one-year period following their

[78] The cohort will last a maximum of two years regardless of the number of unique offenders recruited by that time. The cohort will close earlier if 1,000 offenders are discharged from HMP Peterborough in less than two years.

discharge from prison, allowing a further six months after this for any outstanding reconviction events relating to offences committed within this follow-up year to be processed by the courts. A further three months is then set aside for the Ministry of Justice to receive an updated extract of the Police National Computer. Finally, a one-month period is allowed for the independent assessor to undertake the reconviction analysis and calculate any outcome payments.

Social Finance interviewees thought that the length of time until the outcome payments in this SIB is around the maximum length of time investors may be willing to wait for a return, especially if there is no secondary market that would allow them to sell on their stake in the SIB and achieve liquidity if necessary or desired (Social Finance, 2010e).

Social Finance described a trade-off between the length of time until first payment and the amount of capital needed upfront from investors. If outcomes are achieved within a shorter period of time, some of the outcome payments to investors can be reinvested by those investors as their next investment contribution. We note that the desire for quicker returns may encourage a focus on shorter-term outcomes rather than long-term outcomes from preventative interventions.

Social Finance also highlighted that there is a balance to be achieved between the length of time until first outcome payment and the sample size needed to show statistical significance. If this SIB was on a larger scale, with more offenders in the cohort, a sufficiently large sample size would be expected to be achieved more quickly, and therefore improved outcomes could have been demonstrated sooner – and if they were, then payments could be made sooner. The length of time until outcome payments may shape investment in the SIB, as not all investors can wait for that length of time for the possibility of a return on their investment.

5.2 Funding outcome payments

The outcome payments will be made by the Ministry of Justice and the Big Lottery Fund. As described to us by an interviewee from the Fund, its decision to part-fund the outcome payments was made on the basis that the SIB was innovative, and would be funding something not already provided by government, thereby fitting with its principle of additionality – that is, supporting the pursuit of new or additional outcomes.[79]

5.3 Pricing reconviction costs and savings and negotiating the tariff

As with determining the methodology for measuring reduced reconviction events, the Ministry of Justice undertook detailed analytical work to support the value assigned to each reduced reconviction event. An interviewee[80] from the Ministry of Justice said that the analysis drew on existing data about the costs incurred at different stages of the criminal justice system, and noted that the cost calculations took into account the broader

[79] In addition, the Big Lottery Fund is separately funding Social Finance to develop the SIB model in other policy areas.

[80] Interviewee 7.

societal benefits of reduced reoffending. Since then there has been further work undertaken within the Ministry of Justice to further refine the understanding of costs in order to inform future PBR initiatives.

Interviewees from the Ministry of Justice[81] and NOMS[82] described a considerable process of negotiation over the value of the 'tariff' for a reduced reconviction event, taking into account the analytical work carried out by the Ministry of Justice and the acceptable level of return on investment for Social Finance and investors. We were told that the agreed tariff and business case for the SIB was signed-off by HM Treasury as representing value for money for government.

5.4 Accounting for outcome payments

The issue of the accounting rules which applied to the SIB was raised by interviewees from Social Finance, the Ministry of Justice and HM Treasury.

The investors' funds within Social Impact Partnership Limited,[83] used to fund the interventions, do not count as government debt. The outcomes risk and control of the funds lie solely with Social Impact Partnership Limited, and this accounting treatment was approved by HM Treasury. The possibility of making outcome payments may be disclosed as a contingent liability in the Ministry of Justice accounts, if such treatment becomes appropriate. After the three cohorts have been followed up, the Ministry of Justice will know whether or not it will be making the outcome payments, and can adjust its accounting accordingly.[84]

From our interview with a representative from HM Treasury,[85] we understand that it is not decided whether this would be the case with future SIBs implemented on a larger scale.

5.5 Summary: conclusions and potential lessons for future SIBs

Based upon evidence from our interviewees at this early stage of operation of the Peterborough SIB, we suggest the following potential lessons for future roll-out of other SIBs.

Developing the payment model for the Peterborough SIB demanded considerable analytical time and resources from the Ministry of Justice and Social Finance. The measure was based, at least in part, upon Ministry of Justice estimates of the cost of a reconviction event – including direct costs to the criminal justice system and social costs of crime – since this was the foundation of ensuring that the Peterborough SIB represents value for money for the government. Those developing new SIBs and other payment-by-

[81] Interviewee 11.

[82] Interviewee 1.

[83] Social Impact Partnership Limited is the vehicle set up by Social Finance to hold the debt.

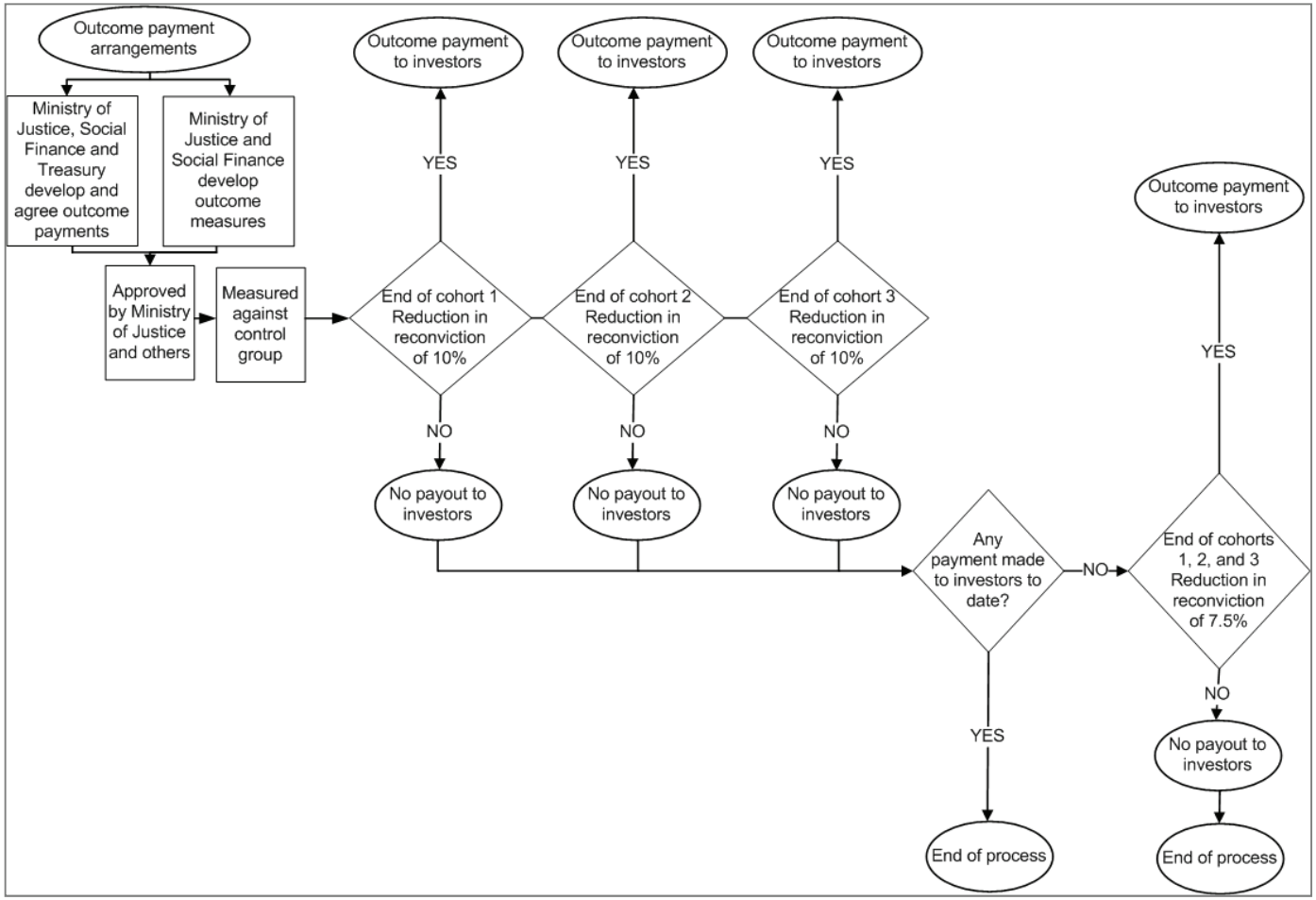
[84] This statement was approved by accountants in the Ministry of Justice.

[85] Interviewee 10.

results mechanisms may wish to consider the extent to which equally – if not more – robust cost data are available or can be developed.

The length of time until the outcome payment has some implications for the Peterborough SIB. Those developing future SIBs or PBR mechanisms may wish to bear these implications in mind. For example, it may limit investment to those who can afford to tie up capital for that amount of time. Capital can be used more efficiently if outcome payments are made sooner, since some of the outcome payments can be reinvested to pay for service delivery: this means that less upfront funding is needed.

Figure 1 Process map of financial processes in the Peterborough SIB



Source: Interviewees' accounts analysed by RAND Europe

CHAPTER 6 The intervention and uptake so far

The services delivered under the SIB are referred to as the 'One Service', providing 'early engagement, through and beyond the gate delivery and proactive, individualised support in the community to address needs and prevent reoffending'.[86] As the interviewees from all the stakeholder groups emphasised, the innovations of the SIB at Peterborough are the provision of services to short-sentenced offenders at HMP Peterborough (who would not otherwise receive supervision by the Probation Service on release from prison) and the funding arrangements, rather than the particular intervention with offenders: one-to-one, individualised support addressing offenders' needs has long been recognised as a potentially successful model for reducing reoffending, and has been provided by various organisations for some time.

At the early stage in the SIB at HMP Peterborough when our research interviews were conducted, two service providers had been commissioned by Social Finance to work with members of the Peterborough cohort and their families. The St Giles Trust had been commissioned by Social Finance to provide a through-the-gate service to the Peterborough cohort of offenders. The St Giles Trust was previously commissioned by the London Probation Service (as well as in other locations across the country) to deliver its Through-The-Gate intervention.[87] Secondly, the children's charity Ormiston Children's & Families Trust had been commissioned by Social Finance to provide support to the families of offenders – helping them to prepare for, and understand the process around, an offender's release from prison.[88] Ormiston Children's & Families Trust has been working in and around Peterborough for a number of years, and has previously provided prison-based services to families of offenders. More information on the services provided by St Giles Trust and Ormiston Children's & Families Trust is provided in Appendix C.

Social Finance's long-term vision for the SIB is to extend the range of services and service providers to ensure that a range of identified offender needs can be addressed.[89] This might be done on a spot-purchasing basis – buying services specifically on a one-off basis for a single offender or group of offenders – or by commissioning providers on a more long-term basis.

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[86] Description provided by the One Service website: http://www.onesib.org/#/about-one/4542508807, accessed 31 January 2011.

[87] Interviewees 14 and 15. See also the description in Pro Bono Economics (2010).

[88] This description of the work of Ormiston Children's and Families Trust was provided by Social Finance.

[89] Interviewee 17.

Social Finance confirmed that St Giles Trust is likely to remain a core provider of through-the-gate interventions with offenders.

In addition to commissioning services, interviewees from Social Finance were interested in opportunities to work with existing service providers in the community, perhaps finding additional, external funding to support some interventions.

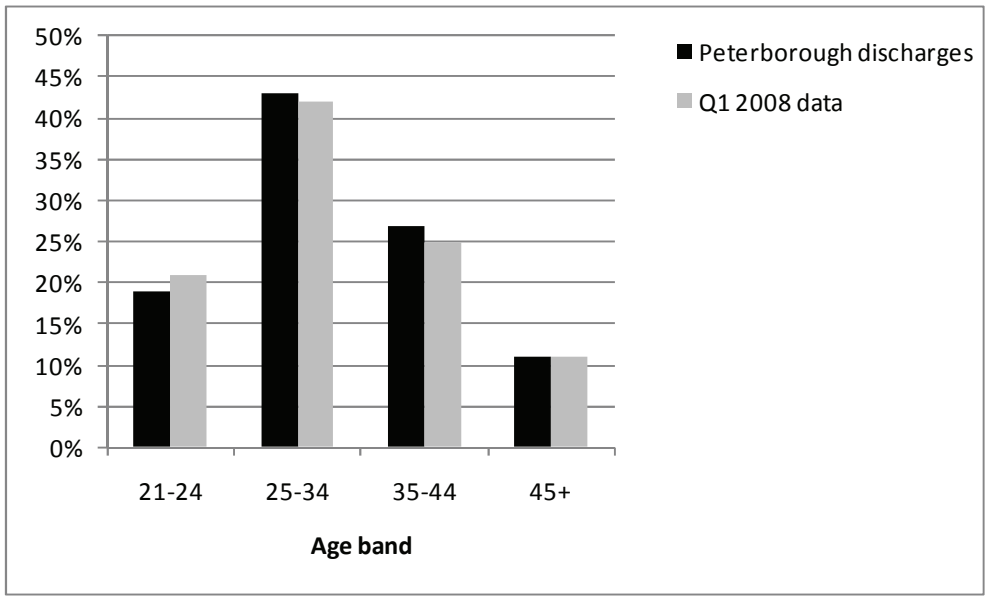
6.1 Nature of the cohort as at March 2011

On 16 March 2011 there were approximately 315 offenders in the Peterborough cohort.[90] To get a sense of the characteristics of the Peterborough cohort, and how typical they are of short-sentenced prisoners nationally, we compared the ethnicity and age of the Peterborough cohort with offenders aged 21 or over discharged nationally from short sentences in the first quarter of 2008 (i.e. the latest published data).

At the time of writing this report, data were not available as to the previous criminal history of the cohort, but this will be available for later stages of the evaluation.

The small numbers in the Peterborough cohort mean that we must be cautious in drawing conclusions from this data; however, as shown in Figure 3 and Figure 4, the age profile and ethnicity breakdown of the two groups is broadly similar (see Table D-1 and Table D-2 in Appendix D).

Figure 2 Breakdown of offenders by age band – Peterborough cohort compared to national sample

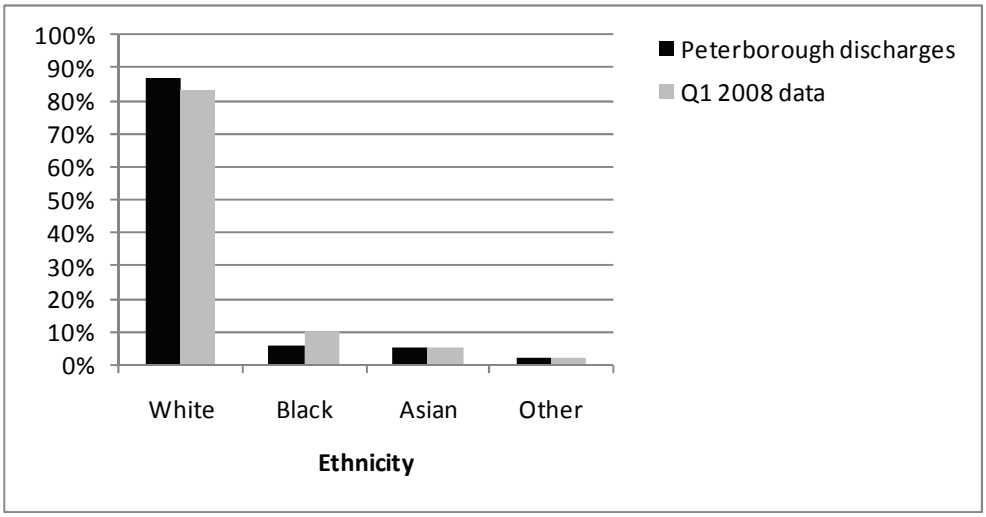


Does not include one member of the Peterborough cohort whose age was not known (no release date was recorded for this individual, so age on release could not be calculated)

Source: Ministry of Justice extract of the Police National Computer

[90] Of this 315, the personal details of four members of the cohort could not be matched to details on the Ministry of Justice extract of the Police National Computer.

Figure 3 Breakdown of offenders by ethnicity – Peterborough cohort compared to national sample



Does not include four members of the Peterborough cohort whose personal details could not be matched with the details of offenders in the Police National Computer data held by the Ministry of Justice, and two members of the cohort whose ethnicity was not known

Source: Ministry of Justice extract of the Police National Computer

6.2 Uptake and engagement with the One Service

Information as to the level of engagement by offenders in the One Service was only available for the 135 offenders who were in the Peterborough cohort as at 30 November 2010. Of these, St Giles Trust staff defined 70% as being 'engaged' with the service. Information about the numbers defined as engaged or not engaged as at March 2011 was not available at the time of writing, but Social Finance are recording this information and it will be used in later stages of the evaluation.

6.3 Facilitation of the SIB by HMP Peterborough

Interviewees from HMP Peterborough noted Sodexo's willingness to host the SIB pilot:

> Through-the-gate care meeting offenders, following that through, being there to support them, that is the right thing to do. It is what I think anybody working in the prison would want to do ... that is why Kalyx[91] wanted to be involved, because they recognised that that was the right thing to do.
>
> **(Interviewee 19, Deputy Director, HMP Peterborough)**

HMP Peterborough appears to have taken several steps to accommodate and facilitate the SIB. One of the most significant is that HMP Peterborough has employed a pre-release or resettlement team to facilitate the SIB, consisting of a manager, a support worker and an

[91] The prison operating company has since changed its name to Sodexo.

administrative post. This team has been funded by Sodexo, not Social Finance.[92] This team works with all members of the population at Peterborough, but the trigger for their employment was the implementation of the SIB, and the current prison management told us that this team was key to facilitating the day-to-day operation of SIB-funded interventions within the prison.

Further to employing these additional staff members, HMP Peterborough has ensured internal procedures and processes to accommodate the SIB. This includes allowing ex-offenders to re-enter the prison in their role as St Giles Trust volunteers, linking the SIB provision with existing advice and support.

6.4 Knock-on benefits of hosting the SIB pilot

Overall, HMP Peterborough's involvement in the SIB was perceived by the director and deputy director as positive for the prison, both internally and externally. Internally, interviewees from the prison mentioned the following benefits:

- through-the-gate contact with offenders allows the prison to get some feedback and information about the effectiveness of the services and pre-release advice that it provides to offenders, which allows those services to be improved;
- provision for short-sentenced offenders under the SIB has freed capacity within existing prison staff and resources to work with other elements of the population;
- the prison is looking to transfer learning from the interventions with offenders funded by the SIB to other elements of the population (for example, short-sentenced women offenders).

6.5 Effect of the SIB on other organisations in the area

Interviewees from the prison, Social Finance and NOMS all noted that there were some concerns among existing service providers in Peterborough at the prospect of SIB-funded providers starting work in the area. At a time of limited funding for service provision, there was understandable concern about the effects of a new service provider. However, these concerns appear to have been addressed through a significant amount of brokerage and relationship-building by Social Finance, NOMS and HMP Peterborough:

> We did have a fairly well-defined group of people working with offenders from the third sector ... There was quite a lot of anxiety about 'What is this SIB project going to do to us?' ... One of the strengths of the way it has been done is actually that those concerns and risks have been well-managed, and they are now actually working effectively together and we have got a stronger team now than we had before, because [of] the way that those anxieties, difficulties have actually been managed.
>
> **(Interviewee 18, Director, HMP Peterborough)**

[92] The funding for this came from a rehabilitation fund which is unique to Sodexo's operating contract, resulting from an earlier contract renegotiation. The effect of this funding on the operation of the Peterborough SIB will be monitored during the evaluation.

Interviewees from the St Giles Trust indicated that there were no significant overlaps between their service funded by the SIB and existing local services. They considered themselves to be well-integrated into the Peterborough Community Safety Partnership, and reported working closely with existing service providers such as the Drugs Intervention Team.

6.6 Challenges identified, overcome and remaining in implementation of the One Service

Interviewees from HMP Peterborough, St Giles Trust, and Social Finance mentioned the following issues arising in the implementation of the SIB at Peterborough.

The need for coordination and drive

Interviewees from the prison saw the reducing reoffending director, employed by Social Finance, as a crucial position, and one likely to be of benefit to future SIBs.

Identifying offender needs and characteristics

Social Finance reported that further analysis is needed to understand apparently lower levels of engagement by Eastern European prisoners. Social Finance suggested that it may be that Eastern European prisoners require less support, or it may be that there are language barriers that prevent these prisoners from engaging. St Giles Trust would like to recruit volunteers and/or paid mentors with these language abilities, but has not been able to do so yet.

Social Finance will receive data from the Police National Computer which should indicate whether or not clients are being reconvicted. If so, this may suggest that they could benefit from support from the One Service. Social Finance told us that it plans to interview those who refuse the service or disengage early, in order to establish the reason for this.

Access to the prison for SIB staff

Some of the peer advisers and mentors working under the St Giles Trust intervention are ex-offenders, and there are some issues around their access to the prison. Ex-offender case workers are not permitted to have keys, use the prison computers or visit the wings, and Social Finance reported that this had been a difficulty. However, we were told that Social Finance were working with HMP Peterborough to address the information technology issue (which is important because the One Service assessment is paperless and relies on web access).

Office space for providers

Social Finance has now arranged office space in Peterborough, via the YMCA, as a base for St Giles Trust staff and the Ormiston Children & Families Trust, and for staff from other providers who may be involved at later stages.

Releases beyond Peterborough

While Peterborough was selected because it has a relatively high proportion of local releases, there are still challenges in working with cohort offenders who are not released in the eastern region or London areas.

St Giles Trust is able to deliver a through-the-gate intervention to prisoners that are released further afield, but these offenders are then handed over to other local support networks, once immediate needs such as housing and benefits have been addressed. The St Giles Trust case worker will continue to hold the case for 12 months after release and will stay in touch with the client and new provider(s).

Ormiston is funded only to provide family support to those living in Peterborough. However, it is able to provide a service from its other centres across the eastern region.

6.7 Stakeholders' assessment of the intervention model and service delivery to date

At the time that research for this report was undertaken, the SIB had been running for a relatively short period of time and little data was available to stakeholders regarding the progress of delivery and uptake so far. However, the investors with whom we spoke, as well as the individuals working within the Ministry of Justice, NOMS and the prison, were all very positive about the nature of the interventions being commissioned.

There was widespread support among the interviewees for the individualised, through-the-gate support being offered. Interviewees from the Ministry of Justice, NOMS and investors expressed their personal confidence in St Giles Trust: an organisation known to many, if not all, of the interviewees prior to the SIB. One interviewee made explicit reference to St Giles Trust's 'track record' of previous success in delivering services,[93] and another to their 'evidence of success'.[94]

These interviewees may have been aware of an evaluation of St Giles Trust's Through-The-Gate service conducted by Pro Bono Economics. This found a 40% reduction in reoffending among a group of more than 500 offenders who had been given the Through-The-Gate service. However, there are some limitations to the methodology of this report, which mean we must treat these findings cautiously: they compared reoffending among a group of offenders with whom the St Giles Trust had worked, with reoffending rates in a national sample of short-sentenced prisoners (Pro Bono Economics, 2010). The quality of the national data meant that they could not control for age and other factors, which may have explained differences in reoffending rates. This raises questions for this SIB about the strength of the evidence base underlying the interventions, but more widely for other SIBs as to the quality of evidence needed, the kind of evidence which investors find compelling, and so on.

Evidence as to the effect of mentoring on reoffending is inconclusive; whilst there have been a number of evaluations of the impact of mentoring, many of these have limited research designs. Reviewing the literature on mentoring, Jolliffe and Farrington (2007) note that those studies which applied more robust methodologies tended to find smaller effect sizes, and conclude that 'mentoring is a promising, but not proven intervention' (p. 9). With this caveat in mind, they noted that mentoring programmes in which the mentor and mentee met more regularly (at least once a week) and spent more time together appeared to be more successful in reducing reoffending. Further, the evidence suggests that mentoring was only successful in reducing reoffending when it was delivered along with other interventions (p. 3).

6.8 Summary: recommendations, lessons and conclusions

The One Service has been implemented, and reported rates of engagement by offenders are high. Initial challenges in implementation largely are perceived to have been overcome by good working relationships between Social Finance, HMP Peterborough and providers. Early contact

[93]Interviewee 6.

[94]Interviewee 17.

with local service providers, and regular provision of information to them during the development of the SIB, seems to have been important in building relationships that facilitated implementation.

Impact on other agencies and service providers in Peterborough should be monitored. As the SIB is delivered over a longer period of time, it may be important to pay close attention to the ongoing impact of the SIB on other agencies. These include HMP Peterborough, statutory agencies such as the police, Probation Service, housing agencies and other third sector agencies that work with the SIB population. In particular, it may be important to consider the impact of Social Finance commissioning strategies, and whether the SIB is able to provide secure funding and/or fertile ground for innovative work to service delivery agencies.

The importance of good working relationships with the prison. Both the director and deputy director of HMP Peterborough reported being supportive of the SIB. Future SIBs in prison establishments may wish to consider whether and how significant this supportive and productive working relationship may be.

Possible unintended consequences of SIB implementation within the prison. Our interviews suggest that, potentially, implementing the SIB may have a positive impact on work with non-SIB offenders within HMP Peterborough. In addition, the SIB may enable HMP Peterborough to meet some of its performance targets (for example, in relation to purposeful activity). Conversely, the interviewees highlighted the ways in which running the SIB might make it more difficult for HMP Peterborough to meet some targets. Those developing future SIBs may wish to ensure alignment between the outcomes and metrics of the SIB and existing performance monitoring and performance indicator regimes.

Evidence and track record. Although this was not raised by those in government dealing with the SIB, investors mentioned their confidence in the St Giles Trust, which they perceived to have a strong track record in delivering services to offenders. While some of this confidence appeared to be based upon prior relationships with the Trust, other interviewees explicitly noted what they perceived as the well-publicised evidence base for the Trust's work. For future SIBs this raises a question about the level of evidence of effectiveness that investors and those commissioning providers may require in selecting and having confidence in providers.

Does the SIB encourage innovation? One of the rationales behind the use of SIBs is that they are thought to be better placed to encourage innovation in service delivery as well as the funding of services. Mentoring and signposting is not in itself a new form of service provision. What appears to be innovative is providing services to offenders serving short prison sentences and having the buying power to commission a range of separate interventions deemed suitable for working with the particular offenders that become involved. This scope for innovation is something that we will examine further in the later stages of evaluation of the SIB.

CHAPTER 7 Conclusions and lessons

This chapter draws out the main findings from this research, and in each section indicates where possible the potential lessons for wider roll-out of SIBs or other payment-by-results mechanisms.

7.1 Departmental investment and creativity

Evidence from the interviewees indicates that the Ministry of Justice has invested a great deal in getting this SIB up and running. As noted previously, considerable analytical work was required in defining the outcome measures; significant cost analysis supported negotiations over the value of outcome payments (and this work has continued); and the Ministry of Justice Procurement department drafted complex contracts within a short time period. The Ministry of Justice had to innovate to enable the SIB model to be put into practice, and did so in a relatively short time period.

Possible lessons for future SIBs and other PBR models: analytical support and creative thinking are needed.

7.2 Characteristics and skills of future intermediaries

Interviewees' accounts of the development of the SIB indicate that Social Finance's ability to engage and negotiate with different stakeholders was important. It had credibility in the eyes of some investors through existing contacts and networks, it made a convincing case for the SIB as an alternative funding mechanism, it quickly got up to speed on the chosen area for the intervention, and demonstrated confidence in its ability to secure the necessary investment funding.

Possible lessons for future SIBs and other PBR models: on the experience of this SIB, the range of skills associated with a successful intermediary may include technical skills (in negotiating contracts), financial knowledge (selling a financial product), getting up to speed in the relevant policy areas, and softer relational skills.

7.3 Contracts

Risk transfer

The data gathered in interviews suggest that there has been a transfer of risk from the government to private investors. However, this transfer, and the contracts themselves, are untested in many respects: issues that challenge the contractual arrangements and/or require

clarification through the contracts could still arise in the course of implementation and determining outcomes and payments for this SIB.

Complex contracts

Some interviewees reported that the contracts are complex. This is understandable: the SIB raises some complex contractual issues and involves many different stakeholders. Drawing on experience with private finance initiative contracts, complexity in some instances meant that the actual transfer of risk is not clear. Also, it could be the case in future SIBs that investors and intermediates will have better-resourced legal and contractual advice than can be readily obtained or funded by government, which could result in less than optimal terms for the government.

Possible lessons for future SIBs: some interviewees reported an appetite for, and interest in, developing some standard contract terms and definitions for SIBs, which could make drafting and signing up to future SIB contracts an easier process.

7.4 Investors

Aligning with investors' missions and motivations

Through our interviews we were able to explore investors' reported motivations for investing in the SIB. They noted that they were keen to fund innovation, that this investment was aligned with their charitable missions to do public good, and that the SIB investment allowed some investors to improve outcomes in an issue area of particular interest to them (criminal justice).

Possible lessons for future SIBs: it may be helpful to undertake analysis of the investment market relevant to a SIB in order to identify likely funders for SIBs in a new issue area and their particular interests and motivations.

Addressing or anticipating barriers to investment

This research highlighted some potential barriers to investment, namely: tax rules that restrict charities' ability to put money into a SIB, and lack of clarification of trustees' duty to maximise financial return.

Possible lessons for future SIBs: Social Finance has taken advice on some of these issues from HM Treasury and HM Revenue & Customs already in the course of developing the Peterborough SIB, and future SIB development may benefit from this learning. The government could consider whether any steps could be taken to offer tax incentives.

Testing appetite in a wider investment market

The majority of investors were foundations and charities. The appetite for a wider range of investors is not tested in this SIB, although we understand from Social Finance that work to assess this is currently underway.

7.5 Outcome measures

Trade-offs between measurements and ways of measuring

A robust measurement of the impact of SIB-funded interventions on outcomes is central to any SIB. In selecting an outcome measure there are a number of competing considerations: the desire to develop a methodologically robust measurement, which allows those paying for improved outcomes to confidently attribute any change in outcomes to the intervention; the need to ensure

that measurement is possible within time constraints and given the analytical resources available; and the need for the measure to be clearly understandable to the stakeholders involved.

Attribution problems with wider roll-out

The plan to roll out other SIBs and payment-by-results models could create a situation where several agencies implementing interventions in overlapping areas, or areas that impact on each other, could claim to have 'caused' any improved outcomes. It is worth considering ways of handling this at the point of determining which interventions to implement where and with whom, and/or in attributing causality and appropriate outcome payments. Otherwise, government and others involved in payouts could be asked to 'pay twice' for the same outcomes.

Possible lessons for future SIBs and other PBR models: those planning future SIBs or PBR models may wish to consider whether several interventions may impact on outcomes for the proposed target group. This may have implications for determining the counterfactual – that is, what would have happened in the absence of the SIB-funded intervention.

7.6 Outcome payments

Cross-departmental outcomes

The Ministry of Justice is the only government department paying out for any improved outcomes achieved through this SIB. However, there is a pressing need to explore how outcome payments might be shared across national and local government departments, and this was identified by many interviewees as well as the wider literature around SIBs as a crucial issue.

Possible lessons for future SIBs and other PBR models: future pilots might devise mechanisms to facilitate cross-departmental commitment to outcome payments.

Impact of time until return on investment

The interviewees in this research noted that quicker outcome payments would allow investors to use their capital more efficiently, that is, to reinvest some of the outcome payments to pay for service delivery, and this may make investment in a SIB a more feasible or attractive prospect.

Possible lessons for future SIBs: consideration and/or analysis could be undertaken of the time until the first payment to investors (if outcomes are improved), and the knock-on effects on factors such as the efficient use of capital.

Procurement

Some interviewees within government felt that they may have been able to arrive at a more favourable financial settlement for the Ministry of Justice if the SIB had been competitively tendered, although they emphasised that if the SIB is successful in reducing reoffending, the arrangement still represents value for money for the Ministry of Justice.

Possible lessons for future SIBs: it is beyond the scope of this phase of the research to assess the relative weight of these arguments. However, it could be useful to consider the suggested possible advantages of using non-traditional methods of procurement, such as collaborative development and commissioning. If future SIBs are to be commissioned, this will rely upon a supply of intermediaries or delivery agencies.

7.7 The intervention

This research indicated that Social Finance took steps to ensure buy-in at a local and regional level in Peterborough. This was facilitated during the early stages of development by the NOMS Regional Offender Manager and a member of the local criminal justice board. Ongoing facilitation is provided by the Social Finance Reducing Reoffending Director.

Possible lessons for future SIBs and other PBR models: interventions take place in a local context, and may impact upon many different statutory and non-statutory organisations, voluntary sector organisations and other existing service providers. It may be in the interests of smooth implementation and effectiveness to take time to build relationships with, and secure buy-in from, organisations. Early contact with local agencies appears to have been important in the SIB at HMP Peterborough.

The investors with whom we spoke expressed confidence in the St Giles Trust and their ability to work with offenders.

Possible lessons for future SIBs and other PBR models: providers may benefit from engendering investor confidence: for example, by commissioning evaluations of their work.

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APPENDICES

Appendix A Methodology and approach – additional information on literature search and key informant interviews

This report is based upon:

- Targeted literature research
- Semi-structured interviews
- Review of the contract between the Ministry of Justice and Social Finance
- Police National Computer data provided by the Ministry of Justice.

Targeted literature search

We reviewed the literature on:

- Mentoring and signposting (the 'what works' literature)
- Social investment
- Social Impact Bonds (SIBs)

While the first two topics have been written about extensively in academic, peer-reviewed literature, so far SIBs have been discussed mostly in the grey literature (written largely by Social Finance and The Young Foundation).[95]

Interviews

In collaboration with the Ministry of Justice[96] we developed a list of stakeholders from the organisations involved in setting up the SIB. A list of interviewees is provided in Table 1 in Chapter 1 of this report. We developed an interview protocol which covered the areas specified by the Ministry of Justice as of interest in this interim report (the interview protocol is included in Appendix B).

We approached interviewees by email. All those approached agreed to meet with us (except for one who provided us with an alternative interviewee in the same department).

[95]We found reference to the existence of SIBs in some recent peer-reviewed publications, for example Fox, et al. (forthcoming), and Ledger (2010), but no discussion of analysis of their implementation or likely effectiveness.

[96]The Ministry of Justice suggested an initial list of possible interviewees. RAND Europe researchers added other interviewees who we thought would provide useful insights.

We conducted face-to-face interviews with 22 stakeholders. The interviews lasted between 40 minutes and 1.5 hours. The content and focus of each interview varied according to the particular role and expertise of each interviewee, but we allowed each interviewee the opportunity to comment on all topics. Taking a semi-structured approach, we provided interviewees with an opportunity to raise issues not included in our interview protocol.

Interviews were recorded and fully transcribed. The interview transcriptions were independently analysed by three members of the RAND Europe research team. We conducted follow-up telephone conversations and emails where necessary to clarify any points arising from the interviews. The approach to the analysis of the interviews and a discussion of the limitation of the research approach are outlined in section 1.4 in Chapter 1 of this report.

Appendix B Interview protocol

This protocol was used to structure key informant interviews. It was designed by the RAND Europe research team, in consultation with the Ministry of Justice.

SECTION 1. Open questions

1.1. Could you tell me about your own involvement in the development of the SIB initiative and its operation so far?

1.2. Could you describe your organisation's role in the SIB?

1.3. What is your view of the SIB?
- *In terms of the organisations involved, their roles and responsibilities, the benefits and costs.*
- *The feasibility and suitability of the SIB model.*

SECTION 2. Contractual process and structure

Overview of contractual processes

2.1. Were you involved in any of the contractual negotiations/discussions for the SIB?
If no, move to section 3. If yes, continue to next questions.

2.2. What was your involvement in the contractual negotiations/discussions?
- *For example, were you involved in negotiations, reviewing, attending meetings?*

2.3. Who else was involved in negotiations/discussions for the SIB?

2.4. Were there people who were not involved (in drawing up the contracts) but you thought should have been?

2.5. Who, or which organisation(s), would you say were the main drivers in the contractual process?

2.6. Were there any sticking points or challenges in drawing up the contracts?
- *If so, how were these overcome?*

2.7. Were any aspects of the contractual process easier than expected?

- *If so, how and why?*

Meaning/implications of the contracts

2.8. What are your organisation's/agency's contractual responsibilities under the SIB?
- *To check understanding, clarity and identify accountability under the SIB model?*

2.9. Is this the role you envisaged for your organisation?
- *Would you change it in any way?*

2.10. Do you feel your organisation/agency is carrying any risks (contractually)?
- *What are they?*
- *How do they compare to the risk carried by other organisations/agencies?*
- *Are you taking steps to monitor and mitigate against these risks?*

2.11. Do you feel your agency is receiving any benefits, contractually?
- *For example, [for providers] long-term funding, [for investors] might get a return on investment where wouldn't have previously, [for Ministry of Justice] service being provided where none was previously.*

2.12. Do you have a view on how all of the contracts work together?

Performance monitoring

2.13. Can you say anything about how the performance of your organisation is monitored under the SIB contracts?

2.14. Can you say anything about how the performance of other organisations is monitored under the SIB contracts?

Views on the quality of the contracts

2.15. Do you feel there are any particular strengths and weaknesses of the final contracts, and if so, what are they?
- *For example, in terms of reporting, the time spent in negotiation, the level of risk?*

SECTION 3. SIB development process

3.1. Can you say anything about how offender management (rather than other policy areas such as health care or education) was selected for this SIB?
- *Are there any positive or negative aspects about the choice of offender management?*

3.2. Do you know how and why HMP Peterborough was selected?
- *Do you know whether other institutions were in the running?*
- *If so, do you know why they were not selected?*
- *Would you say there are any particular positive or negative implications of the choice of HMP Peterborough?*

SECTION 4. Investors

4.1. Were you involved in any way in developing the investment model for the SIB?
- *If no, do you feel able to comment on the development of the investment model?*
- *If no, move to section 5. If yes, continue to next questions.*

Amounts of investment desired and secured

4.2. Do you know how the overall amount of investment needed for the SIB at Peterborough was decided?

4.3. Do you know how much investment was actually secured?

Investors and their identification

4.4. Are you able to comment on the list of investors in this SIB?
- *Who are they?*
- *Are they appropriate?*
- *What are their relative contributions?*

4.5. Are you able to say anything about how potential investors were identified?

Securing investment

4.6. Were there any challenges in securing sufficient investment?

4.7. Do you know if there were any organisations/individuals that considered investing and chose not to invest?
- *Would you be able to tell us anything about them?*
- *Do you know, or could you speculate on, their reasons for not investing?*

4.8. Do you know whether potential investors were given information about the intervention, and if so, what information?

Factors relevant to investment decisions

4.9. What would you say were the likely factors which influenced decisions about whether or not to invest?

4.10. The Ministry of Justice have listed a number of factors which they think may have played a role in decisions to invest or not. If I read out this list, perhaps you could score each on how important you think it is – where 1 is not important at all, and 10 is very important, a 'deal breaker':

a. Speed of process
b. Length of time until outcome payment
c. Criminal justice setting
d. Nature of the intervention being delivered
e. Financial return on investment
f. Perceived social return on investment
g. Being involved in an innovative scheme

h. Profile for participating organisations
i. Other: *Please specify*

Ongoing information

4.11. How much ongoing information about the initiative is provided to investors?

- *If you are able to comment on this, could you give us a rough estimate of how long it takes to provide that information?*

Closing question

4.12. Do you have any other comments to make in relation to investors or the investment process?

SECTION 5. Methodology for determining outcomes measures and outcome payments

5.1. Were you involved in any way in the development of the outcome measures and/or outcome payments under the SIB?

Comment on elements of outcome measures and outcome payments

5.2. Could you describe and comment on the outcome measures used in the SIB at Peterborough, and how these were selected?
- *How is effectiveness or success measured?*
- *Could you describe and/or comment on the cohorts of offenders used in the measurement of outcomes?*

5.3. Could you describe and comment on the *role of the independent assessor* in measuring outcomes, and in calculating outcome payments?

Payments for interviewee's organisation

5.4. What proportion of funding (for your agency) is outcome-based as opposed to upfront regular payments?

5.5. How does the way the SIB is funded differ from your typical/previous funding arrangements?
- *Are there particular implications of this SIB funding arrangement for your organisation?*

Closing questions

5.6. Are there any particular strengths and weaknesses of the outcomes and payments arrangements, and if so, what are they?

5.7. Do you think these measures and payment levels work equally well for all parties?

SECTION 6. Stakeholder opinions on the intervention model being used

6.1. Were you involved in any way in the development of the intervention model for the SIB?
- *If no, do you feel able to comment on the development of the intervention model?*
- *If no, move to section 7. If yes, continue to next questions.*

6.2. We are aware that the St Giles Trust has been commissioned to provide mentoring and signposting services for short-sentenced prisoners at HMP Peterborough. Do you know of any other interventions or providers under the SIB?

6.3. Do you know how the intervention model and the providers were selected?

6.4. Do you know if any other options were considered?

6.5. How much scope is there for a contractor to decide how to deliver the intervention?
- *i.e. is there flexibility within the contractual model to adjust the way that the intervention is delivered, or to deliver other interventions altogether with the aim of reducing reoffending?*

6.6. Do you know if there is scope for other delivery organisations to be brought in under the SIB?
- *If yes, how? Do you know if they have to be added to the contract or if they would work under a subcontracting relationship?*

6.7. How would you summarise your views, overall, on this intervention model?

SECTION 7. Exploring the counterfactual

Funding before and after for organisations involved

7.1. How was your organisation funded before the SIB?

OR How were the organisations involved funded before the SIB?

7.2. Do you still receive this funding as well/are you still seeking this type of funding?

OR Do the organisations involved still seek their previous methods of funding?

Provision at HMP Peterborough before and after the SIB

7.3. What service provision, if any, was there for short-sentenced prisoners at HMP Peterborough before the SIB?

7.4. Have any services been decommissioned at HMP Peterborough or in the community as a result of the mentoring and signposting intervention under the SIB?

Commissioning before and after the SIB

7.5. How did your organisation commission services before the SIB?

7.6. How will you commission services after the SIB?

Investing before and after the SIB

7.7. How did your organisation invest before the SIB?

7.8. How will your organisation invest after the SIB?

Alternative funding for the interventions

7.9. Would you have delivered this intervention at HMP Peterborough apart from the SIB?

OR Would the intervention have been delivered at HMP Peterborough apart from the SIB?

Alternative models of funding

7.10. Were there other alternative funding models that you considered?
- *Other than the SIB?*

7.11. Have you since heard about other alternative funding models that you prefer?

SECTION 8. Assessing service delivery to date

General introductory question

8.1. Could you say something about the implementation and operation of the mentoring and signposting initiative so far?
- *In what ways would you say the mentoring and signposting intervention is working well?*
- *In what ways would you say the mentoring and signposting intervention could be improved?*

The intervention model in practice

8.2. Have any changes been made to the planned intervention model since the start of the SIB?

8.3. Have you operated this intervention in other settings, before the SIB?
- *How is it similar or different? Any modifications?*

8.4. Have you faced any particular challenges with the first cohort of participants?
- *If so, in what ways have you/do you intend to overcome these challenges?*

8.5. What is the rate of uptake among the cohort?

8.6. What are the main reasons for any unwillingness to engage, in your opinion?

8.7. What are the main reasons for willingness to engage, in your opinion?

Staffing

8.8. Have you encountered any particular challenges with recruiting or training mentors or staff to deliver the scheme?
- *If so, what have been the effects?*

External relationships with other organisations

8.9. How would you describe your relationships and collaborations with:
a. HMP Peterborough
b. The police
c. Probation Service
d. Jobcentre Plus
e. Housing services
f. Substance misuse services
g. Mental health service
h. Other 'signposting' agencies

8.10. Have you encountered any particular challenges with agencies to which you signpost clients?

SECTION 9. Accountability within the SIB

9.1. Is there a particular organisation you see as driving or overseeing the SIB overall?
- *Which organisation would you say is ultimately accountable for the success or failure of the SIB at Peterborough?*

9.2. Within your organisation, who oversees the management of:
a. Contracts
b. Investors
c. Communications
d. The relationship with the Ministry of Justice

SECTION 10. Closing question

10.1. Would you say that there are any particular lessons learned by your agency in terms of the SIB so far?

10.2. What would success in the SIB look like for your organisation?

10.3. **[Social Finance and St Giles Trust ONLY]** Do you have any ideas for suggested changes or improvements to make for the next cohort?

10.4. Do you have any views about rolling out wider SIB/payment-by-results models in offender management?

10.5. Have you any other observations to make about the SIB that have not yet been mentioned in our discussion?

Appendix C Further information on the intervention model

The following is a more detailed description of the services provided to offenders under the SIB at HMP Peterborough at the time when our interviews were conducted. This account has been drawn entirely from our interviews, in particular those with the St Giles Trust and Social Finance. Information about the service provided by the Ormiston Children & Families Trust was provided by Social Finance.

Services provided by St Giles Trust

St Giles Trust has been commissioned by Social Finance to provide a through-the-gate service. St Giles Trust has previously delivered its Through-The-Gate intervention across a number of London boroughs, commissioned by London Probation Service to work with offenders under statutory supervision by the Probation Service.

St Giles Trust's approach focuses on establishing a credible working relationship with each offender while they are in prison, and transferring this relationship into the community, where the offender will be provided with support and advice about accessing the services and resources that they need in order to avoid reoffending.

The St Giles Trust team is made up of paid staff, volunteers within the prison and volunteers in the community. The volunteers within the prison are usually prisoners serving longer sentences who are undertaking, or have completed, a NVQ at Level 3 in Advice and Guidance. The role of these volunteers is to advise and support offenders, encourage them to access services and support while in prison, and to follow up on any missed appointments. The use of volunteers within the prison ensures that St Giles Trust has access to offenders throughout the prison.

Within the prison each offender is shown a DVD which informs them of the One Service. HMP Peterborough has a Link Centre, where staff from various agencies offer support such as housing and drug rehabilitation. In the Link Centre St Giles Trust staff conduct assessments and write action plans for offenders who wish to engage with their service. St Giles Trust provides advice in accessing other services (signposting), direct support in securing accommodation on release from prison, and a working relationship with a member of the team for support.

Depending on the length of sentence, St Giles Trust aims to meet with its target offenders between one and three times while they are in prison. When cohort offenders are released, St Giles Trust aims to meet them at the gate. Offenders who are engaged with the service will be helped to secure accommodation, access benefits and receive any other support that

they have been identified as needing. Offenders who choose not to engage with the service will be given contact details, should they need support in the future, and will be given assistance with accommodation if this is necessary. These contact details include advice about the 'community sticker' access points.

In the community St Giles Trust continues to work with offenders using its staff team and mentors. The mentors are usually ex-offenders who have completed their NVQ in prison and have now been released into the community. Support and advice is provided to offenders depending on their changing needs.

In general, the St Giles Trust intervention can be described as needs- and relationship-focused. The offender's own perceived needs are prioritised, rather than what the case worker considers to be the best course of action, in the hope that this will secure their engagement and allow the St Giles Trust team to focus on other needs, such as employment or drug rehabilitation. The relationships are designed to offer through-the-gate support, a credible role model and support in accessing various agencies and services.

With an emphasis on engaging the offender with the service, St Giles Trust assesses offender needs using a relatively short initial assessment form that focuses on offender-reported primary needs. The needs assessment includes a discussion about their accommodation requirements and history, which in turn can divulge useful information about their other needs, which St Giles Trust can use to help to write an action plan.

A fuller needs and risk assessment is carried out subsequently and revisited at regular intervals.

Transferring the St Giles Trust service from London to Peterborough

The service model delivered by St Giles Trust in Peterborough differs from its previous experience of working with offenders in a number of ways. First, the offenders are on short sentences (less than 12 months), whereas previously St Giles Trust has worked mostly with longer-sentenced offenders. Second, the Peterborough model is based on the location of the prison rather than the release location of the offender, and so involves working with offenders who may be released into areas some distance from their bases in London and Peterborough. Third, the support needs identified by prisoners are different: early indications suggest that the level of drug addiction and homelessness is lower in Peterborough than among the cohort of offenders that the St Giles Trust encountered in their Through-The-Gate service in London boroughs. More Peterborough prisoners are requesting support with finding employment, education and training.

Services provided by Ormiston Children & Families Trust

Ormiston Children & Families Trust (CFT) is a children's charity based in the East of England. They have experience of working in prisons – running visitors centres, facilitating children's visits and delivering a prison-based parenting programme.

The Ormiston CFT One Service team consists of two part-time paid staff who are overseen by a Service Manager and an Area Manager. Referrals to the team come via several routes including self-referral, through the St Giles Trust, and from schools, GPs, anti-social behaviour teams and specialist agencies. Their role is as follows:

- to support a family's preparation for an offender's release, including helping family members to understand prison processes and sharing critical information with them;
- to facilitate family input into an offender's resettlement plan, particularly in those areas where family support is critical to successful implementation;
- to provide support in relation to emerging behavioural, emotional or social issues experienced by children, young people and families, which might be associated with the reintegration of the offender into the family. This may include:
  - One-to-one support for children in the home or school setting
  - Liaison with teaching staff, pastoral carers, Parenting Support Advisors
  - Parenting support
  - Liaison with community criminal justice groups such as Anti-Social Behaviour Groups, Safer School Partnerships, and Safer Neighbourhood Teams.

Data collection and monitoring the cohort

Social Finance commissioned Meganexus to develop a new database system for comprehensive data collection and monitoring throughout the SIB. This database will be web-based – accessible to staff working in the prison and the community – and will record information on all of the different interventions with offenders in the cohort. One interviewee[97] suggested that this database will contain more information than current prison or probation information systems.

[97]Interviewee 1.

Appendix D Tables – age and ethnicity of the Peterborough cohort as at March 2011

Table D-1 Breakdown of offenders by age band – Peterborough cohort compared to national sample

Age band	Peterborough discharges	Q1 2008 data
21–24	19%	21%
25–34	43%	42%
35–44	27%	25%
45+	11%	11%

Source: Ministry of Justice extract from the Police National Computer

Does not include one member of the Peterborough whose age was not known (no release date was provided for this individual, so age at release could not be calculated).

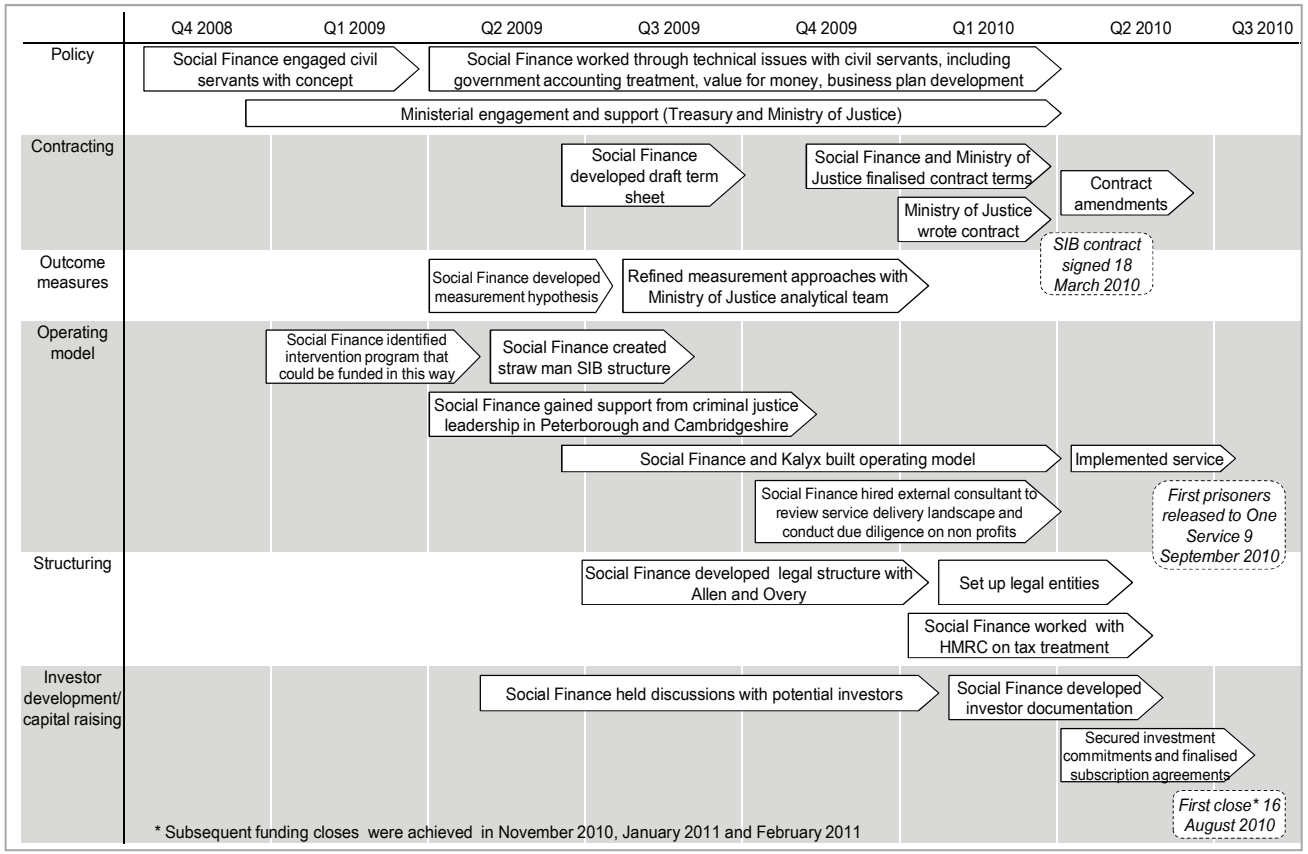
Table D-2: Breakdown of offenders by ethnicity – Peterborough cohort compared to national sample

Ethnicity	Peterborough discharges	Q1 2008 data
White	87%	83%
Black	6%	10%
Asian	5%	5%
Other	2%	2%

Source: Ministry of Justice extract from the Police National Computer

Does not include four members of the Peterborough cohort whose personal details could not be matched with the details of offenders in the Police National Computer data held by the Ministry of Justice, and two members whose ethnicity was not recorded

Appendix E Timeline of SIB development



Source: Social Finance

Appendix F Logic model of the SIB

Contextual aspects	Inputs	Activities	Outputs	Anticipated impacts (immediate, medium and longer term)	Anticipated outcomes (ultimate)
Economic climate Media interest – high-level attention and emphasis Political will to test the scheme Financial support from government departments	Informal discussions/ pre-planning Informal support for the scheme across stakeholder groups Appropriate skill mix for planning and negotiation Research on pre-release issues Existing service provision – e.g. drug treatment Provider understanding and knowledge of what works Understanding of financial vehicles (Social Finance) Funding from investors Back-up funding arrangements provided by Ministry of Justice and Big Lottery Fund	Agreement of metrics associated with outcome payment for scheme Agreement on balance of investment across group of investors Negotiation of risk burden between investors, Ministry of Justice and Big Lottery Fund Agreement of key contracts between all key parties (Social Finance, Ministry of Justice, Investors, Big Lottery Fund, Sodexo, etc.) Selection of pilot site (Peterborough or West Midlands) Design of customised intervention model for pre-release and post-release stages Provision by St Giles Trust of intensive support for cohort Recruiting and training of offenders as mentors and tutors for cohort Provision of support by other providers on an as-needs basis Ongoing liaison with local stakeholders and providers	Numbers of short-term offenders in the cohort Number of cohort group actively engaged in the scheme Number of ex-offenders recruited into mentoring or support roles Number of cohort group engaged in educational activity Number of cohort in employment Extent of secure funding provided to social enterprise or other providers of support services to cohort group Number of new jobs created in provider organisations Number of existing jobs protected/retained in provider organisations	Percentage change in reconviction events among cohort group Change in levels of soft skills of the cohort group (e.g. communication skills, confidence-building) Change in levels of hard-skills employability of members of the cohort group Change in levels of interest by new pool of investors Track record of delivery of support services by providers Ongoing availability of support services for short-term offenders through local providers and/or social enterprises (i.e. business survival of support organisations)	Outcome payment made to investors Financial savings to taxpayers Percentage reduction in reoffending rates Increased demand for expansion of the scheme within this sector and to other sectors Raised expectations of outcomes for short-term offenders Reduction of negative effects of crimes committed by short-term offenders (due to fewer crimes occurring) Openness to alternative, innovative solutions for reduction of offending and management of ex-offenders