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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

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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.