BETTER SOCIETY CAPITAL

Outcomes For All – Redefining Public Service Delivery

2024 Update

Foreword

Gordon Brown, Former Prime Minister

If you are a finance minister you are happy when you can call on unused resources. You are doubly happy when you can meet unmet needs by using unused resources - and meeting unmet needs while using unused resources is the secret of the success that has given Britain a leadership role in the fast-growing area of social impact investment.

Shining a spotlight on unclaimed assets for the first time was an important mission for me, both as Chancellor of the Exchequer and Prime Minister, and the first breakthrough was to pass legislation in 2008 that enabled them to be mobilised for social benefit. The second breakthrough was implementing the recommendations of the Social Investment Taskforce chaired by Sir Ronald Cohen. He argued that forgotten money sitting in the bank accounts of people who had died or disappeared could be used as the catalyst to attract private capital at scale to tackle some of the most serious and pressing social issues facing the UK.

Sir Ronald was the founding inspirational Chairman of Big Society Capital. Finally created with all party support in 2012 and backed by £400m of unclaimed assets, it is a capital 'wholesaler' – an independent and financially sustainable organisation committed to using the dormant bank account money to grow a vibrant social impact investment market. Now, following wide-ranging consultations, it is being renamed as Better Society Capital, and as its CEO Stephen Muers has recently said 'Better Society is a clearer and better name to capture what we aim to do, which is to create a better society'.

Using its track record, expertise and networks to mobilise and facilitate investment – from pension funds, foundations and wealthy individuals – to use their money to achieve social impact, BSC has achieved impressive results. And by working with government to make limited funds go further, it has shown how much more impact can be achieved when private and public capital work closely together to address social issues.

To reduce reoffending among short-sentenced prisoners, Social Finance and the Ministry of Justice set up the first 'Social Impact Bond' (now often known as 'Social Outcomes Contracts'). Outcomes contracts, the subject of this report, channel capital to deliver public services through third sector organisations such as charities or social enterprises. Non-government funding is attracted to support delivery organisations and repaid only when targets are met, so the taxpayer is only putting up cash for high quality, well-targeted services. This report, which includes the results of independent analysis by ATQ on the public value created by nearly 100 such Social Outcomes Contracts, shows the great impact that this approach is making on complex, entrenched issues such as children's services and homelessness.

Social Outcomes Contracts are just one of the innovative impact initiatives that BSC has boosted. Since its creation, it has invested £925 million of its own capital and used it to unlock nearly £3 billion from other investors, all channelled towards organisations tackling social issues. This investment has helped increase the social impact investment market more than tenfold from around £800 million to over £9 billion, building awareness and knowledge in the field.

But, as Sir Ronald argues, there is much more to do. For example, late interventions in treating health problems are costing the NHS an estimated £3.5bn each year and £16.9bn is needed annually to address the UK housing shortage. Services for children could be greatly improved with more upfront investment in them. BSC therefore has a pivotal role to play in attracting more funds to help address these and other urgent issues that blight the UK.

It is very heartening to see how much has been achieved using unclaimed assets since the legislation to release them passed in 2008. I congratulate the BSC team for its efforts, creativity and skill, and hope this report encourages investors and policymakers to scale up support of its important mission.

Gordon Brown, Former Prime Minister

The problem

While national and local Government is effective in delivering large-scale generalist public services (often contracted using a 'pay for inputs' method), for difficult areas such as homelessness, which require a multi-agency approach, traditional public service siloes struggle with tailoring long-term support to individual need. This is because 'pay for input' contracts are based on a precise list of input activities and costs making it impossible for the delivery to be personalised for each individual or evolved based on delivery learning. The result is that the individual's problems persist and worsen, leaving public services to firefight crises rather than prevent them.

The approach

Over ten years ago, the concept of a social impact bond was developed where the commissioner only pays for the successful delivery of pre-agreed outcomes for a specified cohort of individuals. Local social sector delivery organisations are given the flexibility and support to constantly innovate and improve services to ensure they are tailored to individuals' needs. These organisations need flexible working capital to deliver their services, in advance of outcomes payments being made. In some cases, social investors, such as trusts and foundations or local authority pension funds, provide the upfront capital and are repaid only when the outcomes are achieved. The risk, therefore, sits with the social investors rather than Government or the delivery organisations.

The term 'Social Impact Bond' has typically been used to describe an arrangement where capital is raised externally, and the term 'Social Outcomes Contract' (SOCs) [1] describes the method of Government paying for outcomes, regardless of how the project sources its working capital.

Since the first project in 2011, the UK has launched nearly 100 projects of this kind, establishing itself as a pioneer and global leader with the most projects of any country. Since the pioneering first project, 37 other countries have looked to emulate the approach, with nearly 200 additional projects launched between them. [2]

SOCs have also been successful in leveraging significant amounts of additional capital to support improved UK public service delivery from socially motivated investors across the globe. These investors vary from charitable foundations to housing associations, local authority pension funds and high-net-worth individuals. Fund managers, who manage the capital on behalf of these investors, are the principal conduits through which SOC projects receive investment (should organisations choose to raise this capital from social investors). The funding is used to provide working capital to the delivery organisations and take on the performance risk of the contract. This socially motivated investment also aims to improve quality and productivity, for example by investing in the people delivering these services through improved training, additional resources to support and enhanced clinical supervision, all of which can improve both the quality and productivity of public services compared to more traditional 'pay for input' approaches.

In the UK, these projects have been tackling complex issues of child and family welfare, health, education, employment and training, homelessness, and criminal justice.

SOCs in action

Health

Thrive, a community-led service for individuals facing complex long-term health conditions, which worked with over 1,600 people in north-east Lincolnshire, succeeding in reducing hospital attendance and costs by 35 percent, while also reducing GP usage by 11 percent.

Better chances for young people

AllChild (previously known as West London Zone), a charity created to improve the life chances for the 20% of children most at risk of poor outcomes by enabling local community organisations to work with local schools. Its first outcomes project supported 732 children and has been so successful that it has now expanded to a second outcomes contract which has supported 2,105 children, estimating total savings to Government of £43,000 per child supported.

Keeping families together

Positive Families Partnership is a pioneering prevention initiative in London which keeps families together, helping young people stay out of residential care by supporting them and their families better. It delivered an average 25% better outcomes for 80% more families at 20%-50% lower cost per family. The outcomes contract has helped 410 families saving as much as £200,000 a year per child, which is the typical annual cost of residential care. Success and learnings from this contract have helped create similar services in Suffolk and Norfolk.

Tackling homelessness

GM Homes Partnership, a rough sleeping outcomes programme across Greater Manchester, has housed over 90% more people than originally targeted, at a lower cost to the Government per person housed than originally anticipated. Furthermore, this has been done at half the cost of similar interventions funded in ‘pay for input’ ways such as fee for service or grant.

Training and employment for ex-offenders

Skill Mill, an outcomes-based programme that has supported over 240 young ex-offenders across eight local authorities - Leeds, Rochdale, Birmingham, Durham, Nottingham, West Sussex, Croydon and Surrey – into training, employment and limit re-offending, by providing them with paid real work experience, recognised qualifications and support. The programme has achieved a 55% employment rate with the re-offending rate of the young people at 8% compared to a national rate of this cohort at 63%. [3]

The research results

This analysis has found that outcomes to date from these projects have generated £1.863 billion of value. Corresponding payments from commissioners on those SOCs were £216.8 million; therefore the benefit to cost ratio is 8.59, meaning every £1 spent by commissioners generated nearly £9 of public value. This value has been broken down into fiscal, social and economic. If we take the fiscal value alone, which encompasses the direct savings to, or costs avoided by, the public sector, the benefit to cost ratio is 2.34. This analysis has been done on a conservative basis (for more information see the appendix and the main report) and does not take into account future outcomes that will be achieved by the projects that are currently in delivery. [4]
The evidence is clear that there is potential for social outcomes contracting to grow and continue to add value to improving public service delivery in the UK.

Call for action by Government

SOCs have shown that they can indeed be effective in policy areas where services need to be highly personalised and where local communities and the voluntary sector can play a leading role. SOCs can empower local authorities and communities to implement local solutions bringing together genuine collaboration across stakeholders and much stronger accountability for

results compared to traditional contracting mechanisms.

However, this approach can be difficult to implement in the context of siloed central Government budgets. For example, someone who is homeless may need help from four separate agencies - physical health, housing, mental health and employment - but with four separate budgets it is very hard for the professionals in each to coordinate services for the individual at the centre. It is also very hard to recognise the value of separate services - as housing the individual may lead to savings in mental health and vice-versa. The approach is also further inhibited by short-term budget cycles and Treasury rules on certainty of annualised spend, which deter Government departments from setting budgets over multiple years and which do not have a definite annual spend, for instance because an outcome might be delivered a year later or a year earlier.

To date, these barriers have been overcome by the pioneering multi-year outcomes funds [5] that Government agencies in partnership with others (such as the National Community Lottery Fund) have implemented in the last 10 years, such as the Social Outcomes Fund, Commissioning Better Outcomes Fund and the most recent Life Chances Fund. These have brought together commissioners at central and local levels to enable the outcomes approach to be implemented effectively over longer-term periods.

We, at Better Society Capital along with others working to implement these impactful projects, call upon the UK Government to put people at the heart of public services and spend smarter, by re-allocating some budgets to more of these multi-year outcomes funds. Looking to address entrenched complex issues such as child poverty or long-term physical and mental health conditions. These will build on the UK's global leadership position of best practice and learning in this outcomes approach that has been established over the last 13 years.

Appendix: The research methodology

Building on groundbreaking analysis conducted and launched in 2022 [6], ATQ Consultants have published an updated and refined analysis of the public value achieved by projects to date since the first SOCs were implemented more than 10 years ago. It covers a total of 86 contracts (compared to 76 in the original report) ranging from small experimental projects to major contracts addressing the needs of thousands of people in the UK.

The updated analysis includes the latest available data [7] on outcomes achieved, and outcome payments made. ATQ then re-modelled all projects to estimate the potential public value they have created, based on calculations of the value these contracts have already delivered (by preventing or reducing adverse outcomes) and assumptions about the future value they will create as further adverse outcomes are avoided or positive outcomes achieved. They also adjusted value estimates for the effect of inflation (as measured by the GDP deflator or directly from other sources such as government statistics); and for better data on some projects and their costs (including the latest, October 2022 release of the Unit Cost Database [8]).

Finally, (in a refinement to their original analysis) they adjusted all values for the effect of non-attribution or so-called 'deadweight' – that is the likelihood that some of the outcomes achieved by projects would have happened without the interventions that they funded.

The full analysis has also been published alongside this paper which transparently lays out all assumptions and the detailed methodology undertaken.

In addition, a number of experts in the delivery, measurement and evaluation of social outcomes and social interventions were asked to join a Technical Advisory Panel which independently reviewed the draft report and findings. The Panel comprised representatives from government, the public and voluntary sectors and academic institutions. Members of the Panel made a number of invaluable suggestions for changing and adding to the analysis and its presentation which have been gratefully taken on board.

To find out more about Social Outcomes Contracts, get in touch with the team policyandadvocacy@bettersocietycapital.com

Footnotes:

[1] For sake of simplicity, the rest of this report will refer to this approach as 'Social Outcomes Contracts' or 'SOCs'
[2] https://golab.bsg.ox.ac.uk/knowledge-bank/indigo/impact-bond-dataset-v2/?query=&
[3] According to the Ministry of Justice
[4] C. a third of all projects are currently live
[5] These outcomes funds have been implemented by Government to pay for outcomes in specific policy areas and/or geographies. They have either paid 100% for outcomes or co-paid for outcomes with local authorities.
[6] The value created by social outcomes contracts in the UK; Neil Stanworth and Edward Hickman; June 2022
[7] As of end of June 2023
[8] See https://www.greatermanchester-ca.gov.uk/media/7283/gmca-unit-cost-database-v2_3_1-final.xlsx