

**Item 6**

## **Social impact bonds**

### **Purpose of report**

An update on social impact bonds for information.

### **Summary**

This note updates members on the latest developments on social impact bonds.

### **Recommendation**

For information.

### **Action**

Officers to act on any comments members have.

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## **Social impact bonds**

### **Background**

1. Social impact bonds (SIBs) are a form of outcomes based contract in which the public sector pays for better social or economic outcomes for a defined population. The cost of the intervention is met by the private investors who receive a return when the outcomes improve (or not, if they don't).
2. The social finance market is currently small but it is seen as way of funding innovation and transferring risk. Some councils see it as having real potential – Essex, for example have identified a pipeline of social investment proposals to attract £100 million of social investment over coming years.
3. The development of SIBs presents a number of difficult technical challenges, for example:
  - 3.1. defining, measuring and pricing the outcome – SIBs can only operate where there is robust data;
  - 3.2. attributing the outcome to the intervention – some outcomes result from a wide range of factors, rather a specific service or intervention;
  - 3.3. the period over which the outcome matures – which in some cases is over the medium to long term.
4. These challenges are not insurmountable but they create up-front transaction costs, especially for first movers.

### **Latest developments**

5. The Cabinet Office is committed to developing SIBs. In November last year, it launched a £20 million Social Outcomes Fund and a Centre for Social Impact Bonds in the Cabinet Office. The fund provides a top up to make prototype schemes viable.
6. The first bonds have launched.
7. Social Finance and Action for Children have been awarded a contract by Essex County Council to develop a social impact bond to provide support for 380 vulnerable children and their families with a target of preventing 100 adolescents going into care. Social Finance has raised £3.1 million for the bond from social investors including Big Society Capital.

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8. The Mayor of London has also launched a bond with St Mungo's and ThamesReach to help 800 rough-sleepers and in doing so move them into stable accommodation, manage their health better and secure employment.

**The whole place pilots**

9. There is a strong link between community budgets (and the financially hard-edged proposals for new public service delivery models they are developing) and social impact bonds where the outcome benefits several local and national partners. In theory, several partners could co-commission a bond and strike a collective investment agreement to pay the returns according to how they benefit.

**Conclusion and next steps**

10. The LGA has not actively lobbied on SIBs but officers have kept a watching brief on developments. The whole place pilots would like to see a scaled up Social Outcomes Fund and funding to support the development of a greater pipeline of suitable social investment projects.
11. This is something the panel might consider supporting as part of the "asks" the LGA lobbies for in the Spending Review.

**Financial Implications**

12. None.