



# Social Impact Bonds

Unlocking investment in rehabilitation

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# About the author

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Emily is a Director at Social Finance having joined the team in 2008. She leads Social Finance's work to develop Social Impact Bonds to reduce crime and offending and led the development of the first Social Impact Bond in Peterborough.

Prior to joining Social Finance Emily worked for REDEF, a venture philanthropy fund in San Francisco, and as a strategy consultant. Emily has a BA from Cambridge University and an MBA from Berkeley where she was a Haas Merit Scholar.

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# Social Impact Bonds

## Unlocking investment in rehabilitation

The rehabilitation of offenders is a cornerstone of the government's criminal justice policy.<sup>1</sup> Successful rehabilitation will deliver benefits to society and reduce public spending on the prison system. In simple terms, fewer offenders will commit less crime requiring fewer prisons costing less money. With 60% of short sentence prisoners re-offending within a year of release,<sup>2</sup> there is huge opportunity to revolutionise the rehabilitation of prisoners.

The challenge is that reducing re-offending is a long-term commitment requiring time and investment. There is a natural time lag between offering new and improved rehabilitation services, reducing re-offending and closing prisons. With no new public funding available for rehabilitation services, particularly in the current spending environment, how can the transformation be funded?

Social Finance has created Social Impact Bonds<sup>3</sup> (SiBs) to bridge the funding divide and raise external social investment to fund preventative programmes. This finance funds voluntary sector and community organisations to deliver programmes which stop prisoners returning to prison after release.

Through SiBs, investors rather than government fund rehabilitation services. Over time, if these services are successful and re-offending drops investors get paid a proportion of government's cost savings from reduced prison and other criminal justice costs. If the services are not successful investors lose their investment – providing a financial incentive directly aligned with the social outcome.

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<sup>1</sup> *Justice Secretary's Speech*, Centre for Crime and Justice Studies, Kings College London, 30<sup>th</sup> June 2010

<sup>2</sup> *Managing offenders on short custodial sentences*, National Audit Office, March 2010

<sup>3</sup> The Social Impact Bond is 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.

SiBs only require the government to fund success, not failure. If successful, government is able to pay investors since the public cost savings from reducing prisoner numbers will outweigh any payments made to investors. In this investment model, government payments are delayed until after cost savings are made.

Social investment has the potential to fund rehabilitation across criminal justice from preventing young people from offending to helping habitual offenders break the cycle of offending.

The aim of SiBs is not to repackage current resources but to open-up a seam of new capital for public good.

## The rehabilitation revolution

The case for a rehabilitation revolution is clear – the current approach isn't stopping prisoners re-offending or stemming the inter-generational cycles of crime.<sup>4</sup> The UK prison population has almost doubled between 1992 and 2010 to over 85,000 prisoners.<sup>5</sup>

The Howard League for Prison Reform has described reforming the current system as a “financial imperative” as costs continue to mount.<sup>6</sup> A different approach is needed – one in which the need for justice is balanced with a desire to rehabilitate and prevent future victims.

60,000 prisoners leave prison each year after serving sentences of less than 12 months.<sup>7</sup> Without support from probation services, 60% re-offend and many return to jail within a year.<sup>8</sup> As the former Chief Inspector of Prisons, Dame Anne Owers observed, “we know that prisons have revolving doors and the reason is because the problems that people had before they went to prison are the same problems they encounter after they leave prison. If you don't deal with the before and the after, then all you create is a circle.”<sup>9</sup>

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<sup>4</sup> 60% of short sentence offenders re-offend within a year, *Managing offenders on short custodial sentences*, National Audit Office, March 2010.

<sup>5</sup> *Bromley Briefings Prison Factfile*, July 2010.

<sup>6</sup> Frances Crook, Howard League for Penal Reform, Channel 4 News 30<sup>th</sup> June 2010.

<sup>7</sup> *Managing offenders on short custodial sentences*, National Audit Office, March 2010.

<sup>8</sup> *Ibid.*

<sup>9</sup> The Times, January 12, 2008.

Voluntary sector and community organisations have developed innovative programmes that address prisoners' problems. They have been shown to dramatically reduce the rate of re-offending for participants:

- **Blue Sky** employs ex-offenders in a landscaping business. Their work enables prison leavers to get into long-term employment and break the cycle of re-offending.<sup>10</sup>
- **RAPt** has developed an intensive drug treatment programme to help prisoners beat their drug habit. Seventy-two percent of the people who complete RAPt's programme don't re-offend.<sup>11</sup>
- **St Giles Trust** employs ex-offenders to mentor prisoners in prison, meet them at the prison gates and support them in the community. Their intensive support to prisoners has been shown to reduce re-offending by as much as 40%.<sup>12</sup>

These initiatives are currently operated at a small scale due to limited funding. SiBs would raise the finance needed to support and scale these successful models across the UK. Providing these services to all short-sentence prisoners would reduce the rate of re-offending, the prison population, the number of UK prisons and ultimately the cost of the criminal justice system.

We forecast that, if offering this support to short-sentence prisoners led to a 20% drop in re-offending, four prisons could be decommissioned within five years saving £62m per year in running costs and potentially releasing capital from land and buildings. This would deliver cost savings through improved social outcomes rather than diminished services.

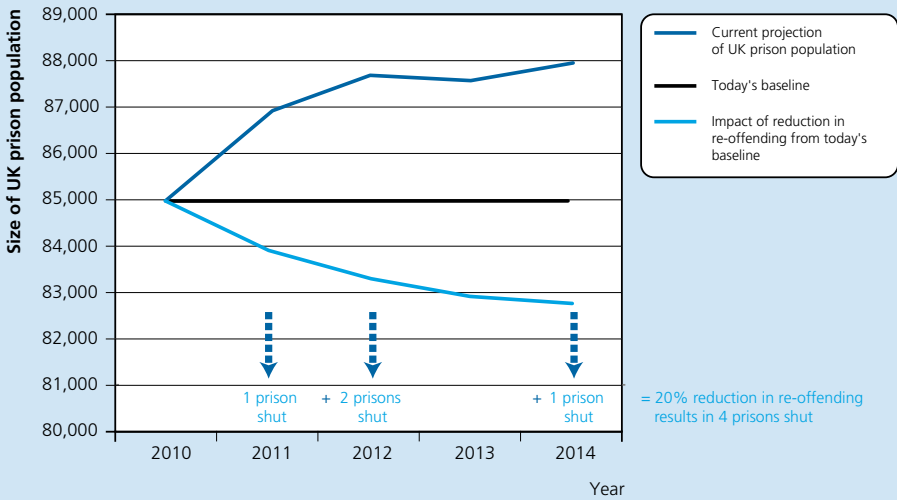
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<sup>10</sup> 48% of past participants were in full time employment three months after leaving Blue Sky, Evaluation of Blue Sky, December 2007.

<sup>11</sup> 72% of graduates were not reconvicted one year post release, *Prisoners' drug use and treatment: seven research studies*. Home Office Research Study 267, 2003.

<sup>12</sup> *St Giles Trust's Through the Gates. An analysis of economic impact*, Pro Bono Economics and Frontier Economics, December 2009.

**Figure 1: Impact of prevention on the prison population and number of prisons<sup>13</sup>**



## The cost of rehabilitation

Providing quality preventative support to prisoners requires investment. We estimate that funding rehabilitation for all short-sentence prisoners would cost an additional £50m per year.

Due to the time lag between a reduction in re-offending and a reduced prison population these services cannot be funded by government through reduced prison spend. Like most investments the capital must be committed in advance to generate a later return.

Also, direct government funding of preventative work carries risk. If the preventative work isn't successful government has to pay twice, once for the preventative work and again for prison.

<sup>13</sup> Social Finance analysis, Ministry of Justice Population in Custody and Prison Population Projection data, 2010, *Managing offenders on short custodial sentences*, National Audit Office, March 2010.

## Investing in a rehabilitation revolution – how the first Social Impact Bond works

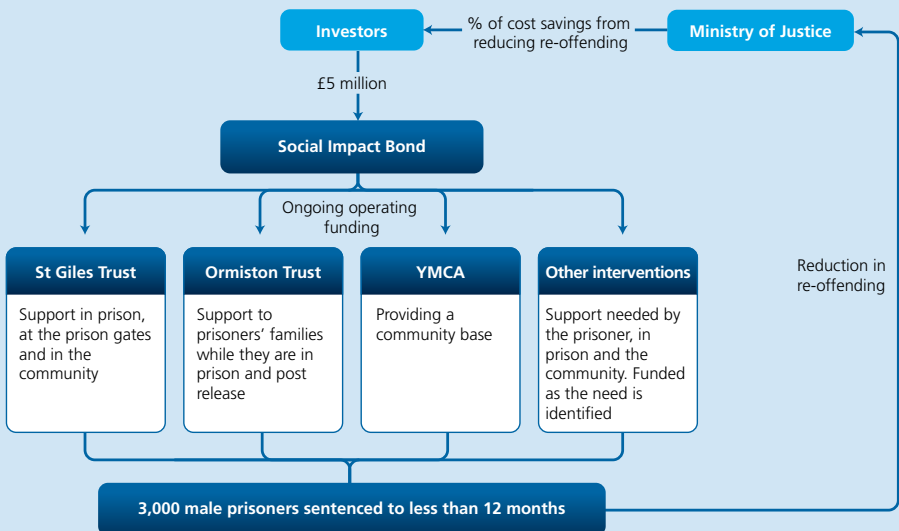
Social Finance and the Ministry of Justice launched the first SiB in March 2010 to fund work with short-sentence prisoners to break the cycle of re-offending. This SiB has raised social investment to fund services for 3,000 prisoners leaving Peterborough prison.

If the re-offending rate drops by more than 7.5% overall, investors will receive their investment back plus a return. The return will be proportional to the drop in the rate of re-offending – the greater the drop in the re-offending rate the higher the return to investors, up to a cap.

Social Impact Bonds will enable government to achieve better value for money from its public services. Rather than paying for a service regardless of its success, government only pays when outcomes are delivered.

Raising external investment will provide the capital needed to deliver effective rehabilitation and transfer the risk of success to investors. If effective, national support

**Figure 2: Social Impact Bond working with short sentence offenders at HMP Peterborough**



for short sentence prisoners could reduce prison spend by £519m<sup>14</sup> over the next 10 years. There would also be savings to police, probation and the courts and a substantially greater benefit to society through reduced crime.

## Social Impact Bonds and Criminal Justice

Social investment products like SiBs could catalyse a transformation in the criminal justice system by funding solutions to community and individual needs. The social investment raised could be used to scale successful local programmes that address deep-seated social issues. If effective these programmes would reduce the cost of criminal justice services and deliver a safer society.

- **Fewer first time entrants** – 29% of the male prison population were formerly in local authority care.<sup>15</sup> Tim Loughton, Minister for Children and Families observed that *“what these often damaged children from very challenging backgrounds need is intensive support and help to get on the straight and narrow... by failing to tackle the problem at the early stages, we fail both the children and the society that falls victim to their behaviour.”*<sup>16</sup>

Social investment could fund the work of organisations like Coram who work with care leavers to provide them with supported housing and advice while leaving care. If their work is successful and reduces offending among care leavers, investors would be paid a proportion of government’s cost savings from reduced prison spend.

- **Halting the escalation of crime** – contact with the criminal justice system can cause additional problems for young people and make them more likely to offend.<sup>17</sup> Catch 22 ran a programme in Essex where youth workers provide proactive support to young people in police stations. This programme has delivered a number of positive outcomes for the children and their families including a reduction in risk taking and offending behaviours. This sort of work could be funded through social investment to prevent young people descending into a life of offending.<sup>18</sup>

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<sup>14</sup> Social Finance analysis assuming a reduction in re-offending of 20%, prison capacity of 550 beds and annual cost per prison bed of £30,370. The saving is the sum of cashable prison operating costs saved over ten years. Ministry of Justice Population in Custody and Prison Population Projection data 2010; *Managing offenders on short custodial sentences*, National Audit Office, March 2010; NOMS Annual Report 08/09.

<sup>15</sup> *Children and young people in custody 2006-2008*, HM Inspectorate of Prisons and Y.J.B., 2008.

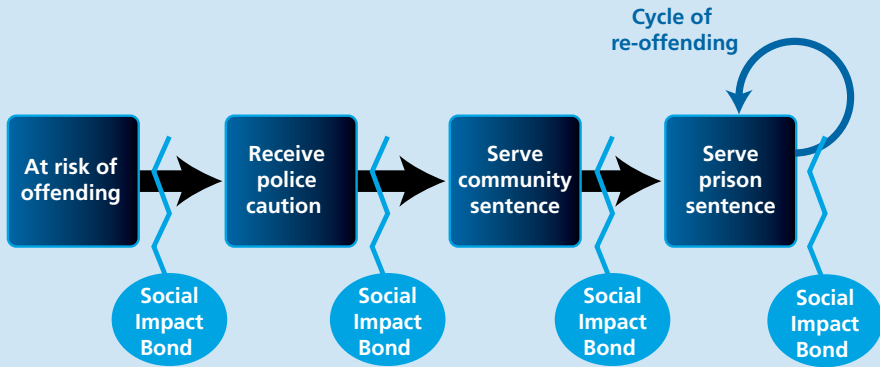
<sup>16</sup> The Telegraph, 11 Apr 2009.

<sup>17</sup> *Trial and Error*, New Philanthropy Capital, February 2010.

<sup>18</sup> *Ibid.*



Figure 3: Reducing the escalation of crime through funding preventative work



- **Reducing the broader societal effects of crime** – Between 1993 and 2006 the women’s prison population increased from 1,560 to 4,463.<sup>19</sup> 55% of women in prison have a child under 16 and many of these children are taken into care when their mother goes into prison.<sup>20</sup> Preventing women from entering custody in the first place has long-term social and financial benefits. The Together Women Project (TWP) has centres in Bradford, Leeds and Doncaster. TWP works with women to address the root causes of their offending and to help them break the re-offending cycle. A Social Impact Bond could fund organisations like TWP to work with women on their second or third community sentences. Investors would be paid by government if the number of prison sentences from this population dropped.

<sup>19</sup> [http://www.hmprisonservice.gov.uk/adviceandsupport/prison\\_life/femaleprisoners/](http://www.hmprisonservice.gov.uk/adviceandsupport/prison_life/femaleprisoners/)

<sup>20</sup> *Ibid.*

## Creating a Social Investment asset class

Social Impact Bonds offer investors the opportunity to receive an aligned social and financial return. However, SiBs are a new investment product and for any new investment there is a relatively limited pool of available capital. Investors need to assess unfamiliar risks and invest in a product with no track record. Other new forms of investment, such as microfinance and venture capital, have successfully developed that track record and investors have built industry understanding. Both microfinance and venture capital have become multi-billion pound asset classes from initial funds of £10 million or less.

For Social Impact Bonds to follow a similar trajectory, a track record of successful delivery and reasonable returns to investors needs to be established. The next SiBs must fit the pool of capital available, probably in the £5–15 million range. These SiBs should address a range of social needs to diversify the risk and bring in investors with different social interests.

Government support could accelerate the development of the market and increase the pool of available capital through:

- **Providing investment incentives** – more investors would subscribe to SiBs if there were tax exemptions. HMRC could make the income stream from SiBs tax exempt for investors or create tax incentive programmes similar to the EIS scheme. The tax incentive will increase the effective return to investors and consequently more investors will be willing to enter the market.
- **Catalysing investment** – to bring more investment into the market government could seed a cornerstone fund that would underwrite the first 25% of investment in each SiB. This would help to create momentum behind the product and would also enable government to benefit from any investment upside. Providing this sort of support could be one of the functions of the Big Society Bank.

Social Impact Bonds have the potential to fund systemic change in criminal justice. In the longer term, the creation of a mature social investment market could revolutionise the way solutions to social issues are funded in the UK.





## Social impact through effective finance

Social Finance was formed with an overriding purpose – to connect investment with need in a way that supports social progress. Our aim is to make more non-government money available reliably and quickly to those who need it.

We believe that the market and society need each other and can work more closely together. We develop structures that enable investors to invest in social progress and receive returns that can be invested in society again. In this way we make more money available, more sustainably, to address entrenched social issues.

To find out more about Social Impact Bonds contact Social Finance on: 020 7667 6370 or [info@socialfinance.org.uk](mailto:info@socialfinance.org.uk)



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