

Briefing, March 2017

Social Impact Bond investors profit from deporting London rough sleepers

The objective of this briefing is to highlight the inherent dangers of Social Impact Bond (SIB) projects (see page 3), the potential implications for non-profit organisations engaging in contracting in partnership with the state to undertake immigration and deportation or other core functions, and to expose the flaws in outcome-based contracts. The term ‘non-profit organisation’ includes voluntary organisations, charities and non-governmental organisations.

The **London Homelessness SIB** was designed to reduce the number of rough sleepers in London and was delivered by the St Mungo’s Broadway and Thames Reach homeless charities between 2012-2015. The service ended in October 2015, although outcomes could be claimed up to October 2016. Triodos Corporate Finance arranged £5m capital from private and social investors who benefit from up to 12% annual rate of return.

The SIB targeted cohort of 830 out of a total of 8,096 ‘entrenched rough sleepers’ in London in 2015-2016, were divided equally between the two contractors.

The Combined Homelessness and Information Network (CHAIN) data identified 49% of the 830 cohort were non-UK nationals of whom 53% were from Central and Eastern Europe. *“Overwhelmingly (46.2% of the total count), the European rough sleepers are from countries in the ‘European Economic Area’ (EEA), which includes all EU countries plus Iceland, Liechtenstein, Norway and Switzerland. In normal circumstances, these Europeans have a right to live and work in the UK”* (Corporate Watch, 2017).

The project had five specific outcomes measured by a reduction in rough sleeping; moves to settled accommodation in the UK; ‘reconnections’ to settled accommodation abroad for non-UK nationals to their home country (assisted voluntary repatriation, administrative removal or deportation); increased employment; and reduction in the use of Accident and Emergency services.

A Competitive Dialogue model was used for the procurement process, which is normally used for more complex projects. It *“...allowed the commissioners to facilitate the introductions between social investors and shortlisted providers (i.e. the Dragon’s Den event), discuss the proposed tariffs for the outcome metrics as well as explore and comment on service solutions proposed by the short listed providers”* (Greater London Authority, 2015).

Thus ‘reconnection’/deportation was an integral part of the project from the beginning and was not a practice that developed during the contract. The non-profit organisations knew that they would be working in partnership with the UK Visas and Immigration and Border Force, both Home Office agencies.

Payment for ‘reconnection’/deportation

Outcome-based contracts have payment mechanisms geared to the achievements of results, in the case of reconnection, the removal from rough sleeping in London. *“Small payments are made for evidenced moves to an address in another country (likely to be the country of origin), with larger payments being made after 6 months if there has been no return to a rough sleeping lifestyle in London”* (Cabinet Office, 2013).

In fact, the reconnection outcome payment was the second highest available at 25% after the ‘stable accommodation’ outcome and was equal to the ‘reduced rough sleeping’ outcome

payment (presumably on the basis that agreed removal or deportation reduced rough sleeping in London and became a foreign city's problem).

"Payment is made on evidence of reconnection – travel documentation, stable accommodation in the home country – with sustained reconnection being evidenced by their being no recorded bedded down street contact (rough sleeping) on CHAIN in the next six months. Due to problems faced by the providers in obtaining sufficient reconnection evidence – proof of accommodation in particular – the evidencing requirements were changed during year one to enable providers to claim both outcomes, and receive payments, when sustained reconnection was evidenced" (Department for Communities and Local Government, 2015). In other words, 'reconnection' was made easier and financially rewarding.

Working methods

Freedom of Information requests to the Greater London Authority and London Borough Councils on rough sleeping (including the SIB project) by Corporate Watch (2017) revealed:

- A significant number of joint visits to rough sleepers by outreach teams and Immigration Compliance and Enforcement.
- Detention and enforced deportation are more common than voluntary departures, which "...are often carried out under the threat of force".
- Outreach workers input information on rough sleeper locations into the CHAIN database and passed on to Immigration Compliance and Enforcement and lead to the joint visits.

Initial performance on 'reconnections'/deportations were below target, but later improved: *"...the number of reconnections abroad had fallen short of the providers' targets. However, performance is improving. Fewer than half the expected outcomes for year one of the project were achieved. For year 2 this had risen to 80%, and the project is currently on track to meet the providers' combined in-year target for this, the final, year. Also, with ten SIB clients having recently been referred to the Home Office for administrative removal, the number of reconnections in this year may well exceed the providers' in-year target"* (Greater London Authority, 2015).

Critical issues for non-profits

There are important critical issues for non-profit organisations engaging in any SIB or other projects undertaking core state functions:

1. Non-profits are providing a means of 'social'/private investors to profit from the delivery of public services - profits that could more effectively be used to improve or expand services.
2. A loss of trust with service users is almost certain when non-profit organisations engage in contracts that compromise or erode their independence from government. By undertaking traditional functions of the state, such as immigration and deportation, non-profit organisations become agents of the state and thus open to criticism.
3. A potential conflict with a non-profit organisation's established principles and values. Adopting different values could lead to reputational damage and affect the organisation's work in other services or localities. For example, it may impact on fund raising and donations for other projects.
4. Many non-profit organisations are in danger of becoming contractors in the web of competitive procurement to aid government outsourcing/privatisation. This process means that non-profits may discard the organising, representation and policy development functions that have previously sustained the organisation and its credibility.
5. The SIB was based on the 'removal' of rough sleepers, but did not address more important issues of housing provision, particularly the quality of hostels and other temporary accommodation. This has been a critical issue in addressing rough sleeping in other cities, such as Dublin.

6. There is often a loss of influence in determining outcomes in SIB contracts because they are usually dictated by the client/project intermediary and restricted by the terms of payment by results contracts. Furthermore, outcomes are usually determined by the need for public sector agencies to demonstrate that projects will generate financial savings.
7. Outcome base contracts marginalise the value of inputs, processes and outputs. Yet the quality of staff, working methods and engagement with service users, have a direct and significant bearing on the quality of outcomes.
8. Non-profit organisations involved in SIBs are engaging in contractual arrangements with an intermediary organisation financed by private and social investors. These contracts are more commercial in scope than previous contracts that non-profits may have had with local public agencies.

Many thanks to Andrew McNeill, National Representative, National Union of Public & General Employees (NUPGE), Canada.

What are Social Impact Bonds?

The idea of SIBs was born in New Zealand and the concept developed in the UK in 2008-2009 through the Council on Social Action set up by the Blair government and later Social Finance Limited. It was conceived as a new way of funding the third sector to provide services (Whitfield, 2015). In 2013, the then UK Prime Minister David Cameron persuaded the G8 group of countries, to establish a Social Impact Investment Taskforce, with each country establishing a National Advisory Board with government and civil society representatives. It is yet another example of New Labour policy being mainstreamed by conservative governments and global banks such as Goldman Sachs and JP Morgan.

Social impact bonds and pay-for-success contracts seek to deliver specific outcomes to a defined population or group of service users. Each project is organised with a government or public body; a target population; private and/or social investors and foundations; an intermediary organisation of company; private or non-profit contractors; consultants, advisers and lawyers; and an independent evaluator.

Services are outsourced to a social investment intermediary, initially financed by private investors and/or foundations, delivered by non-profit or private contractors, advised by consultants and lawyers, performance is assessed by independent evaluators, with government or a public sector body responsible for the repayment of capital and profits to investors dependent on performance.

Social or development impact bonds should not be confused with bonds or fixed income securities issued by municipal, state and national governments or companies to raise capital to fund projects as an alternative to public debt or a bank loan. These bonds have a defined period with a fixed or variable interest rate.

Payment-by-results means that investor profits are linked to the success or failure of the project. If the project achieves all its targets then they can achieve up to 30% rate of return (profit) per annum. If a social impact bond project fails to achieve the performance targets they will normally get the original investment back, but with reduced or no profit.

See **30 financial and public policy flaws in SIBs and a more detailed analysis of SIBs in general** and to download full report:

<http://www.european-services-strategy.org.uk/publications/essu-research-reports/alternative-to-private-finance-of-the-welfare/>

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Dexter Whitfield, Director
Adjunct Associate Professor, Australian Industrial Transformation Institute,
Flinders University, Adelaide
Mobile +353 87 7055509
Tel. +353 66 7130225
Email: dexter.whitfield@gmail.com
Web: www.european-services-strategy.org.uk

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