The Social Impact Investment Partnership

Twenty First Century Investment

A structure for transformational systemic change in how we deliver services in communities

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The Social Impact Investment Partnership Structure

The Social Impact Investment Partnership (SIIP) is a partnership commitment between three parties designed to address a particular social issue, e.g. youth unemployment.

The Delivery Partner designs a service to address a need in the community, usually providing an early intervention and prevention service which supports people within their community to make more positive lifestyle choices.

The Investment Partner(s) commit in principle to providing the working capital over an agreed period.

The Delivery Partner agrees with the Outcome Partner the specific outcomes which the Service will achieve. If these outcomes are achieved then the Outcome Partner repays the working capital with interest at a previously agreed rate.

A Limited Company is set up purely to hold the funds and downstream these to the Delivery Partner providing the service. This mechanism allows retail levels of investment by ordinary members of the local community.

There is a sliding scale to the repayment of the working capital in order to offer some protection to the Investment Partners funds. In broad terms – if 50% of the outcomes are achieved then the investors capital is guaranteed, if 75% of the outcomes are achieved then 50% of the investors interest is guaranteed and if 100% of the outcomes are achieved then 100% of the investors interest is guaranteed. The tipping points at which these percentages are set will be specific to each SIIP and are likely to be dependent upon the points at which the Outcome Partner has saved the equivalent of the original working capital.

In a SIIP the Outcome Partner would often be a Government Department which has a statutory obligation to provide a given service which the SIIP can deliver in an effective way providing a high quality, sustainable, cost effective service to vulnerable groups in local communities. The Outcome Partner may however be any organisation who has a vested interest in ensuring that a given set of outcomes are achieved in a cost effective way, for example, an Insurance Company which wants to reduce the number of claims from drivers aged 17 – 25.

The SIIP structure allows the Delivery Partner to bring their experience in the given field to bear in designing the most effective model of delivery to achieve the mutually desired outcomes. The outcomes trigger the repayment of the working capital. This gives much greater flexibility to the Delivery Partner to learn from their delivery in an iterative sense – payment is for outcomes so if the delivery partner can develop a more effective working model then they simply adopt that model, the focus is on what works best for those receiving the service.
Working in partnership with Morton Fraser Solicitors of Edinburgh we have created Template Legal documents which can be used to govern the relationship between the three parties in the SIIP - the Delivery Partner, the Investment Partner and the Outcome Partner.

The SIIP Template Package provides:

- Two template Legal agreements: one between the Delivery Partner and the Investment Partner via the Limited Company as a structure; a second between the Delivery Partner and the Outcome Partner. The Outcomes and budget for the specific use of the SIIP Templates are simply added to these agreements as a Schedule. Each of these template Legal Agreements is of modest length.
- Guidance notes on the preparation of an Information Memorandum for use with potential investors. This will outline the elements which must be included in a Proposal to Invest. Using these notes the Delivery Partner will generate a draft Information Memorandum which will require to be ratified by an organisation registered with the Financial Conduct Authority. The Delivery Partner will pay a one-off fee for this service and can then use the Proposal to engage with as many potential investors as they wish.
- Draft Memorandum and Articles of Association to form the Limited Company.

Investment Partners will make a commitment to invest for the entire period of the SIIP but outcome cycles may allow for periodic repayment of capital and payment of interest at several points during the SIIP. These payments will be made to the Investment Partner/s when verified Outcome Certificates are achieved. This structure allows for the original capital to be reinvested thus allowing Investment Partners to commit to the SIIP with more modest sums of capital enabling local community members to invest in SIIPs in their own community. This creates greater community ownership and a mutual accountability within the community which, in turn, builds community capacity and offers a significant contribution to an ongoing reform of the ways in which public services are delivered in our communities.

The working capital for a SIIP is placed with the Limited Company. The flow of funds to the Delivery Partner is overseen by a Monitoring Committee bearing in mind progress towards the agreed Outcomes. The Monitoring Committee is comprised of three representatives of the Investors (one small, one medium and one large investor assuming that the investment group has this profile), one representative of the Delivery Partner and there is the option for the Outcome Partner to have a representative on the Monitoring Committee also.
The advantages of the SIIP

The advantages of the SIIP structure for the Outcome Partner:

- Payment is only made for Outcomes that have definitely been achieved after they have been achieved: the Outcome Partner has moved the risk for non-achievement to the Investment Partner which guarantees to the Outcome Partner that their money is well spent – indeed it is only spent if the service has been effective.
- As payment is made in arrears the Outcome Partner further minimises their risk in that they can trial delivery of a new service model without having to terminate their existing provision to meet the given need: if they have a current service provision to reduce re-offending this can be maintained alongside the SIIP funded service as the SIIP service will be paid for from future budgets if it has been effective. Historically Government departments have found it challenging to take a risk on a new service provision model in case it doesn’t work. If the new model is not effective then the money is spent and the Government Department must still cover the cost of addressing the issue which the new service provision has failed to address. Payment in arrears allows the Outcome Partner in a SIIP to avoid this difficulty.
- The fact that payment is made in arrears also allows the Outcome Partner to invest in Intervention and Prevention in a way which has previously been more challenging. In a SIIP structure the Outcome Partner can take the risk of investing in prevention, e.g. a service that prevents offending behaviour not just addresses re-offending. If the service to prevent offending fails there is no financial cost to the Outcome Partner and indeed there is a learning opportunity from the analysis of the failure. In the current fiscal environment budgetary pressures inevitably push spending to acute services making intervention and prevention spending even more challenging. The SIIP allows guaranteed effective spending on intervention and prevention which is in the long term public interest.

The advantages of the SIIP structure for the Investment Partner:

- In return for accepting the risk that the service delivery may fail the Investment Partners receive a return on their investment in much the same way as they would on any investment.
- For an increasing number of investors, both retail and institutional, there is a desire to use some part of their investment portfolio to provide a social as well as a financial return. The SIIP structure ensures that the Investment Partner has the satisfaction of this dual return.
- Several of the early adopters of Social Impact Investment structures as investors have been Philanthropic Organisations, e.g. Charitable Trusts who use their endowment funds to invest. The SIIP structure ensures that they can use those funds over and over again to achieve their desired social ends in addition to providing a financial return on each occasion. This capacity to use capital on multiple occasions can also be a clear advantage to the retail investor.
The advantages of the SIIP structure for the Delivery Partner:

- Historically potential Delivery Partners in the Social Sector have never had genuine access to growth working capital. The SIIP structure creates realistic and sector appropriate access to working capital which can allow not only for supporting current provision but also to provide the conditions for growth and capacity building.
- The Delivery Partner can focus on Outcomes and design their processes to achieve those Outcomes in the most appropriate and effective way. The Delivery Partner will be an organisation with an established track record of effective delivery in their area of expertise and releasing them to design the best service based on their knowledge and skills is both liberating to the staff and immensely positive for their motivation which creates not only a more effective structure but also a more engaged delivery. Historically Delivery organisations in the Social Sector have very often been given a pre-determined process and limited time scale to deliver outputs from a service, e.g. a young person must complete the course in 12 weeks. The SIIP structure allows the Delivery Partner to design the process themselves and determine the time taken to achieve the Outcomes within broad boundaries, e.g. they must support 100 young people per annum but each young person can progress at their own pace as long as 100 young people complete in the 12-month period. The Outcomes are the basis of payment and the Delivery Partner is acutely aware that failure to achieve those Outcomes will lead to the Investment Partners losing their funds so there is strong motivation to achieve the overall Outcomes.
- The focus on Outcomes also means that the Delivery Partner can adapt the process as they learn lessons from the delivery, there is genuine iterative learning in the process of delivery. Where the process is pre-determined externally there is no opportunity for this iterative learning or flexibility in timescales for delivery.

The overall advantages of the SIIP structure:

- Experience in Scotland based in a similar Social Impact Investment structure was that local people invested their funds in order to make a difference in their own local community. Indeed 12 out of 13 investors in this project lived in the local community and invested between £5,000 and £50,000 comprising 93% of the total investment. The local investors could see and engage at a personal level in the service delivery. This created for them a sense of accountability for their investment. The staff at the Delivery Partner were also acutely aware that failure to achieve their Outcomes would result in these Investment Partners losing their funds and this created a different sense of accountability within their staff team toward their investors. This mutual accountability between Investment and Delivery Partner is a key factor in building both community capacity and potentially a key driver in Public Service Reform.
The SIIP structure redraws the boundaries of the relationships between the participating parties. Public, Private and Social Sector organisations must be willing to think and act a little differently for a SIIP to work effectively. These changes in each partner bring them into a different working relationship, a greater mutual understanding and particularly a mutual commitment to achieve the Outcomes from the delivery of a high quality, sustainable, cost effective service for clients. As this funding model becomes increasingly prevalent the dynamic of the relationships across the Public, Private and Social Sectors changes significantly – and positively – and this is the Transformative Systemic Change which our communities need if we are to deliver services which achieve real change for real people in real communities.

Finally, and most significantly, the SIIP structure allows the creation of services absolutely and exclusively focussed on the best possible Outcomes for the individual clients of the services being created. It places People before Structure and ensures that every part of the service provision is designed to serve the client rather than the convenience of any participating partner organisations and this is uniquely life changing for the client.

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