Social Impact Bonds:  
Can Private Finance Rescue Public Programmes?

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ABSTRACT: This paper examines the recent phenomenon of social impact bonds as a means of financing public programmes, particularly the implications of this innovation for accounting and accountability. Social impact bonds are an attempt to recruit private sector funds to pay for social programmes. These funds are structured as a bond, with a return on investment paid for by the state, but conditional on the programme attaining certain specified performance goals. Typically, if these goals are not met, the state does not pay the bond interest and the amount invested is lost. This financial innovation carries with it numerous assumptions about the role of the state, and can be regarded as a new attempt to manage the roles of the state, the private sector, and the charitable sector under neoliberalism. The mechanism of social impact bonds explicitly relies on performance measurement and financial incentives to arrange and demonstrate accountability for social outcomes. As such, it is a potentially powerful and potentially problematic use of accounting to enact government policy. This paper examines a specific, early case in which St. Mungo’s, a London-based charitable foundation, has undertaken to alleviate homelessness in the United Kingdom. The case is interesting because the problem of homelessness is traditionally regarded as somewhat intransigent, so the success of the new financing initiative relies on the ability of private finance to increase the incentives for innovation within the charitable sector, and the ability of the charitable sector to demonstrate their performance through accounting measures.

KEYWORDS: Homelessness, Social programmes, Public sector, Not-for-profit sector, Funding, Finance, Social impact bonds

# Introduction

"They are casting their problems at society. And, you know, there's no such thing as society. There are individual men and women and there are families. And no government can do anything except through people, and people must look after themselves first. It is our duty to look after ourselves and then, also, to look after our neighbours."  
– Margaret Thatcher, 23 September 1987, interview for *Woman’s Own*

This paper examines the accounting and accountability implications of social impact bonds (SIBs), a new form of financing for social programmes. SIBs have burst onto the public financing scene with astonishing rapidity and near simultaneity in governments around the world. They have been initiated in the United Kingdom ([UK Cabinet Office, 2012b](#_ENREF_76)), Australia ([NSW Government, 2012](#_ENREF_47)), and The United States ([Government of Massachusetts, 2012](#_ENREF_27)), and are being explored in Canada ([Government of Canada, 2013](#_ENREF_26)), New Zealand ([Government of New Zealand, 2012](#_ENREF_28)), and elsewhere.[[1]](#footnote-1) Social impact bonds are intended to make government funding of social services contingent on successful outcomes, with private investors providing the up-front financing and supposedly bearing the risk of non-performance.[[2]](#footnote-2) Proponents of SIBs claim they promote innovation in social services and bring market forces to bear on service providers previously funded by traditional government grants ([Social Finance, 2009](#_ENREF_62); [Deloitte, 2012](#_ENREF_19); [UK Cabinet Office, 2012b](#_ENREF_76)).

This paper examines the role of accounting in this new deployment of financial techniques into what Broadbent and Guthrie ([2008](#_ENREF_9)) refer to as “public services,” that is, not just the public sector but the entire arrangement of responsibility and accountability between public and private entities for the provision of public services. Our paper looks at how these financial techniques restructure and rearrange this field of accountability by specifying new allocations of risk and new mechanisms of performance measurement.

Our particular focus is the Social Impact Bond for London Homelessness developed by the Greater London Authority (GLA) under the advice of Social Finance, a financial consulting firm that operates in the social sector, and Triodos Bank, a Dutch bank that describes itself as “the UK’s leading bank for social enterprise, and a fast-growing force within the charities sector” ([Triodos Bank, 2013](#_ENREF_74)). The social service provider funded by this SIB is St Mungo’s, a London-based charity that has named its programme financed by the bond “The Street Impact Programme” ([Gentleman, 2012](#_ENREF_25); [St Mungo's, 2012b](#_ENREF_71)). St Mungo’s has a long history of traditional programme funding from government sources, supplemented by private charitable donations. It went through a sequence of structural and organizational changes prior to successfully bidding to become a service delivery partner on the SIB. The Street Impact case therefore permits us to study the detailed reconfiguration of funding, accountability and governance associated with the use of SIBs in public services.

This paper makes a threefold contribution to public policy, management practice, and accounting theory. With respect to public policy, this paper contributes to our understanding of the mechanisms of neoliberal governance ([Harvey, 2005](#_ENREF_32); [Kotz, 2011](#_ENREF_36)). Because of their emphasis on financial modalities, these mechanisms are subject to rapid change due to financial innovation, in addition to the gradual changes that would be expected as they are adapted to demographic, political, and other underlying societal shifts. This paper seeks to understand how a particular financial innovation, social impact bonds, has been used to introduce market mechanisms and financial incentives into areas of social policy traditionally governed by bureaucratic mechanisms.

With respect to management practice, this paper addresses the general problem of measuring the social impact of organizations. This is a problem that is not at all limited to public sector and non-governmental organizations, which typically have explicit social purposes. It is a problem that is shared more and more by private for-profit corporations, which increasingly need to demonstrate their corporate social responsibility to a diverse range of stakeholders. The measurement of social outcomes is of particular concern to corporations attempting to implement broader reporting under the Global Reporting Initiative (GRI) guidelines. This paper contributes generally, therefore, to CSR and GRI literature, and more specifically to discussions on the measurement of social outcomes (e.g., [Salazar *et al.*, 2012](#_ENREF_57); [Ebrahim, forthcoming](#_ENREF_20)), by examining how accounting is used to demonstrate programme success to satisfy the precise outcome conditions of social impact bonds.

Finally, with respect to accounting technologies, this paper extends our understanding of the many roles of accounting in society. It extends our understanding of how accounting is used to structure discourse around social goals and the government of populations ([Miller & O'Leary, 1987](#_ENREF_43); [Miller & Rose, 1990](#_ENREF_44); [Rose, 1991](#_ENREF_54); [Graham, 2010](#_ENREF_29)). It contributes to existing research on how accounting is used to shift the boundary between public, private, and nonprofit sectors ([Neu, 2006](#_ENREF_46); [Broadbent & Guthrie, 2008](#_ENREF_9); [Miller *et al.*, 2008](#_ENREF_42)) by showing how financial innovation changes the allocation of risk by attempting to expose nonprofit service providers to pressure from investors. It also contributes to existing research on accountability in non-governmental organizations ([Gray *et al.*, 2006](#_ENREF_30); [Lehman, 2007](#_ENREF_37); [O'Dwyer & Unerman, 2008](#_ENREF_48)) by showing how financial innovation in the area of funding is driving changes in performance measurement and reporting for service providers.

# Theoretical Framework

In order to address these three related audiences, our paper builds on insights into performance measurement drawn from social sector management literature. As Ebrahim ([forthcoming](#_ENREF_20)) explains, a linear causal logic model dominates management discourse on performance measurement in this sector. This logic model (see Fig. 1) attempts to describe the diminishing levels of control and influence that an organization has over the results of its efforts, as those results propagate out into society and over time. Even accepting the problematic assumption that managers have full control over what happens within their organization, and therefore direct control over organizational outputs, it is obvious that confounding variables and issues of power and conflict soon diminish the degree of control exercised over the consequences of an organization’s activities. Ebrahim suggests that even the direct *outputs* of an organization are not fully controlled; for instance, a homelessness programme can provide beds but cannot guarantee that the homeless persons they are serving will stay in them. Beyond the direct outputs, if one looks at long-term individual *outcomes* such as health or lifetime earnings, many other influences can come to bear on the individual, increasing or decreasing these variables. And if one looks at long-term societal *impacts*, such as employment rates, literacy, or health, the relationship between the organization’s efforts and the variable in question is difficult to specify. There is just too much else happening besides what the organization attempts to do.

<INSERT FIGURE 1 ABOUT HERE>

The idea of holding organizations accountable for their performance using measurements of output, outcome, and impact, raises questions of whether those measurements are actually helpful and appropriate. Ebrahim argues that broader societal impact measurements should be made by funders and by governments, which are better positioned to see the big picture, rather than by the organization being held accountable, who would waste resources and duplicate the efforts of others while attempting to assess things beyond their control. Cooper et al. ([2005](#_ENREF_16)) agree that the measurement of broader social impacts should be the domain of the state. They argue that the totalities of social interconnections mean individual investors -- even “social investors” -- cannot see the big picture.

Ebrahim draws attention to critiques of the linear logic model. In particular, he cites Rogers ([2008](#_ENREF_53)), who argues that complex logic models are nonlinear and multidirectional, and require the use of feedback loops so that performance measures can be refined and negotiated to converge on measures that are useful. The radical separation of roles and responsibilities implicit in SIBs raises interesting questions about the possibility of such negotiations. It may be that role clarity improves communication, but the possibility of role rigidity through contractual definitions may make such feedback loops problematic. In addition, the reliance of SIBs on the *ex ante* establishment of performance measures may well rule out convergence on suitable performance measures during the life of the bond. These are issues to which we will attend in our analysis.

Ebrahim analyzes the linear logic model from the perspective of uncertainty of causality. In complex fields where uncertainty about causality is high, such as homelessness, he suggests that the most an organization can hope to measure is its “influence” on immediate results, as it does not have full control over them. For broader and longer-term societal results, the organization must collaborate with multiple other service providers to achieve a joint “ecosystem impact.” However, influence and ecosystem impact are difficult to measure, and are often unsatisfying to funders and other external stakeholders who want to know what the organization has achieved.

These social sector management insights have interesting implications when examined from the perspective of accounting literature. The categorization of performance measures into a linear model of outputs, outcomes, and impacts, particularly in a field with high causal uncertainty, raises fundamental questions about accountability, and the limits at which it is still possible to hold an organization accountable for its results.

Messner ([2009](#_ENREF_40)) explores these limits in a nuanced analysis of accountability.[[3]](#footnote-3) Accountability, he says, whether to external publics or to internal managers, is about providing reasons for conduct. This simple concept has surprisingly complex ethical dimensions, related to both the content of the account provided and the practices associated with providing that account.

With SIBs, the content of the account is reduced to specific organizational performance measurements. This is not unusual in business, where contracts routinely contain rewards or penalties based on specific performance measurements. What is unusual about SIBs is that certain aspects of financial risk[[4]](#footnote-4) are separated out of the equation, are borne by the party providing the financing, and are made contingent on the performance of a third party, the service provider. The practice of providing the account is thus reduced to a calculation directed towards a diverse set of stakeholders, each of whom has different interests. It is not clear how the service provider’s accountability to the homeless is affected by an accountability to investors based on performance measurement. Messner argues that calculation-based accountability is distancing, and this affects the ability of an organization or individual to provide an appropriate account. He says, “As face-to-face contact becomes less important, the possibility of negotiating the meaning of accounts also withers” ([Messner, 2009, p. 921](#_ENREF_40)). This impairs the ability to provide an account and therefore affects the accountable self profoundly, because it is through accountability to others that we encounter ourselves.

These others always include both the particular other in the accountability relationship and the general other of society. Because accountability to society is always implicit, and because accountability relationships are constitutive of the individual, accountability can never be fully reduced to contracts. This has ethical implications for SIBs. Accountability through formal accounting systems and prescribed calculations creates a distance between parties, says Messner. This has its advantages, of course, due to the transmissibility of the information and the reduction of complexity to useful levels. However, full ethical accountability depends on encountering the vulnerable other. It depends on narrative capacity, the ability to tell the other the story of what happened. No one can provide a perfect account because of the limits of our self-knowledge. This is particularly salient with SIBs, where specific calculations are so central to the account but are incapable of capturing the richness of events related to such complex social interactions as the alleviation of homelessness. And no one can provide a perfect account because of the social norms for providing accounts prevent the account from being fully owned. That is, with an SIB, one is limited to providing an account that immediately belongs to others, as the calculated performance measurements are captured by the financial system and put to work in service of others.

SIBs may, in practice, deal with these issues by putting a representative of the bondholders on the premises of the service provider, reducing distance and permitting some form of human interaction around the provision of the account. This practice is too new to be evaluated completely, but it cannot be ethically neutral. As Messner says, the very demand for accountability has a clear ethical component because it is about power. The question of power is exacerbated by the presence of this representative in the organization, creating a sense of constant observation.

Ultimately, SIBs with their specified performance measures are a means of determining what matters in a social service provider. These calculative practices are discursive regimes of truth that define what can and should be said about a social programme. The implications for the service provider are significant, because we come to know ourselves in relation to a regime of truth. Regimes of truth constitute us, but at a cost ([Foucault, 2003](#_ENREF_23); [Butler, 2005](#_ENREF_11); [Messner, 2009, p. 930](#_ENREF_40)).

Messner concludes that the limits of accountability are not fixed, but are liminal spaces of ambiguity and tension. These limits, or "ethical gaps", can be shaped by attempting to align the interests of the parties, a topic familiar to agency theorists, and by including various others in decision processes. This, however, contradicts the purpose of the organizational form, because delegation is inherent in management. The limits of accountability are therefore the limits of management. This is what makes the advent of SIBs so important. SIBs push against these limits.

Messner’s analysis of accountability echoes in part the work of O’Dwyer and Unerman ([2008](#_ENREF_48)), who distinguish between hierarchical and holistic accountability for nongovernmental organizations. This distinction captures some of the elements of Ebrahim’s logic model, as well. Hierarchical accountability, according to O’Dwyer and Unerman, is based on concrete, short-term measurements that demonstrate performance to stakeholders that control access to key resources, like funding. Holistic accountability is oriented towards diverse stakeholders, and deals with secondary and tertiary effects of the organization’s activities.

O’Dwyer and Unerman describe some of the problems associated with hierarchical accountability. They argue that a reliance on this form of accountability creates performance anxiety, prevents experimentation and learning, leads to mechanical behaviour around organizational activities, and fosters short-term thinking ([O'Dwyer & Unerman, 2008, pp. 803-804](#_ENREF_48)). Holistic accountability, in contrast, allows an organization to reflect on long term accomplishments and the degree to which it is able to foment structural change in society. They argue, however, that these impacts are hard to measure and require new forms of engagement that prioritize the stakeholders downstream from the organization, rather than those that provide inputs like funding. Focus groups, for instance, might be an appropriate mechanism for holistic accountability, rather than relying only on unidirectional reporting.

The recognition that holistic accountability cannot be demonstrated with numeric measurements alone resonates with Ebrahim’s assertion that outcome and impact measurements may be inappropriate for some organizations to try to implement. Causality is too difficult to attribute, and the cost of collection is beyond most service organizations. It also resonates with much of what Messner says about the limits of accountability.

In our study, we are looking at performance measurement and other accounting technologies not simply as tools for accountability, but as mechanisms for restructuring the governance of a field of public services to the poor. We want to attend not only to the specific calculations, but also to the way the technology of bonds is used to reduce or eliminate the roles of certain actors and enlist new ones in their places, resulting in new configurations of power and accountability. We want to attend to any changes in organizational structure for service providers that might be necessary for them to connect to this new source of funding, and to the new stakeholders that come with it. Changes to the homelessness field imply new forms of social capital and new forms of habitus ([Bourdieu & Nice, 1984](#_ENREF_8); [Bourdieu, 1989](#_ENREF_4), [1990](#_ENREF_5), [1991](#_ENREF_6), [1998](#_ENREF_7)). Where actors were familiar with, and embodied, the development of cultural capital to help rough sleepers, they now must become familiar with the vocabularies of finance, measurement, and performance targets.

A key part of our analysis will be the examination of how private capital is enlisted to change the role of government. We regard philanthropy as an exercise in transforming financial capital in to social capital. This is not mere legitimacy seeking by the wealthy, and by the finance industry and related firms, such as the Big 4 accounting firms, but a complex of legitimation, valorization and mobilization that cannot be dismissed as self-serving, nor swallowed whole as altruism.

We expect to find that modes of discourse in the field of homelessness are being transformed because of financialization, but like any social transformation, it will be a contested process. We expect to find rhetoric about competition, innovation, and cost reduction that is only loosely connected to the mindsets and practices of the field, and indeed, only loosely connected to the express social goals of the organization we study. But this does not mean the transformation of the field can be assumed to be immaterial. It will simply be incomplete and messy, just like any social change.

# Data and Methodology

This study relies on a combination of archival and interview data. The archival data consists of public documents from government, NGO, and corporate sources. We explored government websites in the United Kingdom for information on social impact bonds, as well as on housing and homelessness. The national government level was obviously key to this research, but devolution to local authorities is part and parcel of the financialization of public services in the UK. Therefore, we extended our search to the local level, concentrating on local authorities involved in the specific programme we were studying.

St Mungo’s is one of the two service providers of the Social Impact Bond for Homelessness, so the St Mungo’s website was explored exhaustively. We also looked for public filings related to St Mungo’s so we could understand the kinds of transitions and constraints faced by this organization. We searched for information on its connections to the corporate sector, to government, and to consulting firms. We looked particularly for accounting and finance information, to see how St Mungo’s was faring and to understand the importance of this new form of funding to its overall operations. We also looked for detailed descriptions of how the activities of the Social Investment Bond -- Street Impact programme would be evaluated for the purpose of the bond’s social performance conditions.

We are conducting interviews with St Mungo’s management, potential investors, with government officials, and individuals involved in the construction of the financing. At the time of this draft, only two interviews have been completed, with a corporate finance manager who was directly involved with the financial arrangements on behalf of Triodos Bank, and with two people from the Greater London Authority who were involved in the SIB. These interviews will help us understand nuances in the interpretation of public documents. They will also help us understand the implications of St Mungo’s changing financing methods on the activities of actors in the organization and in its field of operation.

All material is being evaluated by both researchers independently. Differences in interpretation are resolved in discussions and through the iterative writing process for this paper. Where resolution is not achieved, the interpretation is left open. This approach is particularly appropriate for a new social innovation whose consequences are not yet fully understood.

# Background

## Historical Poverty and Homelessness in the UK

In order to understand the St Mungo’s Street Impact programme properly, and the role played by social impact bonds in funding it, it is necessary to situate the programme in the historical context of homelessness in the United Kingdom. Although the term “homelessness” is relatively new, lack of shelter has been a common problem for the very poor in the Britain for centuries. The transition from a feudal and agrarian economy in 14th century England led to displacement of the poor, who moved around in search of shelter and work. Various iterations of the “poor laws” from the 14th to the 19th century criminalized this behaviour as vagrancy. One could be in violation of the law based on one’s status as unemployed and homeless, without having committed any particular act ([Schulz, 2004](#_ENREF_58)).[[5]](#footnote-5) Poverty relief efforts in Britain date from 1601, when the first workhouses were established. The parish was the unit of administration, setting the precedent for poverty being considered a local anomaly rather than a structural or national issue. Under Knatchbull’s Act of 1723, workhouses were deliberately made harsh and disciplinary, to deter those who were not truly desperate from taking advantage of them. Operators of workhouses would charge the parish a per capita fee for inmates, and could put the poor to work and keep the income they generated. In 1792, Gilbert’s Act gave additional latitude to local parishes in dealing with poverty, and the first systems of wage supplementation for the working poor were initiated ([Higginbotham, 2004, pp. 609-611](#_ENREF_33)). Hence accounting has long been instrumental to anti-poverty policy.

The 1834 “New” Poor Law made the regime of workhouses uniform across Britain, and centralized its administration. A system of classification was introduced: aged or infirm men, able-bodied males above 13 years, boys aged 7 to 13, aged or inform women, able-bodied females above 16 years, girls aged 7 to 13, and children under 7. This was the first sign of modern governance of poverty based on statistics and a division of the population into governable subsets ([Rose, 1991](#_ENREF_54); [Rose & Miller, 1992](#_ENREF_55); [Graham, 2010](#_ENREF_29)). Workhouses were constructed with separate wings for segregation and centralized observation of inmates, a sort of panopticon. Thus, both observation and classification of the poor have been critical components of the governance of poverty.

Conditions in these workhouses were prison-like, and the New Poor Law received harsh criticism from defenders of the poor ([Higginbotham, 2004, pp. 611-612](#_ENREF_33)). Conditions did not improve until the early 1900s, when more women and working class people were elected as board members of the workhouses. A 1905-1909 commission reviewing the workhouse system produced a minority report advocating the prevention of destitution rather than its relief. This led eventually to the first British programmes for old age pensions, unemployment insurance, and health insurance. Workhouses were eventually phased out after World War II ([Higginbotham, 2004, p. 613](#_ENREF_33)).

These changing responses to extreme poverty in Britain indicate that the question of who should do something about it has always been at issue. On one dimension, there have been variations between a centralized uniform response and a decentralized local response. On another dimension, there have been variations in whether the response should be institutionalized or voluntary, that is, whether it should be the state that responds programmatically or charities and individuals who respond voluntarily. These dimensions continue to feature in the most recent attempts to grapple with poverty examined in this paper.

## Modern Homelessness in the UK

Homelessness as a named phenomenon, as the modern manifestation of extreme poverty, was considered a problem of individual pathology in the UK for the first two decades after World War II, when employment was high and welfarism dominated social policy. During the 1960s, this changed, with researchers recognizing trends in the growing number of applicants to municipal housing ([Pleace & Quilgars, 2003, p. 188](#_ENREF_50)). Homelessness entered the popular consciousness through the landmark 1966 film, *Cathy Come Home.* In the same year, the prominent homelessness charity Shelter was established ([Shelter, 2013](#_ENREF_59)). Homelessness began to be regarded as a structural problem ([Fitzpatrick, 2005, p. 4](#_ENREF_22)).

The major piece of legislation shaping approaches to homelessness in the UK was the Housing (Homeless Persons) Act of 1977. It required local authorities to provide permanent housing for certain categories of the homeless, establishing the notions of “statutory homelessness” and “priority need” that would dominate social housing policy for more than three decades. Those in the priority need group included people with dependent children, those who could not care for themselves, and those who were made homeless by an emergency such as a fire or flood. The act made it difficult for those who were not in the priority need group to obtain housing, leading to growing rates of homelessness amongst the single and a rise during the 1990s in the number of “rough sleepers,” who became the visible and often vilified face of homelessness ([Pleace & Quilgars, 2003, p. 190](#_ENREF_50)).

Despite a dominance of structural explanations for homelessness, social policies addressing it in the 1990s remained rooted in notions of individual causation and pathology; access to homelessness services was made conditional on willingness to take a job ([Pleace & Quilgars, 2003, p. 191](#_ENREF_50)). However, research on homeless populations began to recognize complex factors shaping the experiences of the poor, and the causes of homelessness began to be understood as an intertwining of personal life events and socioeconomic factors ([Fitzpatrick, 2005, p. 4](#_ENREF_22)). Thus, housing-market forces, unemployment, family fragmentation, discharge from the armed forces, incarceration, and debt, alongside the well-recognized factors of substance abuse and mental illness, all became incorporated into the analysis of and response to homelessness ([Christian & Anderson, 2004, p. 576](#_ENREF_14)).

A growing emphasis on neoliberal governance models and an intensification of the budgetary constraints radically transformed government services during the late 20th century, resulting in the outsourcing of many social services to nongovernmental organizations and charities. Budgetary techniques continued to be employed by the state in an attempt to make social service providers more efficient and minimize the “cost” of services. This placed great pressure on nongovernmental organizations and charities involved with homelessness, and many began to struggle. At the same time, new models of governance over public services began to look explicitly at how risk was distributed between the state and nongovernmental service providers ([Froud, 2003](#_ENREF_24)). As the management of risk began to transform organizational structures ([Miller *et al.*, 2008](#_ENREF_42)) and payment for results became more central to public sector financial management, the scene was set for a new form of financing that promised the simultaneous achievement of governance, budgetary, and social goals: social impact bonds.

# Social Impact Bonds

## Origins

The use of bonds to motivate socially desirable behaviours (or demotivate undesirable ones) is commonplace. Security deposits on rented apartments, or even the small deposit paid for reusable or recyclable beverage containers, are examples of posting a bond that will be returned once the desired outcome is verified: the rented apartment is vacated in good condition, or the pop can is returned for recycling. In some situations, the party holding the deposit may also be required to pay interest on the deposit when it is refunded. As noted by Perrings ([1989](#_ENREF_49)), environmental bonds have long been used to ensure companies in industries like mining clean up the mess they make. Perrings extended the notion of a simple environmental bond to a sequence of bonds, the price of which would vary as information about the future became available.

The notion of a market-based bond connected to social outcomes appears to have originated with Horesh ([2000](#_ENREF_34)). This New Zealand economist suggested that governments use what he called “social policy bonds” as a mechanism to achieve policy objectives with indefinite horizons. A government would issue a bond on the financial markets, promising to redeem it at a specific price whenever the specified policy objective is achieved. In his example, a government might issue a bond with a redemption value of $10, to be paid by the government to the bondholder whenever crime levels are reduced by 50% from current levels. People would be able to buy these bonds at a steep discount because the objective is, at the time of issue, so remote, but they have an incentive to buy them because the potential return on investment is so high. Those who believe they can influence the value of the bonds by helping to achieve the desired outcomes have a particular incentive to buy them.

What is interesting about Horesh’s proposal is that the government does absolutely nothing once the bonds have been issued, other than stand behind the bonds. All that has happened is a group of unrelated investors has been created who all share an incentive to see the social goal realized. It doesn't even matter if the investors are free-riders, because eventually some of the free-riders, if they wish to see any return on their investment, will have to sell to people who actually want to promote social change. These more "active" investors, in order to realize a financial profit from their bonds, could spend their own time trying to accomplish the social goal or they could finance social programmes of some sort (presumably at the lowest cost they can find) in order to see the social objective achieved. Because the bonds would be freely tradable, they could be sold any time at market price by a bondholder who had run out of ideas or energy, to someone with new ideas or energy to put behind further progress towards the goal.

This concept has been harnessed in recent years in the United Kingdom, but with some very important differences. In the UK model ([UK Cabinet Office, 2012b](#_ENREF_76)), social impact bonds are initiated by a “commissioning organization” such as a government department or public service organization. The commissioning organization begins with a feasibility study, then defines outcome measures, identifies the target social group, and defines financial outcomes. These steps will typically be done in conjunction with potential investors and experts in the field. Then the commissioning organization will set about procuring the services of a charity or social enterprise to provide the required intervention, through a tender process that focuses on the desired measurable outcomes. Investors are expected to take an active role in the execution of the intervention, for example, by taking a seat on the board of the service provider or influencing the service provider to demonstrate performance. In the event of poor performance, commissioners can intervene to support or replace the service provider.

The UK model is less of a “free market” approach than envisioned by Horesh. The UK model involves a deliberate cultivation of investors, and emphasizes the specification of social goals that can be achieved by a single iteration of investment and programmatic response. The UK’s social impact bonds initiative, with a promotional budget of £20 million, is being managed by a division of the Cabinet Office. This is a very high level of authority in the UK government, indicating the strategic importance of this type of funding arrangement to the government’s fiscal management of social programmes.

The first SIB launched in the UK was directed at the problem of recidivism amongst released prisoners. In 2010, a bond was issued to fund support services for 3,000 short-term prisoners being released from Peterborough prison ([Warrell, 2010](#_ENREF_77)). Service providers were to work to reduce the incidence of reoffending. Results are not yet available, although a brief preliminary report has been issued ([Social Finance, 2011a](#_ENREF_63)). By January 2013 a total of 13 SIBs had been launched in England ranging from supporting young people to find work to helping rough sleepers off the streets ([Barclay & Symons, 2013](#_ENREF_3)). The UK government is enthusiastic about the prospects of SIBs, with a press release by the Minister for Civil Society calling them “a radical approach to solving complex and costly social problems” ([UK Cabinet Office, 2012a](#_ENREF_75)). According to our interviewee at Triodos Bank, there have been 14 SIBs created already in the UK, including the first one at Peterborough prison and the latest at St Mungo’s.

## The Role of Accounting

Accounting technologies are central to SIBs -- from the initial budget allocation of the public sector commissioner of the SIB, through to the development of the performance metrics, the due diligence on potential service providers and the value for money calculations. Accounting technologies continue to play a role throughout the life of the bond since it is a requirement that a Project Director or Performance Manager is appointed. This actor is tasked with monitoring weekly progress in terms of the achievements of outcomes.

<INSERT TABLE 1 ABOUT HERE>

From the perspective of the social understandings of the possibilities of accounting technologies, two beliefs appear to underpin SIBs. Firstly, that it is possible and even desirable to measure social performance, and secondly, that it is possible to calculate the financial benefits to the state of SIBs -- cost cutting is implicit in the process (see Fig. 2 below). Indeed the two are linked.

Outcome metrics form the foundation of the SIB contract. Stakeholders are required to believe that there is an objective mechanism for assessing and agreeing the degree to which social outcomes have been achieved. A Social Finance document states that:

The most important criteria for any outcome metric is whether it incentivises a service that ultimately improves outcomes for those who use it. In addition, when making the value-for-money argument …, it is helpful to link such a metric to cashable savings on the part of the public sector commissioner. Immediate cashable savings may not always be forthcoming but there may be intermediate indicators that commissioners are willing to pay for if there is a strong link to the longer term outcome which generates savings. Alternatively, there may be funders willing to pay for outcomes which carry significant social value even in the absence of cashable savings.

The key is to identify an outcome metric which is measurable and objective. There must be a willing funder to pay if outcomes are delivered. Whether or not suitable metrics can be identified is a key determinant of whether or not a SIB is the appropriate instrument for addressing an identified social need. Care should be taken to ensure that the selected metric does not create perverse incentives. ([Barclay & Symons, 2013, p. 11](#_ENREF_3))

While outcome metrics are central to SIBs, there is at least a surface recognition that metrics might produce perverse consequences, but that any perverse consequences can be dealt with through the careful selection of performance metrics.

The method used to calculate value-for-money depends upon the construction of benchmarks against which outcome metrics can be measured. The difference can be fed into an outcome valuation calculation of the SIB in financial terms. Three “scientific” methods have been proposed to construct benchmarks:

1. *Historical benchmarks for an equivalent population.* This method takes historical data for a similar population to determine the likely outcomes for a target population. So in the case of homelessness, individual characteristics such as age, mental health, addiction needs and so on are reviewed. Those individuals who would have been suitable for the proposed SIB funded intervention (if it were available) are placed into a control group. Outcomes of those receiving SIB interventions can then be measured against this benchmark.
2. *Pre- and post-intervention measurements for target group.* This method measures changes in the participant group. One proposed means of measuring the change could be through issuing a “Strengths and Difficulties Questionnaire”
3. *Live baseline or control group.* This method compares the outcomes achieved by the target group against a contemporaneous control group.

The use of these benchmarks and related output measures raises many important and interesting questions. The SIB performance metrics are concerned with the duration of the project (normally less than 5 years) whilst arguably the whole lives of participants is a paramount issue. This and other concerns will be discussed later in the paper with respect to the case study. But at this stage it is worth considering the use of “control groups”. Large scale epidemiological studies have long used control groups to test drugs but there are few examples of the use of control groups to test social intervention programmes. Ebrahim ([forthcoming](#_ENREF_20)) argues that this method should be used only where it is possible to have a clear and testable causal hypothesis and the conditions for a randomised control trial can be met -- including operating at a sufficient scale and the capacity to conduct longitudinal research. Ebrahim gives the example of a highly focussed social intervention – treating children for intestinal worms in Kenya. Comparison with a control group showed that the social outcomes were decreased school absenteeism and increased employment earnings of participants. The findings were based upon a government programme involving 30,000 children. A representative sample of 7,500 respondents was assessed 10 years after the intervention ([Miguel & Kremer, 2004](#_ENREF_41); [Baird *et al.*, 2011](#_ENREF_2)). It is unlikely that comparable standards are met when constructing benchmarks for SIB programmes. Moreover, it is unlikely that any SIB would fulfil the requirement to have a “clear and testable causal hypothesis”.[[6]](#footnote-6) In spite of these concerns, financial “outcome valuations” are made.[[7]](#footnote-7) The first step in this is to calculate the current cost to the SIB commissioner within the proposed outcome tariff to feed into a value-for-money calculation.

## The Value-for-Money Calculation

In the calculation of value-for-money, the commissioner has to bear in mind that the SIB service has to be paid for if it achieves its designated outcome metrics. At the heart of any SIB will be a negotiation over potential cost savings to the state and returns to bond investors. Social Finance states that SIB financial model requires consideration of the following factors ([Barclay & Symons, 2013](#_ENREF_3)):

* Current costs to government of a particular target population[[8]](#footnote-8)
* Costs of a proposed SIB intervention
* Estimated impact of proposed intervention
* Potential cost savings to commissioner(s)
* Estimate of investor returns

A schematic illustration of potential cost savings of an SIB is shown in Fig. 2. This shows how SIBs are being portrayed by SIB proponents. While SIBs would seem to offer tremendous opportunities to rearrange the roles and responsibilities of the public, private, and social sectors, they are aligned by proponents with the basic neoliberal argument of reducing the cost of government. It is provocative that this figure shows the “Cost to Government” as being reduced dramatically from column 1 to column 2, because the outcome payments, including the programme costs and the investor returns, are not included in the cost to government that is shown. This is an error in the graph, but even if this is relabelled correctly, the total cost to government is assumed to be lower, resulting in “potential” cost savings retained by the government. There is nothing about an SIB, however, that would lead to overall costs being lower. Payments to a service provider who fails to achieve performance targets will be much lower than the cost of a traditional programme, but then the problem will not have been solved, so government will still be on the hook for the cost of solving it. Payments have merely been postponed, and solutions delayed. Payments to a service provider who does achieve performance targets should logically be higher than a traditional programme, because a profit has to be paid to investors.

<INSERT FIGURE 2 ABOUT HERE>

In effect the value for money calculation is a flawed and blunt instrument which monetises hypothetical future activities ([Cooper & Taylor, 2005](#_ENREF_15)). It assumes that non-state providers of certain social services can do better than the state sector. The SIB structure does not allow state sector departments to put forward bids for the bond and so is not concerned with state sector innovation. So for example, it could be the case that the prison governor of Peterborough Prison could have used SIB funds[[9]](#footnote-9) to reduce reoffending more efficiently than the chosen service provider. Because public sector employees are typically unionized, excluding state sector organizations from bidding biases the procurement towards organizations with lower labour costs.

This is arguably where much of the “cost savings” will come from. A charitable organization can attract volunteer labour, of course, but even if they pay all their staff, they can reduce labour costs outside of a unionized environment by using short-term contractors and part-time workers, without having to provide them with benefits. This means that costs savings under SIBs may come from reducing job security and employee benefits, which imposes future costs on society when these employees need unemployment insurance benefits or medical care. This scenario intensifies if the charitable service provider demonstrates the profitability of the work by achieving the performance targets. In such a case, the contract renewal for providing the service we attract bids from global for-profit corporations, as happened when global security giants Serco and G4 outbid the YMCA for the provision of shelter to UK asylum seekers ([Naysmith, 2011](#_ENREF_45)).

The nature of the model raises questions about the funding of public services in the future. Are SIBs a way to provide funding for social programmes from the private sector? Or, an investment opportunity? Or both/neither? Failed projects will incur bureaucratic set up costs alone and only time will tell which projects are likely to fail. But one would imagine that these would be in the minority. In which case SIBs present an opportunity for would be philanthropists (and anyone else) to make fairly significant profits (In the Peterborough Prison case investors could make £8m on a £5m investment). Philanthropic investors may decide to invest their returns in future programmes. However, as in other forms of public/private partnerships and privatizations, there will be negotiations over risks and rewards. Their short timescale will make the bonds more attractive to investors and less risky. But, a short-term approach to dealing with social problems could well leave significant post-SIB costs alongside all of the risks with the state. For example, if one of the outcome metrics in an homelessness SIB is that an individual should be living in rented accommodation, in order to meet that metric, it could be financially beneficial to a bond holder (and also advantageous from a social capital perspective of the provider), to allocate significant resources to keeping (say) a very ill person in that accommodation, by paying their rent and monitoring them closely. Once the SIB pays out, that individual could be left to their own devices and perhaps require costly long term hospital care.

## Project Management

Once the service delivery partner(s) has been selected and the programme begins, typically a SIB will incorporate a Project Director or Performance Manager who will not be involved in service delivery. Rather, they will regularly analyse the data to ensure that the programme is on track to deliver the social outcomes. Management accounting/control technologies are at the heart of the SIB activities. If the service provider is “falling behind” it can be sacked and replaced by another. Thus the rules created by the SIB are reinforced by this threat of “exclusion” ([Roberts, 1991](#_ENREF_52)). This threat might be amplified when an active SIB market is established. New SIB holders may wish to introduce their own Project Director or Performance Manager or even service delivery partner.

As with all performance measurement based management systems, activities which are not reflected in the performance metrics, will be devalued (no matter how socially important). These are other issues surrounding the performance metrics will the discussed later in the paper.

## The Influence of Consultants

It is important to recognize the mechanisms by which social impact bonds, as a technology and a governance meme, have been propagated. One evident mechanism is the influence of consultants on governments. For example, the UK Cabinet Office website on Social Impact Bonds provides templates for commissioners who are attempting to follow the lead of the Cabinet Office and initiate their own social impact bonds ([Inside Government, 2013](#_ENREF_35)). The templates include a how-to guide and an example of a “potential savings” spreadsheet that can be adapted to justify the introduction of a social impact bond in a specific field of social policy. The templates have, alongside those of the Cabinet Office, the name and logo of ATQ Consultants in their page heading. ATQ Consultants is a small firm staffed by three people with public sector and business development experience ([ATQ Consultants, 2013](#_ENREF_1)).

An active promoter of social impact bonds in the UK is the financial consulting firm Social Finance. Although the firm lists representatives of the charitable foundation of the Duke and Duchess of Cambridge and the UK Charity Commission on its board, the vast majority of its board members come from hedge funds, global finance firms, and major banks ([Social Finance, 2013a](#_ENREF_67)). Founded in 2007 by Toby Eccles, previously the secretariat of the UK’s Commission on Unclaimed Assets, the company is now headed by a former investment banker ([Social Finance, 2013c](#_ENREF_69)). Like Triodos Bank, Social Finance states on its website that it is authorised and regulated by the Financial Services Authority, a defunct entity within the UK government that has now been split into two separate regulatory authorities.

Amongst major consulting firms, McKinsey & Company have prepared videos, booklets, and toolkits for organizations contemplating social impact bonds. Investment banks have also got in on the act, with Goldman Sachs particularly active in the United States ([Shorthouse, 2012](#_ENREF_61)).

Three of the Big Four global accounting firms are prominent promoters of social impact bonds. Deloitte, particularly in Canada, has jumped on the SIB bandwagon with a booklet, entitled *Paying for Outcomes* ([Deloitte, 2012](#_ENREF_19)), claiming that SIBs are the key to “solving complex societal issues” and that there is a “coming revolution in social policy.” PwC has acted as a technical advisor to Social Finance ([Social Finance, 2011b](#_ENREF_64), [2011c](#_ENREF_65)), the consulting firm described above. Ernst & Young made a major donation and contributed pro bono work to support the Private Equity Foundation in developing a social bond related to youth education and training ([Private Equity Foundation, 2012](#_ENREF_51)). KPMG has been named as a supporter of SIBs in Canada ([Curry & Grant, 2012](#_ENREF_18)).

These activist roles for consulting firms, investment banks and accounting firms, and the speed at which SIB schemes are travelling throughout the public sector and across national boundaries, suggest that social impact bonds are not simply permeating into practice passively. They are being propagated actively by firms and individuals who, notwithstanding their passion about the idea, stand to earn considerable fees off the adoption of this new financial technology.

# St. Mungo’s

The specific social impact bond case we are studying here involves St Mungo’s, a UK charity with a long history of service to the poor. St Mungo’s – the use of the possessive has varied over the years – was set up in 1969 with a soup run and a house for the homeless run by volunteers in Battersea, London. Despite its name, the organization is not religious.[[10]](#footnote-10) St Mungo’s was unable to cope with the demand for housing in its small facility, so in 1974 it acquired use of the Charing Cross Hospital, which provided over 600 beds. This hostel was closed (repossessed by the owners) after ten years but St Mungo’s quickly regained this capacity by the mid-1980s. The organization continued to grow through a combination of traditional government funding and charitable donations, and by 2012, St Mungo’s had a turnover of £48m and employed 956 full time equivalent staff ([St Mungo's, 2012a](#_ENREF_70)).

St Mungo’s operates in an extremely chaotic and harrowing social space. This is in part due to the “clientele” it serves, many of whom suffer from complex problems of mental illness, failed family relationships, alcoholism and drug abuse. St Mungo’s claims that it takes on the most “difficult” cases. It is known for its innovations in service. For example, it allows dogs and alcohol in its premises and, where appropriate, it gives residents a private room with their own key. It provides opportunities for skill development, psychiatric and drug rehabilitation, and decent food. It set up a Sanctuary for elderly homeless people, which was designed to be as non-institutional as possible. The activities of St Mungo’s and its emphasis on innovation reflect a growing understanding of the heterogeneous nature of homelessness.

## Relationship to State

In St Mungo’s early days, two government initiatives altered the context in which it operated. The first was the Housing Act of 1980, which gave social housing tenants the right to buy their accommodation at a discounted value. Approximately 200,000 council houses were sold in 1982, and by 1987, more than 1,000,000 properties had been sold. This created a severe shortage of affordable social housing. The second initiative was Thatcher’s “care in the community” policy. This involved the closure of many of the large mental institutions, which left many mentally ill people without the resources to fend for themselves; many became homeless; many men were badly beaten up and women sexually abused. St Mungo’s has a history of successful adaptations to such changes in social policy.

St Mungo’s existence has been dominated by its vulnerable relationship to the state. Changes in legislation or administrative decisions can suddenly cut funding. For example, in the extraordinarily cold winter of 1990, St Mungo’s was paid by the Department of Health to provide accommodation for homeless people in the disused Paddington Green Children’s Hospital. But as soon as the cold snap was deemed to have ended, funding was immediately cut off and St Mungo’s was forced to send people back onto the streets ([Sage & Mills, 1990](#_ENREF_56)). Similarly, in 1990, the UK government announced plans to provide hostel places to all the homeless in central London. While some criticized the funding as inadequate ([Bunting, 1990](#_ENREF_10)), the money went straight to homeless charities like St Mungo’s. However, in 1993, the government suddenly proposed a cut to funding for more than one-third of the hostels for homeless people, reducing the number of beds funded from 818 to 524. St Mungo’s had believed that this funding was secure for the next three years ([Waterhouse, 1993](#_ENREF_78)).

While St Mungo’s is a charity, historically only a tiny proportion of its income has come from charitable donations. Most of its funding has come from the state, either from direct grants or from the state benefits of the users of its services, who pay St Mungo’s for accommodation and food. Changes to state benefits can have a profound impact on the work of St Mungo’s. For example, its activities were disrupted by the removal of state financial benefits to 16 and 17 year olds, and by the 1992 transfer of responsibility for the homeless from the Department of Health and Social Security to local authorities.

While the volatility of state funding has been a source of stress to St Mungo’s, other state changes provided the opportunity for the organization to expand its role. In 1996, for example, the UK Government ended its direct involvement in housing single homeless people. The Resettlement Agency and the executive agency of the Department of Social Security handed over two government hostels to St Mungo’s ([Crace, 1996](#_ENREF_17)). This dormitory accommodation was converted to single rooms and St Mungo’s staff set about providing specialist care and resettlement help. In 1996, St Mungo’s ran its own registered care home for the mentally ill and an alcohol detox unit. It also had close ties with outside alcohol and drugs projects, as well as job placement and job training schemes ([Crace, 1996](#_ENREF_17)). The funding for these came at least partially from the state ([M2 Presswire, 1996](#_ENREF_38)).

In 2004, St Mungo’s became part of a partnership project to provide an alternative to police custody for homeless people with alcohol problems. The partnership consisted of St Mungo’s, the Home Office, the Metropolitan Police, and the Inner London Detoxification Centre. More and more, St Mungo’s has had to operation in collaboration with a wide range of organizations from various sectors. The degree to which governance and the role of the state has been changing in the UK over the past thirty years has made it difficult for organization like St Mungo’s to adopt a stable strategy and a clear sense of mission. It has forced them to be adaptable, giving them the capacity to consider alternative programme delivery modes and new funding arrangements.

## Income

Today, St Mungo’s dominant income stream comes from a government initiative set up in 2003, called “Supporting People”. This New Labour initiative mandated that the funding be used to help people to live independently. It was drawn up in such a way that the funds could not be used for St Mungo’s literacy and numeracy projects, which are a vital component of St Mungo’s holistic approach to enable people to fulfil their potentials. Other funding must therefore be cobbled together by bidding for contracts. This can create “mission drift”, changing the nature and the location of the work St Mungo’s does.[[11]](#footnote-11) Some of St Mungo’s activities moved from central London when it began to bid for and win contracts to provide services further afield:

* St Mungo’s was appointed as advisors to Swindon Council in 2003 when that local authority set up a dedicated team to deal with homelessness.
* In 2009, St Mungo’s won a multiple awardees contract award from West Sussex County Council to provide property management services on a fee or contract basis (Ref Nos 315994-2009 and 94-41).
* Also in 2009, St. Mungo’s won a £276,356 contract award from Oxfordshire County Council to provide community health services (Official EU Ref. No.: 91718-2009).
* In 2011, Westminster City Council awarded a £750 000 contract to St Mungo’s to provide an assessment, advice and referral services for high risk rough sleepers and individuals who are engaged in “anti-social behaviour such as begging or street drinking”.
* St Mungo’s won a contract for a further £750,000 from Westminster Council to provide homeless criminal justice and anti-social behaviour services (Contract Award Notice No.: 2011/S 82-134713)
* It successfully competed for a piece of a £982,563 multiple awardees contract award from Westminster City Council to provide city-wide building-based intervention services for rough sleepers (Contract Award Notice No.: 2011/S 154-255757; Contract No.: 1), described in the contract as: "A comprehensive service to reduce the numbers of people sleeping rough on the streets of Westminster to as close to zero as possible. "
* St Mungo’s won a £270,000 contract from Bath and North East Somerset Council to provide a “Building Bridges to Wellbeing” service (Contract Award Notice No.: 2011/S 177-289866), focussed on persons with mental health problems
* In 2011, St Mungo’s won a grant of £229,000 to set up a homelessness initiative in Bristol
* On March 20, 2012, St Mungo’s won a £1.2 million contract award from Hertfordshire County Council to provide health and social work services (Contract Award Notice No.: 2012/S 55-089129).
* On November 15, 2012, St Mungo’s won part of a £70 million multiple awardees contract award from London Borough of Hammersmith and Fulham to provide support services related to the development of civic and community amenities (Contract Award Notice No.: 2012 / S 219-360312; Lot No.: 1, 2, 3, 4, 5, 6, 7, 9, 10).

The amounts in these contracts are staggeringly large by the standards of many homelessness programmes, but each such contract pushes the limits of St Mungo’s to administer and execute the services it has contracted to provide. This stretching makes the organization vulnerable, as it does not have the capacity or buffer to withstand sudden changes in government policy or funding. In addition, changes to European Union funding have had dramatic impacts. Money from the European Social Fund was delayed in 2007/2008, meaning that many St Mungo’s projects had to take an unexpected “gap year”.

While St Mungo’s clearly has had success in winning contracts, in recent years it has faced a new challenge, competition from large for-profit corporations operating in the social services sector. In some cases, it appears that the UK government has been privileging these corporate service providers. For example, in 2011, it was reported that voluntary organizations that help young people into jobs were being frozen out of the government's £5 billion Work Programme ([Butler, 2011](#_ENREF_12)). The Department for Work and Pensions (DWP) chose 18 contractors to provide 40 work programmes in 2011. Only two were voluntary bodies, despite ministerial pledges that charities would get a big chunk of the work as part of “the Big Society”. Most charitable organizations were unable to meet the initial criteria of needing an annual turnover of £20 million and the capacity to fulfil large contracts requiring a big cash flow. St Mungo’s, by no means a tiny charity, claims it has been awarded no contracts under the Work Programme, apart from one where there have been no clients ([Sherman, 2011](#_ENREF_60)).

## Recent Financial Position

As a result of such pressures and volatility, in the fiscal year 2011/12, St Mungo’s turnover decreased by £1m (2012: £48,277,000; 2011: £49,220,000). This was partly due to cuts in the “Supporting People” funding and the loss of contracts. The 2012 “Report of the Board of Management” stated that:

In common with all providers, we also face much stronger competition for contracts. We have lost a small number of contracts during the year, generally on price…. Looking ahead, we expect further cuts in statutory funding alongside some significant increases in our expenditure. ([St Mungo's, 2012a, p. 2](#_ENREF_70))

Grants for new infrastructure or major refurbishment have also declined. St Mungo’s took money from its own reserves to fund fixed assets.

St Mungo’s turnover derives from rental income and service charge receivable, grants from Local Authorities, the Homes and Communities Agency, other Government departments and charitable bodies. It also includes income from fundraising activities, units managed on behalf of other associations and other services provided. In 2012 almost 80% of St Mungo’s turnover (£38.445m/£48.277m) came from Social Housing lettings (£20.598m) and Social Housing activities (£17.847m). All of the Social Housing activities funding, £17.847m (46%) came from “Supporting People” funding. Of the social housing letting income, £15.876m came from “Supporting People” funding. This means that in total “Supporting People” funding (£33.723m) amounted to almost 70% of St Mungo’s funding in 2011/12.

In terms of charitable donations the accounting year 2011/12 achieved the highest ever amount. In all, St Mungo’s raised £5.158m. Of this, £2.4m was allocated to special projects and the remainder was included in St Mungo’s turnover. If effect this means that charitable donations amounted to just under 6% of turnover.

In the accounting year 2010/11, St Mungo’s stated that:

... we began discussing with our staff and union how the organization can be “fit for the future” and survive the cuts being imposed on us by both central and local government. In April 2011 we negotiated an agreement to change terms and conditions, which includes increasing the working week by two and a half hours at no extra costs. ([St Mungo's, 2012a](#_ENREF_70))

Such statements indicate a palpable sense of being in survival mode, not just amongst managers but amongst staff as well, who agreed to employment contract concessions. But as can be seen from Table 2, the contract concessions were not enough to stave off job cuts.

<INSERT TABLE 2 ABOUT HERE>

The overall financial situation, therefore, prior to the issuance of the Street Impact SIB, was one of cuts to core funding, having to dip into the reserve fund to pay for fixed assets, overreliance on a single government source, and job insecurity, offset by an increase in charitable donations. The move to try out a radical new form of funding is understandable in view of the challenges faced by management.

# The St Mungo’s Street Impact Programme

This preceding has given us a sense of the funding climate faced by St Mungo’s, the recent financial circumstances of the organization, and the historical context for the particular homelessness initiative that we wish to examine, the “Street Impact” programme ([St Mungo's, 2012b](#_ENREF_71), [2012c](#_ENREF_72)). This is the programme that has been funded by a social impact bond, and therefore involves a new kind of collaboration with the corporate sector.

The programme is targeted at a cohort of 415 rough sleepers in London. The selected individuals will have a history of repeated rough sleeping and complex issues involving substance abuse, mental illness, or physical illness. Such individuals are typically very difficult and costly to treat with traditional interventions. It is unclear exactly what is innovative about the programme, however. The description of the programme provided by St Mungo’s suggests that they will offer a personalized service, “holistic” case management, “independent” accommodation, “reconnection,” immigration, and a “Dreams” fund ([St Mungo's, 2012b](#_ENREF_71)). Personalized service, coordinated case management, and accommodation separate from traditional shelters are all features of the Housing First model that is well established in the United States. Assistance with immigration for those who have arrived in the UK from other countries is already provided to all refugees. The services that appear to be new are reconnection and the Dreams fund. Reconnection simply means sending people back to the countries that they came from, with some level of support to connect them with their support network. It is unclear what this support might entail that would distinguish it from deportation. The Dreams fund is a feature borrowed from microfinance, which is well established in the global South.

The Street Impact programme thus appears to be a coordinated assembly of services and programme features borrowed from traditional models of social service to the homeless. The innovation, therefore, that is being funded by the social impact bond, has more to do with a restructuring of the social services field than it does with particular treatments or intervention techniques. Given the previous entrenchment of traditional social service provision in government bureaucracies, which were typically unionized, it is difficult to separate these innovations from labour relations issues. As funding for social services become contingent on performance, risk is being redistributed. Jobs with security are replaced with contract work. When a programme that has specific temporal boundaries is completed, regardless of whether it has been successful at meeting performance targets, contract field workers become unemployed and must seek to be rehired for subsequent social service programmes. This is part of the cost savings of this approach to governance: variable labour costs based on variable demand for services, with the risk of periods of unemployment for low-level field workers while higher placed managers attempt to attract the next round of funding; plus, lower employee benefits costs for contract workers.[[12]](#footnote-12)

Multidisciplinary teams for social service provision are common in many jurisdictions, and are used both in traditional bureaucratic and in more entrepreneurial settings. Hence, the major innovation in the Street Impact programme seems to be in the area of finance.

## The London Homelessness SIB

The Street Impact programme is being financed by the issuance of the London Homelessness SIB ([see Social Finance, 2013b](#_ENREF_68)). This bond has been issued by the Greater London Authority (GLA), the municipal level of government for the London metropolitan area. Funds raised by the bond issue are being used to provide initial capital for St Mungo’s to provide new services to 415 rough sleepers in London, under contract to the GLA. Another service provider, Thames Reach, has received a similar contract for providing services to an identical number of rough sleepers, but their funding does not involve an SIB. The total value of the GLA’s contract with the two service providers is £5M, including fee-for-service payments and contingent outcome payments. The services will focus on:

* Bringing together fragmented borough-based services and commissioning;
* Maximising the value of existing services by connecting provision with need; and
* Re-centring provision around the needs of the individual.  
  ([Social Finance, 2013b](#_ENREF_68))

These foci are interesting because they suggest that a lack of coordination amongst local service providers is a problem in the homelessness field. St Mungo’s had already developed the cultural capital to provide a coordinated service. We would argue that SIB programmes can be seen as logical result of the emphasis in current governmental policy on pushing decision-making down to the local level. When authority over spending devolves to lower levels of government, uniformity of services and policies is bound to be sacrificed unless a parallel commitment is made to protecting uniformity. This is unlikely to happen if the goal is to reduce the overall cost to government. It suggests that neo-liberal values such as efficiency and freedom or autonomy from state authority[[13]](#footnote-13) are being privileged over values like fairness or equity. So, performance measurement in particular programme outputs or individual outcomes fails to capture societal impacts, such as a reduction in equity. The fact that funding from this particular SIB is expected to be used to promote connectedness and coordination between different London boroughs is therefore quite remarkable, because a cutting edge financial solution typically viewed as a quintessential neoliberal governance tool is being used to counter the negative effects of neoliberal governance policies.

The other two foci are more consistent with expectations for public services under neoliberal governance policies, because they emphasize the individual’s need as well as “market” mechanisms for service provision. Rather than offering uniform services, the Street Impact programme will emphasize allocation based on need.[[14]](#footnote-14) It is interesting that the technology used to determine need is old fashioned human contact. The programme provides funding to support “a personalised, flexible, outreach approach ... over a sustained period, backed by funds, to develop relationships that will bring people off the streets” ([St Mungo's, 2012b](#_ENREF_71)). Again, the innovation here is in funding, not in service delivery, except that here the emphasis is not on the financial intricacies of the SIB but on the sheer amount of money being raised.

It should not be assumed, therefore, that cost reduction is driving this form of funding for social services. In fact, while the cutting of costs to government is very much part of the rhetoric associated with SIBs, the funding arrangements for the London Homelessness SIB deliberately duplicate some administrative costs. This is because the total funding is being split equally between St Mungo’s and a competitor organization called Thames Reach ([St Mungo's, 2012b](#_ENREF_71)). Each of these organizations will have to administer the contracts and implement management oversight of services they provide to the 200 cohort members assigned to them. The driving factor here therefore appears to be competition, not cost savings. This is entirely consistent with neoliberal governance, according to Willse ([2010](#_ENREF_79)), who argues that the individual homeless person is not the primary target of neoliberal governance. Rather, the target is the social services sector itself, and its transformation from a cost of government to an engine of the economy, where entrepreneurialism and competition drive innovation and employment.

Competition between St Mungo’s and Thames Reach is structured into the contractual model, with outcome measures rather than treatment standards driving the agreement between funders and service providers:

The payment by results approach has allowed the providers flexibility to innovate. In particular, by not issuing a service specification and instead focusing on outcomes providers have been able to develop approaches that respond the needs of service users. ([St Mungo's, 2012b](#_ENREF_71))

It is therefore an aspiration of the financial model that the two service providers will execute their duties in different ways, seeking to be more effective and efficient at dealing with their homeless individuals than the other provider was.

## Development of the SIB

It is interesting to see how financial capacity, as opposed to service expertise, played a role in the awarding of the contracts to these two providers. Our interviewees at the Greater London Authority said that Social Finance provided the initial business case for the overall project, which the GLA then took to the homelessness sector in successive drafts. Organizations in the sector commented on these drafts, and the GLA made adjustments. For instance, the up-front fee for “reconnection” was increased. According to our interviewee at Triodos Bank, Triodos was then engaged by the GLA in the first half of 2012, to work with a service provider to take the SIB through to launch.[[15]](#footnote-15) Triodos evaluated potential service providers not just on their track record, proven ability, and level of success in the field, but also on the basis of a financial appraisal. In fact, Triodos “always had one eye on the service provider putting in some of their own capital to encourage other investors” (Triodos interviewee). They were drawn to St Mungo’s because of it had a large financial base. The work Triodos put into this phase was crucial in assuring potential investors that the project was financially sound.

In August of 2012, Triodos Bank and St Mungo’s worked together to determine what performance targets were achievable. These had to be clearly measurable, and the two parties had to work hard on the “validity” of all of the forecasts and output measurements (Triodos interviewee). They looked at St Mungo’s own historical data, the GLA’s “Combined Homelessness and Information Network” (CHAIN) database on homelessness, and other evidence about different types of rough sleepers. This phase of the development also involved the bank representatives spending time with St Mungo’s outreach workers. Our interviewee said that the outreach workers knew more about the chance of “success” than any of the “finance guys”, and in fact had such deep knowledge of the field that they likely knew each of the hundreds of participants eventually chosen for the SIB funded programme.

The two organizations also worked at budgeting. They had to determine the costs of achieving the specified targets, and therefore how much “investment” they would need to attract through the bond facility. Costs would include staff (the main cost), accommodation, infrastructure (especially communications technology like broadband, mobile phones, and so on), rehabilitation, medical support, and details like pocket money. They also had to determine what the opportunities were for income generation.[[16]](#footnote-16)

## Special Purpose Vehicle

Our interviewee at Triodos Bank told us that St Mungo’s set up a wholly-owned special purpose vehicle, called Street Impact Ltd, to handle the financing and the contract.[[17]](#footnote-17) We were also told that the return to investors (the interviewee used the term “lenders”) would be 6.5%,[[18]](#footnote-18) and that St Mungo’s stands to make up to a £300,000 profit on the whole deal, if they meet all the performance targets. This suggests that not all the contingent performance bonuses are going to the investors. St Mungo’s invested a considerable amount of its own money in the Street Impact programme. According to reports, the total investment from bondholders was £900,000, with £500,000 of that coming from a firm called CAF Venturesome; while St Mungo’s provided £237,000 in equity financing ([Mair, 2012](#_ENREF_39)).[[19]](#footnote-19) This money allowed St Mungo’s to assemble the staffing and other resources it needed to begin the programme. St Mungo’s will bill the GLA every three months under the contract on a fee-for-service basis, and will receive performance bonuses as agreed performance targets are reached. This will provide continuing funding, supposedly exceeding the cost of services, with a maximum total payment of £2.4M over the life of the contract. The bondholders have a priority claim on profits from the contract with GLA, but St Mungo’s has a residual claim if the bondholders are paid off and there is money left over.

This combination of features – having St Mungo’s make a large investment itself, and not passing on all the performance bonuses to the investors – brackets the downside and upside financial outcomes to which investors are exposed. They share both the provision of financial capital and the potential rewards with St Mungo’s itself. This has made the investment less risky for external investors, and helped attract them to the project.

## Service Contract and Performance Measures

The financial arrangements and programme specifications were finalized in the September to November period of 2012. The eventual contract governing the relationship between the GLA and the selected service providers, St Mungo’s and Thames Reach, was 100 pages long. It was signed in November 2012. Work began immediately, and the first quarterly payments were made in February 2013.

The contract specified that the focus of the work would be 830 so-called “Inbetweeners”[[20]](#footnote-20) identified in the CHAIN database.[[21]](#footnote-21) The three basic categories of homelessness in this database are those who have just started sleeping rough, and who may or may not quickly return to more stable housing situations; those who are chronic rough sleepers, who may have multiple issues such as mental illness or drug dependency; and the Inbetweeners who have had multiple separate episodes of rough sleeping. As mentioned above, each organization was made responsible for 415 of these people. It is not yet clear from our interviews how this sample was selected from the Inbetweeners in the database, nor why the Inbetweener category was chosen as a focus.

Incentives for entrepreneurial innovation are fundamental to the conditionality of the contract’s funding model. The outcome payments are linked to the ability of the two service providers to keep the cohort of rough sleepers in the programme off the street. These payments are contingent on the following performance measures:

* Reduction in the number of individuals with a bedded down street contact each quarter;
* Confirmed sustainment of tenancy in a non-hostel setting;
* Confirmed reconnection to a country in which individual enjoys local connections;
* A decrease in the average number of accident and emergency (A&E) episodes per person per year. ([Social Finance, 2013b](#_ENREF_68))

Our interviewee at Triodos Bank said that a fifth measure, related to connecting the individuals to employment, volunteer work, education, or training, was also in the contract. The interviewee said that this was the most difficult measure to achieve, and it is interesting that the Social Finance document cited above left it out. These measures are clearly tailored to the target population. It would be inappropriate to target employment, for instance, for the chronic rough sleepers with issues like drug dependency.

All of these measures are aimed at helping the individuals stay off the street, and are linked to performance payments to St Mungo’s. For example, a small outcomes payment will be earned for each night a participant stays in a St Mungo’s hostel, but a much more lucrative payment will be earned for someone who achieves 12 months off the streets, and even more if an 18 month target is met. The GLA will allow St Mungo’s to roll measurements over into a fourth year for anyone who might achieve the longer term targets. So for example, if at the end of Year 3, person A has been off the streets for 16 months, St Mungo’s can keep the contract rolling and if she achieves the 18 month target, St Mungo’s will get paid as if she had achieved this within the three year contract.

These outcomes are audited by an employee of the GLA, who, according to our interviewees there, will review each of the 830 tenancy agreements for St Mungo’s and Thames Reach to ensure they meet the criteria set out in the contract. This employee will also audit the status of the homeless individuals using the CHAIN database. Our GLA interviewees noted, however, that the CHAIN database is not an independent source of information because it is updated by the service providers themselves, including St Mungo’s and Thames Reach. When asked about the potential for these organizations to fudge their CHAIN updates in order to improve their outcome payments, the GLA interviewees suggested that these service providers have much more funding at stake from the GLA under other contracts, and that therefore the consequences of being caught far outweigh the benefits of gaming this particular contract. The lack of independent means of auditing the performance suggests that the financial innovations are, at least for now, outstripping the capacity of the government to monitor the contracts.

A large percentage of rough sleepers are now non-UK citizens. Many of these are entitled to UK state benefits because they come from within the European Union. Reconnection measurements are included in the contract to encourage St Mungo’s to help these participants return to their country of origin. The contract requires St Mungo’s to have staff travel with the participant to their country of origin and work to ensure that they get access to appropriate support networks there. St Mungo’s staff will not “walk away” until they are sure there is a good chance of the participant remaining out of the UK. This is intended to prevent St Mungo’s from gaming the system, and paying individuals to leave the country, leaving St Mungo’s to pocket the performance payment.

Statistics indicate that a huge proportion of Accident and Emergency (A&E) expenditure is related to the homeless, for a variety of reasons. A performance measure targeting reductions in A&E incidents is therefore included. Our interviewee at Triodos Bank admitted that this measure is problematic because the National Health Service (NHS) would surely keep information about hospital visits confidential.

These measures are interesting from the perspective of the logic model. As Ebrahim ([forthcoming](#_ENREF_20)) suggests, measurement of outcomes and impacts beyond the clear control of a service provider may be counterproductive, inaccurate, costly, and misleading, because long term and societal measurements should be conducted by major funders or governments. So what degree of control might St Mungo’s be expected to have over the achievement of these performance targets?

Reduction in “bedded down street contact” is an output measure – a short-term individual result -- in that the programme is explicitly expected to take people off the street and give them housing. The very fact that this is measured is a clear admission that even this is beyond the complete control of St Mungo’s. This is because they are dealing with individuals with complex medical and emotional problems, and addictions. These problems can cause a person to take flight from help, or be pulled back into destructive relationships, for instance with drug pushers. St Mungo’s can provide housing, but the programme is not about incarceration so there is little they can do to insist that the person sleep in the housing provided.

Sustained tenancy in a non-hostel setting, as a performance measure, ensures that St Mungo’s has an incentive to help the clients move into housing where they are separated from other homeless people and engaged with their professional support network. Again, there is little St Mungo’s can do to prevent a person from leaving, but this performance measure does ensure that St Mungo’s cannot simply provide hostel accommodations. It is unclear, however, why this is stated as a performance measure instead of as a simple contractual condition.

“Confirmed reconnection” is specified as a relocation to the country of origin of at least six months duration ([St Mungo's, 2012b](#_ENREF_71)). It is difficult to see this as anything but an incentive to deport, and to deport early, because the sooner the “client” is relocated to his or her home country, the sooner St Mungo’s stops incurring costs. This only makes sense as a performance measure if deportation under traditional service models often fails, with the person returning to the UK within six months. In such a case, the performance measure provides an incentive for St Mungo’s to work with agencies or government officials in the person’s home country to ensure they are supported – or detained – for at least six months. This is perhaps an output measure, more so than an outcome, because the time frame is relatively short in the life of the individual. Yet, to the degree that St Mungo’s loses effective influence over the individual once he or she has been “reconnected” with the home country, it is an outcome.

The emphasis on reducing A&E visits, that is, incidents where the individual is treated by the emergency ward of a hospital, suggests a measure that is more of an outcome than and output, to use the parlance of the logic model. Many factors could result in a person ending up in an emergency ward. Some of those factors are controlled by outputs of the Street Impact programme, including service hours provided by professional workers specialized in addiction or mental health treatment. Hence, this is an outcome measure, but not an impact measure because it is still related to the individual client as opposed to wider society.

# Discussion

Our paper is still at a preliminary stage, with much data to come in the form of interviews with various key actors and the disclosure of private details about the funding and the programme itself. Nonetheless, we are able to identify areas of concern with the use of SIBs in general, and the St Mungo’s SIB in particular.

The arrangements and measurements related to the Street Impact programme suggest, unsurprisingly, that accounting technologies are being used to render a specific segment of UK society governable. At the street level, the “Inbetweeners” themselves have been targeted with interventions designed to get them to conform to norms related to housing, employment, and health. These are relatively straightforward, and do not represent anything beyond what a traditionally funded homelessness programme would seek to achieve.

Within the homelessness service sector, however, great changes are implied. This can be seen in the way St Mungo’s has had to organize itself and in how it orients itself to funders. The use of a special purpose vehicle, St Mungo’s Ltd, indicates an increasing engagement with legal consultants and a use of the corporate form to structure both liability and control. The organization is reconfigured and at the same time reconnected to an entirely different source of funding. Instead of government bureaucrats determining the success of their funding applications, the finance industry is engaged. The “take-it-or-leave-it” attitude of the GLA no longer works in this changed field, and it is required to negotiate prices with its service providers. The public sector’s role is reduced and refocused, while the finance sector sees its role greatly expanded. Triodos Bank, in particular, is seen to take a highly entrepreneurial role in developing the arrangements and seeing them through to the launch of the bond. In addition, the ultimate source of funding shifts from the taxpayer to the investor, so individuals are engaged in bearing the costs of social services in entirely new ways, with the possibility of financial rewards. This means that the influence of a few wealthy investors and investment fund managers grows, while the democratic influence of UK citizens over public services is diminished.

In terms of the logic model, certain questions are raised by the St Mungo’s Street Impact programme and its financing model. For instance, what has been accomplished if the performance measurement goals are achieved? A “desirable” target is reached – desirable being defined as attractive to investors – but whether that target is long-term and widespread depends on the sophistication of the design put into the performance measurements. Four of the five performance measures related to the Street Impact SIB have to do with immediate outputs of the programme, over which St Mungo’s has considerable influence. The fifth measure, related to employment, is a longer term outcome, and St Mungo’s may have little direct influence over it. None of these performance measures could be considered to measure “ecosystem impact.” The haste to initiate a new financial model has prevented the state from connecting any broad social measurements to this programme, so it is impossible to state whether the programme will be better in the long run than previous ones. It would seem that engaging the finance industry in service sector funding is being regarded as a goal in itself, rather than a means to an end.

The Street Impact programme and the related financial innovations leave unanswered the question of causal links between programme and long-term social effects. There appears to be no attempt at the state level to coordinate a portfolio of programmes to ensure they collectively achieve the desired social impact. Indeed, there seems to be no explicit expectation of an overall result, either through bureaucratic governance or market forces. Bureaucratic governance would seem to be somewhat antithetical to the neoliberal agenda implicit in social impact bonds. And even so, such coordination would require that desirable social impacts could be specified politically in a society of competing values, conflicting classes, and oppositional interest groups. Alternatively, reliance on market forces would require that the state abnegate its responsibility for the public good, and cede control of the social agenda to the wealthy. The Street Impact programme seems to have been initiated by the various authorities, consultants, and service providers mainly to try out new financial mechanisms.

Among the various actors, in the event of success, the state will have achieved it social goals, the finance sector will have opened up a new market for its services, the investors will have achieved a return on investment, and St Mungo’s will have earned a profit and developed the expertise to participate in SIBs in the future. However, one of the issues with the radical partitioning of roles in this SIB arrangement is that everyone is invested in the project in different ways. Caring about the outcome is not the same as caring about the process. The long run effects of using SIBs on government policy and philanthropy may not necessarily all be positive, even in the event of programme success, because the state, the investors, and the service providers all have been permitted to pursue radically different interests that are united primarily, and perhaps only, at the level of finance.

And what will have been accomplished if the performance measurement goals are not achieved? Supposedly the government will not have had to pay for a service that did not achieve its aims; so goes the SIB rhetoric, but in fact the only payments that will be avoided are the contingent performance bonuses. Substantial fee-for-service payments would still have been made. In the event of failure to achieve performance targets, the SIB investors will have lost money but gained both influence and reputational capital as risk-taking philanthropists. St Mungo’s will have been paid, but might have lost its capital investment. Meanwhile, the homeless will have received substantial services, even if the programme’s bonus targets are not reached. The success and failure implicit in the bond conditions do not necessarily imply that the programme itself achieves is a success or failure socially.

Regardless of what happens on the performance measurement front, the SIB arrangement will have impose on St Mungo’s service workers a degree of employment insecurity. Bonds are time-limited, and their use to finance social services means that service workers may lose their jobs regardless of whether the programme achieves its goals. Workers are the chief variable cost in these financing arrangements. If investors decide to move on to other areas of interest, and programmes are not renewed, workers who have developed field-specific knowledge and skill may be unable to transfer their social capital to areas that are offering jobs. Similar and perhaps more critical consequences may obtain for the clients of the Street Impact programme. An SIB arrangement creates an overemphasis on episodic interventions. This risks destabilizing the client population. The Street Impact SIB thus raises questions both about broad societal impacts and long-term individual outcomes.

# Conclusions

It is too early to draw conclusions from this study. However, we are confident that, even acknowledging the limitations of a narrowly focused case study, this paper will have implications for policy and practice. We can already see some implications for our understanding of accountability and how it is constructed by accounting technologies. As Messner ([2009](#_ENREF_40)) states, accountability is about providing reasons for conduct. The Street Impact SIB specifies accountability to the state for performance of services under one contract, and accountability to investors for achieving performance targets under another contract. The narrative capacity of these mechanisms is narrowly focussed, and the attention of the account giver is split. Accountability to the homeless is left out of the arrangement.

Face-to-face contact to enable negotiated meanings is minimal, through the use of an on-site monitor acting on behalf of the investors. Monitoring by the state is mediated through the CHAIN database. The negotiation of meanings was ex ante, with considerable engagement between the GLA and the homelessness sector prior to the contracts being specified. Further negotiations during the account giving are not part of the contract. This limits the ability of actors to encounter themselves in the vulnerable other and thereby provide full ethical accountability. Indeed, the vulnerability of the other is explicitly restricted to financial vulnerability and limited by the boundary conditions of the bond. The individual vulnerability of managers, of service workers, and particularly of the homeless, is less well defined and less well bounded. What happens to these individuals is excluded from the accountability mechanisms, because the financial calculations do not have the necessary narrative capacity.

Messner argued that the very demand for accountability has an ethical component because a demand is about power. What we are seeing with the Street Impact SIB is a shift in the power to demand an account, from the state to the financial sector. The financial sector has taken the opportunity, under the veil of cost savings, to assert what can and should be said about a homelessness programme. Social Finance and the Triodos Bank have attempted to eliminate the liminal spaces at the edge of accountability by introducing unambiguous measurements. In doing so, they have introduced new actors into the homelessness sector, and reshaped the roles of those who were already there. What impact this will have on the homeless remains to be seen. The impact on the state and on the service providers is already relatively easy to foresee: a loss of power for the GLA and St Mungo’s, and a necessary change in habitus for the bureaucrats and service workers who now have new financial experts standing alongside them, or over them.

# Table 1

## The Social Impact Bond Development Process

|  |  |
| --- | --- |
| Stage | Accounting Technology |
| Design |  |
| Assessment of service area which needs reshaping | This must be within the budget of the commissioner |
| Definition of the social issues | Accounting technologies are required at this stage to set out social trends and their related cost pressures |
| Definition of outcome metrics and interventions | Management control/accounting technologies are required to develop indicative output metrics |
| Value-for-money case | Financial model to assess potential savings as a result of the interventions |
| Programme design | Due diligence on potential service providers requires financial accounting. Outcome measurements finalised. Payment framework set up. |
| Execution |  |
| Procurement | Accounting will be used by those bidding on the contracts to evaluate their ability to deliver the programme at the price, and by those reviewing the bids to ensure the professionalism and competence of the bidders |
| Contracting | Accounting technologies are central to the contract which contains performance measures, and returns to bond purchasers. |
| Appointment of a Project Director or Performance Manager | This individual will closely monitor performance to ensure that the performance outcomes are on track. If they aren’t then the service provider can be removed and replaced by another |
| Completion |  |
| SIB payment | Payments are made (or not) on the basis of the performance measurement criteria in the contract. |

# Table 2

## Employment Levels at St Mungo’s

Source: Compiled from St Mungo’s Annual Reports

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Employee Information** | | | | | | | | |
|  | 2009 | | 2010 | | 2011 | | 2012 | |
|  |  | Full time equiv. |  | Full time equivalent |  | Full time equivalent |  | Full time equivalent |
| Full time | 720 | 720 | 791 | 791 | 797 | 797 | 704 | 704 |
| Part time | 91 | 47 | 87 | 61 | 102 | 61 | 139 | 86 |
| Locum | 222 | 172 | 234 | 171 | 227 | 161 | 240 | 166 |
| Total |  | 939 |  | 1023 |  | 1019 |  | 956 |
| % change |  | - |  | +9% |  | -0.4% |  | -6.2% |
| Salary |  | £26.707m |  | £29,295m |  | £29,750m |  | £28,135m |
| Avg salary |  | £28,442 |  | £28,636 |  | £29,195 |  | £29,430 |

# Figure 1

## Linear Causal Logic Model for NGOs

Source: Adapted from Ebrahim ([forthcoming](#_ENREF_20))

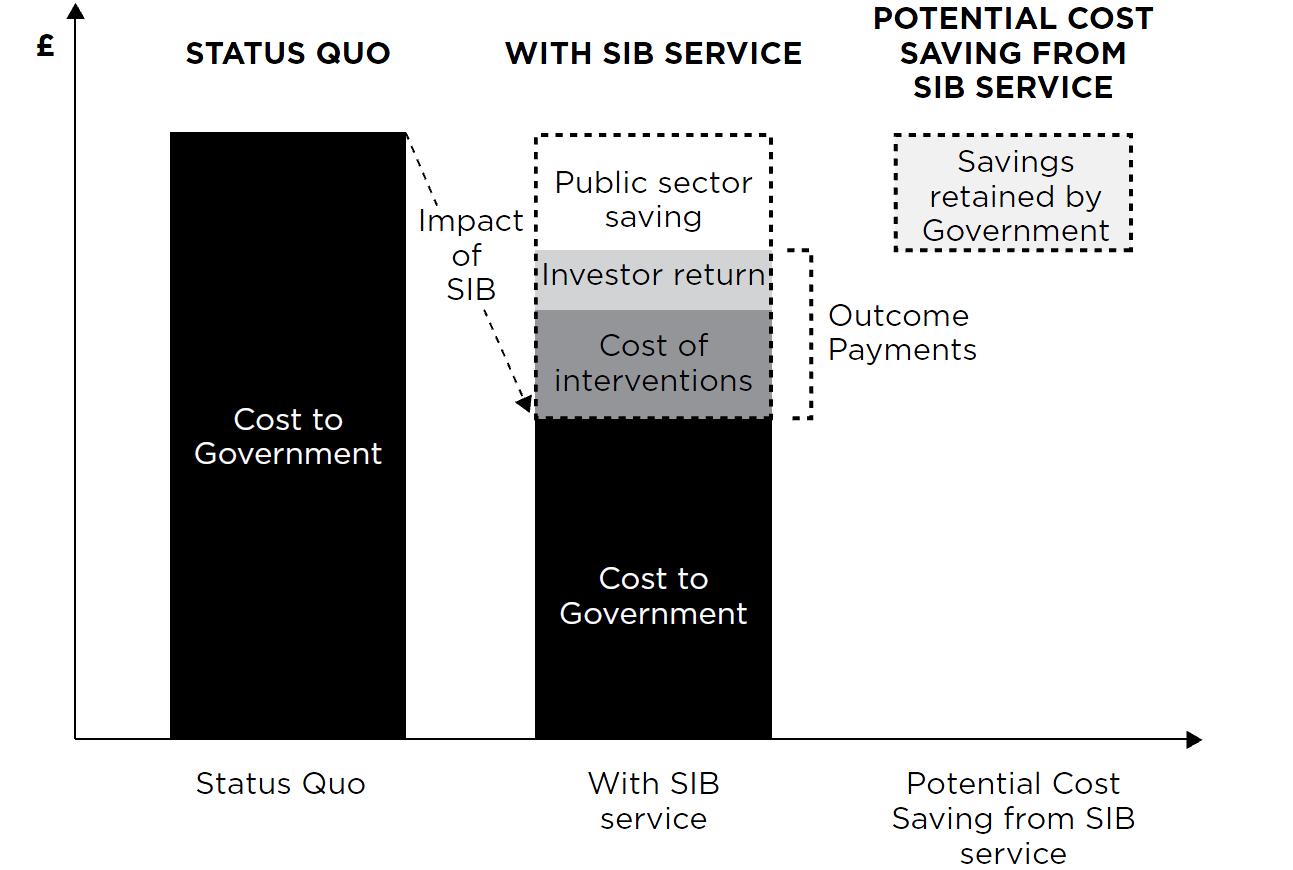
Diminishing Control

**Organization**

# Figure 2

## Potential Cost Savings from SIBs

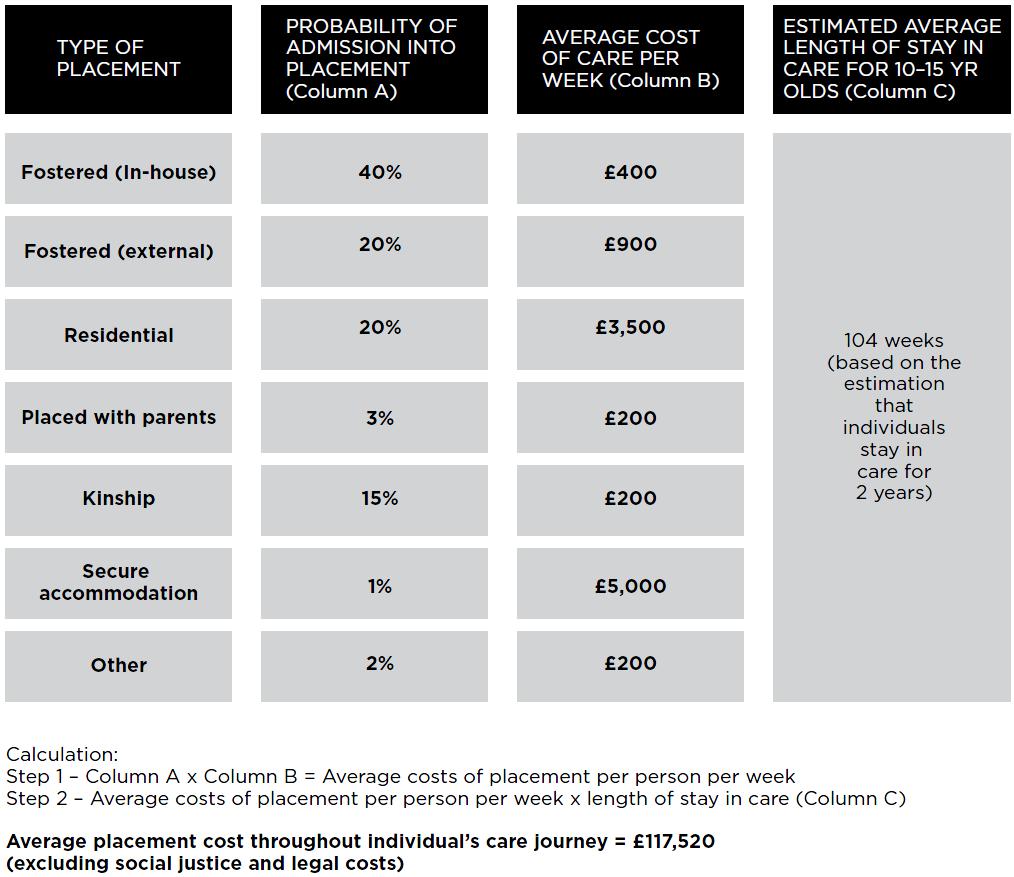
Source: Barclay and Symons ([2013, p. 18](#_ENREF_3))



# Appendix 1

## Illustration of Calculation of Current Cost to Government

Source: Barclay and Symons ([2013, p. 15](#_ENREF_3))



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# Interviews to integrate into the paper:

**Adam Rees, St Mungo’s (May 2013) – Cam to work on this**

# Documents to integrate into the paper:

**GLA Contract with service providers – Cam to work on this**

**Designing an intervention for a Rough Sleeping SIB (November 2011, The Young Foundation)**

**A SOCIAL IMPACT BOND FOR ENTRENCHED ROUGH SLEEPERS: OUTLINE BUSINESS CASE (January 2012, Social Finance & The Young Foundation) – main document and appendices**

**Outreach Balance Scorecard Pilot (PowerPoint presentation on 2009 St Mungo’s and Thames Reach pilot project)**

**The Mayor’s Rough Sleeping Commissioning Framework 2011-2015 (October 2012)**

No Second Night Out: A review of the first three months of the project (September 2011)

No Second Night Out: An evaluation of the first six months of the project (December 2011)

No Second Night Out Reassessment (Jan 2013)

No Second Night Out Reconnections (Jan 2013)

Development Impact Bonds Briefing Note - May 2013 (Social Finance)

CHAIN Bi-monthly Report (Jan-Feb 2013)

StreetLink Volunteer Recruitment Copy

StreetLink Volunteer Application Form

Social Finance Drugs Appendix

# Notes on conversation between Christine & Cam

* If you were rich, you wouldn’t invest in an SIB because (a) the risk is too high, (b) you don’t get any credit for giving your money away, since you actually get it back with interest, and (c) it’s all too arms-length so you don’t get your name on the building or anything.
* Why wouldn’t the service provider just buy its own bond and reap all the profits? (That may be what Thames Reach did.)
* Ruby gave us the inner view of the decision process, but the contract says it was the most economic bidders who were selected (p. 3)
* The contract doesn’t give any exclusivity to the service provider (p. 3) [it’s all horribly exposed to G4S or Serco suing for a piece of it, if it turns out well)
* Can’t give payment or inducement to member of cohort to facilitate a fraudulent outcome (p. 12)
* All intellectual property developed by the service provider is licensed in perpetuity, royalty free, to the GLA (p. 29)
* What is the impact on St Mungo’s? Are they in danger of losing their focus, being caught up in the financial world or being torn apart by differing priorities
* Schedule 8: importance of accounting to spot checks – auditing is implicit in the contract
* A neoliberal utopia: the role of the accountant is to monitor contracts.
* The terms of Schedule 8 metrics are fascinating. Can go home to family, but can’t sleep on a sofa. Can be in hospice, but not in hospital. Reconnections: “This metric applies to those who need to be reconnected to a destination outside the UK.”

1. Social Finance, a consulting firm described below, claims to be involved in projects in Ireland and Israel, as well as in the field of international development ([Social Finance, 2012](#_ENREF_66)). [↑](#footnote-ref-1)
2. Social impact bonds can, in theory, be integrated with tax credits to provide incentives for purchasers by changing the risks and therefore the price of the bond, or to smooth the financial costs borne by the state. See Habib Khan ([2012](#_ENREF_31)) for a brief discussion. While SIB investors face financial losses if a programme is unsuccessful, the state and society bear the brunt of failure. Those involved in providing services face job loss and other risks. [↑](#footnote-ref-2)
3. Messner argues that his analysis applies both to organizations and to individuals, saying that an organization can be considered a moral agent, though ultimately the responsibility for what the organization does comes down to individuals in that organization ([Messner, 2009, pp. 920-921](#_ENREF_40)). We concur, and although our analysis of accountability with respect to SIBs in this paper deals with mainly with organizational accountability, the ethical implications of SIBs for individual employees of the service provider are profound. If nothing else, it can be seen that employees are held simultaneously accountable to their clients, their managers, and the bondholders; a situation in which it may be impossible to demonstrate accountability to anyone’s satisfaction. [↑](#footnote-ref-3)
4. Again, we say “certain aspects of financial risk” because the bondholders are not the only ones facing financial risk. The people who are homeless face potentially tragic financial consequences if the funded program doesn’t work, as they may find themselves on the street; and the social service workers involved in program delivery may lose their jobs if the program fails and is not renewed. [↑](#footnote-ref-4)
5. The St Mungo’s website cites several examples of British monarchs through history who passed laws to outlaw vagrancy and limit the mobility of the poor ([St Mungo's, 2013](#_ENREF_73)). The existence of visible poverty has long been a threat to the security of the state. [↑](#footnote-ref-5)
6. To construct a control group, the Peterborough bond evaluation uses Propensity Score Matching (PSM). With PSM, you start with indicators that have historically correlated with eligibility for the treatment (propensity to be eligible). In this case, prisoners at institutions other than Peterborough who have the same “propensity scores” as the treatment group serve as a control group. Social Finance is doing an unusually elaborate PSM by having about ten “control” prisoners for each “treatment” prisoner. However, there are major objections to PSM as a way of attributing any observations. One is that PSM can only ever look at indicators that are observable, such as age, background, and criminal history. Yet it’s often unobservable factors—such as attitude or resilience—that drive behaviour. Another problem is that the only data available for the PSM are what’s stored in the Police National Computer, and it is surprisingly basic. For instance, it can’t distinguish whether somebody has mental health problems or a history of heroin use, which obviously would influence their behaviour and the care they need. The Ministry of Justice explicitly acknowledges that the control group may be pointless. See Fiennes ([2013](#_ENREF_21)). [↑](#footnote-ref-6)
7. Appendix 1 sets out an example of how one might start to value the outcome of preventing a young person from entering care. [↑](#footnote-ref-7)
8. An example of how the current cost to government is calculated is provided in Appendix 1. [↑](#footnote-ref-8)
9. £1,667 per head. [↑](#footnote-ref-9)
10. It is reported that the founder (Glaswegian Harry Stone) took a religious name in order to try to stop police interference. http://www.youtube.com/watch?v=wBS7L6bDrXY [↑](#footnote-ref-10)
11. It also changes the way St Mungo’s itself operates. St Mungo’s now invites tender for others to provide it with services. In 2011, it invited tenders for a neutral vendor management service of temporary and locum staff, an applicant tracker system, renovation of one of its hostels, and the supply of its electricity and gas. The latter contract was awarded on the basis of lowest-price criteria. [↑](#footnote-ref-11)
12. These savings, and the consequent passing on of risk to employees, are amplified in situations where the contract workers are hired as self-employed individuals. This is permitted in some countries where social service providers operate outside of government bureaucracies and unionized work environments. It is unknown whether self-employment is a common practice amongst UK social service providers in the homelessness sector. [↑](#footnote-ref-12)
13. Although arguments about autonomy from the state in the case of SIBs are illusory – the state remains the commissioner of services, and in most cases is likely to be the paymaster. Certainly a new “layer” (private investors) is introduced into the structure. [↑](#footnote-ref-13)
14. An important question yet to be determined in our research is precisely how overall social concerns are selected to receive attention from SIB funding. Why homelessness and not illiteracy, for instance? It is hard to resist hypothesizing that the decision to address homelessness, and thereby to remove homeless people from the streets, was politically motivated, but we do not have data on the decision-making processes of the UK Cabinet Office, which is driving the SIB initiative within the UK government. [↑](#footnote-ref-14)
15. This was confirmed by our interviewees at the GLA, who said that the bond was first proposed by the UK Department of Communities and Local Government, under advice by Social Finance. The interviewees also indicated that the decision to negotiate terms with Triodos, in order to make them attractive to investors, was a departure from the GLA’s normal “take it or leave it” procurement procedures. [↑](#footnote-ref-15)
16. Income generation will be the subject of future interviews. [↑](#footnote-ref-16)
17. Besides the creation of the special purpose entity, there were other governance changes involved in the creation of the SIB. CAF Venturesome, the lead investor in the SIB, has taken a seat on the Board of St Mungo’s ([Charities Aid Foundation, 2012](#_ENREF_13)). In addition, St Mungo’s had to make room for a new staff person representing the bondholders, whose job is to manage and monitor the performance measurements. [↑](#footnote-ref-17)
18. Our interviewees at the GLA disputed this 6.5% rate. They said that Social Finance consistently told them the interest rate on the SIB would have to be “very high,” and thought the rate must be at least 12%. It was interesting that two senior GLA employees involved with the deal were unaware of the interest rate, and indeed, unaware that St Mungo’s had set up a separate limited company to carry the debt of the SIB. [↑](#footnote-ref-18)
19. It is not yet clear from our investigations whether this represent all the financing or just the first tranche. It may be that further bonds must be issued, or it may be that the bondholders provided only start-up financing, with the GLA contract providing interim payments to cover monthly programme costs. [↑](#footnote-ref-19)
20. The word “Inbetweeners” alludes to a popular television show in the UK. In this situation comedy, dysfunctional adolescents are considered laughable. Although the television show uses the word to refer to those between childhood and adulthood, while the CHAIN database uses it to refer to those between one-time rough sleepers and chronic rough sleepers, the connotations are unfortunately pejorative for anyone familiar with the show. [↑](#footnote-ref-20)
21. The group was originally smaller than 830, but grew as the CHAIN database developed and more people met the criteria as the database developed. Our interviewees at the GLA said that St Mungo’s and Thames Reach claimed this was unfair, but the GLA pointed out that the two service providers simply had a bigger pool from which to derive their success stories. [↑](#footnote-ref-21)