

SOCIAL IMPACT BONDS 2.0?

FRESH STRATEGY IS NEEDED FOR ECONOMIC AND SOCIAL 'RECOVERY'





The first Social Impact Bonds were launched about ten years ago. Much has happened since. Economic and social upheavals followed the 2008 financial crisis. Then came the COVID-19 pandemic.

These events compounded new and increasing social needs including ageing populations, the rise of long-term health conditions such as diabetes, high rates of unemployment for young people, a mental health epidemic, plus loneliness across the generations and homelessness. This transformed landscape makes now a timely moment to think again about Social Impact Bonds and their future development.

This series of briefings on the future of Social Impact Bonds has been produced by the Policy Evaluation and Research Unit at Manchester Metropolitan University and the Price Center for Social Innovation at the University of Southern California. The series editors are Professor Chris Fox and Professor Susan Baines from the Policy Evaluation and Research Unit and Professor Gary Painter from the Price Center for Social Innovation.

FRESH STRATEGY IS NEEDED FOR ECONOMIC AND SOCIAL ‘RECOVERY’

SIBs-funded programmes have prevented homelessness, supported young people and adults with complex needs into work, and helped ‘troubled families’ stay together. Government should, now, harness this evidence to reduce inequality.

Robert Pollock, who has worked on public service innovation for over a decade, sets out a post-pandemic SIB agenda for this autumn’s Comprehensive Spending Review.

In ways, we’ve spent the past 10 years preparing for this moment: learning how to help people with multiple challenges to get back on their feet by bringing together tax-funded services that often struggle to collaborate effectively on their behalf. The pandemic and its aftermath will put a premium on integrating provision for marginalised people and communities that have fallen through the net of mainstream provision or who face discrimination.

Yet, ironically, Social Impact Bonds, though designed to address such issues, are at risk of running out of steam. They have produced lots of innovative partnerships, but the total value of SIBs, also known as social outcome contracts or “pay for success”, is still no more than the annual budget of a local authority children’s services department. A decade on, SIBs have tinkered at the edges of public service delivery, but they have not yet achieved systemic change.

Boris Johnson has held up the benefits of SIBs for rough sleepers, as has Andy Burnham. Politicians across the spectrum clearly recognise that a focus on outcomes, not outputs, can give the boost needed to resolve a longstanding social problem.

However, the momentum SIBs enjoyed up to the EU Referendum, thanks to the 2015 Comprehensive Spending Review, seems to be flagging, at least in the UK. Meanwhile, other countries are continuing to invest in SIBs on the back of the early work pioneered here.

CHALLENGES SIBS COULD ADDRESS

We need a fresh focus on outcomes that is designed for the challenges we face here and now. It’s not difficult to see where outcomes-based approaches could help to catalyse system change. “Levelling up” around economic and regional inequalities cries out for tools that can target spending to improve outcomes in communities that have been left behind. The disproportionate burden imposed by the pandemic on some groups means that there is growing unmet need – arguably best served by Third Sector providers – around youth skills and employment, social isolation and homelessness, to name but a few fields.

The public sector is fatigued and lacks capacity. If government doesn’t intend to increase public spending, it should consider targeted “pay for

PERU Policy Evaluation & Research Unit

The Policy Evaluation and Research Unit at Manchester Metropolitan University is a multi-disciplinary team of evaluators, economists, sociologists and criminologists. We specialise in evaluating policies, programmes and projects and advising national and local policy-makers on the development of evidence-informed policy. We have a long-standing interest in social investment and Social Impact Bonds. See www.mmuperu.co.uk for details of relevant publications.

USC Price Sol Price Center for Social Innovation

The Sol Price School of Public Policy at the University of Southern California is a leading urban planning, public policy, public administration and health policy and management school. The Sol Price Center for Social Innovation is located within the School and develops ideas and illuminates strategies to improve the quality of life for people in low-income, urban communities.

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success” approaches to shift the dial on entrenched social issues in a significant way. This would allow many local authorities, Clinical Commissioning Groups and mayoral combined authorities to generate opportunities for local charities and social enterprises to tackle difficult social issues.

The pandemic has not only increased potential opportunities for SIBs. It has also affirmed a core value of outcomes-based approaches. Dealing with COVID-19 has placed enormous emphasis on rigorous, real-time data, that can be used to test, learn and adapt support for better responses to service user needs and goals. That’s straight out of the SIB playbook.

SIBS NOT MAINSTREAM TOOLS

So why are SIBs seemingly not a core part of government strategy? Maybe, it’s because they were too closely associated with David Cameron’s Big Society agenda, or they are too complex for some local commissioners. Perhaps, Jeremy Heywood’s sad passing means there is no-one at the heart of government to fill the former Cabinet Secretary’s shoes as senior champion for SIBs, and for gathering and applying rigorous evidence.

A major issue, in my view, is that the policy debate has become too focused on form rather than function. During these first 10 years of SIBs, we’ve looked into the finance mechanism for the secret source of their “magic” when we should be investigating how the design and governance of outcomes contracts enhance response to user needs. Delivery on the ground demonstrates that the effectiveness of SIBs – and their gains for service users – are rooted in the new partnerships and sense of mission which these contracts can engender.

If SIBs are to have a viable future, government should build greater flexibility into such programmes so that early-stage designs move more easily to mobilisation. This shift is likely to require more equal relationships between commissioners, providers and social investors, plus greater support, and less direction, from government. Most importantly, this change demands a clearer recognition that national incentives have, at times, shoehorned SIBs into contexts where more familiar approaches are more likely to succeed. So,

government should be readier to opt for approaches such as actively managed grant programmes, alliance commissioning arrangements, or funding through a mix of grants and repayable capital.

KEY LEARNING FROM SIBS

Beyond these issues, we have learned four fundamental points from SIBs. First, they are often not, by their nature, suited to scale. That’s because delivery consortia are typically local in their reach and effectiveness. Also, in practice, many of the national providers that have access to working capital don’t want to take a risk on being paid for outcomes. Nevertheless, SIBs do have a deserved place to test new ways of working in specific settings to generate commissioner and provider confidence that a new service can be delivered effectively. Then, ideally, scale may be better achieved by more conventional means, based on the learning and delivery insights, but retaining an overarching focus on outcomes.

Individual Placement Support (IPS), which is described later in this piece, has followed this trajectory within the NHS. However, Functional Family Therapy, even though it has an equally strong record of delivery, has not gained the same traction within the Department for Education or with directors of children’s services. It is worth asking ourselves why strong evidence has been so successfully followed up with significant change in the operationally independent NHS, whereas it has been slower elsewhere in government.

A second piece of learning is how hard it can be to replicate the changed institutional relationships that SIBs often pioneer locally. There is no magic formula or policy that can be adopted to facilitate more effective working relationships between different local actors. Trust and shared purpose rely on human qualities and good leadership. SIBs can provide a centre of gravity that challenges local systems to try new ways of working. Then, it’s up to the participants to figure out how to carry on. That’s why SIBs often work best in places where commissioners and third sector providers all desired change but lacked the right platform on which to work together effectively.

Third, SIB strengths lie in reaching marginalised groups, more than serving the mainstream. Typically, they focus on bespoke higher value interventions for niche groups. This is neither the approach nor the client group that is served by most universal services, whose goals are usually mass accessibility at the lowest possible unit cost. This may explain why SIBs are not appropriate for most universal services. Another reason may be Treasury financial accountability which tends to emphasise annual spending control. Such fiscal strictures do not sit well with large budgets paying for lumpy long-term

outcomes that may straddle spending periods and parliaments.

Part of the radicalism of DCMS's £80m Life Chances Fund, announced in 2016, was that it would pay for outcomes until 2024. Such long-term funding commitments create stability that enables collaboration and system change. The UK has a track record for such strategic funding to improve the effectiveness of international aid but not, yet, for tackling challenging social issues at home.

Fourth, no matter how effective SIBs are at providing "value for money" and better outcomes for beneficiaries, they generally expose the need to change the status quo – to spend public money differently. This is a political challenge, which is difficult for the same reason as a SIB probably came to be needed in the first place – historic lack of commitment to fix the system. Scaling-up successful SIB-funded interventions will, ultimately, depend on political arithmetic. "Is this affordable?" is often really a proxy for "is this a political priority?" If the electorate demands resolution of pressing social issues, our leaders will be more likely to commit resources for more radical change.

Voters may currently be bending more towards social justice, but such support will translate into higher spending only when both taxpayers and politicians feel more assured about the effectiveness of interventions. That means establishing clearer accountability for outcomes, be that through SIBs or other mechanisms.

THE FUTURE: INVEST IN THE INFRASTRUCTURE FOR CHANGE

Taken together, these factors suggest that SIBs are unlikely to become mainstream funding instruments. Indeed, they will probably remain patchy, at best, unless central government provides the right incentives to reward local commissioners for the additional upfront effort required to realise the long-term social benefits. An incidental gain for government is that many of these benefits flow back to support the policy objectives of central departments and, ultimately, provide public value for the Exchequer.

So whither SIBs? They should be part of a coherent government strategy to find innovative ways to tackle pressing social problems, particularly in this

time of crisis. The learning should be used to inform and invest in strategic change.

There are exemplars of this type of strategy. SIBs were initially used to trial Individual Placement and Support (IPS) programmes to help people with severe mental health difficulties into employment. IPS programmes provide intensive, individual support and job searching, followed by placement in paid employment, and time-unlimited, in-work, support for both the employee and the employer.

Following the success of these programmes, and evaluation by a randomised control trial, the NHS has funded IPS services, despite their higher cost. The SIBs created a rich evidence base, notably around the right price to pay, but they were not needed for national roll-out. Scaling, instead, required investment in training and in developing the provider market so that IPS now fits in well with the NHS's suite of existing services. It's notable that previous attempts by government to use grant funding to pilot IPS programmes had led nowhere, as there was little accountability to demonstrate results.

The IPS experience suggests there is a viable model for the public sector to test innovation and apply the learning in a constructive and strategic way. It also suggests that low unit cost, universal offers, combined with higher cost, offers designed for particular needs, can provide value for money.

ACTING ON WHAT WORKS

Spending more effectively demands that the learning from SIBs should be gathered and shared more systematically – along the lines that the Government Outcomes Lab (GO Lab) is following. However, to be worthwhile, these insights and tools must also be combined, in the long run, with investment in a strategy to embed the learning, whether in capacity and training or other means. This will help to ensure that SIBs, or any innovations for that matter, are not merely further examples of 'pilotitis' – worthwhile, successful trials that lead nowhere.

The pandemic has confirmed the urgent need for, and usefulness of, outcome-based experimentation using social investment to carry the risk that the public sector often cannot take. This autumn's Comprehensive Spending Review is an opportunity to set out a more fundamental approach. It should be one that recognises the value of resourcing strategies to make better use of the insights to improve the outcomes that public services were established to achieve.

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