Jnl Soc. Pol. (2018), 47, 1, 57–76 doi:10.1017/S0047279417000125

Social Impact Bonds: The Role of Private Capital in Outcome-Based Commissioning

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Abstract

Social impact bonds are payment by results contracts that leverage private social investment to cover the up-front expenditure associated with welfare services. The introduction of private principles and actors through outcome-based commissioning has received a great deal of attention in social policy research. However, there has been much less attention given to the introduction of private capital and its relation to more established forms of quasi-marketisation. This paper examines what effect private social investment has on outcome-based commissioning and whether the alternative forms of performance measurement and management, that social impact bonds bring to bear on service operations, demonstrate the capacity to engender: innovation in service delivery; improved social outcomes; future cost savings; and additionality. This paper draws on an in-depth study of four social impact bonds in the UK context, as *the* welfare regime at the vanguard of this policy development. The findings suggest that the introduction of private capital in outcome-based commissioning has had a number of unique and unintended effects on service providers, operations and outcomes. The paper concludes by considering whether social impact bonds represent a risk or an opportunity for public service reform both in the UK and further afield.

Introduction

Across advanced capitalist economies, the increased prominence of outcome-based commissioning is underpinned by a desire to improve service quality, mitigate risks associated with service experimentation and enhance the social outcomes achieved using public resources (OECD, 2015). Within the UK context, payment by results (PbR) has been drawn upon as a reform mechanism intended to 'stimulate more openness and innovation in public services through new types of providers within the public sector, where this will improve services and give better value to the taxpayer' (Cabinet Office, 2011: 40). In many respects, social impact bonds (SIBs)[1] can be understood as the latest manifestation of this policy priority and part of a broader trend towards welfare pluralism in the UK.

SIBs are 'a form of payment by results but extend this by harnessing social investment from capital markets' to cover the up-front costs of service intervention (McHugh *et al.*, 2013: 247; Sinclair *et al.*, 2014; Nicholls and Tomkinson, 2015). At present, there are a relatively small number of SIBs worldwide. However, as an emerging policy field, the number of contracts is growing and at a remarkably fast rate (Fraser *et al.*, 2016). This paper focuses on SIBs within the UK context, as *the* welfare regime at the vanguard of this policy development, and lessons this might garner for their future development internationally.

In a review of the existing literature, Fraser *et al.* (2016: 9) observe that academic consideration of SIBs tends to be cautionary in terms of questioning the 'appropriateness of "private sector" values and mechanisms in the field of public services'. Without doubt, the introduction of SIBs represents a concerted commitment to reduce the role of the state in welfare provision. However, characterizing these developments as a linear transition towards the privatisation of 'public' services neglects the varied motivations and conditions that shape the extent and character of welfare pluralism. In reality, a plurality of private actors, logics and features interact within and across service dimensions to affect the operation, impact and status of public services.

Beyond a critique of its contribution towards the quasi-marketisation of public services, the increased role of private capital in the financing of welfare provision is relatively under-explored and largely presumed in social policy debates (Propper and Green, 2001). As a result, examination of the private financing of welfare services has tended to overlook the heterogeneous kinds of private capital present within public services and their dynamic influence on service operations and delivery. Whilst the introduction of private principles and actors through outcome-based commissioning has received a great deal of attention in social policy research (Considine *et al.*, 2011; Rees, 2013; Carter and Whitworth, 2015), there has been much less attention given to the role of private capital in the financing of welfare provision and its relation to more established forms of quasi-marketisation.

To address this and the relative paucity of empirical evidence on SIBs (Ronicle *et al.*, 2014), this paper critically examines the role of private capital and, more specifically, private social investment in outcome-based commissioning and its effect on welfare services delivered through the SIB model. Above and beyond the putative benefits of conventional outcome-based commissioning, the introduction of private social investment has been justified according to a number of linked policy objectives: innovation in service delivery (DWP, 2016: 14); improved social outcomes (Cabinet Office, 2014: 9; Bridges Ventures, 2016: 1); future cost savings (Cabinet Office, 2016b: 1; Social Finance, 2016: 23); and additionality (Cabinet Office, 2011: 52; Cabinet Office, 2016a: 16). This paper seeks to establish what bearing private capital has on welfare services delivered through PbR contracting and whether SIBs demonstrate the capacity to fulfil these policy objectives. At present, there is a tendency within policy and practitioner discourse to suggest that the putative benefits accrued through the SIB funding model are somewhat idiosyncratic and distinct from the PbR mechanism that underpins it (e.g. Cabinet Office, 2010; Bridges Ventures, 2016; Cabinet Office, 2016c; Social Finance, 2016). With this in mind, there is a need to disambiguate the respective and collective significance of private social investment and outcome-based commissioning and their effect on welfare services.

The paper starts by situating SIBs and the introduction of private capital within a broader policy context of outcome-based commissioning and welfare pluralism. The remainder of the paper examines what effect private social investment has on outcome-based commissioning and whether the alternative forms of performance measurement and management that SIBs bring to bear on service operations demonstrate the capacity to achieve their intended policy objectives.

Social impact bonds and outcome-based commissioning

There are two key features to outcome-based commissioning in public service reform. The first is a shift in focus away from service inputs, outputs and processes and towards quantifiable social outcomes that dictate the rate and amount of payment received by contracted service providers. Provided the appropriate incentive structures are put in place, this has the capacity to drive up standards of service provision and target resources where they are most needed and impactful. The second feature is that of risk transfer. By virtue of the PbR model, public sector commissioners only pay for those specified outcomes that are achieved through service interventions. In theory, this increases the accountability and value for money achieved through public services. In this respect, policy discourse presents PbR as a key means by which to increase the efficiency, effectiveness and equitability of public services (Fox and Albertson, 2011: 356–360).

These prospective benefits of outcome-based commissioning have proven appealing across policy domains and domestic contexts (Considine *et al.*, 2011). In the UK, PbR contracting has grown significantly and is estimated to be worth at least £15 billion (NAO, 2015). In spite of this, the evidence base on the efficacy of outcome-based commissioning is far from established. In certain instances, the marketisation of social outcomes has been found to compromise service quality and integrity due to 'gaming' and perverse incentives (Considine *et al.*, 2011; Finn, 2011a; Rees *et al.*, 2014). Other problems encountered include: high transaction costs and reduced flexibility; a tendency towards efficiency savings rather than improved service quality; and an excessive focus on ways of measuring outcomes, rather than ways of working (Boyle, 2011; Finn, 2011b; NAO, 2015).

In many respects, SIBs fall within the broad gamut of outcome-based commissioning (Fox and Albertson, 2011: 356). However, they possess a number of features which distinguish them from conventional PbR schemes (Please see Figure 1). The most central feature is that SIBs seek to leverage private

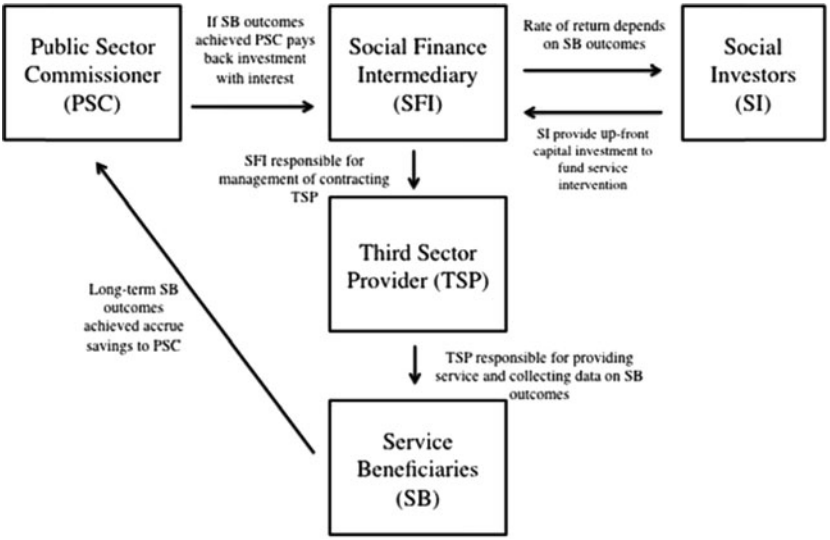

Figure 1. The Typical Structure of a Social Impact Bond.

social investment to cover the up-front expenditure associated with service interventions (McHugh *et al.*, 2013). In doing so, social investors are supposed to take on some, or all, of the performance risk associated with experimental service interventions. In theory, such an approach intends to redistribute the financial risk of non-delivery not only away from public sector commissioners, but also from service providers. For smaller and third sector organisations the ostensible redistribution of risk through private social investment is supposed to grant them 'a place at the table' in outcome-based commissioning where they have previously struggled to compete and participate (OECD, 2015). However, in reality, the degree of risk re-allocation differs significantly between SIB models and to varying effects for involved parties. For example, service providers have been known to co-invest in SIBs and variable guarantees to social investors have, in certain instances, undermined the redistribution of financial risk in SIB contracts. In addition, the majority of SIB contracts have been awarded to larger third sector organisations, which suggests a lack of sufficient risk redistribution to allow smaller third sector organisations to participate. For the public sector, the substantial amount of seed funding that goes into the scoping and feasibility of various SIB contracts, suggests that service experimentation through SIBs is not without its financial or reputational risks for public sector commissioners.

Capitalising on the expertise and skills of these organisations, service interventions funded through SIBs focus on achieving one or more social outcomes. SIBs tend to be targeted at populations with highly complex needs, most vulnerable to social exclusion and policy failure, that would benefit from tailored, responsive and intensive service interventions (Cabinet Office, 2016b).

https://doi.org/10.1017/S0047279417000125 Published online by Cambridge University Press

This may involve exploratory trials in service provision where an intervention has not previously been available or has historically failed to produce desired social outcomes. Due to the preventative nature of service interventions, the anticipated cost-savings prospectively accrued by the public sector are used to fund the service as well as justify the returns paid to private social investors. As demonstrated later in this paper, these projected cost-savings are, at present, often hypothetical and poorly, if at all, evidenced through social impact measurement. Crucially, this brings into question the extent to which SIBs redistribute the financial risk of 'failed' service interventions away from the public sector and onto private social investors.

In policy discourse, social investors are predominantly understood as those that are 'socially-minded' in their investment portfolio, that is, seeking a blended social and economic return on their investment (Cabinet Office, 2016c). However, in reality, social investors vary greatly in terms of the profile of their capital contribution to SIB contracts. A broad spectrum of individual and organisational SIB investors may: prioritise a financial return on their investment over social outcomes achieved; forego a (higher rate of) return for the sake of social impacts pursued through service interventions; or seek a compromise between the two. As a result, the syndicate of social investors within any given SIB are likely to have different (and potentially conflicting) 'motivations, which can lend itself to a layered capital structure' (Gustafsson-Wright *et al.*, 2015: 24). As such, SIB capital finance might involve private social investment as it is predominantly conceived (along with the heterogeneity of motivations underpinning it), but may also include private philanthropy through (non-) recoverable grants, loans and investment guarantees. With this in mind, the terms 'social investor' and 'social investment' are used in this paper to refer to a plurality of private actors and capitals, as well as degrees and terms of investment that shape the character and effect of private finance in PbR contracts delivered through the SIB model. Equally, the term 'private capital', as a superordinate category, is used in this paper to refer to the range of non-public finance items that interact alongside one another, with varying effects on outcome-based commissioning.

In the UK, social investment within PbR has been presented as 'another way in which greater competition has been introduced to public service reform to drive up quality and improve outcomes' (Cabinet Office, 2014: 9). This is primarily based on an understanding that the introduction of private capital offers a number of supererogatory benefits to conventional forms of outcome-based commissioning. In theory, the up-front capital provided through an SIB opens up economic space for civil society organisations to explore, test and scale service innovations (Cabinet Office, 2016b). Whilst service providers are granted a degree of autonomy and flexibility from public sector commissioners, the social finance intermediary introduces new methods of performance measurement and management into the PbR contract to bring 'an additional layer of rigor and scrutiny to' social welfare programmes (Social Finance, 2016: 16). This additional level of oversight and accountability introduced through 'performance-based financing and public-private partnership' is believed to mitigate against some of the aforementioned problems associated with conventional outcome-based commissioning (Gustafsson-Wright *et al.*, 2015: 2).

On this basis, political and policy interest in SIBs has gathered pace internationally, but particularly within the UK context. The world's first SIB was developed under New Labour to tackle recidivism and launched in Peterborough under the Conservative–Liberal Democrat coalition government in late 2010. Since then, central government has sought to provide civil society organisations 'with the start-up funding and support they need to bid for government contracts or work towards delivering services under a payment by results model' (Conservative Party, 2010: 38). Thus far, a variety of public funding initiatives have provided grants, support and subsidies to support the scoping, design and operation of SIBs so that these may be taken up more widely by central and local government. This includes the Social Outcomes Fund (£20 million), Commissioning Better Outcomes Fund (£40 million), DWP Innovation Fund (£30 million), Youth Engagement Fund (£16 million) and Fair Chances Fund (£15 million). In 2012, the Cabinet Office established the Centre for Social Impact Bonds. In 2016, the Cabinet Office commissioned the Government Outcomes Lab and launched the Life Chances Fund to grow 'the number and scale of SIBs' with a view to 'generating public sector efficiencies by delivering better outcomes . . . and building a clear evidence base of what works' (Cabinet Office, 2016b: 1).

Despite the fanfare surrounding them, the evidence base on how and whether SIBs work is notably limited (Ronicle *et al.*, 2014). With that in mind, the remainder of this paper seeks to establish what effect private social investment has on outcome-based commissioning and whether SIBs exhibit the capacity to engender: innovation in service delivery; improved social outcomes; future cost savings; and additionality.

Methods

This paper presents findings from a study exploring the origins and operation of SIBs in the UK context. An initial survey of the SIB landscape was undertaken to establish the varying models and remit of those contracts that are or have been operational. Based on this, four SIBs were selected for detailed consideration: the Essex Multi-Systemic Therapy (MST) SIB, the Merseyside New Horizons SIB and the London Homelessness SIBs. These were selected as a heterogeneous purposive sample that exhibited considerable variation in terms of the: role of organisational and individual social investors; contract lengths and sizes; beneficiaries targeted; individual and multiple outcome payment metrics; position and presence of social finance intermediaries and special purpose vehicles; varying rates of return for social investors; and nature and extent of seed and grant funding drawn upon. Beyond this, as part of the first cohort of UK SIBs, these are some of the few contracts that have been in operation for a sufficient amount of time for it to be possible to establish their operation and effects. Each of the SIBs is briefly summarised below, but further details on their key features are available in Online Appendix 1 (Supplementary Materials).

Commissioned by Essex County Council, the Essex MST SIB was established to reduce the number of days children spent in residential care. Action for Children was commissioned to deliver multi-systemic therapy to support families and children on the edge of residential care. The Merseyside New Horizons SIB was commissioned directly by the Department for Work and Pensions as part of the Innovation Fund: an open competition designed to tackle youth unemployment through the establishment of 10 SIBs. A syndicate of social investors supported Career Connect to deliver a service helping disadvantaged young people to 'participate and succeed in education or training and thereby improve their employability, reducing their longer term dependency on benefits' (DWP, 2015: 5). Through funding supplied by the Department for Communities and Local Government, the Greater London Authority commissioned two London Homelessness SIBs. Delivered through services by St. Mungo's Broadway and Thames Reach respectively, these SIBs were designed to improve the employment, education, training, housing and health outcomes of a cohort of entrenched rough sleepers.

As illustrated elsewhere, the particular contractual, governance and funding arrangements of these SIBs greatly affect their respective design, operation and outcomes (Edmiston and Aro, 2016). Whilst variation between the different SIBs under consideration is acknowledged and accounted for in the analysis undertaken, this paper principally focuses on exploring the broader role of private capital in outcome-based commissioning across a heterogeneous set of SIB cases. Examination of the four SIBs comprised analysis of stakeholder documentation, process and impact evaluations as well as qualitative fieldwork with cross-sectoral stakeholders. Between 2015 and 2016, 41 qualitative interviews were undertaken with policymakers, public sector commissioners from local and central government, third sector service providers, social finance intermediaries and entities, social investors and service users. The principle majority of these participants were directly involved in (or affected by) the financing, governance and service interventions delivered through the four SIBs considered. A smaller number of national-level stakeholders were also interviewed who were more tangentially involved but have nonetheless been instrumental in the development and uptake of SIBs at the national level. Beyond this, we also organised a practitioner seminar and a policy roundtable to facilitate an applied discussion between policy-relevant stakeholders and also undertook a range of informal interviews and correspondence.

To varying degrees, all those interviewed for this study had a vested interest in the success of their respective SIB, or SIBs more generally. In order to moderate some of the inferences drawn from the data, all analysis undertaken has reflected upon how this might affect the responses of stakeholders. All service users interviewed for this study were approached through gatekeepers and were offered a £15 shopping voucher as a thank you for their time. All other participants were sent an email, inviting them to participate in the research along with an information sheet and consent form. Sound ethical practice and standards underpinned the research process to safeguard the anonymity, confidentiality and welfare of all research participants.

The role of 'private' capital in outcome-based commissioning

This section establishes what bearing the introduction of private capital within these PbR contracts has on the fulfilment of four key policy objectives underpinning the development of UK SIBs.

Innovation in service delivery?

Proponents of SIBs suggest that the introduction of private social investment in PbR contracting has the capacity to create space for service experimentation and innovation because it redistributes part, or all, of the financial risk of non-delivery 'away from government and small providers and onto social investors' (Disley *et al.*, 2011: 16; Cooper *et al.*, 2013; Cabinet Office, 2016c). In theory, this makes it possible for smaller and civil society organisations to participate in outcome-based commissioning in a way that they have, thus far, struggled to do (OECD, 2015).

A substantial number of those interviewed felt that social investment had the capacity to foster experimental and innovative service interventions. Civil servants, social investors and social impact entities were particularly keen to suggest that the 'small-scale and experimental' nature of projects supported through SIBs was only possible because social investors were taking on the social risk in return for a prospective financial return:

> . . . the voluntary and community sector are often best placed to deliver the innovative and very localised services . . . and traditionally have suffered in perhaps not being able to take on the risk of payment by results. So this was a way of actually building their capability and capacity to ensuring that their up front costs were covered . . . (senior civil servant, 13)

SIBs are repeatedly cited as a means by which to 'promote innovation in social services and bring market forces to bear on service providers previously funded by traditional government grants' (Cooper *et al.*, 2013: 2). Some public sector and social finance stakeholders (including social investors and social impact investment entities) felt that the presence of private investment and

https://doi.org/10.1017/S0047279417000125 Published online by Cambridge University Press

actors capitalised on the capacity and freedom of third sector organisations to foster innovation in service delivery whilst:

also bringing in a model which we think is constructed around a more rigorous approach towards assessing and evaluating specific sets of interventions and where appropriate looking to scale those up (senior civil servant, 12)

Compared to the impact measurement usually required, third sector organisations felt that there was a greater degree of oversight and accountability expected by private social investors in SIBs. In theory, the additional systems of performance measurement and management instigated through an SIB induce a change in how third sector organisations realise their social mission by focusing on social outcomes (DWP, 2014). However, across the four SIBs considered here, social investors had a number of supererogatory expectations that service providers collect information on inputs, outputs and processes extending well beyond pre-defined payment metrics. This was motivated by a desire to establish what particular features and conditions of a service intervention worked and to cultivate a dynamic environment for service innovation.

In certain contexts, this created a substantial additional administrative burden for service providers. As a result, some third sector stakeholders felt that the degree of micro-management built into the SIB was actually reducing their flexibility to autonomously pursue their social mission. Some felt that the resources and time that went into these additional forms of performance management and measurement could be better spent on front-line services.

We underestimated the amount of management time that was required to run an SIB and we radically under-estimated the kind of information demand there would be from investors . . . progress reports and forecasts and re-forecasts . . . (third sector stakeholder, 16)

If anything I would say less, there was less flexibility. Because the amount of management structures that are placed on an SIB mean that you have less manoeuvrability, you have to clear everything with this board to get permission to do anything. (third sector stakeholder, 25)

At times, service providers felt pressured to secure outcomes to such an extent that they took measures to 'insulate' their front-line staff from the influence of certain social investors. The 'marketisation' exerted by the influence of social investors had the capacity to encourage outcome-focused service provision. However, in certain instances, it equally ran the risk of promoting dysfunctional practices such as 'creaming' and 'parking' (Rees *et al.*, 2014; Carter and Whitworth, 2015). This was particularly the case when individual social investors had a prominent role in assessing and managing the operational performance of an SIB through their involvement with a special purpose vehicle. Some third sector organisations buffered against these pressures:

I think you've got to be careful you don't contaminate your professional practice... I have to fend off the investors and have the financially focused discussion . . . otherwise you start to get into some quite questionable practices and run the risk of people starting to do things because of financial pressures . . . (third sector stakeholder, 39)

In many ways, the up-front capital from social investors protected service providers from the financial and operational risks associated with innovation in service delivery. However, the extent of risk re-allocation varied significantly across the SIBs considered. For example, Thames Reach and St Mungo's Broadway both 'co-invested' their own equity into their respective SIBs, which, despite the presence of other social investors, may have inhibited their capacity (or perhaps willingness) to engage in more experimental service provision. As discussed later in this paper, this might go some way towards explaining why these two SIBs have observed such mixed performances in terms of the attainment of social outcomes. Despite this, the SIB funding model does, overall, appear to have helped overcome some of the limitations of previous PbR schemes that have exhibited an aversion to service experimentation, flexibility and innovation due to the risks associated with prospective financial losses (Finn, 2011b). This seems to indicate that the presence of social investment has the capacity to mitigate against some of the limitations that have, thus far, proven endemic to contracted-out services on a PbR basis. This includes reduced flexibility for service providers (Finn, 2011b) and a tendency towards innovations that centre on efficiency savings rather than improved service quality or effectiveness (Hudson *et al.*, 2010).

However, the additional oversight that private social investment brought to bear on service operations had a number of unintended effects. Whilst intensive, real-time performance measurement and management introduced a heightened degree of 'responsiveness', 'discipline' and 'rigour' to contracts, it also detracted resources from front-line service provision and reduced the autonomy of some front-line practitioners. The requirement to measure social outcomes, but also record and seek approval for service processes in real-time, demanded a change in the way third sector organisations planned, revised and executed their operational strategy. In many respects, this leveraged specialist expertise and skills in a way that was most efficacious to target beneficiaries. However, at times, it appears to have equally detracted from the flexibility and discretion of service providers in terms of resource allocation and front-line service provision. As found in previous studies of PbR contracts, there was an excessive focus on ways of measuring outcomes, rather than ways of working and incentivising innovation (Boyle, 2011; NAO, 2015). At times, the presence of private capital exacerbated, rather than helped to overcome, this limitation of outcome-based commissioning.

Based on the SIBs considered here, private social investment does appear to bring an additional layer of 'private sector rigor and performance management' to service operations (Gustafsson-Wright *et al.*, 2015: 2). However, it is not clear that this facilitates any measure of service innovation that would not otherwise have been present through other funding models. If anything private social investment ran the risk of corrupting the integrity of outcome-based commissioning that targeted those most vulnerable to social exclusion by restricting the autonomy of third sector organisations.

Improved social outcomes?

The economic underpinnings of SIBs require social outcomes achieved to be better or greater than those secured through existing service interventions (Bridges Ventures, 2016: 8; Social Finance, 2016). In spite of the current interest in the potential of SIBs there is, at present, very little systematic evidence on the attainment of improved social outcomes (Ronicle *et al.*, 2014; Ronicle *et al.*, 2016).

Regarding the four SIBs under consideration, it is clear that these had wide-ranging positive effects on many target beneficiaries. Beyond the existing evaluations discussed below, qualitative fieldwork found that service users valued the tailored and intensive support received and felt that this helped them come closer to achieving their personal goals:

> If it weren't for [practitioner name], I wouldn't be here. And that's actually the truth... Everyone I knew thought that I probably wouldn't make it until the end of the (school) year and I surprised myself how long I've lasted. (service user, 22)

> I'd say it's helped quite a bit in terms of helping me get to where I want to be. I'm not there yet but I will be. If they didn't help me I suppose I'd still be homeless. (service user, 30)

Very often the achievement of social outcomes was attributed to the holistic service interventions funded as part of the SIB. A number of service users felt that the personalised and regular nature of support helped them overcome the challenges they faced:

> He did all the paperwork for that – if he hadn't of done that I'd probably still be in the hostel now. They were constantly on the phone with me and I needed that – just that little bit of guidance... you know more hands on – just to get me in the door sort of thing. (service user, 41)

Outcome-focused provision underpinned by service learning and flexibility appeared to produce a number of positive outcomes for target populations (DWP, 2014; OPM, 2015; St Mungo's Broadway, 2015; Thames Reach, 2015). However, whether this represents an improvement relative to previous or existing services and whether outcomes achieved can be attributed to the presence of the private social investment remains less clear.

The London Homelessness SIBs positively affected the outcomes and opportunities of many service users through innovative and intensive service provision (St Mungo's Broadway, 2015; Thames Reach, 2015). Nonetheless, the available evidence suggests that service interventions, delivered through the Thames Reach and St Mungo's Broadway SIBs, under-performed in certain areas and struggled to fulfil a number of the pre-defined outcome targets (DCLG, 2015). This included reducing the rate of rough sleeping below a modelled baseline, meeting initial and sustained repatriation targets and helping service users secure qualifications, volunteering and part-time work opportunities. In particular, the absence of a special purpose vehicle in the Thames Reach SIB appears to have negatively affected the degree of performance management in service operations, with it faring worse than St Mungo's Broadway in terms of securing and sustaining social outcomes. In certain areas, the performance of both SIBs exceeded targets for securing stable accommodation for entrenched rough sleepers and the sustainment of full-time employment. However, on the only modelled baseline, the SIBs fell short of target reductions in rough sleeping (Ronicle *et al.*, 2014: 40–41). In light of this, there is no current evidence to suggest that these SIBs were able to produce improved social outcomes relative to previous and other existing service interventions.

By contrast, available evidence suggests that the Merseyside New Horizons SIB significantly exceeded its initial targets on improved attendance and behaviour in school, as well as attainment of NVQ Level 1 (Social Finance, 2016: 29). In addition, the final qualitative evaluation of the DWP Innovation Fund, found that virtually all young people interviewed were positive about the support services they received (DWP, 2016: 48). There is also some evidence to suggest that the financing model proved instrumental in the attainment of outcomes achieved. Many stakeholders involved in the DWP Innovation Fund felt that the presence of social investors and their interest in social outcomes being achieved led to a very hands-on approach in ensuring services were performing to profile and were able to achieve 'better results than they would have done had the pilot been commissioned using more traditional procurement methods' (DWP, 2016: 32).

The latest evaluation of the Essex MST SIB suggests that outcomes achieved are exceeding pre-defined targets and national averages (OPM, 2015). The Essex MST is also proving slightly more effective than other MST services nationally. In spite of this, due to the context within which the SIB has been established, it is difficult to ascribe improvement to the presence of private social investment and its bearing on service outcomes. Firstly, the multi-systemic therapy provided through the SIB is a novel service offer for Essex County Council. Secondly, a substantial restructuring of the Council's children's support services occurred alongside the introduction of the SIB. As a result, the comparison of the SIB's effect on social outcomes against a historical baseline proves highly problematic. This makes it particularly challenging to establish how the SIB structure impacts on the implementation of MST and whether social investment in the PbR mechanism adds any further value in terms of outcomes or performance. Whilst the required adherence to and rigidity of the MST model of intervention leaves less space to innovate and take risks, there are some signs to suggest that social investors are introducing more rigorous governance mechanisms into the PbR model. This includes drawing on a flexible funding pot where it is believed this will lead to improved outcomes and pursuing alternative strategies for personnel management. In this respect, the Essex SIB model exhibits the capacity to ensure the service provider adheres to targets for pre-defined social outcomes and payment metrics (OPM, 2015).

Based on the evidence available, service interventions offered through the SIB model demonstrate the capability to produce a range of valuable social outcomes for service beneficiaries. However, there is limited and, at times, partial evidence that the presence of private social investment in outcome-based commissioning is securing *improved* social outcomes. In certain instances this is simply because a service intervention has failed to deliver on pre-defined outcome metrics when compared against a baseline. On other occasions, however, there is a broader problem of standards of evidence and the inevitable challenges associated with defining and measuring the 'impact' and 'value-added' of SIBs relative to other forms of outcome-based commissioning. At present, the vast majority of SIBs worldwide employ performance and payment metrics that rely on the validation of administrative data, as opposed to more complex evaluation methods that involve a comparison of service beneficiaries to other, more comparable groups through counterfactuals (Gustafsson-Wright *et al.*, 2015: 20).

In conclusion, there are some SIBs employing effective and rigorous systems of impact measurement. Overall, however, the validity and viability of comparative baselines tends to be quite poor, with SIBs lacking a genuine historical or real-time baseline through which to measure the *relative* social, economic and operational value of a service intervention. This leads to difficulties associated with evidencing effects, relying on proxy indicators of social outcomes and the spurious attribution of causes and effects within the SIB model (McHugh *et al.*, 2013). Taken together, these factors represent a serious challenge for establishing the relative effects of an innovative service intervention alongside an experimental financing model.

Having said that, social investors and social finance intermediaries do appear to have introduced heightened degrees of scrutiny and rigour into the governance of the PbR contracts examined here. Through real-time assessment of social outcomes and operations, service providers were both compelled and supported to 'stay on track' in triggering outcome payments. Whether this can, or will, lead to a relative improvement in social outcomes remains to be confirmed.

Future cost savings?

Many intensive PbR interventions are justified on the basis that subsequent public sector savings will be observable if social outcomes are achieved. Similarly, many of the SIB outcomes and payment metrics are constructed based on the prospective financial savings that they may eventually create for the public sector

(Social Finance, 2016: 23). With this in mind, commissioners need payment metrics within the SIB model 'to reflect the balance in savings that are generated for the wider public sector' (Cabinet Office, 2016b: 1). Based on the premise of preventative service provision, this funding model is presented as having the 'potential to help deliver public services more efficiently and, in some cases, tackle the underlying causes of growing demand for services instead of just trying to cope with their consequences' (Cabinet Office, 2016a: 7).

Without evidenced effects confirming the relative improvement of social outcomes, the prospective savings achieved through an SIB are unlikely to be observed in the public sector. This is particularly problematic if private social investors are paid on the assumptions that cost savings will be made and the high transaction costs associated with SIB set-up and service experimentation will be covered as a result. A number of cross-sectoral stakeholders interviewed for this study felt that the high transaction costs associated with developing the SIB threatened the future cost savings achievable:

If it wasn't for certain logistical difficulties, you would probably want to do it directly because it adds to the costs – very high transactions costs (social investor, 11)

Whilst those involved in the establishment and operation of SIBs tended to acknowledge the diverse needs and complex circumstances of service beneficiaries, there was, nonetheless, a tendency to assume fixity to the social outcomes achieved. Very often, the permanency of social outcomes secured (or thought to be secured) was presumed and built into the economic modelling of an SIB. The consequent payments to private social investors were justified on the assumption that outcomes were both sustained and carried through to changes in behaviour, outcomes and opportunities for target beneficiaries. In reality, service users are subject to a dynamic set of conditions within and beyond the SIB intervention.

Due to the significant challenges and needs faced by some service users, the sustainability of particular outcomes was threatened or lost following the service intervention. By virtue of the outcome-based contracts underpinning the SIB model, services focus on achieving social outcomes, rather than the continuity of service outputs characteristic of conventional public sector commissioning. This, perhaps, goes some way towards explaining why a small number of service beneficiaries wanted there to be 'more of a transition period' and felt somewhat 'abandoned' once outcomes had been achieved:

I'm surprised the way its just been ended so suddenly – it's meant I'm not doing so well now. (service user, 19)

I'm struggling at the moment . . . I've moved so far away from everybody. That hasn't helped and its something I've got to sort out. I've relapsed and I'm hoping it's not permanent. (service user, 30)

This poses a number of difficult questions about the legacy of SIBs and the extent to which social outcomes, however improved, can reasonably be considered to have a permanent effect on service users. This is particularly significant because, by and large, SIB payment metrics are constructed based on the assumption that social outcomes achieved through service interventions are lasting, and can therefore be justified in light of the prospective cost savings they accrue to the public sector over time. Beyond this, the fragility with which certain social outcomes are secured and maintained points to the importance of service continuity and support infrastructure existing alongside SIBs offering more intensive, if only temporary, assistance to target populations.

Additionality?

SIBs are widely presented as having the capacity to 'unlock an unprecedented flow of finance for social sector organisations... to tackle ingrained social problems which weigh heavily on our society and national purse' (Social Finance, 2009; Cabinet Office, 2011; Cabinet Office, 2016a). Whilst the social outcomes achieved through SIBs are eventually capitalised through government payments, the private capital invested tends to be seen as supplementary to and distinct from the public funding landscape. In reality, the presence of the former is contingent on the latter.

Nonetheless, a number of civil servants, social investors and social impact entities interviewed for this study felt that social investment was an effective means by which to secure additional resources that would otherwise remain inaccessible to third sector organisations and 'could improve the quality and availability of public services' (Cabinet Office, 2011: 41; Bridges Ventures, 2016). This was particularly the case for those advocating the benefits of private social investment over philanthropic donations:

> I feel able to back some social investments with more investment money than I might be able to do with gift money which I think is part of the logic of social investment in the first place: unlocking genuinely new money (social investor and director of special purpose vehicle, 23)

The introduction of this 'additional' capital has occurred alongside substantial cuts to government grants and a steady increase in government contracts for the voluntary and community sector since 2010 (NCVO, 2016). As a result, senior civil servants felt it particularly important for third sector organisations to become 'investment-ready' in order to adapt to and survive the changing funding landscape:

> All of the actors working in the social field have to change a little bit of their mind set otherwise they will simply die and no longer be able to offer a service because the public budgets are scarcer and scarcer (senior civil servant, 13)

More recently, there has been a slight upturn in funding received by 'super-major' charities (NCVO, 2016). However, smaller organisations that are less well equipped to bid for large-scale public sector contracts have struggled to recover funding lost since 2010 (NCVO, 2016). Needless to say, this poses a significant challenge for the capacity and operations of third sector organisations. Alongside this, political and policy interest in social investment has grown considerably and has been presented as a new funding model to fill a gap in existing service provision (Disley *et al.*, 2011; Cabinet Office, 2016a). In spite of this, the majority of the third sector stakeholders interviewed for this study viewed social investment as a tool of 'last resort':

In an ideal world we (charities and voluntary and community groups) wouldn't have to resort to social investment. (third sector stakeholder, 4)

Given that we live in a country where the welfare state has withdrawn from that level of intervention, then social investment is an effective alternative. (third sector stakeholder, 16)

Within the context of increasing financial uncertainty for third sector service providers, social investment has been pitched as 'a source of additional funding when public spending is constrained' (Ronicle *et al.*, 2014: 35). To the extent that social investment has, in certain instances, enabled 'the commissioning of services that would otherwise not be commissioned', SIBs can be seen as fulfilling the objective of additionality in terms of both resources secured and social outcomes achieved. Having said that, the validity of this interpretation greatly depends on the stakeholder in question and whether SIBs are viewed within their narrower or broader context. For public sector commissioners, the risk re-allocation afforded through up-front private capital can be seen as offering a financing model that facilitates *additional* service experimentation and innovation. However, for smaller third sector organisations, confronted with significant cuts to their statutory funding, private social investment represents an *alternative* funding stream to deliver contracted-out welfare services. More broadly, the marketisation introduced through private social investment, runs the risk of undermining 'the distinctive contributions that nonprofit organisations make to creating and maintaining a strong civil society' through value-driven services, advocacy, voluntarism, community-focused social networks and civic participation (Eikenberry and Kluver, 2004: 138).

Conclusion

Proponents of SIBs suggest that private capital within outcome-based commissioning has the capacity to leverage additional resources for innovative services that will lead to improved social outcomes and future cost savings for the public sector. In this regard, the introduction of private social investment does present an opportunity to fund welfare services that would otherwise not be commissioned within the current climate of welfare withdrawal and fiscal recalibration in advanced capitalist economies. However, there is, at present, very little definitive evidence to suggest that services funded through such a mechanism lead to any relative improvement in social outcomes compared to more conventional PbR commissioning models. In great part, this is due to the poor availability and standards of evidence that are currently available, and the challenges associated with accurately identifying the attainment and cause of complex social outcomes over time. However, where there is evidence available, it is rather mixed. With this in mind, SIBs present a new set of risks and opportunities in the field of public service reform.

In theory, the presence of private capital in outcome-based commissioning has the capacity to accommodate for, and buffer against, the risks associated with public service innovation, which may, in turn, engender an improvement in the social outcomes achieved through public sector commissioning. The findings of this paper suggest that private social investment helps overcome some of the existing limitations of PbR contracting by, inter alia, re-distributing the financial risks of non-delivery. However, for the SIBs considered here, the prospective benefits of service innovation appeared to originate more from the novelty, size and experimental nature of the PbR contract, rather than the presence of private capital and the attendant functions it brought to bear on service operations. If anything, the presence of private social investment appeared to stifle the flexibility and autonomy of service providers to innovate and deliver services according to their social mission within a PbR contract. In addition, far from granting smaller third sector organisations a place at the table in outcome-based commissioning, SIBs have principally been awarded to larger third sector organisations deemed to be 'investment-ready'.

Private social investment and the real-time performance measurement and management fostered through the SIB model did increase the responsiveness of service provision by encouraging and, at times, compelling service providers to perform to profile. However, in certain instances, this ran the risk of corrupting the integrity of the, albeit poorly designed, PbR contract by encouraging 'gaming' amongst those with a vested interest in the attainment of social outcomes. Overall, SIBs appear to entail a rolling back of state-directed process regulation (through outcome-based commissioning), but a rolling forward of process regulation by newly introduced private actors (through social investment). In reality, the motivations and characteristics of these private social investors and social finance intermediaries are diverse and wide-ranging. As such, the influence they exert over service operations in terms of maximising efficiency, effectiveness and equitability varies significantly according to the particular configuration of private actors and interests served within any given SIB. Such variability, without oversight from public sector commissioners, is likely to exacerbate the challenges encountered through more conventional PbR contracting.

Due to their infancy, it remains unclear whether and under what circumstances SIBs might be considered appropriate or suitable within the broader context of public service reform. As the evidence base surrounding SIBs emerges, particular attention needs to be paid to improving the standards and methods of social impact measurement and establishing the relative (dis-) benefits of private social investment in outcome-based commissioning. This paper goes some way towards contributing to this emerging evidence base, but there are inevitable limitations in trying to explore the operation and effects of SIBs through the perspectives of those who have a vested interest in their development and uptake. To moderate some of the (idealised) claims surrounding SIBs, further critical and independent consideration is needed to establish the relative role and significance of private capital in outcome-based commissioning. Without this and evidenced effects of *improved* (and sustained) social outcomes, the public sector runs the risk of paying increased transaction costs associated with private social investment without realising the putative benefits offered through the SIB model.

Supplementary material

To view supplementary material for this article, please visit https://doi.org/10.1017/S0047279417000125

Acknowledgements

This research was supported by the EU FP7 project 'Creating Economic Space for Social Innovation' (grant agreement no 613261). Versions of this paper were presented at the UK Social Policy Association Conference 2016 in Belfast; the International Social Innovation Research Conference 2016 in Glasgow; the EUCLID Summit 2016 in Zagreb; and the 'Widening Perspectives on Social Impact Bond' Conference 2016 in London. The authors are grateful for the generous feedback and input received from delegates during these events and to the two anonymous referees for their comments on earlier versions of this paper.

Note

1 A range of cognate terms for SIBs are used internationally: 'Pay for Success Schemes' in the US, 'Social Bonds' in New Zealand, and 'Social Benefit Bonds' in Australia.

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