**COMMISSIONERS, PUBLIC SERVICES AND SOCIAL IMPACT BONDS – THE MISSING LINK?**

**Abstract**

Social Impact Bonds (SIBs) attract global interest as tool for financing welfare services using investment from outside the public sector. They aim to incentivise innovative services that prevent future needs, reducing the future demand on services, and thus make savings. The literature on the practice of SIBs is still scarce and this paper provides new insights into the role of commissioners, based on in-depth interviews. It concludes that although the prevention of future needs through innovative approaches are welcome, commissioners are cautious about this leading to cashable savings.

**Keywords**

Social Impact Bonds, Local Government Commissioning, Complex Social Needs

**Introduction**

Driven by ideological conviction, economic conditions, or both, governments around the world are under continued pressure to reduce their spending on public services. A recent development in bringing together private finance and public service delivery, are Social Impact Bonds (SIBs). SIBs are a financing vehicle that rests on the assumption that private investment stimulates innovative ways of dealing with complex social needs that will ultimately result in cost savings for the public sector. The interest on the investment is to be paid from the savings made (Jackson 2013). As with other manifestations of public-private interactions, the UK is at the forefront of this development. Much of the so far available understanding of SIBs in practice, is based on UK examples (OECD 2016). A number of SIB initiatives have been undertaken in U.S. state and local governments and learning has also emerged from these contexts (Azemati et al. 2013). Although the evidence on effectiveness of SIBs is mixed, with over 100 SIBs worldwide there is a strong policy drive for SIBs to become a mainstream funding mechanism, although this has not materialised at the expected rate (Arena et al. 2016).

Commissioners are central actors in making services available to the public. Due to their crucial role in the operationalisation of SIBs, their attitudes towards SIBs are likely to affect how willing they are to adopt them. Therefore, this paper investigates commissioners’ expectations and preliminary understanding and experience of working with SIBs. To the best of our knowledge, commissioners have not been the direct focus of any SIBs related research. This paper views SIBs from the perspective of commissioners in local government in the UK. The insights from this article relate to any situation where managers are experimenting with new forms of funding and new ways to deliver services, and highlights the crucial intersection of the demands of innovation, the capacities of those designing and implementing services, and the complexity of external stakeholder relationships.

This paper crosses over two areas of public service practice; commissioning is well established, with its complexity often expressed in the schematic representation of the commissioning cycle. This cycle is used in widespread discussions on commissioning, and is a crucial tool in the training and professional development of commissioners. The next section discusses relevant commissioning practices and the commissioning cycle. SIBs on the other hand, are still very much in development, and thus contested as to what the main issues are and what approach to take to analysing SIBs related material. There is a slowly expanding literature, which is also explored in the next section, with the aim to come up with an overview of the main issues and concerns identified so far, which can then be used to guide the analysis of our interview data. The subsequent section explains the methods and approach to the data. The findings are discussed separately for commissioning and for SIBs, before being brought together to start exploring commissioners’ insights into the whys and wherefores of SIBs.

The paper concludes that although SIBs are considered a valid option for financing service provision, there is clear awareness of the potential pitfalls of mixing the private financial interests of funders with the requirements of delivering services to address complex social needs, making commissioners cautious rather than enthusiastic about SIBs. In the relentless policy environment calling for innovation at every level, understanding and enhancing the role service planners or commissioners will be critical to both protecting the integrity of ongoing services as well as designing and thinking about future configurations.

**UK Local Government Commissioning and Social Impact Bonds**

In the UK a large part of welfare services is provided at the local level, by a range of service providers from the public, private and voluntary sectors. Local government commissioners focus on strategic or whole systems commissioning, which includes not only current needs, but takes into account the ecology of providers and supporting their longer term viability (Williams et al. 2012). In outcome-based commissioning providers are contracted to deliver specified outcomes e.g. people in employment, rather than outputs e.g. number of job-advice sessions delivered. Making payment to providers contingent on their delivery of results, i.e. Payment-by-Result (PbR), effectively requires providers to fund their activities until they have achieved the contracted outcomes before getting paid. This lack of up-front funding can cause serious cash-flow problems for smaller providers (McHugh et al. 2013).

One of the challenges of PbR contracts is the specification of what counts as results in order for providers to be paid. Such specifications are least subject to dispute if they are expressed in quantifiable and measurable terms, and are supported by incentives for providers to meet those terms (Maier and Meyer 2017). For services addressing complex social needs, definition of irrefutable performance indicators is difficult, and needs to balance presenting the right information to the commissioner with presenting the right incentive for the provider, and not overburden either with administration (Rees, Miller, and Buckingham 2017). Providers have a tendency towards expending as few as possible resources in order to meet their targets, and particularly so when they are private sector providers with profit-making as their main driver. This leads to either ‘creaming’ or ‘cherry-picking’, i.e. giving priority treatment to service users expected to reach the outcome easiest, or ‘parking’, where service users expected to react least favourable to the intervention are given minimal support (Fox and Albertson 2012; Carter and Whitworth 2015).

The UK (Public Services) Social Value Act 2012 requires commissioners of public services to use their buying power to meet economic and environmental needs as well as social needs (Cabinet Office 2016b). Commissioners interact with various stakeholders, including the service users, so that services can be designed to fit their needs. Equally, they have to manage the market of providers, addressing the needs of existing and potential providers to support their sustainability. Combining the management of both demand and supply of services, and at the same time looking after the interests of the government organisation responsible for the services, requires a continuous juggling act by public service commissioners (Teasdale, Alcock, and Smith 2012).

Commissioning in all its complexity is often represented in a simplified form, as a cycle with consecutive phases. The aim of such a reductive, schematic approach is not to faithfully represent practice, but to allow the disentangling of the processes involved. The commissioning cycle is generally based on the ‘Analyse-Plan-Do-Review’ cycle (Bovaird, Briggs, and Willis 2014). This four-phase approach starts with analysis of needs and the extent to which they are met by existing provision. In this phase commissioners consult the latest policy and legal guidance, interact with service users, and generally register resources and requirements for services. In the subsequent planning phase the priorities of the services are defined, envisaging what the services will look like and what the outcomes will be. The commissioning strategy includes decisions on whether there will be joint commissioning with a public sector body from another service area or another geographical area. The aim of this phase is for these specifications and decisions to lead to the service design. The third phase is when the services are delivered and contract-management is aimed at achieving the intended outcomes. Commissioners’ key activities are the capacity building and market development of the supply side. In the final phase the services are reviewed to assess the impact of the outcomes, and commissioners are assessing the effectiveness of their strategy and the market performance (Bovaird, Dickinson, and Allen 2011). Table 1 shows the four phases and the main focus and activities of the commissioners, based on the commissioner cycle model as depicted in Rees (2014, 48).

[Table 1 about here]

**Social Impact Bonds**

The attraction of SIBs is two-fold. On the service provision side, the aim to develop innovative approaches to social problems that prevent such problems developing, means that the future need for intervention would be reduced, which in turn would lead to reduced spending on public services (Dowling and Harvie, 2014). On the financing side, SIBs present an opportunity to leverage private finance into the public sector, as well as an investment opportunity for businesses (Cabinet Office 2011, 2016a). An investor, or group of investors, provides all or part of the up-front cost of the service. The savings in the commissioners’ budget created by the reduced need for services then pay for the return on the investment. Thus investors get a return on their investment only if and when the specified outcomes have been achieved (McHugh et al., 2013). This promise of both social and economic benefits has drawn attention across the world, and by 2017, 108 contracted bonds existed globally with more in the design stage. Of those 108 bonds, 102 have been undertaken in high-income countries, with more than a third having been undertaken in the UK (Gustafsson-Wright and Bogglid-Jones 2018).

The HMP Peterborough SIB, which was aimed at reducing reoffending by adult male prisoners on release from prison, was the first SIB to be launched. Although evidence from different SIB projects is slowly becoming available, the HMP Peterborough SIB is still considered a reference model by authors from the USA, the UK, and mainland Europe (e.g. Fox and Albertson 2012; Warner 2013; Sinclair et al. 2014; Smeets 2017). Its evaluation showing mixed findings: the innovative service approach did reduce reoffending more than previous approaches had done, but the innovation was not necessarily due to it being delivered under a SIB arrangement. Because the overarching prison policy under which it operated was changed, the project did not run its full course (Disley et al. 2015). Results from other SIB-funded projects too show improved outcomes for service users, but these effects did not last beyond the duration of the project, thus reducing the scope for future savings to be made (Edmiston and Nicholls 2018).

The focus on outcomes rather than inputs or processes is expected to drive innovative approaches freed from convention and bureaucracy (Joy and Shields 2013). A return on investment depends on evidence of outcomes and results being attributable to the actions of service providers (Jackson 2013; Sinclair et al. 2014). In addition, measures need to be linked to incentives that prevent cherry-picking or parking. Designing incentives to influence the tendency to ‘gaming’ is problematic, linked to the difficulty of defining outcomes. For example, there are six different ways to measure re-offending, which can focus on different aspects of the service. In the Peterborough SIB, the scope for selective service provision was reduced by measuring outcomes across all offenders (Fox and Albertson 2012).

The range of actors involved in SIBs, e.g. investors, commissioners, service providers of public, private or voluntary sector, requires a careful aligning of interests in the contracts (Maier and Meyer 2017). Involving external funders in public services raises a concern that their interests may take precedence, thus influencing strategic decisions about service priorities (Fraser et al. 2018). The focus on outcomes as the remit of the investors risks excluding other actors from the process, such as the users, specialist or small providers, and commissioners (Warner 2013). A central assumption is that private capital is needed to overcome the risk-aversion of the public sector, and that the financial risk is thus transferred to the private sector (Mulgan et al. 2011; Warner 2013; Flemig, Osborne, and Kinder 2017). As the complexity of needs means only small changes in outcomes are realistically possible, services are often not profitable and thus unattractive to investors. Therefore, in the SIBs so far, either government or charitable foundations have underwritten the financial risk, as private investors are interested only when there is clear evidence of success for a particular intervention (Joy and Shields 2013; Sinclair et al. 2014). The public sector remains accountable for the services, and thus there is no shift of the operational risk. The reputational risk that the public service bears includes that of the probity of using public funds to be diverted into private profit (Fraser et al. 2018).

As SIBs cross over the domains of public services and investment, the specialist skills required for setting up the contracts covering both the performance indicators and the financial details are not necessarily present amongst commissioners, investors, or providers. Therefore, intermediary companies often act as brokers between the different actors. Arena et al. (2016) found that existing SIBs display a variety of configurations of actors involved in arranging the contracts, and monitoring their progress and outcomes, and that this lack of consistency about roles is one of the factors that hinders the take-up of SIBs. The complexity of these arrangements and the involvement of a wide range of actors lead to a long and complicated process of setting up contracts, which increases transaction costs (Maier and Meyer, 2017; Fraser et al. 2018). This in turn makes it more difficult to engage in SIBs for small or third sector providers that often hold the specialist and user-based skills required for dealing with complex social problems (Fox and Albertson 2012; Joy and Shields 2013; Sinclair et al. 2014).

The novelty of SIBs covers both the funding instrument as such, and the approach to services that is expected to be innovative. Innovation comes with an inherent risk of not meeting outcomes, and SIBs are aiming to attract investors based on proven ability to meet outcomes (Warner 2013). Because of the uncertain outcomes, and the need to attract external funders, SIBs require underpinning by a strong business case. At the same time, because of the novelty the evidence needed for a business case is not readily available (Fraser et al. 2018). Even if an innovative intervention reduces demand for one service, this may lead to increased demand elsewhere (Sinclair et al. 2014). A reduction in demand by small numbers of service users does not mean that the service overall can scale down its operation to reduce its costs (Fox and Albertson 2012). Thus the main premise of SIBs, i.e. that prevention of users’ future needs for services will lead to savings from which to pay the investors’ interests, is undermined by the complexity of the social problems involved.

This section has presented a range of characteristics of SIBs and areas around using SIBs that cause concern. We summarise these into four issues that will form the guiding principles of our analysis of commissioners’ views. Firstly, the assumption that preventing future use of services will lead to cashable savings has raised doubts about its achievability in practice. Secondly, there is a concern that the interests of various actors are not well balanced, with those of the investors’ taking precedence. Thirdly, contractual and services arrangements take a long time to set up due to their complexity, adding to the cost of the services and potentially excluding smaller providers. Finally, the evidence of effectiveness of services needed for business cases to attract investors has so far proven elusive.

**Approach and methods**

To start understanding how commissioners perceive SIBs as a tool to use in their practice, in-depth interviews were carried out with local actors across two local authorities in the UK. The interviews were part of a large project that one of the authors was involved in, which aimed to design a business case for a third sector organisation that provides services to local authorities for people dealing with substance abuse problems, to scale up its services in this area through a SIB (Cullen et al. 2017). Although the services had been shown to be effective in an early evaluation, there was not enough data of the type needed for a business case, and a SIB did not emerge following on from this project.

The effect of substance abuse has been shown to carry on through various generations within families. The problems of the parents reflect on their children to such an extent that having a substance abusing parent is a strong predictor for any child to end up in need of various social care services (Templeton, Novak, and Wall 2011). The programme that was the focus of the project, Breaking the Cycle (BtC), takes an innovative approach in that it works with families, instead of the substance abusers as individuals, in order to prevent future problems in the younger generations.

BtC aligned with the government’s Troubled Families Policy (Hayden and Jenkins 2014). This policy was developed in order to deal with the problems of an estimated 120,000 families experiencing multiple deprivations. National criteria for inclusion in the programme, education, employment, and crime, were set by government, to which local authorities could add their own criteria to reflect local needs. In the project area of two neighbouring counties, who are used to working in partnership on a range of issues, the added criteria were mental health, substance abuse, and domestic violence.

In 2012/13 one author interviewed thirteen respondents about their understanding of SIBs and what their expectations are of the practice of SIBs. Nine interviews were with managers of social care services of varying seniority and with varying degrees of commissioning as part of their remit. The remaining four were with individuals embedded in other parts of the commissioning cycle: a public health analyst, a local authority employee who focuses on skills needed for partnership working, a manager of a large charitable funder, and a representative of third sector organisation. Interviews lasting 60 to 90 minutes were driven by a topic guide that included questions designed to understand the level of knowledge of the interviewee with respect to commissioning, forms of investment and the emergence of SIBs. The interviews were recorded and transcribed to facilitate analysis. Participants were anonymised in the transcripts in line with both standard practice and the ethical approval achieved at all relevant levels. The other author carried out the coding deductively, driven by the four phases of commissioning discussed above, and the four issues of SIBs as identified in the literature. This coding was then shared with the author who had carried out the interviews, and discussed to challenge or confirm the appropriateness of the coding, until we found consensus that the material was suitably reflected in the codes.

Inevitably, as SIBs did not yet exist in the study authorities, the data constituted key respondent perceptions of SIBs based on their understanding of investment and their experience with commissioning. The analysis suited an interpretivist approach inspired by Rhodes’s work (Rhodes 2011, 2013), whereby individuals’ narratives about their experiences were shaped in responding to interviewer questions.

Because SIBs are still in their early stages, and no accepted theoretical or analytical framework through which to study them exist, authors use a variety of approaches. For example, Warner (2013) uses concepts from contracting, performance management and Public Private Partnerships, Joy and Shields (2013) focus on marketization of the third sector. Calderini, Chiodo, and Michelucci (2017) work towards an interpretive framework, but their focus is on the wider issue of social impact investment rather than specifically SIBs, and this shows in their discussions of infrastructures, capitals and financial instruments. In this paper, the analysis is shaped by a combination of two heuristics: the four phases of commissioning, and the four issues concerning SIBs identified in the literature. Heuristics are ‘rules of thumb’ that facilitate exploratory analysis by simplifying complex concepts into separate elements without the need to detail interactions (Gigerenzer and Gaissmaier 2011). In the discussion section this detail is brought back in, to allow scrutiny in light of existing understanding.

**Findings**

The findings are presented in two sections. The first section discusses the data in line with the four phases of commissioning; the second section connects the data to the issues with SIBs identified in the literature.

***The Four Phases of Commissioning***

The first phase of commissioning is when commissioners assess the needs for a particular service and how these are met, or not, by existing provision. Interviewees identified that people with multiple needs tend to lead complex and chaotic lifestyles, where substance abuse may be a reaction to domestic violence, and worklessness can be a result of the substance abuse. The effect on children in such a situation is unpredictable: they may turn into carers for the parent with the substance abuse problem, skipping school to look after them, or they may have excellent school attendance because that is where they go to flee the violence. A senior manager of children’s services (interviewee 10) observed an increase of children going into care at age 11, when children transition from primary school to secondary school. This indicates the importance of school-based support systems, and how the change in those systems can affect children. The family’s chaotic lifestyle, and interruption of children’s education, can cause those children future problems of unemployment, housing, and anti-social behaviour and crime. Because of the long-term and complex nature of the problems accurately assessing numbers of families and individuals involved is difficult. Through their experience commissioners are able to estimate the numbers of people and the cost to services from their interrelated problems.

“There’s probably about 150 people who make up that group of people with very complex needs where they genuinely would need two or more agencies to collaborate over a recovery plan for that recovery to be effective and long-lasting to make it stick. Now 150 x £70,000 for 15 years is some money.” (Interviewee 2, senior commissioning officer)

The second phase of the commissioning cycle focuses on the service design, based on the needs identified in the first phase. Commissioners in the interviews were aware that complex needs straddle a range of services. Therefore, dealing with individual issues instead of taking a multi-service approach can result in poor outcomes. For example, through the efforts and skills of staff a homeless person may be brought into a hostel or other form of supported housing, and thus be in an ideal place to engage with regarding any other problems. If services that could address such problems are not linked up, then the provided housing support becomes a temporary place for someone to stabilise before they have to make room for someone who needs the service more urgently. Missed opportunities to engage with other issues lead to ‘revolving door’ use of services that is neither helpful to the user nor cost-effective to the provider (Interviewee 2, senior commissioning officer).

Partnership working and coordinating the services for families are seen as ways to create joined-up plans for individuals. The BtC approach to structure an engagement process with an individual and to involve multi-agency practitioners, fits in with those ideas. For example, housing problems are still dealt with by the housing services, but the family worker works with the family to enable them to engage with the housing service, including practical support such as getting the right information together and facilitate attendance of appointments.

“The sophistication of the understanding has come along and the ideas behind things like key workers and family work as opposed to issue work is a really positive step forward, just because you’re setting the client up and you’re setting your service up to fail if you only deal with one of their issues without having support there for the other issues.” (Interviewee 13, public health analyst)

In the study area, existing practice in addiction services was largely aimed at harm reduction, or containing the problems and risks to the individual. Changing this towards recovery from addiction and for people to become independent is a way to reduce future demands on services. Such a shift in thinking requires different skill-sets by both management and front-line staff, but as this is an area in development it is not clear as yet what these skills are. Working across service domains highlights that priorities, and performance targets, of one service often are not compatible with those of another service. Resolving such issues puts demands on staff in terms of communication and fitting in with each other’s ways of working, which is an extra burden when their workloads are already at their limits (Interviewee 5, commissioning officer).

Commissioners are not directly involved with the delivery of services, but they manage the contracts and the market, focusing on capacity building and collaborative working between different organisations. Various operational and strategic units may not always have good understanding of and insight into each other’s aims and activities, and processes and contracting abilities vary between organisations. On a previous occasion in the study area this was shown when one of several organisations in a large partnership contract found itself unable to honour its commitments shortly before the final contract negotiations. At another time, although all partners worked together well on a project, this did not lead to a continuation of the partnership beyond the original project (Interviewee 11, programme director). A grant-maker who has funded many organisations and projects in the study area see it as part of their role to broker connections between different actors, and how they fit with other organisations based on their priorities and approaches (Interviewee 3, grant-maker).

In the final phase services are reviewed an assessed on the achievement of their outcomes. In practice, ongoing outcome assessment becomes more manageable if it is meaningful for service providers as a management tool. The family-based approach and partnership working require the sharing of information between difference services in order to avoid duplication. Traditionally service providers are protective of personal and sensitive information about people in order to maintain confidentiality, and the need to share data more freely presents a challenge (Interviewee 12, senior manager children).

In relation to substance abuse, service users typically go through different stages of engagement, starting with building a comfortable relationship with the service professional before getting to a state where they can be challenged to start addressing the problems. The ‘distance-travelled’ is used to indicate the progress a user or a family has made towards achieving the overall aim of independence. Various interviewees talked about the difficulty to capture such progress in performance indicators that can be included in contracts. Contracts benefit from standardised measures that apply across service users, but service needs vary and are specific to each user. For example, for children in chaotic families where there is substance abuse and a range of other problems, sometimes the most appropriate action is to be taken into care, whereas at other times they are better off staying at home. If a performance measure is aimed at reducing the number of children in care, this puts pressure on the decision-making to suit the contracted outcome instead of meeting the needs of the child (Interviewee 8, programme director).

***Four Issues Connected to Using SIBs***

The literature suggests that is doubtful that preventing future demand on services leads to cashable savings. In the substance abuse are discussed by the interviewees, people with complex needs put a considerable demand on a range of services. When needs in one area are not met they can spill over into demands on other services. For example, sleeping rough causes health problems, so if the housing issue is dealt with, this reduces the demand on the health services. Drawing people into a programme of support that prevents them from going into a spiral of excessive service usage, was seen by several interviewees as a positive outcome as the reduced demand on services frees up capacity. At the same time, they recognised that the freed up capacity is likely to be taken up by other users, and it is unlikely that any services involved will find themselves with more cash left in their budget, thus undermining the rationale of SIBs (Interviewee 1, programme commissioner; Interviewee 13, public health analyst).

Taking a family-based approach as BtC does, was expected by interviewees to lead to reducing the scope for different unmet needs to exacerbate each other. The main premise of BtC is that when a family is addressed as a whole, this is likely to flag up how the children are affected before they are on the radar of services. Commissioners know that children in chaotic families have a high chance of being taken into care to avoid the risk of being damaged by the chaos of multiple problems. If the problems of the families can be dealt with, this may avert the need of children going into care. Youngsters who come to the end of their time in care are at a high risk of descending into chaotic lifestyles. Unless they have the support systems to deal with their emerging problems, they are likely to end up with the type of problems that put pressure on a wide range of services (Interviewee 6, drug and alcohol commissioner). Therefore, investing in a programme that helps to avoid such problems could potentially make big savings. But as the benefits are not likely to be visible in the short term, this may not be an attractive model for investors to commit to.

“What does seem to persuade people is economic impact and I think long-term if you could track one family over 10 years and say we have saved this much money because they didn’t go to hospital, because the children didn’t go in care, because one of them didn’t commit a crime, that kind of thing.” (Interviewee 3, charitable fund manager)

The second issue we extracted from the literature is the concern that investors’ interests might take precedence over the interests of the service users. In the context of ongoing funding restrictions, and government favouring the involvement of the private sector in public service delivery, commissioners are open to different funding options. Investors can be for-profit investors as well as charitable trusts, philanthropists, or other public sector organisations. Investors have their own priorities and interests that are likely to reflect the type of services they want to invest in, or how they envisage service to be delivered. Wealthy individuals may want to put their money into a particular issue that is salient to them without wanting to address the other issues that underlie the complex needs (Interviewee 3, charitable foundation). For example, there are approaches that give young people a confidence boost from conquering a mountain, but that is unlikely to deal with any underlying problems.

Several commissioners made the point that investors would have to be prepared to wait several years for any return on their investment. They would also have to be prepared to support causes that are more difficult and ‘ugly’. For example, supporting young people in building skills and confidence is more conducive to positive results and uplifting stories than dealing with young people with substance abuse problems and homelessness. The concern therefore was that investors would want to build clauses into contracts that entitled them to interests on their investment even if a programme does not deliver the intended savings. In such cases all the financial risk would still be on the local authority.

“I think it possibly would be difficult to find investors who are interested in something which isn’t nice. It’s something they would prefer not to know about. So I don’t know what sort of investors would be interested in investing.” (Interviewee 7, social care commissioner)

The cornucopia of organisations and their respective requirements means setting up contract and service arrangements is time-consuming and thus costly. Intermediary organisations that combine skills and knowledge in financial issues and social issues specialise in setting up SIBs. Their services can be procured as part of preparing a SIB arrangement, as well as other specialist services for example to deal with legal complexities. Because of the concerns about investors’ interests becoming a priority, commissioners want to assess investment companies on their previous experience, background, and reputation before working with them. In order to achieve the economies of scale and scope required for SIBs authorities engage in joint-commissioning with neighbouring areas (Interviewee 10, senior manager). The resource-intensity of setting up a SIB can present a problem. The commissioners interviewed for this study had heard stories about another region where the setting-up process had taken so long that by the time the services started to be delivered they were out of step with the rest of the services delivered by that authority (Interviewee 12, senior manager children).

Authorities are keen to fund creative interventions but they have to be able to show what the benefits are. Although the encouraging outcomes from a formal evaluation of BtC may persuade an authority to commission the services, this may not be sufficient for a business case for an investor (Interviewee 8, Targeted Families commissioner). The reverse of this is that if it is possible to present a strong business case, local authorities may decide that there is no need to try to share the risk, and use their own funds to act as the investor in their services. The difficulty of specifying clear measures for outcomes is at the heart of building a business case. Multi-agency involvement makes this more complicated, because outcomes cannot be attributed to a single intervention. To find a measure that reflects the effort of an individual service is difficult enough, and capturing collective impact is even more so.

“Creating a business case that is investable is very time-consuming however, what I’m hoping is that there will be a number of these around the UK so all of our business case will be available publicly. Because we had to teach ourselves how to do it and then do it so I’m hoping that the amount of time, effort and resource that’s got to be put in will be significantly reduced for future interventions.” (Interviewee 10, senior manager)

**Discussion**

The previous section presented findings from the two elements of this paper separately: commissioning and SIBs. In this section they are brought back together to look at their interconnections and how they relate to the insights in the literature.

Services aimed at prevention of future needs are appealing to commissioners, as they would improve the well-being of users and lead to a decreased demand on services (Boston and Gill 2017). The type of needs discussed in this article are complex and relate to a range of services. Any savings made are likely to be small and do not necessarily benefit the service that achieved them; addressing a housing need may reduce the demand on health services. The OECD (2016) calls this the ‘wrong pocket’ problem; the commissioners in this study recognise this as a lack of cashable savings.

Addressing complex needs requires a multi-professional, cross organisational approach, often involving small specialist service providers. The cost of setting up SIBs arrangements, which include amongst others investors, commissioners, and providers, has two main consequences. One is that the setting-up costs add to the transaction costs of the services (Sinclair et al. 2014), further reducing the level of cashable savings. Another is that the providers needed for their specialist skills, are often too small to resource the long lead-in to the arrangements (Joy and Shields 2013). In this study it was shown that even organisations that are better placed to deal with such administrative and organisational burden may not stay the course of the setting-up process.

The challenges of setting up a SIB are such that there are intermediary organisations that provide contractual, financial, and legal advice. These include banks, management consultants such as KPMG; and organisations specialising in SIBs such as Social Finance (Fraser et al. 2018). Whereas these organisations focus on the SIB for a specific service, the commissioners’ remit is wider than service delivery; it includes managing the providers market, encouraging its capacity and diversity, which in turn is linked to their remit to stimulate economic development (Bovaird, Dickinson, and Allen 2011). Commissioners have often built relationships with local service providers, which the intermediaries are less likely to have. Business arrangements benefit from the trust that develops in longer term relationships, and when such trust does not (yet) exist this adds further to the cost (Rees et al. 2017). An additional concern about the use of intermediaries is that the experience and skills development that are part of the setting-up process do not accrue to the commissioners, and thus do not benefit local actors (Kitay and Wright 2004).

One of the demands of SIBs is to present a clear business case, in order to convince potential investors that cashable savings will be made, from which the return on their investments will be paid (Fox and Albertson 2012). As the projected savings are based on innovative approaches, the business case presents a tension between the need for innovative elements and the rationality required in showing the expected outcomes. A related tension appears through the assumption of risk transfer from the public sector to the private sector. Innovation and risk taking in the private sector tend to be focused on increasing demand and profit, whereas the public sector aims to decrease demand and cost (Flemig, Osborne, and Kinder 2016). Although the involvement of private investors is sought for their ability to promote innovation, in the early stages of innovation the cost and risks are predominantly borne by the state (Mazzucato 2011). The early SIBs were underwritten by public funding and charitable trusts (Sinclair et al. 2014) and Calderini et al. (2018) argue for government input to develop infrastructures to make social impact investment, which includes SIBs, feasible. The operational risk of discontinuation of service provision should a contractor fail remains with the, often local, public actors (The Independent, January 16, 2018).

Governments and other proponents of SIBs are keen to drive the use of SIBs, proclaiming benefits before there is clear evidence of those (Joy and Shields, 2013). The both the UK and the US governments and charitable foundations have heavily invested in various packages to stimulate the uptake of SIBs (Jackson 2013; Ronicle and Fox 2015). Savings that would result from the services discussed here, would only become visible in the next generations of the participating families. This far outstretches the time-span within which policy decision-makers typically operate. Government actors are thus at risk of committing to SIB approaches through pressure to conform to a dominant policy (Maier and Meyer 2017).

As a PbR-based instrument, SIBs focus on outcome rather than process or input. Through linking the return on investments to outcomes, the interests of the investors are given primacy over the interests of other actors involved. This runs the risk of removing the voice from commissioners, and those they work for, i.e. local elected politicians, professional service providers, and service users (Warner 2013). Specialist professionals as well as commissioners know the pitfalls of dealing with complex needs as discussed in this article, and the importance of the ‘direction of travel’. The risks of providers not meeting targets, or employing ‘creaming’ or ‘parking’ practices, can be mitigated by careful design of performance indicators. Such designs rely on the ability to predict outcomes for different types of users, and require detailed statistical modelling (Carter and Whitworth, 2015). For services dealing with complex social needs, the detailed information needed for such modelling is often not applicable or available.

For the local commissioners in this study, the link between outcomes and investments presents a value conflict (De Graaf and Van Der Wal 2010). On the one hand they know they ‘have to demonstrate where every pound has gone and what [this] has generated in terms of social value’ (Interviewee 6, services commissioner), on the other hand ‘it’s a very sad place to be indeed when we have to justify, economically justify, a rationale for helping other people’ (Interviewee 11, senior manager). Cooper, Graham, and Himick (2016, 64) critique this as service users becoming commodities, who ‘carry the potential to produce future cash flows for investors’, rather than vulnerable people in need of support.

This discussion shows that the four issues with SIBs as identified in the first half of the paper, raise their head throughout the phases of commissioning. Identifying needs around substance abuse in families does not yield the detailed information that is needed to underpin SIBs business cases. Services are designed using innovative approaches aimed at preventing development of future needs, but this is not likely to lead to cashable savings. Managing and developing the providers’ market includes supporting specialist providers who may not be best placed to partake in a SIB. In the final phase of commissioning, where services are reviewed, for these complex services the use of soft measures around progress are appropriate, rather than the pure focus on outcomes as needed for SIBs. The next section draws conclusion from these findings.

**Conclusion**

Commissioners operate at the nexus of service provision and business practice. They are often people with a professional service delivery background who have grown into the ranks of management and acquired a commissioning remit on the way. Their commissioning skills and knowledge are likely to have been gained through continuing professional development in combination with experience. Their profession is a relatively young one, and they operate in a fast-changing environment (Dickinson 2014). Under continuous pressure of budget cuts and increasing service demands their remit is to do ‘more with less’ and to find new ways of funding to support a range of different service providers. Thus, if any group of public service workers is used to working with new ideas and arrangements, and accustomed to exploring novel ways of funding, it is commissioners at local level. They are crucial in deciding whether to use SIBs or not, but so far in discussions of SIBs their voices have not been heard.

Although the commissioners in this study are receptive to the internal logic of the SIBs argument that preventing social problems can reduce the demand on service, they are sceptical about this leading to cashable savings. As services are generally struggling to meet demand, any capacity freed-up by prevention is likely to be immediately taken up by other users. Especially in the complex needs addressed in this article, improvement tends to be achieved in small steps, and through the coming together of specialist services. The emphasis on outcomes rather than processes or inputs belies the importance of the approach to service delivery and the detailed understanding of the problems needed to deal with them that tends to be more prevalent in the smaller service providers.

The implications of our research are threefold. First, as commissioners hold the most detailed knowledge about front-line services, the intention to experiment with SIBs, or SIB-like mechanisms, should be communicated and discussed before the policy direction is set to avoid costly undertakings that are more detrimental than helpful. Second, the goals of SIB endeavours may be more easily met through non-market mechanisms, which commissioners will be highly aware of and willing to explore. Third, the SIB focus on innovative service delivery may have positive consequences that have nothing to do with cashable savings; commissioners are extremely well placed to pursue such innovation.

Commissioners foresee problems with the SIB premise of linking outcomes to return on investments, via cashable savings. This suggests an innate incompatibility of the prime business interest of making a profit, with the core public value of providing support to the most vulnerable in society. As SIBs are still in their infancy, their place in the arsenal of public service funding and delivering modes has not settled yet. One of their earlier drivers was focused on giving private sector investors an opportunity to make money whilst supporting the delivery of public services. Due to the difficulties of matching the opposing forces of the need to make money in the private sector and the necessity of spending money that is innate to the public sector, the emphasis is shifting. Much of the funding has come from government and charitable and non-profit organisations, and the focus is much more on the prevention of needs. These are issues that commissioners had flagged up very early on, and are still relevant in relation to current developments. The insights of these professionals present a missing link in furthering the understanding of SIBs and their application, and ignoring their voices may be one of the barriers to the uptake of SIBs.

Wordcount:

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Table 1 Commissioning phases and activities

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| --- | --- | --- |
| Phase of Commissioning | Commissioner focus | Key activities |
| Analysis and evidence gathering | Purpose of the service, understanding user needs | Resource analysis, population needs assessment, legislation, guidance |
| Strategic planning | Defining outcomes and priorities, envisaging the service | Commissioning strategy, service design, specification |
| Delivery of services | Management of contracts | Market development, capacity building |
| Review | Assessing the impact of outcomes | Review strategy and market performance |

Adapted from Rees (2014, 48)