The Political Economy of Private Financed Social Services – an international perspective

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The growth of impact investing and Social Impact Bond (SIB) projects is examined in the context of the theory of public sector transformation and neoliberal ideology. A global overview of the location, scope, objectives and finance of SIB projects is followed by an assessment of their performance and impacts. The chapter concludes with a brief discussion of the wider and longer-term consequences of SIBs for social services.

Public sector transformation and impact investing

Finance capital and business believe, that private ownership and provision, choice, competition and markets, are essential to maximise productivity, efficiency and create the conditions for economic growth. Neoliberal objectives in the last three decades have centred on free trade, competition and markets to allocate resources and deliver services with state control of money supply; deregulation to create new opportunities for accumulation; the deconstruction of democracy to a partnership between state and business; reconfiguration of the state to reduce its role and to consolidate corporate welfare; and the reduction of the cost and power of labour.

Neoliberal public sector transformation has ensured a sequential combination of financialisation, personalisation or individualisation, marketisation and privatisation (Whitfield, 2014). But a different model of transformation is needed in the public sector due to the nature of public goods and services, social and economic objectives, and to achieve social justice and democratic governance (Whitfield, 2012a).

Commissioning has played a key role in neoliberal transformation by dividing the client and contractor (or purchaser/provider) functions in public bodies, which have usually been undertaken collaboratively. Critically, it means that staff responsible for delivering services are regarded as ‘contractors’ and are usually treated as a separate group or ‘unit’. The separation of functions often leads to a procurement process to select a contractor or provider. This has repercussions, such as options appraisals and business cases that precede a procurement process. The in-house service option is often, in UK experience, a status quo or business-as-usual option that is designed to fail, because of a preference for outsourcing in some public bodies.

Some voluntary organisations and charities have bid for public sector contracts, often as subcontractors to large national or transnational companies. This has been divisive in the non-profit sector together with the trend to philanthrocapitalism in which foundations and trusts increasingly allocate resources to obtain a market rate of return instead of awarding grants.

The procurement process becomes a primary function of public sector management in the commissioning model. The state adopts an enabler, or broker, role by purchasing services rather than directly providing them. This process is intended to create or expand markets resulting in the process of marketisation – a process of commodification or commercialising of services and labour by re-specifying service delivery and job descriptions, deskilling jobs and re-pricing labour; restructuring the state for competition and market forces; reorganising democratic accountability and user involvement; and business interests are given a more influential role in the public policy-making process (Whitfield, 2006).

The financialisation of public services takes many forms, for example, allowing public money to follow pupils and patients to schools and hospitals to facilitate competition and enable their performance to be assessed as stand alone organisations. Private investment in public infrastructure and services leads to more Joint Venture Companies (JVCs) with the private sector, with separate accounting and reporting. Payment by Results (PbR or Pay for Success in USA) is a new performance management tool and core SIB contract payment mechanism. The current exclusive focus on outcomes in commissioning and PbR marginalises the value of inputs (skills and experience of staff), processes (working methods, participation) and outputs (the range/volume of services). All the criteria are equally important in determining the quality of public services (Whitfield, 2012a and 2015a). This has important implications for public service principles and values.

Extending financialisation

The UK's leading social investment bank seeks to extend financialisation - *"There are potential opportunities for social investment to develop more self-pay services to support families, friends and relationships…..and to provide brokerage support and short breaks for families with disabled children funded through care budgets or personal budgets."* In addition, the "…*network of children's centres and the various under-utilised youth centres in the UK might be able to boost current service provision and enhance internal sustainability if further capital were to become available to deliver more support to families, reducing negative outcomes such as health issues, family breakdown and financial exclusion. The revenue model for these services could be through central or local commissioning or self-pay by clients"* (Big Society Capital, 2015)

The use of private capital for publicly financed services has a number of knock-on consequences. Firstly, private investors in SIBs will have greater power to influence social policy decisions and implementation and to negotiate terms and conditions, risks and returns. Thus, the provision of early intervention and prevention to the most vulnerable people becomes a for-profit activity and treats social services the same as other goods and services.

Secondly, it leads to more special purpose or joint venture companies, extending the public private partnership model from infrastructure and corporate/sector support services (Whitfield, 2014) to SIBs in early intervention and prevention provision, engaging, at least initially, philanthrocapitalists, foundations and charities, social finance organisations and a variety of non-profit organisations.

Thirdly, staff are private/non-profit sector employees, or in some circumstances, they may be seconded from the public sector to joint venture companies.

Finally, outsourcing to private contractors or social enterprises implies significant problems in terms of democratic accountability, transparency and monitoring.

Personal budgets were initially intended for service users with high intensity care needs to give them more control over how they meet their needs and preferences. However, successive UK governments have widened their scope to include other groups of patients/clients.

The extension of competitive procurement to a wider range of public services inevitably creates a contract culture, wider use of management consultants and to new, or expanded, outsourcing markets. The UK government's Open Public Services White Paper sets out how and why public services should be open to a range of providers with no ideological presumption with regard to which sector should run services (HM Government, 2011). Governmental and social finance advocates of SIBs intend to establish new embryo markets in welfare services through early intervention and prevention projects.

Privatisation mutated into a multi-dimensional process, because the core functions and services of the state could not be privatised via a stock market flotation or trade sale. New forms of privatisation or pathways emerged as the focus moved to the marketisation of services via outsourcing, joint ventures and public private partnerships. Private investment and the transfer of services to commercialised public sector arms length companies or to social enterprises became key policies in the mutation of privatisation. Public provision is now more fractured, thus creating further opportunities for marketisation and privatisation with projects such as SIBs (Whitfield, 2012b).

External pressures on nation states

UK Prime Minister David Cameron persuaded the G8 group of countries, to establish a Social Impact Investment Taskforce, with each country establishing a National Advisory Board with government and civil society representatives. The OECD is similarly promoting SIBs and the World Bank is piloting payment-by-results initiatives. The G8 and OECD SIB initiatives advance their case for impact investing, to finance a wide range of social and welfare state services (Social Impact Investment Taskforce, 2014 and OECD, 2015).

In addition, the G20, EU, OECD and the World Bank are involved in a comparable initiative to jointly develop programmes and policies to increase private investment in public infrastructure through Public Private Partnerships (PPPs). They are seeking to persuade pension funds, insurance companies and sovereign wealth funds to allocate a larger share of their funds to public infrastructure projects (Whitfield, 2015b). Germany has recently accelerated its PPP programme.

Although PPPs and SIBs are structurally different, many of the arguments used to justify their expansion are similar. The more specific case for impact investing and SIB projects is usually rooted in claims that nation states can no longer afford the welfare state. The increased cost of unemployment, migration, rising levels of inequality and ageing populations are said to increase pressures on public spending that can only be met by additional resources from private investors and philanthropy. The possibility of re-prioritising public resources and/or increasing taxation by reducing offshoring and corporate welfare is rarely considered.

SIBs aligned with neoliberal transformation of welfare state and social services

Transformation is at varying stages in different countries, but SIBs have advanced more quickly in the UK and USA as they have marketised and privatised social services more extensively than most other G20 countries. Other relevant factors include the degree to which social services, education and other public services are already provided by the third sector; the extent to which the public sector has adopted and integrated early development and prevention policies; the scale of austerity measures; and the impact of demographic change such as the ageing of the population, which is particularly relevant in Germany.

SIBs are currently concentrated in early intervention and prevention projects, but they are unlikely to remain limited in scope. They could extend to the provision of core and support social work services; social work (re)training and professional development; development and promotion of new social work techniques; research and evaluation of interventions and impact performance; and the provision and management of multi-service centres, community hubs, children's centres, youth facilities, day centres and respite care centres. PFI/PPP projects provided a route from infrastructure into services, whereas SIBs and impact investing could provide a route from services to local infrastructure.

Global overview of SIBs

By mid-2016 there were 61-signed SIB projects, two-thirds in Europe with North America accounting for 20% and the remainder in five other countries. UK projects account for 78% of those in Europe and just over half of global operational projects. The total includes one development impact bond in India (Instiglio, 2016).

Social policies

Projects to reduce reoffending, support disadvantaged families and young people, young people into employment, children out of the care system, early childhood education, healthcare and reducing homelessness, account for 90% of signed contracts.

Most projects either directly involve social work functions/services or are services that are integrated with aspects of social work. Virtually all address early intervention and prevention issues. The most recently launched projects tackle more specific issues such as reducing elderly suicides, supporting women from domestic violence, refugees into employment and reducing dropout rates in higher education.

The average length of all contracts is 4.4 years (52 contracts). However, US projects average 6.5 years (12 contracts, but included longer contracts of 17 and 12 years), whereas the UK average is 3.8 years based on 25 contracts.

The average investment in the UK is £2.0m (based on 18 contracts) compared to US$12.3m (11 contracts) in the US. The difference is partly accounted for by longer contracts. To date UK SIBs have been mainly promoted by government departments, whereas in the US they are primarily State-initiated contracts.

A further 21 SIB projects are at the design stage. Seven are in the US, two in Europe (UK and Finland), four in Latin America (Chile, Columbia, Costa Rica and Mexico), two in the Pacific (Australia and New Zealand), four in the Middle East (Israel and Palestine) and two in Africa (South Africa and Uganda). The range of projects broadly mirror existing projects, in employment (6 projects), health (5), reducing reoffending (3), education (2), early childhood development (2) and one each in homelessness, disadvantages families and crime (Instiglio, 2016).

Table 1: Location and objective of social impact bond contracts

	Europe									N.America		Other					
Type of service	UK	DEU	NLD	BEL	IRE	PRT	AUT	CHE	FIN	US	CAN	AUS	IND	KOREA NS	PER	ISR	Total
Reduce reoffending	1									3							4
Disadvantaged families & young people	12									1		1					14
Young people into employment	11	1	2	1													15
Children out of care system	4									1		1					6
Early childhood education						1				2			1*				4
Healthcare	3									2						1	6
Reducing homelessness	1				1					3	1						6
Reducing elderly suicides														1			1
Economic development															1		1
Workplace absenteeism									1								1
Female victims domestic violence							1										1
Refugees into job market								1									1
Reduce drop-out rates higher education																1	1
Total	**32**	**1**	**2**	**1**	**1**	**1**	**1**	**1**	**1**	**12**	**1**	**2**	**1***	**1**	**1**	**2**	**61**

Sources: Instiglio 2016.

Abbreviations - OECD, 2015; UK = United Kingdom; USA = United States of America: AUST = Australia; CAN = Canada; DEU = Germany; NLD = Netherlands; BEL = Belgium; KOREA-NS = South Korea; IRE = Ireland; PTR = Portugal; IND = India; PER = Peru: FIN = Finland; AUT == Austria; ISR = Israel; CHE = Switzerland.
* Development impact bond
Note: 1 UK project (Peterborough Prison) and 1 US project (New York City Rikers Island) recidivism projects have been terminated.

Social finance and global banks

SIBs create conflicting interests and blurred boundaries at four levels – objectives, finance, governance and management. Firstly, there is conflict between the objective of achieving social change and improving people's lives, and obtaining a return or profit from investment that finances early intervention and prevention.

Goldman Sachs established the GS Social Impact Fund, part of the bank's Urban Investment Group, *"…to provide clients with access to "double bottom line" investments that can provide both a financial return and measurable social impact"* (Goldman Sachs, 2015). The bank is the lead investor in four SIB projects, two in early childhood education in Chicago and Salt Lake City and two recidivism projects in New York City and Boston with US$30.5m total investment. Bank of America Merrill Lynch and Santander Bank have each invested in a US SIB (Non-Profit Finance Fund, 2016) and investment bank JP Morgan produces an annual impact investing market analysis.

Irrespective of who invests in SIB projects they are ultimately financed by the public sector. Five states, three cities and two counties repay US projects with a government department as co-funder in two projects.

Secondly, the current pool of investors in SIB projects range from global banks and venture capitalists to foundations and charities, governments and public bodies and individuals. If SIBs are deemed successful in generating market rates of return, then global banks and venture capitalists are likely to dominate investment and could gradually squeeze out social investors. Some US SIBs have multiple senior and subordinate investors reflecting the experimental stage of projects, but this is likely to be consolidated.

Thirdly, governance arrangements reflect the interests of intermediary organisations, public sector departments, service contractors, consultants, evaluators, and in some cases, investors. Two US projects included staff representatives from the service contractor. However, there are very few references to staff and service user/target population representation, which makes improved democratic accountability and transparency key issues for future SIBs. In addition, demands for greater political control of SIBs will increase as a wider range of public sector interests are involved in tracking evidence of outcomes and the more complex distribution of any savings between departments and public bodies, national and local.

Finally, the role and responsibilities of intermediary organisations will have to be readjusted in the light of these issues and when takeovers/mergers of these organisations occur.

Rate of return

It is important to distinguish between the rate of return for different types of social investment, for example investors purchasing bonds in an impact fund (such as renewable energy funds), provision of secured or unsecured loans in an organisation, purchasing equity (shares) in an organisation, or frontline investment in a SIB project. They have different risk profiles and hence variable rates of return.

65% of impact investors principally target 'market rate returns' – usually 15% or higher (JP Morgan and Global Impact Investing Network, 2013 and Cambridge Associates and Global Impact Investing Network, 2015). The impact investing sector generally assumes a rate of return of 15% - 30%, which includes a wider range of investments than SIB projects. For example, 97.6% and 68.2% of impact investing funds, with an environmental or social focus respectively sought market rate returns. The analysis of 310 global funds found market rate returns of up to 19.3% depending on the type of investment (ImpactBase, 2015). These are fund averages so individual project returns will be both higher and lower.

SIB rates of return for private investors are variable and often not transparent. Investors in Essex County Council's Children at risk of going into care project are expected to earn annual interest of 8%-12% on their investment (Cabinet Office, 2016). The financial modelling of Belgium's first social bond on workforce empowerment, and another on reducing reoffending, were based on a 12% internal rate of return (Dermine, 2014).

The Newpin Social Benefit Bond in Australia, to restore children in out-of-home care to the care of their families and to prevent children at risk of significant harm from entering out-of-home care, is targeting a 10% - 12% financial return. A second project to keep children out of the child protection system could achieve returns up to 30% (Charlton et al, 2013).

The financial return for the UK Peterborough prison recidivism project was capped at 13% in contrast to the 22% rate of return that could have been obtained by Goldman Sachs in the Rikers Island, New York City recidivism project, if all the targets were achieved (Quinton, 2013). Goldman Sachs exercised a contract option to terminate the programme a year early in 2015. It had invested US$9.6m in the project, but Bloomberg Philanthropies guaranteed US$7.2m of the investment, so the bank suffered a loss of US$1.2m compared to Bloomberg Philanthropies US$6.0m loss (Whitfield, 2015b). The New York State recidivism project primarily financed by Bank of America Merrill Lynch has an implied 12.5% rate of return if targets are achieved (Trotta et al, 2015).

The rate of return for other UK projects includes 6.5% per annum for the Greater London Authority's reducing homelessness project and 4% annual payment plus an equal share of project surpluses from performance in the 'It's All About Me' national adoption and therapeutic parenting training project (Griffiths and Meinicke, 2014).

The planned rate of return in seven US projects is very variable with a high of 11%-22% for the recently terminated Goldman Sachs New York recidivism project. Others were in single figures and three were not disclosed. Success payments could be paid to the service provider or the project manager in four projects (Non-Profit Finance Fund, 2016).

A secondary market could emerge to enable investors who need, or want, to exit their investment (Disley et al, 2011; Pasi, 2014; Vennema and Koekoek, 2013, Whitfield, 2015b). The UK Social Stock Exchange began trading in securities and derivatives in 2013, which enables impact investors and companies to invest and raise capital. It could eventually provide a route for investors who need to withdraw their investment, or adopt risk aversion and profit maximisation strategies.

It is prudent to draw on the experience of UK PFI/PPP project finance. Project business cases have an average rate of return of 12%-15%, however a secondary market has mushroomed in the sale of equity in special purpose companies. The average rate of return was 29% in 93 transactions involving 226 PPP projects between 1998-2012. Eight offshore infrastructure funds had total or partial equity ownership in over 300 PFI/PPP projects (Whitfield, 2012c), a trend that shows no sign of abating.

Public expenditure savings

Reducing the number of children in care, reoffending, homelessness and unemployment has social and financial benefits. Public expenditure savings have been a core claim in the promotion of SIB projects, although there is scant evidence of actual cost savings to date. For example, the Santa Clara SIB in the US "*…has been explicit that their chronic homelessness project may not achieve savings over the course of the project term"* (Non-Profit Finance Fund, 2016).

SIBs follow in the wake of PPPs and outsourcing policies that have similarly claimed cost savings, but the target savings have rarely been achieved, and in some cases additional costs were incurred following poor performance and contract terminations (Whitfield, 2012a and 2014).

The cost of government support and subsidy for SIBs must also be taken into account, which has risen to over £200m in the UK. The government has spent £60m (2013-2016) subsidising SIB projects, by funding a 'top-up' to outcomes payments that deal *"…with complex and expensive social issues"*, for example, three SIB projects supporting people with long-term health conditions, mental illness and children in care received a total of £2.5m. In addition, government departments allocated a further £61m to the Fair Chance, Innovation and Youth Engagement Funds to fund SIB projects between 2014-2018 (Cabinet Office, 2015). A new £80m Life Chances Fund was launched in 2016 to top-up outcomes for locally commissioned SIBs (Cabinet Office, 2016c).

It is, therefore, vital that SIB operational cost savings are verifiable and take account of transaction costs, reconfiguration and legacy costs, grants and subsidies and tax concessions for social investors. Costs should be assessed with a comparator group and off-the-shelf cost benefit models should be used with caution.

Which public bodies are developing projects?

The UK government, Social Finance (an impact investing organisation that develops projects and raises investment) and some venture capital funds, have led the drive for SIB projects. Many individual advocates of SIB projects do so with a missionary zeal and previously, or currently, work for banks, private equity and venture capital funds. The current UK government appears to be copying previous Labour governments, which fervently exported the PPP model of private finance of public infrastructure.

SIB impacts

Performance

The Troubled Families programme in England includes several SIBs, however, its claim to have 'turned around' 99% of families has been strongly challenged by Crossley (2015) and Portes (2015) who highlighted political, reputational and other risks. 'Troubled families' were families that met two out of six criteria - parents and children involved in crime or anti-social behaviour, children who have not been attending school regularly, children who need help, adults out of work or at risk of financial exclusion and young people at risk of worklessness, families affected by domestic violence and abuse, and parents and children with a range of health problems (Department for Communities and Local Government, 2014a).

> *"Local authorities, which have been hit by cuts and lost large numbers of staff, have allegedly 'turned around' almost the exact number of 'troubled families' they were required to work with, at a time when those families will potentially have suffered as a result of austerity policies, cuts to local authority services and welfare reforms. No social policy can expect to be 100 per cent successful, especially one involving some of the most disadvantaged families whilst tied to such a short timescale"* (Crossley, 2015).

Only 10% of 'turned around' families gained employment and changes in educational attendance and anti-social behaviour/crime levels in households accounted for about 90% of 'turned around' families, yet were not critical issues when families entered the programme. Whether 'turned around' families were still experiencing domestic violence, poverty or poor quality housing has not been disclosed (ibid).

The Utah State early childhood education SIB is another project with a near 100% performance – it achieved 95% of the targeted savings resulting in a US$260,000 payment to Goldman Sachs bank. The SIB financed 595 low income three- and four-year-old children to attend preschool in 2013-14. A test administered when they first entered preschool identified that 110 of the four-year-olds were likely to need special education. Only one child used special education services in the preschool, a 99% performance. Children will be monitored up to 11 years old and further payments will be made based on the number of children who use special education (State of Utah et al, 2015).

However, nine early-education experts challenged the SIBs methodology of identifying the children who were likely to need education without preschool. Children were tested in English despite between 30%-50% children in the State's preschool programme coming from homes where English is not the only language. The State's methodology resulted in 30%-40% of children having a low test score compared to about 3% of 4-year-olds in other localities. A comparator group was not established that would have compared the performance of the SIB with children who did not attend preschool.

> *"When Goldman negotiated its investment, it adopted the school district's methodology as the basis for its payments. It also gave itself a generous leeway to be paid pack. As long as 50 percent of the children in the program avoid special education, Goldman will earn back its money and 5 percent interest — more than Utah would have paid if it had borrowed the money through the bond market. If the current rate of success continues, it will easily make more than that"* (Popper, 2015).

The New York City Rikers Island Prison recidivism SIB was closed after no change in the rate of reoffending in the first two years of the programme. Consequently, Goldman Sachs did not receive a payment, but Bloomberg Philanthropies had guaranteed 75% of the bank's US$9.6m investment and exercised a contract break clause to terminate the project. The UK Peterborough Prison SIB achieved an 8.4% reduction in reoffending in 2014, which was short of the 10% target that triggered payment. The project was terminated due the UK government's wider privatisation of the national probation service.

The second-year evaluation of performance by the London Homelessness SIB, with a fixed cohort of 831 entrenched rough sleepers, revealed varied success of the providers, St Mungo's Broadway and Thames Reach, in meeting the outcome targets. Rough sleeping was reduced but one provider was below the baseline; entry to stable accommodation exceeded the target; the reconnection to the home country and employment targets were not achieved and data protection issues prevented the health outcome measure of reducing Accident and Emergency admissions being assessed. By quarter two of the second year, 162 of the cohort had 'disappeared – not recorded or known to other services - and 21 had died (Department for Communities and Local Government, 2015).

SIB innovation is often exaggerated because many projects adopt proven early intervention and prevention methods that are frequently already being implemented by a public body. Investors naturally want to minimise risk to ensure the project is successful and obtain a return on their investment.

Need for counterfactuals

A counterfactual or comparator group has not been used in many SIB projects to date. It is vital to understand why and how policies and practices are effective and to understand the effect of other conditions and impacts. A comparator group is also essential to prevent investors favouring an evaluation method that prioritises their rate of return over meeting social need.

New risks and risk transfer

Outsourcing and privatisation of public provision to SIB projects increases risks (Whitfield, 2015b). The process of identifying, allocating, assessing probability and pricing of risks is critically important. Risks can be grouped in seven categories:

- Financial (investment, transaction costs, pricing of risks and rewards, savings targets, due diligence)
- Project intermediary (design, innovation, contractual terms, project management, monitoring)
- Political (risk transfer, governance, transparency, guarantees and subsidies, selection of outcomes, attribution of impacts)
- Implementation (governance, contract management, contractor corporate risk, performance, impact evaluation, outcomes and other impacts)
- Citizen/target population (engagement, effectiveness of methodologies)
- Employment (security of jobs, reductions in terms and conditions)
- Reputational (termination, contractor gaming)

Employment

The average wage in the non-profit sector in most industrialised countries is 20% - 30% less than the national average wage, let alone the equivalent public sector wage (Whitfield, 2015b). Some SIB projects engage volunteers, for example the Peterborough Prison project had 56 volunteers in the prison and the community compared to seven full-time and three part-time staff (Disley and Rubin, 2014).

However, reference to jobs, terms and conditions of staff involved in SIB projects is absent from project literature and academic analysis, including Germany's National Advisory Board report for the G8 (Social Impact Investment Taskforce - National Advisory Board: Germany, 2014). This is alarming, since many SIB projects are engaged in supporting people into employment. It is critical to recruit trained and professionally qualified social work staff with continuing access to training.

Public service staff will be transferred to a new employer when an SIB replaces public service provision. However, the EU transfer regulations are unlikely to apply when an SIB undertakes a new activity/service. In these circumstances, SIB employers could recruit staff on the organisation's existing terms and conditions.

Equalities and social justice

Despite the widespread use of 'social' as a linguistic prefix to finance, innovation, impact and enterprise, there is minimal evidence of regard to equalities policies in SIB documentation and policy analysis.

Equality and social justice policies are critical in the criteria and selection of target populations; the exclusive focus on outcomes could conceal inequalities in working processes and management practice; the stark absence of service user/target population and staff representation in governance arrangements reveals a dominance of financial and succeed-at-all-cost management ideology; and payment-by-results contracts inevitably raise the possibility of contractors using gaming tactics such as 'cherry picking' and/or 'parking' service users/target population resulting in increased inequalities.

Additionality

Germany's National Advisory Board of the G8's Social Impact Investment Taskforce concluded:

> *"…in many cases, prevention can only be accomplished through new types of service provision that cut across traditional dividing lines between funding providers, ministries and levels of government. While prevention is expressly provided for in a number of social legal codes, the further development of the social sector towards a prevention-focused system is constrained by the underfunding of these non-case-specific measures and services"* (Social Impact Investment Taskforce - National Advisory Board: Germany, 2014).

Whether SIBs generate additional savings to tackle poverty and social issues is highly questionable (Gustafsson-Wright, 2015). SIBs could simply be drawing resources from the public sector and replacing current or potential public provision. Claims of public spending savings have yet to be verified. They are not an answer to the question of underfunding, because it is the public sector that ultimately pays the cost of SIB projects. Furthermore, UK evidence highlights the significant additional public cost of supporting SIBs and topping-up outcomes payments to investors.

A new language for social work?

Advocates of SIBs introduce a new language into social services, which can be divided into two types. Firstly, words or phrases relating to finance such as venture capital, payment-by-results, rate of return (profit), equity-style returns, private, social and institutional investors, capital repayment, success payment, transaction costs, social investment market, cashable savings and avoided costs. Secondly, words or phrases that relate to the organisation and management of SIBs such as intermediary, special purpose company, independent evaluator, competition, contestability, verification of outcomes, contract culture, options appraisal and business cases.

Public service innovation and improvement

Public service innovation and improvement is critically important, particularly the involvement of staff, service users, trade unions and community organisations in restructuring and reorganising services (Whitfield, 2015b). Drawing on the experience and lessons learnt from social and community projects is vital. So is evidence of effective public sector early intervention and prevention, for example, eight US states reduced recidivism rates by 5.8% - 19.3% for adults released in 2007 and 2010 in the three-year follow up period. For the 2010 release group it meant 5,573 fewer people returned to prison in the following three years (Council of State Governments, 2014). There are many examples of US trade union and community initiatives, which provide training and jobs to reduce reoffending (National Employment Law Project and In The Public Interest, 2016).

Early intervention and prevention requires a holistic approach with long-term planning for integrated provision, not a succession of ad hoc projects determined by whether private investors will or will not fund them. However, short termism is likely to be a continuing problem due to the constraints imposed by the contracting system, plus the single-issue focus of SIB contracts, their relatively short-term, defined terms, and the apparent lack of concern for what happens when the contract is concluded, given the limited ability to permanently 'turnaround' poverty, unemployment and social problems. The SIB literature demonstrates a single-minded focus on their expansion and virtually no concern for public sector provision or the longer-term future of the welfare state.

Conclusion

There is clearly a case for impact investing to promote social enterprises in the industrial and business service sectors and social/community initiatives.

The case for the SIB model primarily rests on innovation in early intervention and prevention, savings in public expenditure and 'additional' investment. Peel away the rhetoric and 'inspirational' language, and what is left is an alignment of venture capital, third sector entrepreneurs, philanthrocapitalists and neoliberal public services. There is a notable absence of debate about the future of the welfare state – little attempt has been made in the SIB debate to date to consider what role the nation state has, other than to promote and fund SIBs and enable private investors to profit.

It is ironic that a 'movement' that wants to establish a new approach to social investment in aid of the poor, is so single minded that it avoids reference to improved direct public provision; the termination of the austerity policies that have accelerated poverty and deprivation; increased public resources through taxation and the elimination of tax evasion. Yet increased social investment debt is considered a success, but increased public debt a liability.

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