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Where next for social investment?

Dan Corry breaks down how charities and other public services can reap the benefits of a change of funding focus

With the election of the new Conservative government, we can expect to see a continued emphasis on different ways of commissioning and funding public services. The enthusiasm for contracts that have at least an element of payment by results (PbR) has been growing across different administrations for some time but grew to new heights during the coalition years. Not only did we have the Work Programme and more recently the Transforming Rehabilitation contracts in probation, but many more local contracts started to have this element in them.

It is partly for this reason that coalition ministers – especially the Tories – started to become interested in social investment. They wanted charities and others to be some of the providers of public services but knew that their ability to bid for and win contracts that had payment in arrears and with risk attached – as PbR contracts imply – was very limited. Allowing them to fund this with loan money, but at below market rates (aka social investment), looked good indeed. So the rhetoric was turned up with DWP boss Ian Duncan Smith declaring: 'We cannot underestimate the difference social investment could make.'

But the potential for social investment in the non-profit world goes well beyond delivering government contracts. In contrast to old fashioned funding through government grants, or from traditional fundraising from wealthy donors (or from 'Joanne Public' doing her sponsored run), charities should now be able to access dynamic, private-like loan finance, with the language of 'returns' and 'risk' all coming into the lexicon.

In fact this particular ball started rolling with the report of the Social Investment Task Force in 2000 by Sir Ronald Cohen for then chancellor Gordon Brown. And the last government was building on and extending the idea of tax breaks and various funds to encourage social investment that had been started in those earlier years.

Social investment or finance, will continue to be attractive to the Government and to charities looking for funding for a number of reasons. With austerity set to continue, funding for the public sector will be limited, so other sources of finance make sense. Equally the grants and contracts from the public sector that many voluntary groups rely on will be hard to come by and social investment can be seen as substitute funding for a sector feeling the pinch. And more PbR contracts will require more, not less, access to 'social', repayable finance.

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More generally, while we have to see if the new and self-confident Cameron government tries to revive the Big Society phrase, it is highly likely that social investment will be part of a narrative that they will want to tell of harnessing the power of markets and finance towards positive, 'social' ends.

But the way ahead will not be straightforward. In the last few years while there has been no shortage of activity, we have learned that getting social investment going takes time. And it may never reach the scale or play the role it is being asked to.

Big Society Capital, the new wholesale social investment 'bank' mainly funded from unclaimed dormant bank accounts, has done good things. But it has proved a slow and difficult task to try to build this new market with problems on supply and demand sides.

Equally, while PbR contracts should open up the market for more social investment this has not really worked out for the social sector as its recent failure to be awarded many prime contracts in the criminal justice area shows.

Social Impact Bonds have emerged here and there – but given the amount of push and public and private subsidy around for them, the activity so far is not overwhelming. They have helped promote innovation in places like Essex CC, with children in care, and Peterborough, on re-offending, as well as having helped with cash constraints, but they comprise an over-complex system for many areas where we really just need to get on and do what works.

So progress has been fitful and slow.

Nevertheless social investment should and will play a part in the funding of our public services and charities in the future. How big a part and how fast it happens remain to be seen. ■

Dan Corry is CEO of NPC, a think-tank and consultancy on third sector issues. He is a former Treasury and Downing Street economic adviser.

soapbox

By Adam Fineberg

Just as there is recent recognition nationally that the 'trickle-down' theory doesn't work, similarly the equally antiquated and unsuccessful growth pole model for national economic development is flawed. The Government's plans for devolution address metropolitan areas, not the whole of the UK PLC.

Studies commissioned by the Treasury in the early noughties under the banner of 'Productivity in the UK' pointed to the need to make all areas and geographies work for all people to promote productivity and well-being.

The Government's devolution plans – devolving centralised activities around skills, transport, health and welfare to regional coordinating bodies of individual local authorities just promotes greater complexity and further managerialism.

This draws the focus away from addressing the greatest needs at local level by making local services work for local people and harnessing the growth potential for all areas and members of the population.

All councils and many partners in the public sector play their local part in promoting the growth of the UK PLC. Future governments must also play their part in the deal and recognise and respond to area's needs accordingly.

Increasingly, councils and other local public service providers are responding to a shift towards a common approach to organising local government. This has been influenced by the previous coalition Government's move away from engaging directly with individual local authorities.

Local authorities' clamour to participate in multi-authority arrangements may be relevant in limited cases and deliver economies through the provision of certain shared services. Shared geographies have their role to play in achieving efficiencies where feasible and suitable, reaching agreements, setting sub-regional priorities, and organising services to best effect.

Local authorities need to do what is best but spreading themselves around different groupings in order to influence policy and funds for specific issues or themes is not always the most effective way to deliver locally integrated services for local people in local authority areas. Similarly, future governments need to recognise and respond to this situation and relate to councils, adapt proposals and reform at scale. ■

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