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On the transformation of children at-risk into an investment proposition: A study of Social Impact Bonds as an anti-market device

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On the transformation of children at-risk into an investment proposition: A study of Social Impact Bonds as an anti-market device

Daniel Neyland

Introduction

'Children at-risk' is a classification without definition.[1] It is used by UK national and local government to group together people aged under 16 (sometimes under 18) who face problems of abuse, pose a threat to their family, face reduced life chances, or a higher-than-statistically-normal-likelihood of engaging in, for example, criminal activity or drug use. It is one of a number of classifications (also including recidivism, homelessness and the elderly) that were identified as seemingly intractable costs of government in the late 1990s and early 2000s. Whatever money was spent on an intervention, the argument went, the problem and its associated costs, remained.[2] As a result, 'children at-risk' became a notable target for policy experimentation that sought to rethink the nature of what counted as a cost, and how levels of required government spending might be reduced. These experiments have taken the form of concerted market-based interventions that have transformed 'children at-risk' from a cost to an investment proposition, and from an intractable problem of government to a source of returns for private investors.[3] As the first results of these experiments are now emerging, this paper reports on a study I have conducted into a market-based intervention that experiments with the transformation of 'children at-risk' into an investment proposition through a Social Impact Bond.[4]

I will suggest that the Social Impact Bond can be usefully explored by drawing on Science and Technology Studies (STS) treatments of markets as collective, heterogeneous assemblages (see for example, Callon, 1998; MacKenzie, Muniesa and Siu, 2007; Callon, Millo and Muniesa, 2007) through which such matters as competition (Cochoy, 2010) and capitalization (Muniesa et al, 2017) are accomplished. I will draw on this body of research to get up-close to the Social Impact Bond and analyse the ways in which competition and an investment proposition are constituted. However, I will suggest that in the case of Social Impact Bonds this STS approach has most analytic utility in providing a contrastive backdrop, setting out what might ordinarily constitute the central features of a market device (Callon and Muniesa, 2005), competition and investment. Against this backdrop and the directives of UK government policy, I will suggest that in practice the Social Impact Bond operates as something akin to an anti-market device, effectively ruling out competition and creating a proposition that protects specific parties against the standard risks of an investment. The paper begins with an introduction to Social Impact Bonds. The paper concludes with an assessment of the anti-market device and the future of these Bonds.

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[1] See Moore (2006)
[2] See for example the Social Investment Task Force set up in 2000
[3] Experiments that are said to draw the market inside the state (Mitropoulos and Bryan, 2013) and transform social problems into tradeable risks (Bryan and Rafferty, 2014).
[4] There appear here to be few of the moral qualms reported by Zelizer (1981) in transforming children into a financial asset. Children at-risk are only outside the market in the sense of having no active voice in the experimental interventions they are subjected to, not in the sense of being exempted from pricing on moral or emotional grounds.

Anticipated Market Properties of Social Impact Bonds

Following the financial crisis of 2008, the UK government accelerated a number of market based interventions into public problems. In line with Roitman's work, wherein crisis "secures the grounds for witnessing and testing," (2014: 59), politicians' discussions of the financial crisis provided a background within which austerity measures could be presented as unavoidable and new types of market-based intervention could be seen as a necessity. Experimenting with new forms of intervention provided a moment to effectively problematize (to use the language of Callon, Lascoumes and Barthe, 2009; Callon, 1986) the public sector as a whole and its budgets, opening up for discussion the basis for making an intervention, and the methods and costs involved. Questions were posed of the apparently irreducible costs associated with supposedly intractable problems of government (such as homelessness, vulnerable children or crime – problems that never seemed to be solved or costs that never seemed to decline).

In particular, crisis and austerity became a means to give new momentum to a series of experimental ways to shape the social investment market (for more on these markets, see Barman, 2015) that had been under discussion as potential policy interventions since at least 2000 (see for example, the Social Investment Task Force set up in 2000). As Mulgen, Reader, Aylott and Bo'sher (2011) suggest, social impact investment has been noted as a basis for saving money, correcting poor incentives, unlocking new funding, promoting evidence based action, transferring risk away from public finances and generating returns. Within this area, Social Impact Bonds form one particular type of intervention. They involve drawing together investors with delivery agencies, the third sector and national and local government, co-ordinated by a commissioner. For investors such as Goldman Sachs, Social Impact Bonds provide a new and distinct means to leverage private finance and innovative thinking, whilst also earning returns.[5]

In the recent move by the UK government to set up and use Social Impact Bonds, much has been made of the opportunity they represent to introduce competition, efficiency, efficacy, private sector thinking and investment to a range of different social problems. The aim has been to reduce the costs of government and enhance the impact of interventions in social problems through these market-mimicking terms. As one of the key financial vehicles in this field – Big Society Capital – suggest, "government austerity" has become one of the key drivers of Social Impact Bonds[6] and Social Finance argue such Bonds "present an opportunity to provide support to reduce the strain on acute services".[7] For the G8 Social Investment Task Force: "The financial crash of 2008 highlighted the need for a renewed effort to ensure that finance helps build a healthy society"; a goal they suggest is only achievable through social investment.[8] And the UK government Centre for Social Impact Bonds suggest that Bonds: "enable commissioners to capture the expertise of social ventures in tackling complex problems by providing them with the upfront capital to deliver... In

[5] See Goldman Sachs (2014)
[6] See Big Society Capital (2016)
[7] See Social Finance (2015)
[8] See Social Impact Investment Taskforce (2014)

addition to this, they enable social investors to use their money to achieve both a social impact and a financial return."[9]

As a basis for drawing together and navigating crisis, austerity, public concerns, private investment and expertise, Social Impact Bonds involve intervention in a recognised problem (recognised by all participants in the intervention), the agreement of a desirable impact that would help solve the recognised problem and an agreed measure of that impact. Interventions to achieve agreed impacts are funded by investors and local or national government pays out returns on investment according to the level of impact achieved. If impact targets are not met, returns may be low or even zero and if no impact is achieved, investors stand to lose their capital investment. Investors are thus understood to have a stake in the intervention and are expected to take part in the Social Impact Bond, sitting on advisory boards and providing expertise as well as money. At the same time, commissioners (such as local government agencies) must project cashable savings that will result from the intervention (such as lower staffing or infrastructural costs) from which returns will be paid to investors. The Social Impact Bond is thus said to provide a vehicle to help manage impacts and measurements, but also to provide a structure through which investments and returns can be made and (mostly financial) risks assessed and distributed.[10] A social problem is seemingly transformed into an investment proposition.

Social Impact Bonds focus mostly on outcomes up to a specified target (a fixed and measurable reduction in the social problem) and for a fixed time (typically 5 to 8 years). Contracts help set in place who will invest and how much, how outcomes will be measured and the level of outcome to be achieved. But importantly, the process by which outcomes will be achieved should be left to participants (investors and commissioners) to decide. In order to allow for this participatory decision making, Bonds are not just involved in shaping the social investment market or constituting an initial investment proposition, they are also (at least in theory) designed to create new, localised, experimental markets. Each Bond is designed to involve a kind of internal solution market whereby participants can continually decide between competing potential interventions on the basis of cost and effectiveness.

Despite these efforts to introduce and manage Social Impact Bonds, multiple questions continue to be raised leading Silver and Clarke (2014) to suggest that: "The reach of financial capitalism is increasing through the development of SIBs. Marginalised people are converted into commodities and re-packaged as derivatives by investors plying their trade in the new marketplace of inequality." Within these market-like ways of intervening, concerns include: creaming (just focusing on the easiest to solve cases) and parking (abandoning the hard cases)[11] and perverse incentives; the difficulties of attributing change through measurement (Fox and Albertson, 2011) or relying on narrow forms of measurement (Lottery Fund Commissioning Better Outcomes report, 2014); "financialisation or commodification of social services," (OECD, 2015: 13) leading to an erosion of trust and enabling profits to be made from social problems (Dowling and Harvie, 2014); stifling innovation by reducing opportunities to respond to situations as they arise by

[9] See Cabinet Office Centre for Social Impact Bonds (2015)
[10] See Cabinet Office Centre for Social Impact Bonds (2015)
[11] See Guardian (2013)

contracting everything into place for a fixed period and by diverting charitable and third sector foundations' funds that might be used for grants into fixed investment schemes (Oxfam, 2013); or transforming the most vulnerable into an investment proposition "for the profit of those most able to pay," (Cooper et al, 2014: 36). Social Impact Bonds also appear to be resource intensive in their set up, with contractual negotiations proving complex, time consuming and unfamiliar to many participants (PIRU, 2015). Such set up costs suggest these Bonds simply shift the costs of intervention back from the delivery of an intervention to its initial set-up.[12]

One means to explore these issues is to engage up-close with the work involved in setting up and implementing Social Impact Bonds and draw in ideas from STS to explore how such market matters are constituted. On the terms of STS market work, Social Impact Bonds might initially appear to operate as a market device (Callon and Muniesa, 2005) in two ways. First, by disentangling entities from their previous connections and re-associating these entities in new economic relations, the Bonds seek to ensure efficiency and effectiveness through localised market competition. The notion of competition anticipated within these Bonds is similar to that reported by Callon (2015) whereby innovation is not designed to alleviate competition, but becomes an essential driver of competitive pressure, with organisations (in this case, organisations delivering social interventions) striving to singularize their offer as increasingly attuned to the unique needs of the buyer (in this case the parties operating the Social Impact Bond) to achieve at least temporarily a kind of "bilateral monopoly" (10). Yet the preceding issues of perverse incentives, costs, financialisation, and contracting, seem to suggest it is within the constitution of these localised forms of competition that we find problems. In the following analysis, I will suggest that contracts play a significant part in modifying expectations regarding the form that competition can take through the Social Impact Bond.

Second, Social Impact Bonds propose a transformation of intractable social problems into an asset class whose intractability becomes solvable through funds provided by investors. To understand this kind of process, Birch suggests we need to understand how things: "are turned into assets (i.e., resources that generate recurring earnings) and then capitalized (i.e., discounting future earnings in the present)" (2017: 463). As an asset class, the Bonds would provide an opportunity to entice investors to make financial commitments within a structure that would help manage investments and returns. Such matters as discounted cash flows would enable a potential investor to judge the present value of a future income stream (Muniesa et al, 2017). In this way, the Social Impact Bond would enable the constitution of an investment proposition: a standpoint from which investors could judge the feasibility of entry into a set of financial commitments, potential risks and returns. We might even be tempted to suggest that the costs of an intervention into a social problem are capitalized (to use the term of Doganova and Muniesa, 2015; Muniesa et al, 2017). However, I will suggest in the following analysis that the investment proposition that is produced and the means of its production raise questions of the extent to which we can straightforwardly classify this proposition as a standard investment. Indeed I will argue that it is through studying the constitution of, first, a localised market and, second, the investment proposition, that we can see the terms of an anti-market

[12] Although the costs of an intervention might only be met once a positive result has been achieved, the initial infrastructural set up costs have to be met up front.

device. As Callon suggests: "Political and moral reflection is at the heart of markets and not pushed out to their fringes," (2015: 18). In the following section I will introduce the Social Impact Bond for children at-risk and empirically explore the political and moral issues at the heart of localised market competition and the constitution of an investment position.

A Social Impact Bond for children at-risk

According to the UK Cabinet Office Centre for Social Impact Bonds, there have been 30 UK Social Impact Bonds launched,[13] focused on such concerns as criminal justice, homelessness and youth services. This section draws on research carried out over the last two years with one Social Impact Bond focused on children at-risk.[14] This was the first local authority commissioned Social Impact Bond. It involved setting up a special purpose vehicle (Children's Support Services Ltd) as an organisation that would receive funding from investors to pay for early interventions in children at-risk of going into care in Essex (a county on the east coast of England). Setting up the intervention took many months of negotiation. The structure that emerged had significant implications for how this Social Impact Bond gave shape to notions such as competition and an investment proposition. Each will be considered in turn.

1. Competition

In line with existing studies of Social Impact Bonds that have raised concerns regarding the length and costs of contractual negotiation (PIRU, 2015), in Essex from first pursuing the idea, through negotiations, to then issuing a contract took around 29 months. This lengthy and costly set-up period included setting up the special purpose vehicle and deciding on the appropriate form of intervention, how it would be measured and the types of outcome payment made to investors.

The agreed aim of the Social Impact Bond was to deliver an intervention that could prevent children from being taken away from their families and placed in residential care operated by the local political authority Essex County Council. Such care was costly to the local authority and also frequently led to children experiencing further issues in education, crime and life opportunities. The Council and investors agreed that choosing an intervention should be evidence-based to ensure the viability of the scheme. The only intervention that the parties agreed upon as providing a sufficiently compelling evidence base was developed in the US; Multi-Systemic Therapy (MST).[15] MST Inc. could provide training for UK therapists to engage with children identified as at-risk of going into care. A charity called Action for Children was awarded the Service Provider Agreement to manage the trained therapists in delivering MST through two teams of four therapists, a team manager and business administrator, dealing with 4 cases at a time on a rolling basis. MST would involve

[13] See Cabinet Office Centre for Social Impact Bonds (2015)

[14] The project as a whole has incorporated over 100 interviewees engaged in market-based interventions. Here we focus on 10 semi-structured interviews with investors, delivery agencies, intermediaries, frontline workers and policy makers for the Social Impact Bond.

[15] In a US MST intervention on those who committed sex crimes, 89% of participants who completed the study had 83% fewer arrests for sex crimes and 70% fewer for other crimes in comparison to a control group. See: http://www.mstuk.org/evidence-outcomes and: http://www.ncbi.nlm.nih.gov/pubmed/19170451

in-home or school therapy to try and get at the root of problems faced by the children. For children it would involve 60 hours of contact over 4 months.

The local authority as commissioner, investors, Action for Children as service provider working with MST Inc., and the new special purpose vehicle, had to contractually agree on specific outcome measures. One key target was that over 5 years, 380 families should be taken through MST in 20 cohorts in order to try and prevent 110 children from going into care. A specific measurement was required to then tie this target to a successful outcome that demonstrated a cashable saving. The specific measurement for attributing savings to the intervention involved calculating 'days of care averted.' This required that a cost was attached to each day of care, monitoring those children who went through MST and did (and did not) enter care, then tracking those children over the lifetime of the Bond. Calculating how many children went into care set against the prevention target and calculating 'days of care averted', were central to the contractual set up of the Social Impact Bond – effectively tying together financial risks and returns.

The lengthy contract negotiation produced the following financial structure: £3.1m would be provided by investors (including £825,000 from Bridges Ventures, and £825,000 from Big Society Capital[16]); Essex County Council projected a cashable saving of £17m in total through a reduction in costs of children going into care, of which they would retain £10m and pay-out up to £7m to investors; £120 was attached to each 'day of care averted' as a payment to investors, and this figure was achieved by calculating the average cost of care (in the range of £20,000 to £180,000 per child per year[17]) and a distribution of savings that would enable Essex County Council to achieve its £10m savings target and pay investors around an 8% to 12% annual return on investment. Unlike other Social Impact Bonds where payments could only be made after a number of years upon successful outcomes, the 'days of care averted' calculation enabled payments to be 'frontloaded', meaning that investors could start to see a return immediately. Further forms of measurement were derived through comparing the success of the MST-based intervention quarterly to a 'control' group based on a business-as-usual counter-factual derived from historical data and the whole scheme would be evaluated by the Office of Public Management.[18]

The contract was thus an important site of negotiation for setting in place the terms of intervention, the impact to be achieved, how the impact would be measured and how returns to investors would be triggered. As a single item, the contract became a focal point for drawing together multiple parties in the intervention but also became a means through which the intervention could be made to make sense.

The contractual negotiation and its outcomes were significant in two ways for the constitution of a market competition. First, the authority's ability to calculate the impact of the intervention was somewhat undermined. Core management in the local authority (rather than those delivering children's services) took the decision to enter into a Social Impact Bond in order to bring extra finance into edge of care services as part of a package of measures to try and improve delivery following an 'inadequate' assessment from the government inspector OFSTED. However, by the time the Bond

[16] For more on the investors, see the next section on 'Investment Proposition'.
[17] Depending on the level of care required
[18] An independent research organisation, focused on social outcomes

had started to offer MST to children, the service had improved significantly and this was recognised by OFSTED. Essex Children's Service had been placing large numbers of children in care as a risk-averse, safety-first measure in the immediate aftermath of receiving their initial inadequate assessment. However, as the following interviewee suggests:

> … um by the time this [Social Impact Bond] actually got going actually became a delivery vehicle using MST to deliver edge of care service that would eventually produce the number of days of care saved it was more than 3 years into the project and in that time Essex moved from being an authority in special measures with a very high rate of children in care to an authority that was well on the way to being assessed as good and in 2014 did become a 'good' authority for delivering children's services with the number of children in care plummeting. So by the time the intervention actually hit the ground the authority had already made huge um strides into dealing with the problem. (Interviewee 1: Local Authority)

The time it took to set up the Social Impact Bond made it difficult to attribute a definitive effect to the MST-based intervention. The business as usual counter-factual based on historical data, depended on a 'business' (sending large numbers of children into residential care) that was no longer 'usual' (as the form and practice of intervening in children at-risk had changed). For this interviewee from the local authority, other interventions that they had already put in place could be just as likely to lead to a decline in the residential care population.

> Part of [our reduction in the care population] and this was recognised by OFSTED was an investment in upskilling basic social work practice, so really ramping up social work practice, really expecting social workers to be doing good quality direct work with families… (Interviewee 1: Local Authority)

Although those delivering edge of care services for children at-risk of going into care recognised some difficulties in attributing the reduction in the care population to the Social Impact Bond and to MST, they were contractually obliged to make upfront payments to the investors to cover the costs of the intervention. If the conception of a market that sat centrally in Social Impact Bonds involved the allocation of resources to the most effective and efficient provider, this set-up that insisted on payment through contractual obligation regardless of the ability to attribute an effect, seems somewhat different. Instead, these obligations demanded that pay-outs were made regardless of the ability to measure an effect and attribute that effect to MST.

A second consequence of the contract negotiation was the agreement to use MST as *the* therapeutic intervention that would help children to remain outside of residential care. The terms expected of a Social Impact Bond contract (according to the Cabinet Office Centre for Social Impact Bonds) are to focus on the outcome, rather than its delivery, creating a form of measurement that enables returns to be paid to investors based on outcomes. As previously mentioned and as the following social investment fund manager suggests, the terms of the contract should enable a local market for competition in the initial choice of intervention and its on-going use (if any problems in achieving outcomes emerged during the intervention, competition from other providers should lead to a change in the service provider). In this sense, and following

Callon and Muniesa (2005) and Cochoy (2010), the Social Impact Bond should operate as a market device by bringing choices in intervention together into a single spatial and temporal frame, maintaining competition through the possibility of switching interventions, utilising competition as a driver to generate ever more singularized offers. As the fund manager suggested in general:

> the benefit of these schemes is that all you need to do is achieve the outcomes. No one cares how you deliver them. So if you're seeing in a year into a programme that something's not working and you're not achieving outcomes you could change the delivery model entirely, as long as the focus is on outcomes (Interviewee 6: Fund manager)

However, the situation in Essex was different:

> …. Essex is an interesting model where there's value to the intervention risk because we know MST works. It's more around the operational risk. I can't remember the contract they're investing in, but there the intervention was prescribed. Most social impact bonds are not. Even there, actually, the SPV has the power to fire Action for Children and to do something entirely different. So there is quite a lot of flexibility. It would never happen, but it could happen. There is quite a lot of flexibility. Essex is one of the more rigid ones around the intervention. (Interviewee 6: Fund manager)

Contractually it remains the case that via the Special Purpose Vehicle (SPV), the Council could replace Action for Children as the service provider, but as the interviewee points out replacing Action for Children "would never happen." One reason why this change would not take place is that Action for Children were simply being trained to provide an intervention by MST Inc. and at no point during the intervention did anyone raise a concern that MST was being delivered incorrectly (even if its appropriateness as a therapy was questioned, see below). Replacing Action for Children would mean simply replacing the organisation that delivered MST as the favoured form of therapy. Furthermore, MST was contractually held in place as it provided the evidence base for the key measure of success for providing a return to investors – 'days of care averted'. Given that the Social Impact Bond was entirely built around this measure and the contractual terms were entirely dependent on this form of measurement, changing from MST to a different kind of therapy, without the same evidence base, without the means to clearly calculate 'days of care averted' would be impossible without entirely reworking the lengthy and expensive contract negotiation process. To change from MST would require a whole new contract which also "would never happen."

The local market for provision wherein the potential to switch intervention should ensure efficiency and effectiveness, was thus eliminated by the contractual requirements for a specific evidence base. Although Callon (1998) suggests, drawing on the work of Weber, that "agents enter into competition with one another to secure points of monopoly and domination," (43) with the result that "the very nature of competition is to rarefy competition," (44) and it seemed that the local competition envisaged within Social Impact Bonds might lead to a kind of "bilateral monopoly" (Callon, 2015: 10), achieved by service delivery organisations increasingly attuning or singularizing their offer to commissioners, that does not quite capture this situation.

There is no prior competition that then leads to monopoly and domination; MST was the only therapy that was considered during the contract negotiation. The contract and its negotiation then resulted in the Social Impact Bond operating as an anti-market device, ruling out competition by establishing exclusivity of service to MST and Action for Children over the course of the Social Impact Bond.[19]
The local authority edge of care services manager reflected on the restrictions imposed by the evidence-base requirement that ruled out potential competitors to MST:

> we're much more constrained than we initially thought … I think if we did go forward we might not tie it to a rigidly evidence-based intervention – we might truly hold to the principles of innovation in SIBs and we might say we're only interested in the outcomes and we're going to work with a provider… who will get us there somehow as long as it's legal and we've got defensible decision-making – but actually the outcomes and sustaining the outcomes are the really key thing. (Interviewee 1: Local Authority)

What seems apparent is that in place of a market device that would stimulate competition by disentangling entities (Callon and Muniesa, 2003) from their previous connections, enabling them to be arrayed within a single spatial and temporal frame (Cochoy, 2010), enabling choices to be made and the entangling of entities into new relations (Callon, 1998) came an anti-market device. This fixed in place providers, investors, the form of intervention, the evidence base, a measurement device and front-loaded payments to investors. Instead of competition leading to temporary bilateral monopoly (Callon, 2015), effectively the contract ruled out a competition and jumped straight into guaranteeing a local monopoly through ensuring that MST was the only therapy that entered negotiations and had exclusivity over the delivery of the intervention. However, market aspects of Social Impact Bonds are not reducible to notions of competition alone.[20] As I noted in the opening analysis of these Bonds, constituting an investment proposition as a means to entice investors into public service delivery as a way of managing austerity-inflected government cutbacks were key reasons for their promotion by, for example, the Cabinet Office. In the next section we will explore the ways in which this Social Impact Bond generated a very specific form of investment proposition.

2. Investment proposition

The Essex Social Impact Bond for children at-risk involved a number of investors, including a 'high net worth' individual, Bridges Ventures (an investment fund specialising in social and impact investment[21]) and Big Society Capital (an independent financial institution enabled by government legislation to set up a fund that draws on dormant bank accounts to make social investments[22]). In the preceding section, I suggested that localised competition was effectively ruled out by the rigid contractual structure of the Social Impact Bond. However, this was not the only

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[19] For more on the way that contracts underpin monopolistic thinking in neoliberalism, see Birch (2016).
[20] As Frankel (2015) suggests, markets can take multiple forms.
[21] Set up by Sir Ronald Cohen, a leading proponent of Social Impact Bonds and a member of the UK and then G8 Social Investment Taskforce.
[22] Also founded by Ronald Cohen.

market mimicking feature of the Bond. The aforementioned investors took part in the constitution of an investment proposition – calculating future returns and assessing risks – that put in place a set of relations that appeared superficially similar to the investment market.

The importance of the investment proposition was shaped by the approval requirements of the Cabinet Office Centre for Social Impact Bonds. For example, an intervention could only be approved if it identified cashable savings, a percentage of which would be paid to investors, thus establishing potential future earnings for the investor. Costs of the intervention and an outcome should also be clearly stated, along with the measure that would establish the relative success of the intervention, with a failure to reach the outcome threshold putting returns and capital investment at stake. The risks to investors could thus also be established in relation to potential future earnings. In this way, the proposition looks very much like other forays into the investment market. Yet there are two ways in which this market-like vision of investment, return and risk is made less clear-cut.

First, although in its very first public outing as a Social Policy Bond, it was envisaged that there would be a market for such Bonds through which investors would be able to cash their positions, this has never emerged.[23] Partly this is because investors form part of, and lend expertise to, SPVs (along with commissioners) to oversee interventions. To cash in their investment position would require a change in the membership of the intervention and the kind and quality of expertise on offer. Furthermore, as policies, Social Impact Bonds were given stimulus and a practical shape during 2008-9, emerging through austerity government and as a response to the financial crisis. As investors were still being publicly chastised at this time for lending without responsibility and then cashing their investment positions, possibly causing the crisis, it may have been difficult for the nominally left of centre Labour Party to gain sufficient support for a new market for social problems within which investors might similarly be given an opportunity to shed their responsibilities. As a result, there is in effect no liquidity for investors in these Bonds in the sense that an investment position cannot be cashed.

Second, there is the investment proposition itself and the constitution of up-front costs to be paid by the investors, their returns and risks. Initially at least, the investment proposition might appear high risk: investors stand to lose all their capital and miss out on any returns if an intervention does not succeed. However, this investment proposition and its attendant risks are somewhat modified. Within the UK government's approval mechanism, once identified, cashable savings cannot be the result which triggers payments to investors. Instead, the trigger-measure has to be something more immediate which offers an indication of a future saving (in the case of children at-risk, this is 'days of care averted' rather than the closure of residential care homes). This separation of measures (that trigger returns) and savings (that must be projected, but do not trigger payments), is designed to reassure investors that they will receive reasonably prompt returns. The separation is designed to reassure investors that their rate of return will be tied to the success or failure of the intervention funded, rather than its future savings which might be reduced or

[23] Schram (2014) suggests that Ronnie Horesh, an economist from New Zealand, first used the term Social Policy Bond in a 1988 presentation which advocated for investment positions in such Bonds to be tradeable on a secondary market.

eliminated by other factors beyond the intervention (including changes in government policy or an increase in other areas of costs, for example, for children's services). Risk is thus redistributed from government to investors, but within structured terms designed to limit investors' exposure.

According to Liebman (2011) and Warner (2013) Social Impact Bonds require this kind of structure to create the conditions that might inspire innovation in interventions (or at least prove attractive to investors). The UK government has attempted to enhance such conditions for investors through Social Investment Tax Relief. Since April 2014 investors "can deduct 30% of their investment from their income tax liability."[24] The distribution of risks shifts again here. Although investors' capital might be wholly at stake in a Social Impact Bond, a proportion of that risk can be deducted from tax liabilities that they would have paid anyway. Adding in the possibility that investors can actively promote their involvement in attempting to reduce recognised social problems, what might initially appear a significant financial risk, could be recast as a tax offset, publicity opportunity and a chance to make a return on investment.

The Essex Social Impact Bond for children at-risk went further. The investment proposition became more attractive once it was agreed that 'days of care averted' could act as a measure of the success of the intervention and that this could trigger payments to investors. This meant that as soon as a child entered into MST, money could begin to accumulate and returns to investors could be made. Rather than waiting on a lengthy and uncertain outcome as investors have had to do in other Social Impact Bonds, in Essex the returns were quite immediate. Also, frontloading the payments from the moment when a child entered into therapy ensured the investors received a partial return immediately, regardless of longer-term future outcomes.

The problems with this investment proposition were recognised by many of the interviewees who took part in the research. As the following self-named, philanthro-capitalist suggests:

> One of the great perverse incentives in a thing like – Essex was a very good example of it, but it happens in all Payment by Results things. We want to make sure the children who should go into care do go into care, not that they're kept out of it because then they [the investors] get a payment. (Interviewee 7: Philanthro-capitalist)

The 'perverse incentive' appears to rank the need to give investors a guaranteed return ahead of assessments of the appropriateness of keeping children out of residential care.[25]

How did this investment proposition come about? I have already noted that the contract negotiations were lengthy. These up-front activities were also costly for the local authority who required a combination of legal, economic and policy expertise in

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[24] Up to £270,000 on investments up to £1m in actions and organisations qualified by HMRC pre-assurance schemes. See HMRC (2016)
[25] Indeed the interests, concerns and voice of the children involved and their families appeared entirely silent throughout this research

order to take part in the negotiations. In the same way that others (PIRU, 2015) suggest that money 'saved' through a Social Impact Bond is effectively merely a redistribution of costs from the intervention back to its set-up, Essex County Council core management faced significant set-up costs. Furthermore, the contract negotiations appeared to bring together parties into the same space with differential calculative agency (Callon and Muniesa, 2005). This uneven distribution of capacities to calculate seemed to result in certain parties (such as the investors) being able to forecast the future with certainty. Meanwhile, for other parties (such as the local authority), their ability to calculate the future with any certainty, retrospectively certainly seems to have been limited, meaning their projections of, for example, cashable savings, were later opened to question as the Social Impact Bond began operating.

We can see this calculative asymmetry and differential confidence in projecting future effects in quite straightforward ways. MST was not cost-free. In US interventions using MST[26] the marginal cost was $4246[27] (approximately equivalent to £3418). Investors knew their fixed costs. Yet returns, that formed the principal cost for the local authority, were less fixed, being based on 'days of care averted' – the more days averted, the higher the cost for the local authority. At the same time, the local authority had to cover further costs, including for example a high turnover of staff during the intervention leading to extra recruitment and training costs. These extra costs to be met by the local authority had not been foreseen. Although it is unclear to what extent an uneven distribution of calculative agency meant that one party (the investors) could foresee potential general categories of costs (such as staff training) and contractually avoid them while another party (the local authority) did not foresee such costs and was stuck with them, the contract certainly instituted these terms. In terms of the investment proposition, the costs for investors were fixed and the costs for the commissioner were not.

Costs for the commissioner continued to rise. Front-line workers in children's services held the view that MST was only suitable as an intervention for a small number of children:

> One of the things we've found with MST there are a number of exclusions with MST … for example young people on the autism spectrum are excluded from it. … it actually isn't an intervention designed for crisis edge of care work [if you had an urgent problem] MST can't deliver that. (Interviewee 1: Local Authority)

As a result, Essex County Council faced what a former UK Treasury advisor called "a double spend" problem: having to maintain children's services for cases where MST was not suitable or failed, and having to make front-loaded payments to investors.[28] The double spend was absent from the local authority's projected costs.

[26] The evidence from which was used to justify its selection in the UK

[27] Marginal cost here is the cost of treating one more person which might be slightly higher than the average cost, but still provides a reasonable reflection of its expense.

[28] Assuming that days of care averted were equivalent to a cashable saving also depended on various assumptions being held in place. For example, if a child did not enter care, their housing, food and clothing might remain the responsibility of their family (resulting in one type of saving), but to save on the estates costs of residential care would require that sufficiently high numbers of children were kept

In this sense, the intervention was only partially effective (it suited certain children in certain circumstances) and not very efficient (it did not allow the County Council to make the kinds of cashable savings they projected or that would be apparent if, for example, they could close residential care units). For the UK government Cabinet Office, such cashable savings through Social Impact Bonds remain a “question to answer”. An investment ‘facilitator’ who took part in the research also suggested that for the local authority most savings were actually quite “theoretical”. These costs were absent from the investment proposition as they did not fall to the investors.
How could the local authority not have projected this double spend at the negotiation phase, before they were committed to such costs? What can explain the calculative asymmetry between investors and the local authority? According to those tasked with delivering children’s services, this problem stemmed from front-line staff being excluded from contractual negotiations.

> There is a disconnect between the strategic needs and the operational needs of the county council. They [central managers who took part in the negotiation] don’t understand [edge of care needs], just as I don’t understand many of the nuances of their practices. They assumed that edge of care evidence [provided by MST] was fine. It doesn’t do that, it can’t do that… So they can make assumptions that an ordinary person would make – ‘you just refer someone to MST’ – but no you can’t (Interviewee 1: Local Authority)

Calculative asymmetries between investors and the local authority in contract negotiation could partly be explained by this absence of front-line workers, with county council managers assuming that MST was well-suited to all children at-risk. The investors were happy to see the contract built around MST as it enabled them to clearly project their costs (the level of investment based on costs of MST and the likely number of children that would go through MST) and their return (based on frontloaded payments as soon as children entered MST). Once the Social Impact Bond was up and running, an initial response from those delivering services to children at-risk was to not refer children to MST, eliminating half of the double-spend. If it had continued, this position may have shifted significantly the investment proposition as fewer ‘days of care averted’ would have been amassed. However, not sending children to MST led to antagonism in SPV meetings between children’s services, local authority managers and the investors keen to start building up frontloaded payments. This resulted in higher numbers of participants in MST in order to meet targets for the number of children that would go through therapy during the life of the Bond. Meeting these targets meant the investment proposition remained secure: the costs for each child remained fixed and returns began to build-up for each child in a predictable manner as soon as they entered into MST, regardless of the outcome.

For Essex county council’s frontline delivery team, their assessment of costs and savings was mostly negative:

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out of care to reduce staffing levels in care homes or even close care homes. To account for a third type of saving – the costs involved if children went into care and then followed a predicted transition from problematic (and costly) childhood to problematic (and costly) adulthood – would have required monitoring well beyond the life of the Social Impact Bond.

> Would Essex County Council look at this intervention and say this is saving us money? It probably wouldn't at the moment. It would probably not do that. At the moment it would probably say 'would we buy MST if the SIB was not here?' which is the key question, is it that important – and the answer is probably not. (Interviewee 1: Local Authority)

Through a close examination of the constitution of the investment proposition and the various activities required to put this into action, we can start to see a variety of issues with costs, projections, calculations and returns. The costs for the investors are fixed and returns begin to accumulate, while for the local authority savings are not made, costs expand significantly and returns to investors still have to be paid. But is this still an investment proposition? It is not an investment that can be easily capitalised (Muniesa et al, 2017) as it cannot be cashed in a Bond market and the proposition is certainly modified by the availability of social investment tax relief, the measurement device with its partial dislocation from cost savings, and front-loaded payments to investors. The asymmetrical distribution of calculative abilities also seems to suggest that rather than facing investment risk, potential future problems for investors are recognised during the contract negotiations and protections against these risks are built into the contract. In the absence of risk, there is no need to discount future earnings (Doganova and Muniesa, 2015). Instead, this looks more like rent than an investment proposition, whereby the local authority are paying to use the financial resources of the 'investors' without any loss to the 'investors' original resource. It seems to provide an example of what Bear terms: "the hidden rentier regimes through which political and economic influence is maintained by the tiered brokering of access to resources" (2013: 394). However, reversing the conventional logic of a rentier state that enables external parties to pay rent to access indigenous resources, the rentier in Social Impact Bonds is the 'investor.' The contract negotiation operates as the basis for investors to take part in solving social problems and as a form brokerage, deciding who will take up what position on costs and risks within a tax and incentive structure that seems to lean heavily towards the 'investors'. The latter are paid rent by the commissioner to access their resources, with the rent drawn from tax income.[29] Whereas in the first part of the analysis I suggested that local competition was ruled out by the contractual demands built around MST, here the central components of the investment market (liquidity, discounted cash flows, risk) are eliminated by the protections for 'investors' built into the contract. In this sense, the Social Impact Bond maintains its position as an anti-market device, preventing the intervention from mimicking the investment market. In the Conclusion I will explore what this means for future interventions that anticipate a widespread development of Bonds.

Conclusion: The anti-market device and the future of Social Impact Bonds

In the Essex County Council Social Impact Bond for children at-risk, of 60 families that went through MST initially, 20% (12) disengaged and 10% (6) of children still went into care. The children of the remaining families did not go into care where there had been a risk this would happen. It should be noted, then, that despite the range of concerns raised regarding Social Impact Bonds, in this instance there were children

[29] There is not the space in this paper to say more about rent and this is not primarily a paper about rentier-ship, but for more on rent, see McGoey (2017).

who were not taken from their families and placed in care when this had been expected.

However, the market-mimicking terms of the Social Impact Bond did not materialise. First, local competition whereby an intervention and its service provider could be continually assessed in relation to potential competitors and replaced by an alternative if outcomes were not on track, was eliminated by the contract. The centrality of 'days of care averted' to the repayment mechanism of the Bond and the insistence that MST was the only option for delivering this evidence, meant that no other options were considered once the intervention was up and running. Second, the anticipated investment proposition with investors' funds entirely at risk and returns entirely tied to outcomes was also eliminated by the Social Impact Bond contract. Investors' risks were modified through tax relief, fixed costs and frontloaded payments. The latter resulted in a focus not on outcomes as a basis for achieving returns, but merely entry into MST. At the same time, costs for the local authority were not forecast with certainty, were not fixed and few anticipated savings emerged. Instead, calculative asymmetries became retrospectively clear, investors became rentiers and tax revenue was transformed into a source of risk free rent payments.

The terms of the intervention acted as an anti-market device, eliminating local competition and the standard features of an investment proposition. But what does this suggest for the anticipated expansion of Social Impact Bonds? Although I have incorporated various concerns with and critiques of the market-mimicking aspects of Bonds into this paper (transforming the vulnerable into an investment scheme, commodifying social services, creating a marketplace of inequality), the elimination of these market aspects does not reduce the challenges faced. The anticipated market aspects of Bonds are central to their governance. Local competition is designed to ensure on-going oversight of efficiency and effectiveness; if an intervention is not working to produce the right outcomes at the right level and at the right price it should be replaced. The absence of local competition means a reduction of this oversight. The possibility of losing their investment is designed to ensure that investors have a stake in the intervention; sitting on SPVs, providing relevant expertise, overseeing the success of the intervention to secure their returns on investment. The absence of risk effectively reduces this stake, switching the emphasis of the Bond toward ensuring sufficient numbers of children enter MST, rather than focusing on the outcomes for children. The proposed expansion of Social Impact Bonds in number and scale currently being pushed by the Cabinet Office Centre for Social Impact Bonds, would mean expanding a form of intervention without extensive oversight. It could also mean a fundamental transformation in what tax revenue is for; from funding social interventions to securing unfavourable rentier relationships for the public sector. As Bonds are now also in place in the US, Belgium and Australia, and discussions are taking place regarding the introduction of Bonds in Vietnam, Thailand, South Africa and elsewhere, these concerns are set to grow.

Returning to Callon (2015), what kinds of political and moral reflection sit at the heart of market arrangements anticipated in Social Impact Bonds? At the end point of this research, participants in this Social Impact Bond raised questions of their effectiveness and efficiency, within a future orientation that appeared quite sceptical. Even policy advocates in the Cabinet Office offered only cautious optimism. However, investors appeared to remain confident. Instead of receiving the somewhat cautious or even sceptical answer I had received up until this point from other interviewees, when I asked a Social Impact Bond investor what he thought the future might be, he said:

> …Domestic violence. Basically in the last four or five weeks I have had five or six conversations from totally different places, all about that. But that is completely new, and that would be your innovation bit. That is going to take a few years to get something really interesting around that. (Interviewee 3: investor)

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