DISCUSSION PAPER

MASS COLLABORATION

HOW WE CAN TRANSFORM THE IMPACT OF PUBLIC FUNDING

Matthew Pike

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Institute for Public Policy Research

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ABOUT THE AUTHOR

Matthew Pike is an experienced social entrepreneur who has been involved in creating more than 50 new organisations and major programmes, including Unltd, the Social Investment Business and Big Society Capital. He has also advised most domestic UK government departments on issues ranging from police reform to personalisation of public services.

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ABOUT IPPR

IPPR, the Institute for Public Policy Research, is the UK's leading progressive thinktank. We are an independent charitable organisation with more than 40 staff members, paid interns and visiting fellows. Our main office is in London, with IPPR North, IPPR's dedicated thinktank for the North of England, operating out of offices in Newcastle and Manchester.

The purpose of our work is to assist all those who want to create a society where every citizen lives a decent and fulfilled life, in reciprocal relationships with the people they care about. We believe that a society of this sort cannot be legislated for or guaranteed by the state. And it certainly won't be achieved by markets alone. It requires people to act together and take responsibility for themselves and each other.

IPPR
4th Floor
14 Buckingham Street
London WC2N 6DF
T: +44 (0)20 7470 6100
E: info@ippr.org
www.ippr.org
Registered charity no. 800065

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SUMMARY

A moment for transformation

Over the coming five years we have a rare window of opportunity to transform how government works with others to maximise the life chances of its citizens.

In places across the UK we can see the makings of a new approach to public services that is characterised by:

- **Honesty:** that none of us have all the answers to the complex social problems that now face us – we must work together to pioneer new solutions.
- **Confidence:** that we already have, between us, the resources and freedoms required for deep reform – the challenge is one of building more effective working relationships.
- A sense that a **top-down, mass-production model of change** has run its course, and a new model of **bottom-up, mass collaboration** has come of age.

The rise of mass collaboration can be seen in many countries around the world that have experienced the same fiscal shock and loss of old certainties over the past five years. In the United States alone there are more than 500 major 'collective impact' programmes across whole cities or states, each of which involves all sectors in tackling a major social challenge. In Africa we see efforts to redesign market systems to better support the 'bottom billion'. Here in the UK we have seen waves of bottom-up innovation over the past two decades, the products of which are only now entering the mainstream, as local agencies learn the new skills of collaborative working and new online platforms – from app stores to massive online learning – become an ever more important part of our lives. Together, these forces and resources are powering new forms of collaboration that transcend traditional bounds of time and place.

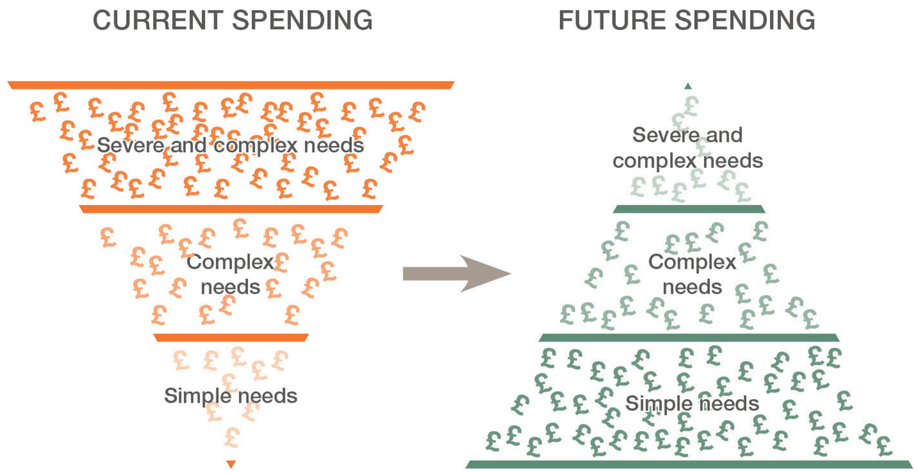
This paper sets out five common sense steps for building mass collaboration in towns and cities across the UK. It is an approach that places shared, experiential learning centre-stage, not egos or preconceived ideas.

Five steps to support mass collaboration

1. **Invest in shared institutions that build social capital and engender supportive working relationships across sectors and hierarchies,** such as teams of supporters around individuals, community anchor organisations, children's centres, extended schools and more. Above all, invest in new 'backbone organisations' that can mobilise and organise whole-system change across localities.
2. **Understand what help people need in order to help themselves and discover the existing strengths within people and communities**, through an immersive programme of listening and learning.
3. **Harness the new power of 'big social data' to turn public funding into a real-time process of action learning**, understanding as much as possible about activities, outcomes and costs in an area to help design new systems that give people the help they need in a much smarter way.
4. **Provide funding, investment and support to test, grow and scale up what works better in a local context and cut what isn't needed or is less effective**.
5. Work progressively to use new insight and evidence to help **redesign the wider systems, rules and regulations that hamper local achievement.**

The exciting news is that by focusing on giving people the help they need the first time around, we can unlock major cost savings. Some of these savings can in turn help to fund those kinds of early intervention that common sense tells us will safeguard the future. Projections of cost savings of £16 billion have been made for more integrated neighbourhood services alone. Reinvesting some savings in deeper efforts at reform and prevention will deliver much greater savings over time.

Figure 1
Flip the script: reducing costs and improving outcomes through timely support



What central government should do

For the potential of mass collaboration to be realised, the bad habits of the top-down, mass-production model need to be unlearned by central government. Above all, the current experiments with 'payment by results' for funding public service providers should be scrapped. There is rising public concern that payment by results as currently trialled can be highly destructive, with narrow, top-down metrics; overly large, complex and costly contracts; the temptation to take on easier cases and further marginalise those who are harder to help; and the ever-present risk of 'gaming', over-reporting and fraud.

Payment by success

The alternative model of 'payment by success' proposed here is much tougher on non-performance than payment by results purports to be. By harnessing the potential of real-time 'big social data', all providers will be brought to account for the results that matter to service users. Each year, the worst-performing 10 per cent of organisations will be subject to formal review and be at risk of funds being stepped down or withdrawn, where the facts justify it. In this way, ineffective services will be cut and more effective services will flourish over time, but with none of the costs of complex contracting or working capital that, in practice, make payment by results a blunt tool for promoting the privatisation of public service.

The benefit of this model for providers is that regardless of their sector the majority can expect longer contracts and deeper collaborative relationships. Those that deliver more and work in closer partnership with others will access more resources. They will, however, be accountable as never before.

Looking to the future, we need a new faith in the benefits of devolving and spreading power, maximising the incentives and support for collaboration and using new shared intelligence to achieve the gains in performance that have eluded different governments to date.

There are five ways in particular in which central government can maximise the benefits of a new model of bottom-up, mass collaboration.

1. Local by results: devolve power to localities

Central government needs to learn how to step back and empower localities to work in new ways, in return for the promise of superior results. Local areas require an unambiguous 'licence to innovate'.

In return for greatly expanded and more flexible powers to bend and change existing policies and support systems, localities would work to demonstrate superior results over time – productivity gains of at least 10 per cent (10 per cent better outcomes for every pound spent) should be possible over the coming five years.

2. Local on demand: introduce local pooled funding arrangements

Funding should be local by demand, in a much more focused variation on the 'community budget'. Local agencies should be able to pool and control central and local funding as the business case demands, with a shared public purse linked to shared value derived from investment in specific needs or groups of people.

3. Local finance on demand: permit greater use of capital

Local areas also require access to longer-term, flexible capital that is capable of financing the depth of system change efforts required. Borrowing powers for local authorities should be relaxed so they can raise new capital against the value of their assets and the cashflow certainty offered by a five-year agreed budget from central government.

New models of social investment are required that share risk and reward between local agencies and outside investors and thus are able to capitalise a much wider range of local change efforts. While such models would be slightly more expensive than public borrowing (between 1 and 1.5 per cent per annum more than Public Works Loan Board rates), they would create new opportunities for people and organisations to invest in the development of their own localities through not-for-profit structures.

4. Legislate for a new Shared Value Act

Government should legislate for a new Shared Value Act that would mandate a new model of public purchasing across the field of public spending. The Act would set out expectations of the performance of local areas, in terms of the overall productivity of funding they receive. It would not mandate narrow performance targets but would expect an account of the impact achieved across the entirety of local spend, against a range of performance measures agreed on the local level.

Central and local agency purchasing behaviour would apply a common code of behaviour across all providers, regardless of sector or prior relationships. Tenders would be smaller. Arbitrary entry requirements for tenders would be forbidden. Those with greatest expertise would set the tender requirements and service users would be involved in making key decisions. Providers would expect to make full financial disclosure. Providers and funders would be expected to work in partnership as appropriate. An even playing field for all capable providers would be the guiding principle.

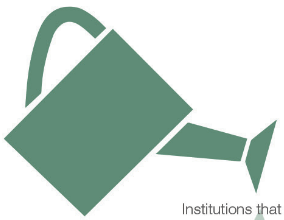
5. Invest in collaboration

The UK is not alone. Across the world, many other societies are faced with similar, mounting, complex social problems. The most successful among them are rising to the challenge through new, cross-sector programmes that place service users centre-stage. An increasing number of these programmes are achieving very impressive results – the UK should follow a similar path.

The future lies in bold collaboration: redesigning how whole systems work for us, from the ground up, in towns and cities across the country. This – not an endless diet of austerity – is the root solution to the problems that face us. The catch is that for this to happen on anything like the scale required, central government needs to devolve power as never before and learn the delicate art of leading by standing back.

For these reasons I call, above all, for the creation of new investment funds that prioritise collaboration, offering capital that is sufficiently flexible, patient and adventurous to support the period of transition away from the top-down approaches of the past and towards the highly collaborative models of the future.

Figure 2
Cultivating healthy services: what do we cut, what do we grow?



	Invest in shared institutions	Focus on people's needs	Pool big social data	Test, grow and scale new solutions	Redesign wider systems that hamper performance
Grow...	Institutions that engage a large number and wide mix of people, with special focus on the least advantaged Not for profit Trusteeship that represents the wider community or locality	Solves people's problems the first time around Addresses priority needs Accessible Co-designed Appropriate Timely Effective Valued Comprehensive Builds on existing strengths	Evidence-based programmes Programmes that build on evidence based practice Programmes that deliver consistently higher returns	Building on existing local strengths Co-designing services with those they serve Investing in collaboration Taking appropriate levels of risk Providing flexible resources for innovation	Reducing long-term demand on the system Cross-sector reinvestment Thematic, local, pooled budgets Test new local versions of national policies by RCT Expert supply chain management Those with greatest expertise decide on funding
Cut...	Institutions that are overly limited or narrow in their reach Poor accountability Put profit and organisational interest before social mission	Doesn't reach its target audience, Isn't wanted Doesn't help Does harm Creates extra work and cost Is less effective than others Not collaborative	Programmes that deliver bottom 10% results on a consistent basis Overly costly given results Programmes that do not work to maximise collective impact Programmes which do not use evidence to justify their methods	Stop programmes quickly that fail to give a better solution to people's needs Review programmes with wide variation in performance	Overly large contracts Red tape Lack of financial transparency Procurement that fails to prioritise track record Monopolistic market practices Minimum viable size for tenders Unnecessary tender requirements

An invitation to action

In tandem with writing this paper, I have also created a package of free resources to help develop mass collaboration within the UK. A new, free platform to collect, analyse and share social impact data can be found at www.resultsmark.org. It is available for funders now and will be offered on free public release in the autumn of 2014. Resultsmark offers access to new open source data standards, codeveloped by a wide range of agencies.

1.
FROM MASS PRODUCTION TO MASS COLLABORATION

In the wake of a painful recession and mounting social problems, government needs to learn to use the funding at its disposal in a far more effective and focused way.

It would be preferable to have more public funding, of course, but the great danger in the current debate is that in obsessing over the level of funding and the traumatic consequences of funding cuts we neglect the opportunity to transform services for the better over the coming years, and reduce costs by many billions of pounds in the process.

The cycle of failure: a system that manufactures need

What the current process of fiscal retrenchment has revealed in stark relief is that government all too often funds the wrong things in the wrong ways.

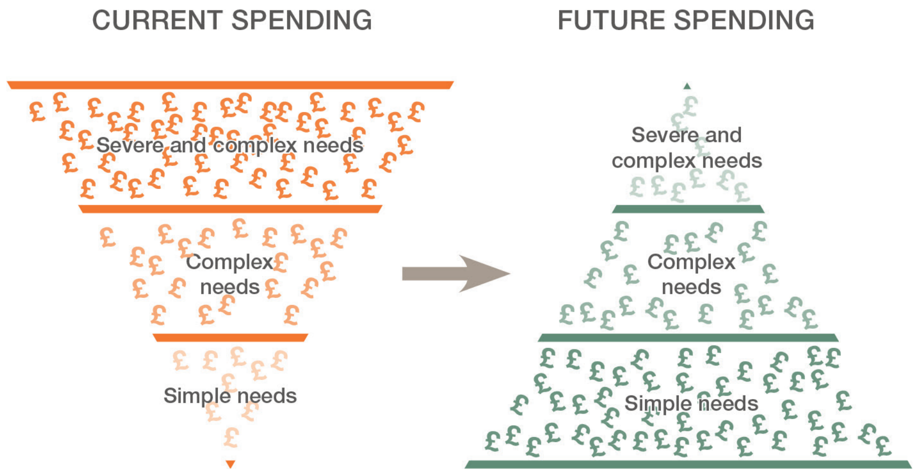
For all the many billions spent on public services and welfare, far too often people do not get the help they need the first time around. At best, this means that people cycle back through the system, creating a financial burden that could have been avoided with better design. At worst, it leads to a whole new set of needs that are progressively more severe, more complex and therefore harder and more costly to solve.

Here are some examples, drawn from what could be a much longer list:

- The quality of attachment between a baby and its mother is strongly predictive of future health or social dysfunction (Moullin et al 2014), yet we fail to offer help to struggling mothers in the first few critical months after birth – to play, bond and nurture.
- An experienced teacher can easily identify children with social and emotional problems early in primary school, yet many such children fall through the net only to surface again later with far more severe needs.
- Short-term support for young people, such as mentoring programmes, often has a destructive effect over the medium term, as young people come to feel the system has no real interest in their welfare– yet we still fund short-term fixes, not sustained apprenticeships.
- Poor literacy and brain injury are strongly predictive of likely repeat offenders yet we fail to target prevention. We also know that a home, learning, work and good social relationships help to break the cycle of reoffending, yet prisoners are commonly left at the prison door with no properly coordinated support programme in place.
- Support programmes for families with more complex needs spend money on navigators of the system, rather than changing the system itself; funding encourages solving one or two problems chosen by the funder, rather than the comprehensive, tailored package that is required for a family to make progress.
- Despite substantial budgetary power, older people are still offered highly traditional options for at-home and residential care, leaving a wider set of practical and social needs unaddressed.

The consequence of failures like these is that more and more funding is directed away from simple needs and earlier intervention and towards higher and more severe needs, which in turn become much harder and more costly to address.

Figure 1.1
Flip the script: reducing costs and improving outcomes through timely support



There is now an overwhelming imperative to reverse this cycle of repeated failure. It is not a question of laying blame: no one person or organisation ever set out to design a system that works to manufacture need rather than address it, just as no citizen ever set out to be ever more helpless and dependent on that system. But it is an issue of being very clear about the roots of the problems that now face us. The core models of public funding require urgent reform. Our top-down approach to reform no longer works. The good news, described in some depth in this paper, is that we have all the knowledge and resources at our disposal to pursue a different, far more effective approach.

The context for change

Reform of funding is the key to achieving a wider transformation of impact and effectiveness, because it represents one of the most important ways in which government achieves its stated aims. Government was once as much the provider as the funder of key public services. But the balance has by now shifted heavily, with government assuming a role at arm's length from delivery in many areas of public services. The extent of the shift from provider to purchaser is uneven from one service to the next, and the level and nature of involvement by private or social sector providers can vary widely. But the overall trend is clear: government is now, above all, a *funder* of public value, so it is imperative that it learns how to fund in the most effective way possible.

The sums involved are massive. The public sector as a whole now spends £238 billion each year buying services from a complex ecology of public, private and social sector enterprises (BIS 2013). The spoils of this procurement bonanza have, however, gone largely to a small number of large companies. While it is true that the social sector's income from the state has grown from £6 billion to £11 billion over the past decade, this growth should be considered in light of the latest figures showing that 25 per cent of the procurement spend has been awarded to just 40 companies (Social Enterprise UK 2012).

The funding environment has also grown much more complex. Traditional sector boundaries have been blurred by the emergence of new legal forms (such as community interest companies) and wider development of cross-sector partnerships. Government also makes these purchases in ever more complex ways: bulk purchase, brokerage of personal support packages, social impact bonds, and different forms of procurement – from the highly centralised to the local, spot purchases, as well as rapidly expanding use of results-based contracts.

Cost, capacity and complexity as drivers of public funding

This overall trend towards more outsourcing and greater complexity of funding arrangements speaks to three imperatives at the heart of government policy.

First and most obviously there is the fact of shrinking budgets and the prospect of prolonged austerity. By outsourcing delivery, it is hoped that providers will compete to offer services at a better price and with a lower risk to the state.

Second, there is a growing consensus that the services of the future need to be smarter, different and more productive, and this in turn requires access to a set of capacities that the state alone does not possess.

Third, and more implicit, there is a growing sense within government that it does not have the answers to the big challenges of 21st-century Britain, especially when seen against the backdrop of reduced funding, rising demographic pressures and a society that has grown far more diverse and disconnected. The challenges are just too complex. Seen in this light, 'procurement' can extend beyond simple outsourcing of delivery and amount to the outsourcing of policy itself, as a way of finding new ideas as well as new means to address the circumstances we find ourselves in. To date, perhaps the most spectacular example of this is the awarding to outsourcing company Capita of the contract to run large swathes of Barnet Council's services for the next 10 years (see Patel and Sackman 2013).

The breakdown of command and control

The imperatives now shaping public funding speak all too clearly of a growing conviction that the apparatus of state funding that was designed to address the great social challenges of the 20th century has become – except in a small minority of cases – unfit for purpose. After both the first and the second world wars, national solidarity lent itself to the pursuit of simple shared goals on a national basis. National insurance, the NHS and universal education were all great prizes of a Fordist, top-down, mass-production model of public service delivery. Under this old model, goals and detailed plans were established at the centre and only then (in more recent parlance) 'rolled out' across the country.

This Fordist model is still, in the overwhelming majority of cases, the one that determines how government acts. In this respect there is an uncanny continuity of thought and practice between the Blair administration and the current Coalition government. It is perhaps a case of old habits of command and control being reinforced by the requirements of the 24/7 news cycle, which demands politicians are seen to be 'doing something'. The focus on payment by (narrowly defined) results across big national contracts that replaced the much-criticised target-setting regime of the Blair years bears a strong family resemblance to the ideas of 'new public management' that were tested, some would say to destruction, some years ago.

So there is a tension at the heart of policy, an acknowledgement that cost, capacity and complexity should lead us to more radical innovation in the way that funding works alongside an instinctive adherence to old command and control modes of thought and action. The result is that government constantly funds the wrong things in the wrong ways, with chronic levels of inefficiency building up in the system as a whole.

Distinguishing between simple and complex problems

Part of the reason for this continued dependence on command and control models is that there are significant cases where the approach, at least in principle, can work quite well. This is especially true where there is a simple and commonly shared goal, and where there is strong existing capacity to deliver the product or service required. Commodities can be purchased in a top-down manner precisely because they are commodities – ubiquitous, homogenous, with a range of well-established providers. An excellent recent example is cloud computing services, which can be bought by government on a pay-as-you-go, unitised, scalable basis, that will undoubtedly offer excellent value for taxpayers' money (and disrupt oligopolic providers in the process).

Nevertheless in the growing majority of cases, a 'commodity' purchasing model is likely to prove ineffective or positively harmful, as can be seen from the image below.

Table 1.1
Managing complexity: what's needed to tackle the problem?

	Type A: Simple goal	Type B: Multiple or contested goals
1: High capacity	Command control, eg central purchasing of commodities	Coordinated delivery across sectors
2: Low capacity	Capacity building; funding of innovation	Collaborative, bottom-up strategies for improvement

A common failing in central government policy is to mistake a type-B problem for a type-A problem. For example, getting more people into work might look at first like a type-A problem: 'Provide the right incentives, leverage private sector capacity – how hard can it be?' It might be tempting to believe that the difficult cases which characterise this model can still be further outsourced to the charities and social enterprises that specialise in supporting such people. However, in practice, work placement is firmly a type-B problem, given the multiple needs of many long-term jobseekers, their sustained disengagement from the labour market and the lack of appropriate job opportunities. For this reason, it calls for both tight cross-sector collaboration and whole-system innovation of a kind that has not been much in evidence in the delivery of welfare-to-work programmes to date.

The government's Work Programme is a classic example of a type-A solution (prime contractors paid on a narrow results-based tariff) used to address a type-B problem, where a complex set of support services require highly skilled codevelopment and coordination. There are many other similar cases. Support for ex-offenders, which is the government's current candidate for large results-based contracts, is even more clearly a type-B problem, with a host of attendant issues ranging from addiction to work and housing that can never be delivered in a traditional top down way.

Complexity as a defining feature of many public service challenges

The issue that all governments will face in the future is that there are fewer and fewer type-A problems that lend themselves to a command-and-control response. For instance, the challenges within adult social care are formidably complex, compounded by falling budgets and the legendary difficulties of integrating health and social care successfully at the level of the individual. The set of unhealthy lifestyles and behaviours that drive the long-term costs of the NHS are firmly in the type-B category. In our schools, education secretaries can seek to apply type-A solutions to the tier of students who are already performing well, but the challenge presented by the long tail of under-performing students – some 40 per cent of the whole – is a classic type-B problem. Here there is a dense, interconnected set of issues related to local job opportunities, parental commitment to their child's learning, self-image, learning styles, social networks, poor quality vocational training, perverse incentives for schools and much more. These challenges will never be solved from within the confines of Whitehall.

The awkward truth about government funding is not only that it fails to achieve the good it sets out to achieve but that all too often it actively causes harm, adding to the very cost and complexity that it seeks to control or address. Government action is contributing to new levels not just of complexity but of whole-system risk.

This failure flows from a continued inability to invest in prevention rather than cure, to help solve people's problems and build their capacity to help themselves in the moments of transition and crisis that we come up against as children, adolescents, adults, families and older citizens.

John Seddon, in a resonant phrase, has termed this phenomenon 'failure demand', a repeated failure to get things right for people the first time around (Seddon 2003). It is very hard to estimate the costs of failure demand – just as it is hard to make a full account of the financial benefits of prevention, given the complexity and timescales involved. Nevertheless, a recent report which reviewed tens of thousands of case files for services across the UK arrived at the startling conclusion that up to 80 per cent of the needs that presented resulted from previous failed efforts at support (Locality and Vanguard Consulting 2014). In a similar exercise carried out by Advice UK with its members, 56 per cent of demand requests were classed as failure demand – wasteful activity that if eliminated with superior service and system design would result in major cost savings (AdviceUK 2013). The Locality/Vanguard report estimated a potential saving from better integrated neighbourhood-level services of some £16 billion – and this is before one considers the savings potential across wider public services, or the benefits of investment in early intervention.

The stark truth is that the default command-and-control model of government simply does not work for an increasing range of problems that are of greatest importance to British society. What is required is a radical shift in perspective, from 'us and them' to 'we'; a commitment to developing new kinds of joint operation, across sectors and hierarchies and localities; and a focus on finding solutions together. But this in turn requires a seachange in how we understand the challenges placed before us and how we view and use the wider resources at our disposal.

The fiscal crisis is paralysing a more creative view of our combined resources

From the perspective of combined interests and capacities across public services, the way in which the fiscal crisis has dominated and almost paralysed contemporary political debate seems a major misplacement of emphasis.

Yes, government funding is tight, and for that matter personal borrowing is also at an all-time high. Nevertheless the UK still enjoys unprecedented levels of wealth and in particular there are sources of private investment – above all from pension funds and insurance policies that UK citizens pay into – that offer a massive source of potential regenerative capital in years to come. The issue is less about the availability of money as such than it is about aligning personal, institutional and national interests so that the combined funds we do have can be used to release the resources otherwise locked up in unnecessary costs and waste throughout the system.

From the perspective of a potential partnership across sectors, then, it is abundantly clear that the capacity of hundreds of thousands of organisations is being squandered. Smaller voluntary and community groups and local small enterprises, for example, continue to lose out on funding opportunities, despite the fact that pound-for-pound they so often offer superior value for money (Pike 2004).

A simplistic approach to outsourcing will rarely be the best way to harness these disparate capacities. For progress to be made on complex challenges, the outstanding capabilities of different organisations, often from different sectors, will need to be brought together in tailored combinations, perhaps unique to a particular set of circumstances. This in turn requires a whole new level of skill in facilitation, coordination and performance management – a skill set that is very different from that found in many procurement teams in Whitehall and local government.

From 'command and control' to bottom-up mass collaboration

To tackle the complex problems that universal support services are less and less capable of solving on their own, we need to build partnerships with a complex set of capacities. This should not be characterised as the simple swing of a pendulum from 'centralised' to 'localised', although mass-scale devolution is very much to be desired. Rather, it amounts to a new amalgam of local and national resources within a local context, both bottom-up and 'side to side'.

The police, with others, could rebuild positive social norms, bring back guardian figures in public spaces, develop social capital, grow a sense of collective efficacy, reduce opportunities for crime and increase opportunities for positive, diversionary activities that could get disaffected youth onto new paths.

The health service, with others, could focus on the root causes of ill health, build a sense of control in the workplace, clamp down on low pay, support healthy lifestyles, open up amenities of different kinds, and promote healthy living messages.

The welfare system, with others, could support people out of crisis while the education service, with others, builds up the cultural value that society could place on skill, ideas, knowledge and learning itself – making learning what it should be, truly lifelong.

This is not to ignore that there have been serious, effective and at times sustained efforts across all these areas of partnership opportunity over recent years. But for the most part these efforts have remained on the margins, often deeply antithetical to government's normal ways of doing business. There have been ever-changing acronyms, new initiatives and new structures, but much less deep embedding of new, coproductive ways of working.

The root issue here is not one of expertise or even funding, although both matter enormously. The real issues are honesty and power. Is the state able to admit its inability to solve the great, mounting social challenges we face on its own and to decide instead to devolve power to a range of actors capable of discovering the answers together. Is it able to move with the times and devolve power downwards and outwards so that the challenges of today become a genuine joint operation? Is it willing to forge real partnerships, for which the acid tests are where power sits, how it is used, who makes decisions, and how all are held to account? Instead, all too often, we have fake partnerships where risk is transferred but the substantive power to shape different, better outcomes is not.

We need to move from a model of command and control to a new model of government as a genuine joint operation. This requires a new deepening of democracy, not just with a radical shift of power outwards and downwards – to localities, neighbourhoods, citizens, frontline workers and provider organisations –

but also through an opening up of new deliberative spaces that enable people of different backgrounds to come together and work through a new set of answers to the ever more challenging problems that confront us.

What is required, in short, is a vision of government swapping its command-and-control mode for a new role as equal partner of and investor in society's capacities for change and development.

Models of asset-based development in action

In exploring alternatives to traditional command-and-control models of action, government can draw confidence from the waves of social innovation over the past two decades that have developed at the margins and since grown to such a level of maturity that they offer a compelling new way for politicians to connect with the public on different terms.

The independent living movement, led by people with learning disabilities, has successfully made a personalised approach to service delivery the growing orthodoxy of adult social care, even if the challenge of delivering the approach with real fidelity – and integrity – is ongoing. At the heart of this process is the space and possibility created for an individual to begin to codesign new support arrangements in partnership with others. Hallmarks of this radical approach include an expectation of respect for the individual, for their strengths, their right to direct how they wish support to be delivered and, indeed, their right to get things wrong and learn from the experience. This space for respect and agency is ultimately even more important than any consideration of how money might be placed under an individual's control, whether as a personal budget, a professionally managed fund or any other alternative arrangement.

A very similar set of values and concerns has shaped the development of asset-based community development in the UK over the past two decades. This includes work with grassroots social entrepreneurs, community centres, settlements, development trusts, community enterprises, local co-ops, social firms and multi-purpose housing associations, as well as more traditional community development. What all these have in common is a focus on the strengths of communities in all their forms: skills, social ties, land, buildings and public spaces, and stocks and flows of money, as well as layers of more intangible cultural identity and social history. A concern for building agency or a 'can do' spirit is central, building a set of social networks that connect people and ideas to relevant resources, as well as developing skills and promoting positive social norms. All of this wide experience long pre-dates more recent interest in 'coproduction'.

As with the personalisation of public services, the point where asset-based development becomes a real partnership is with a spreading out and sharing of power, a new kind of partnership with the state, and a grown-up, more equitable sharing of risk and accountability. This is the case with participatory budgets run through community panels, in the transfer of land and buildings to 'community hub' organisations, and in the colocation of different public services with private enterprises. Experiments with government-supported time currencies, peer-support networks and mutual purchasing of care, energy and other services and resources are also important in supporting the reemergence in new forms of the old cooperative ethos.[1]

Internationally, interest in forms of asset-based welfare has followed a similar track, with a focus on assisting the poorest to build financial assets, knowledge and skills that equip them to withstand setbacks more easily, as well as to plan with greater confidence and ambition for their future. This approach has taken off in countries where the state has made the process real and simple, not just by funding

1 Lambeth Council is being especially creative in this field.

financial education but also by matching people's savings on a pound-for-pound basis – a model that makes intuitive sense for the cash-strapped working poor (see Schreiner et al 2005).

The development of microfinance – subsidised and championed by state and philanthropic actors in its early years – bears a similar message. Support for alternatives to doorstep lending in the UK – including community development finance initiatives (CDFIs) and credit unions, grassroots microbusinesses, social entrepreneurship and social investment – have all had a similar partnership with government and an ability to use money to build a complex, mutually supporting set of strengths and assets. Similar themes can be seen, for example, in Hernando de Soto's work on property rights in the developing world (2002) and Amartya Sen's highly influential account of the role of disparate capabilities in building human freedom and agency (1999).

The collective impact movement

Over the past five years, these disparate movements have shifted into what we can now view as a decisive new phase of maturity. Many hundreds of different 'collective impact' programmes across the world demonstrate a major alternative to the old top-down model. In the US alone there are more than 500 programmes working across whole cities or states, engaging with all sectors and working together in a concerted, long-term way to change how systems work for people (see Kania and Kramer 2011). Many of the more mature programmes are achieving 10 per cent productivity gains and more (Bridgespan Group 2012). As we will see in chapter 3, early pilot programmes in the UK are also showing great potential, with examples of cost-efficiency gains of as much as 30 per cent (see for example Stoke-on-Trent City Council 2013).

Just at the point that mass collaborative models are entering the mainstream in the arena of public services, they have – with the advent of Apple's app store, eBay, Facebook and dozens of other online platforms – become central to 21st-century capitalism. It requires a very modest leap of the imagination to see such platforms transforming the capacity of local public services to solve people's problems in far smarter ways: charities making new services and apps available online for independent living; ex-gang members building apps, selling music or finding partners; social peer support among the most vulnerable. The potential for this new social technology to help redefine our idea of 'public service' – as something inherently fluid and context specific – is immense.

Taking collaboration to a mass scale

Faced with this formidable potential, we can begin to see beyond the current era of austerity to a new phase of social as well as economic recovery. In what follows, I seek to demonstrate how a transformation of the impact and effectiveness of public funding is within our grasp if we can abandon old ways of working and embrace a new era of mass collaboration.

The following chapters set out how this can be achieved:

- Chapter 2 is concerned with the mechanics of funding. It sets out a wide range of ways (ideally to be applied in combination) that can make all public funding work to achieve better results.
- Chapter 3 homes in on the opportunities to tackle complex social problems on a local, whole-system basis.
- Chapter 4 reviews how we can pool the funding we have more effectively, how we can best leverage it through use of social finance, and how we can move towards a new norm of investing in the productive capacities of people and communities.

2.
THE PRICE OF EVERYTHING AND THE VALUE OF NOTHING

If we aim to achieve a step-change in the productivity of public funding then the key, as noted in the chapter 1, is to learn how to build pioneering collaborations across the sectors capable of redesigning how whole systems work for people.

But first, we need to get some of the basics in place. This chapter starts by setting out seven basic rules of public funding which, if applied on an appropriate scale, would deliver major productivity gains in and of themselves. Second, we review the flaws in the payment-by-results model as it is currently practised, before moving on to review the potential for a bolder approach that puts social value at the centre of each and every funding decision.

Getting the basics right: seven rules of thumb for effective funding

1. Identify the right scale of funding – the minimum viable unit

The most glaring failure in current funding practice concerns the scale of funding. Central government has a growing tendency to seek economies of scale by bundling ever more contracts together. However, all too often this works to create a *diseconomy* of scale at a local level, with costly and damaging fragmentation of service delivery (see Locality and Vanguard Consulting 2014).

The consequence of pursuing economies of scale at a national level is that eventually the contracts become so large that they are deemed appropriate for bids only by large, well-resourced private companies. Smaller organisations can then only access these contracts through subcontract relationships with lead or 'prime' providers. This places these smaller organisations at a serious disadvantage, even when they are responsible for the large majority of the delivery of the contract. Even for larger, better-resourced providers, the cost of bidding for the larger contracts has escalated: bidding costs of more than £1 million are not uncommon, given the winner-takes-all nature of the contracts on offer.[2] Of course, this is a cost that is recouped from government contracts at some point in the future.

In no other sector would this approach be deemed appropriate. Indeed, the wider trend is in the opposite direction. There is a growing preference either to make spot purchases for specific items through online markets that support price and value comparison, or to identify specific problems that require a tailored response. As a first rule of thumb, therefore, funding should always be broken down to the minimum viable unit of contract.

2. Identify the requirements that are crucial to success

A major second failing – and one which goes hand in hand with the tendency to put out overly large tenders – is an inability to get the specification of requirements right. The greater the variety of products and services that are bundled together in a contract, the greater the chances of buying the wrong thing. As a contract expands, the level of detail required in the specification extends far beyond the capabilities of any single purchasing team.

2 Cited by outsourcing companies at an IPPR seminar on collaboration, London, September 2013.

In practice the problem is much worse than this: in place of detailed requirements relevant to a specific problem we commonly see a whole set of general requirements, many of which are of no direct relevance whatsoever to the contract in question but which effectively exclude a wide range of organisations from applying. Public funding needs to be far more focused on which capabilities among prospective providers are essential or desirable for success to be achieved and failure avoided. Too often funding programmes hide behind generic requirements, such as turnover, financial reserves and quality marks.

The second rule of thumb is, therefore, that requirements should be specific and relevant to the tender in question. The process should be similar to that an employer would follow in setting out specific essential and desirable attributes in a job description or vacancy advert. An ability to deliver services in accessible local venues, for example, or to offer a minimum length of contact time with clients, may be far more relevant than a general ISO standard or minimum level of turnover or reserves.

3. Ensure decisions are made by those with the greatest insight

The chances of getting the specification of requirements right is made still more remote by the fact that all too often the people making purchasing decisions are the least well qualified to take on this role. Government delegates decision-making to a procurement function staffed by people who cannot possibly have expertise, experience or passion for every issue they will be asked to address. It is therefore not surprising that in the effort to achieve objectivity and make the process easier to administer, the process becomes one of ticking boxes and, overwhelmingly, making decisions on the basis of price, rather than undertaking a more searching assessment of needs and value.

Commissioners and providers are as one in saying that procurement practice needs radical reform. The solution is for procurement to become purely a support service, issuing tenders and managing payments on behalf of others, with decision-making authority delegated to panels of commissioners and end-user representatives. So the third rule is that funding decisions should be made by those with greatest insight, above all with the strong involvement of the ultimate service user.

4. Put providers' track record at the heart of bid appraisal

Even if these failures with respect to scale, requirements and expertise were to be corrected, an effective process is still going to be undermined by a general failure in government funding programmes to take proper account of a would-be provider's track record. It is absurd that so much government contracting actively prevents consideration of an organisation's previous success or failure, by awarding so few (if any) 'points' to track record in the scoring of tender bids. If you wanted an extension to your home, you would be quite interested in how often and how well your prospective builder had done this kind of work before. Indeed, the notion of *not* reviewing track record would be utterly alien in any field but public funding. In the world of finance, for example, large amounts of time and money are spent conducting assessment and due diligence. The failure to make track record central to bid appraisal enables better-resourced firms to win contracts in fields where they have little or no expertise, while firms with long track records of high achievement are unable to capitalise fully on this inherent strength.

The fourth rule, therefore, is that funding decisions should focus on understanding the probability of a provider delivering superior results, which can only be assessed by making track record a central consideration.

5. Make financial information public as open data

Once funding decisions have been made, it is too often the case that government colludes in keeping the terms of the transaction confidential, an approach that runs directly counter to government's own interests in promoting open competition and sharing access to important information across the many arms of central and local government. In the construction industry, by contrast, open-book accountability is the norm, whereby client and contractor share financial information about costs. Through any number of online platforms, from eBay through to price comparison sites, we are used to being able to compare the cost and value for money of different offers. Furthermore, we now have the ability to take public funding data and release it as open data for reuse for a wide variety of purposes, such as benchmarking cost and performance or understanding trends – something that is clearly in the public interest.

Rule five is thus that all funding decisions and key financial metrics associated with them should be made publicly available as open data.

6. Invest in expert supplier management

Once contracts are in operation, procurement's job is only partly done. Much of the value of the contract will now lie in the quality of its management, and government as a general rule is poor at supplier management, accepting changes to contracts that boost providers' profit margins, as well as poor targeting of services and poor performance far too often. This failure, just as much as the manifest failures in procurement outlined above, is to blame for a very long roll-call of failed programmes, many of them of massive size and an increasing number subject to fraud investigations. Rule six is thus to invest in boosting the capacity of government for supply chain management.

7. Promote diverse, open markets tilted towards social value

Even in the purchasing of relatively simple commodities, government procurement has delivered a double whammy of poor value for taxpayers' money and market domination by a small number of monopolistic providers. Any market that is dominated by a small number of providers is far more likely to deliver poorer results and higher cost over time.

An instructive example of the dangers of this approach is provided by the field of children in care. Over the past two decades, the government has opened up this provision in England in a bid to promote market competition. In practice the opposite has happened: private entrants have been able to undercut charities and other not for profit provision on the basis of price alone. Then, once the competition had been pushed out of the market, a process began whereby control of was consolidated by a much smaller number of providers, part-owned by a handful of private equity investors such as Sovereign and 3i (Social Enterprise UK 2012). Now, only 11 per cent of children's home places are run by charities, while England's biggest providers are owned by private equity firms and continue to expand. The long-term result has been that, because of high costs and very poor social outcomes, protecting children in care is one of the deepest social and fiscal challenges facing any part of government.

The business model for almost all these larger private contractors is the same: to bid aggressively low to win a contract and then to increase margins over the course of its lifecycle. This inflation applies above all to crucial components that were not included in the contract specification at the outset. These providers know that government supplier management is weak and therefore that levels of scrutiny and accountability will be, at best, light-touch.

For all these reasons, rule seven of public funding is that it should always seek to encourage an open, diverse market, with a range of providers from a range of sectors.

One way of achieving this would be for government to create an Amazon or eBay for public value, giving funders access to a single platform that enables them to click and buy from a range of preapproved providers, as long as detailed information is offered to support the kind of fine-grained comparison that is needed.

The government's recent experiments with the 'G-cloud' marketplace, which offers small companies the opportunity to bid for cloud computing services on an equal footing to larger competitors, provide one example of what is possible.[3]

The key to the success of these and other approaches to creating an open and diverse marketplace – and one that delivers the best results for government and society – is that they don't just make it easier for a wider range of organisations to bid for contracts. They also change the focus from an almost exclusive focus on price to a concern with price *and* social value. The challenge of how to place social value centre-stage in all funding decisions is what we turn to next.

Understanding the flaws in 'payment by results'

At the heart of the current vogue in government for payment by results (PBR) there is undoubtedly a good idea trying to get out – namely that government should be focused not on specifying and paying for activities but on maximising the impact that its money helps to generate. The more that government can pay for success in the form of transformed lives and avoid paying for failure, the stronger the attraction of this approach. Unfortunately in practice things are nothing like as simple.

PBR mechanisms abide by none of the seven rules for effective funding set out above. Contracts are commonly too large and the entry requirements too onerous. Decisions are made by the wrong people on the wrong basis. There is nowhere near enough focus on the likelihood of different providers achieving the targeted outcomes.

PBR mismanages the market

The immediate result of PBR in its current form is to shut out many capable but less well-resourced organisations from the market and to shoehorn many others into invidious subcontract arrangements with the larger private companies that have the necessary capacity to write strong bids and meet tender requirements but rather less expertise in supporting people with challenging needs. Even before we reach the starting line, therefore, PBR has removed from contention many of the providers who might be best equipped to deliver the superior results that government wants to achieve.

PBR increases inefficiency and risk

PBR is also not the adroit means of shifting risk onto the provider that it purports to be. Consider the Work Programme – in practice, the government had to abandon plans to pay providers on a purely PBR basis as *none* of the would-be providers was able to raise the finance to cover the full level of working capital required and the degree of risk involved. Instead, 'attachment' fees were introduced – these are payments for activity which may result in no benefit whatsoever. Given the low success rate to date, this represents a large sunk cost. There is also the increased complexity and cost of the tendering process to be paid for – by both parties – long before any results materialise.

PBR creates narrow and misguided incentives

PBR contracts consistently underestimate the complexity of the issues being addressed, pinning a type-A solution to a type-B problem, as described in the previous chapter. Even the altogether more promising Troubled Families programme pays out on a simplistic tariff basis that is at odds with the hugely complex range of issues faced – from debt to addiction to mental health and much more.

Narrow metrics work consistently to warp decisions about the priorities for effort and resources. They introduce strong incentives for providers to favour or 'cream' those clients who are easiest to help and to ignore or 'park' more difficult cases.

3 But with the key difference that funders do not need to run a second procurement process once they have identified potential bidders via the marketplace.

The more successful they appear to be the more likely it is that they are generating 'soft results', with clients pushed into an outcome, a job for example, in the full knowledge that they are likely to be recycled quickly through the system.[4] In the course of consulting on this paper, several third sector organisations identified this higher 'churn' rate as a direct result of running PBR contracts.

More insidiously still, PBR creates incentives for organisations to exaggerate their results. One such case came about with the introduction of penalties on Accidents and Emergency waiting times within the NHS. Faced with a target to achieve maximum waiting times of three hours, there was an uncanny increase in the number of hospital admissions for patients waiting for just under three hours, each of which resulted in a payment of several hundred pounds from increasingly cash-strapped health trusts. The lesson is that overstretched workers will make the data fit with the result. When this happens on a large scale, as it can do when big corporates win big contracts, this constitutes fraudulent activity. Over the past year we have seen three leading providers investigated for fraudulent reporting (see BBC News 2013a, 2013b) and problems with the senior leadership of G4S (see Armstrong 2013), and it is likely that there are many other cases that have not yet come to light. What is at issue here, in the end, is not the ethics of any one organisation (worrying as these are), but rather the corrosive effects of the system within which people and organisations are obliged to operate.

PBR perpetuates a top-down ethos

PBR represents an effort to apply a top-down approach to inherently complex problems. Therefore it goes fundamentally against the grain of the vision outlined in chapter 1 of this paper, which calls for a far more collaborative approach to the complex issues that we see in most if not all of the cases where PBR has been applied to date. Progress with worklessness, addiction, homelessness, or children in care requires far more than a focus on one aspect of one individual need. The difficulty with PBR here is twofold: not only is it clear that we cannot make progress on these issues without the efforts of multiple actors, but if we start to reward the efforts of individual providers on the basis of 'their' results then we are, in practice, rewarding them for the efforts of other providers, who may well at the same time be facing withdrawal of their funding.

PBR is a classic instance of an appealing idea in theory going badly wrong in practice. This does not mean that we should give up on the idea of placing social value centre-stage in a new model of public funding. Indeed, I will argue that we need to ensure each and every funding decision is focused on the results that are achieved – we just need to go about it in a different way.

Understanding the price of everything but the (added) value of nothing

If PBR has achieved one thing, it has helped to place a far greater focus on being clear about the results that are desirable and far more robust in collecting data about change and impact over time.

Looking back over recent decades we can see that, due to a lack of robust data about social impact, government agencies have in effect been flying blind, with no clear idea of the relative effectiveness and value for money of different activities, services, products and infrastructure they have supported. Government knows (with honourable exceptions) the price of everything but the added value of nothing. Even more seriously, government has also often lacked critical data to help safeguard and improve the outcomes of individuals, families and other groups.

4 From an unpublished 2014 report on payment by results by Revolving Doors.

The advent of PBR has helped to draw attention to the weakness of the feedback loops that inform government about the consequences of its actions and funding decisions. Indeed, this surely offers one powerful explanation as to why there are quite so many striking cases of poor use of public funds, from high levels of recidivism amongst ex-offenders to the mounting costs of complex needs across the funding system. Shared intelligence is akin to a central nervous system; without it, the capacity required to respond in a timely, effective way simply does not exist.

This lack of rigour in reporting outcomes is a systemic one. Very few provider organisations are able to provide a robust account of the outcomes that they have helped to create. Larger, better-resourced organisations tend to be hampered by the use of unwieldy data systems, several of which often run in parallel, that were developed for related but different purposes of client management. Smaller organisations find themselves in an even weaker position, and this lack of capacity hugely limits the ability of the social sector and many small and micro enterprises to make the case for a greater share of the public funding pie. Social investors are similarly very uneven in how they account for the social impact that is generated by their 'social' investments, as they are limited by the ability of their investees to account for the difference they make.

Putting social value centre-stage

A shared language for social value

In order to move beyond the problems associated with payment by results we need to move beyond a preoccupation with single metrics to develop a much richer and more nuanced language to talk about change and value.

Abstract as it may sound, developing a new shared language for talking about social value is a primary requirement for effective collaboration. Without a common language organisations will continue to talk past each other and overly simplistic models of PBR will remain the norm. Without shared standards and tools we will fail to collect information in a reliable, robust and comparable way. We will also never be in a position to harness the enormous potential offered by information technology to draw insights from the massive datasets that are growing exponentially in all areas of our lives. Big data will remain noise. This is why building a shared language for social value is of foundational importance.

A new 'open outcomes' framework

The only way we are likely to develop a shared language is through an open process of sharing and peer review. Top-down prescription of outcome measures and other standards is only likely to lead to yet another reincarnation of top-down target-setting.

Some initial suggestions for this new framework are set out below, drawn from the work of the open outcomes reference group which was set up in tandem with writing this report. The framework will be developed further through open peer review involving many leading national and local organisations.[5]

1. who we work with – the **beneficiaries**
2. their needs – the **demand**
3. their **existing strengths**
4. the **work** we do with beneficiaries
5. the organisational **capabilities** required for success
6. the **resources** required to undertake activity
7. investment required to increase impact – the **impact investment**
8. **the wider outcomes** developed
9. **the economic impacts upon the government and wider society.**

5 An early version of a set of recommended outcomes and metrics is set out in the appendix to this paper.

A menu of outcome metrics and data sources

Attempting this exercise 10 years ago might have presented insurmountable challenges. Today, however, it is far more realistic. There are powerful tools for sharing materials that have been developed by academics and practitioners, and there is a rich range of excellent practice to draw upon. The NHS, for instance, is reviewing the use of patient-reported outcome tools. The Inspiring Impact Alliance is promoting results-based ways of working. The Office for National Statistics has been developing new models of reporting on wellbeing. Big Society Capital is promoting social impact reporting in the field of social investment. The Dartington Social Research Unit has developed a set of good practices in the field of children's development.

There are many hundreds of surveys and other data collection tools that are free to use, short and reliable. The problem is that they have never been brought together, made easily accessible and subject to ongoing review from the perspective of different types of user – funder, investor, citizen, provider or researcher.

Much has already been written about the immense opportunities that flow from the release of open data, especially government data. Open data is quite distinct from the reuse of sensitive personal data, held by government, where there is obvious potential to gain useful insights – for example, tracking school attendance as an early indicator of the impact of programmes supporting children and young people – but also serious concerns about potential abuse of that data and about the erosion of people's rights to data protection and privacy.

The combination of opportunities to use personal data in new ways and public unease about data misuse is likely to transform the ways in which personal data is held and used in the future, with the rise of a new generation of personal data stores. Under this model – already seen with Mydex, Patients Know Best, Cosy Cloud and many other innovative startups – ownership and control of data lies with the individual.

This means that the individual can act as the point of integration for an extraordinary new array of data:

- Physiological data, for example from wearable technologies of different kinds that can track metrics such as heart-rate, paces walked, blood glucose levels and sleep patterns.
- Self-reported data, including survey responses, personal profiles and 'likes and dislikes'.
- Remote sensor and third-party app data, such as energy usage, credit scores, pollution levels and weather patterns.
- Social, locational and time series data, including Google calendars, social media 'updates' and mobile phone GPS information.

In the future, 'slices' of this data will be shared by individuals with different trusted supporters as they wish and as the legitimate needs of supporters dictate, offering vastly greater insights to the different support agencies involved. GPs, for example, could track for dangerously low or high scores for different physiological metrics, such as glucose or testosterone, or provide new incentives for successful weight loss. The individual and their personal data store will have begun to act as the new nexus of data and therefore of public services, at the heart of a web extending outwards to include a personal network of supporters that work for them.

A new big data mutual

The opportunity to use new forms of data and new models of ownership and access to revolutionise public services may sound as if it is some years off, but it needn't be. I have worked with a group of organisations, including Lambeth Council, the Royal Bank of Scotland and many others, to develop a new kind of ‘big social data’ platform called ResultsMark.[6] ResultsMark offers free tools to all providers to both collect, analyse and share data, and free tools for individuals to own, aggregate and share their data as they wish.

Through 2014, the ResultsMark system will be made available to a growing number of local public agencies as well as bodies working to support the third sector across the UK. Along with the development of open outcomes standards, the availability of free data tools removes the crucial obstacles to making impact reporting the norm across the entirety of public sector commissioning.

A new funding scorecard

New shared standards and data systems give funders a whole new set of options to define and optimise the kinds of results that they want to achieve. Government can take a truly strategic view of social value and build questions about potential and actual value into every decision that is made, from central government and core funding programmes right through to the business case for supporting an individual citizen. Such a move has been theorised by experts on public value, such as Mark Moore and John Bennington (see Moore and Bennington 2011), but we have until now lacked the means to connect the big picture with detailed practice in an effective way.

A useful way of beginning to operationalise a view of social value is by adopting a balanced scorecard like the example below, which is designed to take account of four interconnected perspectives on overall value.

Figure 2.1
A balanced scorecard of social value

1. Needs how many, how severe, how quickly addressed, how well-addressed	**2. Strengths** resilience, self-efficacy, networks, resources
4. Economics unit cost, time in system, new tax revenues	**3. Outcomes** linked to purpose of each intervention and goals of each person

Needs

All public funding should start with a focus on the needs or demand of the beneficiaries. It is not enough to have general summaries of the needs that people have (as was common in past forms of joint strategic needs assessments). What is required is granular, real-time data on people’s needs, their number and intensity. We then need to understand how quickly and how effectively these needs are being met, including by using satisfaction ratings. It is useful to see how effective individual organisations are at solving people’s problems, how many needs are referred to other organisations, and how organisations work in tandem (or not) in addressing need. Above all we need to probe the patterns within this demand to understand what segment of it results from recent systems failure and also what segment results from historic systems failure – this is the most powerful insight required to inform redesign of systems in a collaborative way, as will be outlined in the next chapter.

6 See https://www.resultsmark.org/

Strengths
The point of timely help is, where possible, to help people to help themselves. It has become hard in recent years to find any provider that does at least not pay lip-service to the principle of codesign and coproduction of support services between user and provider. But a real test of such support is whether people feel better, more confident and more in control of their lives. Measures of self-esteem, confidence in one's own skills and efficacy, grit, zest, perseverance or self-reported wellbeing are often dismissed by some funders as 'soft', but they offer real value in their own right as measures of capacity for self-reliance, especially over a longer timeframe. Measures of **resilience** (an interconnected set of factors that help people to deal with adversity) and **general self-efficacy** (the ability to cope with the different shocks and challenges that life puts in our way) are strongly predictive of future recovery, wellbeing and – from a government perspective – reduced dependency on the state.

A public funding regime that places its primary emphasis on solving people's problems and recognising – and building on – their strengths as quickly and effectively as possible will look very different from the rigid, uniform services of the past. They will be highly fluid and responsive, and give proper weight to measures of progress that are far less susceptible to misrepresentation by different support agencies for their own self-interested reasons.

Outcomes
In the third quadrant we have a range of potential outcome measures, each with a range of potential metrics and data sources. These outcomes depend, logically, on both the needs of the people being served and the strategic focus and capabilities of the organisation in question. As we saw with payment by results, it can be very destructive for a funder to insist on specific outcome measures to the exclusion of others. Conversely, it can be very positive for funders to work with providers to understand and find ways to enhance the outcomes in question. It is a process of action-learning (reflective practice) and improvement from the frontline upwards, not prescription from the top downwards.

The conventional wisdom among impact measurement experts for planning outcomes is to use a simple results chain or logic model.

Figure 2.2
A simple results chain

This approach offers some benefits as a conceptual model. However, given the increasing complexity of social problems, a more collaborative and experimental model such as that set out below speaks more directly to the experience of frontline organisations. This 'collective impact' way of thinking and acting is central to the methods of collaborative system change outlined in the next chapter. The progress metrics used can draw on all four of the elements in the scorecard above, with a particular focus on needs and strengths, as they offer early, real-time data to help track the degree of positive or negative value of different actions.

Figure 2.3
A framework for shared impact

Partner organisation	Action	Progress metric	Risks	Outcomes
We will do this…				
If X will do that…				
And Y does this…				

Economics
Finally we turn to the economics of impact, which covers the extent (from a government perspective) to which cost in the system has changed over time, through reduced flow of new needs and greater cost-effectiveness in addressing current need, as well as new sources of economic value, such as new tax revenues and greater productivity (reduced marginal cost to serve for each citizen).

The first thing to note in this model is that economic return is in quadrant four, not quadrant one, which is significant. Change efforts that start by targeting a proportional level of cost reduction (normally a heroic target) almost invariably have no basis in understanding of the system. Government cannot simply wish unmet needs, low self-reliance or poor outcomes away and jump straight to saving money. The process can only work the other way: support more needs earlier and better, build on more strengths faster, codevelop more outcomes further, and then – only at the end – by these means deliver the wider economic gains that our current fiscal position so urgently requires.

A second point to emphasise is that economic impacts are not the same thing as ‘outcomes’, which concern real, measurable (qualitative or quantitative) differences for the individual or those around them. While some outcomes like ‘school readiness’ read across into economic benefits (in this case, estimated at £1,000 per child[7]), others do not, even though they may ultimately contribute hugely to wider economic returns, such as through children’s commitment to and behaviour within schools.

Social return on investment

There are now a range of methods available to help public funders understand the financial value of the activities which they have funded, ranging from social return on investment (SROI) through to related forms of cost-benefit analysis. These approaches share two obvious risks if used without appropriate expertise and judgment. First, by conferring superior financial values on certain outcomes they can lead to precisely the kinds of simplistic, top-down PBR models that we have already rejected. Second, they can lose all credibility in the act of trying to calculate the economic value of different programmes. Valuations are highly dependent upon assumptions made about attribution, deadweight, counterfactual scenarios, calculations of net present value and so on; depending on the values selected, the value assessed can vary widely. In practice, given the increasingly complex

7 See New Economy’s ‘Unit Cost Database’: http://neweconomymanchester.com/stories/832-unit_cost_database

nature of social systems, it is very challenging – outside the conditions of a robust, properly controlled trial – to justify the financial valuations often given to different programmes and organisations.

There are, however, good arguments for using a stripped down version of cost-benefit analysis in the form of a 'ready reckoner' to help funders keep track of the cost burdens upon their systems. This is precisely what a central government team has just done, with support from New Economy, in creating an unheralded but seminal piece of work that indicates the financial values associated with different metrics and which, crucially, shows how these values apply across different local and central agencies.[8]

The key advantage of this approach is that, for the first time, local agencies can begin to understand and demonstrate the business case for collaboration, supporting collaboration across different funders to pool budgets and collaboration in the field across multiple support organisations to work together to support people's needs better and more quickly, to build their strengths, maximise their outcomes and by these means deliver the desired economic return.

What shared intelligence makes possible

So far in this chapter we have discussed the need for an alternative to payment by results and outlined how to put in place strong foundations that can help to place social value at the heart of each and every funding decision.

We turn now to the opportunity this presents to transform the impact of public funding over the years to come.

The value of building reporting capacity

- **Boosting productivity:** The first point to make is that simply by giving prominence to social value, funders will help to increase the productivity of public resources. Funders can perform a vital role in asking their funding recipients to tell their story – to be clear about what they do, how they do it and the difference this makes. The positive impact this creates can be further enhanced by offering free systems and support for impact reporting, such as ResultsMark.
- **Saving money:** Many organisations spend up to 10 per cent of their budgets on collecting the data they need and then reporting on progress to different funders and supporters, who often have different reporting requirements, each of which may require a specially tailored report. Once they have been produced and handed over, there are then the costs to funders in making sense of these reports and the data behind them. There is, therefore, a major saving of 5–10 per cent to be made by cutting the costs of data collection with free tools, increasing the sharing of data between clients and trusted supporters, and so on.
- **Leveling the provider playing field:** Offering free and open tools for impact reporting will also help to level out the playing field on which providers from all sectors operate. Many social sector organisations will be able to make a stronger case for support, but the biggest gains will be for smaller organisations who are currently the greatest casualty of government funding cuts. Consider a project such as a boxing club that offers an invaluable lifeline to young people who might otherwise be sucked into local gang activities. Using their smartphone, the project leader is able to keep track of each person's development – how they are building up their strengths, solving problems, building up their own support networks – and how they are beginning to contribute to wider outcomes that are of great value for the government. They are able to track how the incidence of crime among all the people they

8 See https://www.gov.uk/social-impact-bonds

work with changes over time. They can say how many are taking up further education or apprenticeships, or starting up new businesses. In return, they are able to get modest funding to maintain the building, train their team of volunteers and offer new opportunities to develop the skills and expand the horizons of the people they are working with.

- **Mobilising hidden strengths:** Equipped with information flowing in real-time from hundreds of organisations, like the boxing club above, local funders can begin to build up a map of the strengths and the assets of local communities. Generally, funders know only about the programmes they fund, and as funding gets cut so the number and range of programmes off the 'funder radar screen' grows exponentially. By using shared reporting to reveal hidden strengths, new opportunities can be opened up, such as networks of volunteers, underused facilities or a wider range of specialisms.

Payment for success

Building capacity for reporting on shared impact can produce benefits in and of itself, but the major opportunity is to promote a mainstream alternative to payment by results – an approach we might call 'payment for success'.

The approach has three main components, which are discussed in further detail below:

1. targeting resources according to need
2. cutting the least effective programmes
3. reinvesting in the most successful and evidence-based programmes.

Targeting resources according to need

With many payment-by-results contracts, just as with many traditional contracts and service-level agreements, many providers choose to target people who are considered easier to help. Indeed, in many local authorities there is often a wide mismatch of resource to need in areas such as children's and adult services. Those who shout loudest are supported first; those who are easier to reach go to the front of the queue. A key feature of a new model of payment for success therefore involves controlling the types of citizen being supported, drawing on the best real-time data about the range and level of needs and risks being presented.

The reform of the SureStart programme provides good evidence for the value of this approach. Early in its life, the better-educated and more assertive section of the population gained a disproportionate level of access to the support available. The success of SureStart in investing in outreach and retargeting its efforts on those with greatest need shows what can be achieved (Ofsted 2012). By reprioritising support on priority need, a major waste of resource is avoided.

Cutting the least effective programmes

The rhetoric of payment by results is that it only funds success, not failure, but this is not the case in practice. Payment-by-results contracts are more costly to set up, they depend on payments being advanced by the funder to help ease cashflow pressures, and they also need to pay for the increased risk and cost of working capital to the provider. There is a good chance that the funder ends up making payments that do not translate into 'results'.

An alternative approach to trying only to fund success is instead to stop funding programmes that deliver poorer results, or reach the wrong audience, or which are unacceptably costly. This can be done by ranking programmes in order of the added value achieved for an outcome metric and identifying the outliers lying within, say, the bottom 10 per cent.

Of course, funders should follow good practice before they reduce or cut an organisation's funding on grounds of poor results. First, they should make the process for decision-making clear and robust and embed it in funding contracts. Second, they should look for mitigating factors through a deeper review of the organisation's data. Is there something unusual about the audience in question? Is new data likely to be available shortly? Is the programme new? Is it able to demonstrate progress on lead indicators? Is there an improvement plan in place and does it show any early results? Is evidence-based practice being used to drive improvement? Nevertheless, the confidence to cut less effective practice (backed up by a clear audit trail) will probably do more than anything else to drive superior use of public funding in the future.

Reinvesting in the most successful and evidence-based programmes
Just as funders can look to cut what is less effective, they can also look to reallocate additional funding to the highest-performing providers at the other end of the spectrum – that is, to the top 10 or 20 per cent of performers over time. These are the candidates for potentially increased support, again subject to a more intensive exploration of their data. Preference should be given to organisations that have managed to build up a robust evidence-base on the programmes they offer.

Reducing variation in performance at the provider level

Most public funding is characterised by exceptionally wide variation in terms of the outcomes achieved by each programme or organisation for each pound spent. It is a picture that is wholly consistent with the syndrome identified at the start of this paper of a crisis in social productivity. Productivity will only increase when the level of variation in performance shrinks and when the mean level of performance increases. An approach that each year (say, over a three-to-five-year period) aims to cut the worst-performing 10 per cent and reinvest in the best-performing 10–20 per cent will be capable of achieving major shifts in performance and productivity.

Working to understand and reduce variation at the individual level

Conventional marketing approaches place individuals into different segments – or 'personae' in more recent jargon. Government agencies often adopt an even less sophisticated approach, placing individuals into a small number of risk bands based on perceived relative risks and needs. This is a gross simplification. At first glance, any individual might at first seem to be round about the mean, but for each metric that we might choose and are able to measure they may well have outlying scores that vary widely above or below the mean. With access to intelligence about the different areas of relative risk and strength, it is possible for the first time to respond to people as people, rather than what are essentially sterotypes, and therefore support people in a far more timely and tailored way.

Investing in shared learning and evidence-based programmes and practice

A further way of using shared intelligence to drive service improvement is by turning it into ever more reliable evidence about what works better.

One very welcome development in the past two or three years has been the attention paid to evidence-based practice. Graham Allen's taskforce on early intervention played an important part in making the case for government investment in what works.[9] Nesta has also had a major role with ESRC in building an emerging network of What Works Centres. This work has placed a clear focus on building good standards of evidence for assessing the effectiveness of different programmes and helped to give prominence to the use of randomised control trials in assessing the impact of different models of support. The result has been an increase in interest in evidence-based programmes such as Triple P or Multi systemic family therapy, as 'gold standard' interventions that have been shown to be replicable in other contexts, with the overall level of outcomes achieved staying consistently high.[10]

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9 See http://www.alliance4usefulevidence.org/

10 For examples, see http://www.eif.org.uk/ or http://educationendowmentfoundation.org.uk/

There are also less well-evidenced programmes that still offer great scope for trialling in other contexts, perhaps initially on a more modest scale. The importance of this work would be hard to overstate, especially as more programmes gain access to the resources to evaluate and test scalability and replicability.

What is even more significant is the scope this approach offers for a new kind of evidence-based practice across all branches of service delivery. While it is excellent to locate and replicate tried and tested programmes, even more effort should be given to developing the types of granular methods and approaches that are replicable in almost all contexts. A good example of this is the discovery that the quality of teacher feedback to students on their work is one of the best ways of improving levels of student attainment (Education Endowment Foundation 2014).[11] This simple finding really does have the scope, if applied with rigour and consistency, to deliver notable improvement in levels of achievement.

Building cultures of learning and improvement

The true benefit of the access to shared intelligence via new technologies and a new shared language is that it creates the opportunity for delivery organisations to learn and improve. Unfortunately for most organisations this is not the natural starting point (although it is a hallmark of the very best). Most organisations require a nudge, from their funders and their peers, before they begin to make the emotional and cultural as much as the practical commitment to work in a different, results-focused way. In this, funders can make all the difference: making reporting tools available at no cost, mandating that all organisations report on their impact, cutting the costs of reporting, making ranked performance tables available, sharing pooled data about what works better. In general, funders are in a great position to champion an evidence-based approach.

Towards a new Shared Value Act

In this chapter we have reviewed how government needs to go about funding in a very different way in the future. We've defined seven basic rules that government needs to follow. We've explored the pitfalls in the current fashion for payment by results, and how its core proposition can be applied in a different and better way, exploiting the exceptional potential of information technology – married with shared, open reporting standards. These approaches, used in combination, offer a route to major productivity gains in public funding over a period of three to five years.

A key way of moving this new practice into the mainstream would be to legislate to place shared value at the heart of all funding decisions, by creating a new Shared Value Act.

It is true that the current government has already moved to create the Social Value Act,[12] but this is widely viewed by both funders and providers as lacking real teeth – relevant only at the pretender stage of public purchasing. If we are serious about promoting strong, diverse, open markets that are tilted towards social value then we should enact a robust Shared Value Act that provides an obligation – not just permission – to take social value into account in making funding decisions. This does not mean that the lowest bid would always be rejected: smaller charities and SMEs can often offer exceptional price and superior outcomes, because they carry a lower overhead. What it would do is ensure proper, rigorous scrutiny of what was being received for the price on offer.

A new Shared Value Act would apply across all public spending decisions: not just to service provision, but to the purchase of products and spending on physical

11 For more, see Education Endowment Foundation 2014, which offers a synthesis of the evidence, costs and benefits of different interventions to boost school attainment.

12 See http://www.legislation.gov.uk/ukpga/2012/3/enacted

assets as well. The new act would not only require public value to feature in funding decisions but also in ongoing review processes, requiring a culture of open-book accountability for both how money has been spent and what results have been generated. All providers would be subject to the act, regardless of sector, or whether they are in-house or outsourced.

The act would also require commitment both on the part of those who fund and those who receive public funding to collaborate to maximise public value. (Although, as noted in chapter 3 of this paper, additional funding and support should also be made available in recognition of the increased costs of working with others, that is, beyond simple actions such as joint referral of clients to relevant support.)

Finally, the act should also set out more general guidance for funders building on the kinds of good practice outlined above. It should set out what providers can expect to give and what they can expect in return. Providers of all kinds can expect heightened accountability for what they do, how they do it and the difference they make. If their performance is parlous, they can expect their funding to be cut, but in the majority of cases they should expect the opportunity to learn and improve. Smaller for-profit and not-for-profit providers should expect an increased share of funding and the benefit of longer-term contracts, albeit ones that can be terminated on the grounds of underperformance.

What providers of all kinds should also experience is a major new expectation on the part of funders to work together to rise up to the complex challenges presented in 21st-century Britain. This is the theme which we explore in the next chapter.

3.
COLLECTIVE IMPACT

The need for a systems-based approach

All too often in public policy we reach for a new initiative only to see it bounce off the problems it seeks to address. Surface language may change, but the more fundamental ways in which things work remain unaltered. Incumbent culture, intractable systems and nested sets of social problems trump new possibilities.

If we want to achieve a step-change in performance then we have to raise our level of ambition and expand our frame of reference, to get to grips with system change.

Many funders have discovered through bitter experience that while they may identify individual programmes that can often produce substantial benefits for a specific group of people, the impact this represents in the wider locality is often no more than a pin-prick. Some funders have responded to the frustration of wrestling with the system by funding a new class of navigators of the system – 'brokers', 'advisers' and so on. But this tends to add still more cost and complexity and fails to address why the system works in such a complicated and dysfunctional way in the first place. We need a whole new model for bringing about change at a whole-system level.

We should say at the outset of this chapter that system change is not an easy thing to achieve, especially in a complex, changing social context. It requires a whole new level of insight and range of capability than was involved in creating these systems in the first place. It calls for new models of leadership, new types of support organisations, and a willingness to commit to the hard grind of patient, long-term reform. But it can be done and it does deliver results that individualised change efforts will never be capable of.

The complex, contested nature of social systems

Over the past decade we have seen a major swell of academic interest in the challenges posed by complex systems (see for example Beinhocker 2006, Geyer and Rihani 2010, Bourgon et al 2010). The key insight this new work offers is that complex systems do not reveal all of their secrets easily. They are most certainly not susceptible to remote policy or research activity but instead require immersive exploration of a kind that is highly collaborative, non-ideological, reflexive and diverse in respect of both its participants and its sources of evidence, as suggested by Michael Hallsworth (Hallsworth 2012).

Human systems are not just complex but hotly contested as well. Social systems do not lie under one person's control; there are notable power imbalances, many different egos and interests are in play, and there is sometimes fundamental disagreement about how they should work and which outcomes are most important. There is wide variation not just in outcomes but also in terms of inputs: humans enter into a system in anything but a uniform condition.

Social systems are not the same as ecological systems or production systems, even if they do show some clear family resemblance. Peter Checkland's 'soft systems methodology' emphasised the nature of social systems as social constructs, offering tools for developing shared meaning and purpose (see Checkland 1989). Jay Forrester (1971) offered ways to map the emergent properties of complex systems. Peter Senge (1990) focused on deep reflective learning, drawing on a range of systems insights as a praxis for whole organisations or whole system improvement. Danny Burns (2007), along with the key progenitors of the personalisation movement, has placed central emphasis on the importance of unequal power relationships within systems and thus the imperative to manage and dislodge these.[13]

This growing respect for the complexity of social systems should prompt us to return to the seminal work of perhaps the most important systems thinker and practitioner of all, W Edwards Deming.

The relevance of quality management thinking and practice

After the second world war, the statistician Deming moved to Japan to advise companies on how they could bounce back from catastrophic defeat with a new approach focused on quality and remorseless improvement. Deming did not take with him a set of templates for how the car industry could leap forward. Rather, he brought a broader set of principles about how one can attend to systems and, in particular, how to use quite simple statistical techniques to understand variation in results and work to reduce them. At the core of his approach and philosophy is a focus on gathering profound knowledge about systems: how they work, what they deliver, what the customer wants and the level of variation in the system, as well as about how people think and operate and how they view the world around them.

What followed in Deming's wake has been an industry of methods, many of them proprietary and requiring large amounts of expensive consultancy: TQM, Six Sigma, Lean, Kanban, Agile, Kaizen and so on. These techniques developed largely out of a manufacturing context and were coloured deeply by the very special context of a production line or software coding process. The result has been that the methods have rarely been applied with equal success in other contexts. It has not helped that programmes that are necessarily long-term have instead been seized upon faddishly and applied in short-term, top-down ways. A common failing has been to underestimate the distinctively different context of social systems. There is nevertheless a wealth of practical value in the tools of system change – as opposed to the more elaborate theories and claims constructed around them – that will surely serve us well, so long as we select with discretion, avoid swallowing any one methodology whole, and above all adhere to Deming's core requirement to gain as much profound knowledge as possible about the system in question.

The growth of a new 'collective impact' movement

The key though in recent years has been the growth of what can now be seen as a global collective impact movement. In international development and environmental stewardship programmes, in North America and in many other developed countries across the world, sectors are coming together with a new level of ambition to change how whole systems work for people and planet. The results in many cases are highly impressive.[14]

In Milwaukee, for example, a cross-sector partnership was formed to tackle a social epidemic of teen pregnancies. Joint actions such as widescale training for teachers and a sustained public information campaign codesigned by teenagers have resulted in a 30 per cent fall in teenage pregnancies.

In East Lake, Atlanta, a new community foundation worked with residents to develop new plans for mixed tenure housing and support a series of partnership-based ventures addressing challenges such as supporting early childhood education, developing new charter schools, supporting healthy living and new forms

13 See also various papers by Simon Duffy for the Centre for Welfare Reform.
14 For background on all US collective impact case studies, see Bridgespan Group 2012.

of exercise, and much more. Violent crime has fallen by 95 per cent and welfare dependency by 59 per cent while educational attainment has been boosted across the entire school.

In 2004, less than half of Chicago's youth were graduating from its public schools. Four out of five students were in receipt of free school meals. In response, a cross-sector partnership led by Chicago Public Schools has worked to open up new graduation pathways and put in place other support systems. Within the first three years, graduation rates have increased by 3 per cent (some 13,000 students) and the programme is on track to deliver a 10 per cent gain.

Parramore in Orlando has increased reading levels by 15 per cent and doubled maths scores in just three years, while juvenile crime has fallen by 81 per cent. Herkimer County has focused on young people at risk, reducing the number of foster placements from 138 to 64 and the number of institutional care places by 55 per cent, with a recidivism rate of just 8 per cent. The City of Memphis put together a 15-point plan to tackle the US's second-worst violent crime rate. In response, violent crime fell by 27 per cent within one year and property crime by 32 per cent. Within four years the murder rate was at its lowest point for 30 years.

The more comprehensive and long-term the venture, the more impressive the results are likely to be. An excellent example of this is the Strive partnership that was developed in 2006 in Cincinnati and northern Kentucky in response to growing alarm at low educational attainment. As the state president Dr O'Dell Owens put it the area was 'programme rich' but 'system poor'. Systematic research and a wide process of deliberation led to the development of wide-ranging plans to support student progression 'from cradle to career'. The results of the Strive partnership continue to be impressive, so much so that the model has already been replicated in close to 100 other areas. Substantial progress has been made on 40 of 54 indicators, with gains of 10 per cent or more in areas such as school readiness, school test scores, graduation rates and college enrolment.[15]

There are now more than 500 programmes addressing the challenge of whole system change in the US and the approach is now being taken up in many other countries across the world. Canada continues to be a pioneer. International development is adopting some of the core approaches. In the UK, Vanguard Consulting has worked with councils such as Stoke on Trent as well as third sector organisations such as Advice UK to experiment with models of whole-system change. While these approaches are not yet on the scale of what we have seen in the US, they certainly demonstrate the potential of a whole-systems model to deliver better outcomes for people at a lower cost. Stoke has prototyped a 'Rebalance Me' programme that aims to integrate support from across a range of disparate agencies that have historically failed to collaborate fully – including the local authority, police, the fire service, GPs and housing – using new locality team working. Initial assessment indicates savings of £14,857 per person per annum, with 5,482 individuals potentially benefiting from the programme across the city as a whole.

What helps to make all these disparate forms of collaborative activity quite so powerful? In the words of John Kania and Mark Kramer:

> *'The power of collective impact lies in the heightened vigilance that comes from multiple organisations looking for resources and innovations through the same lense, the rapid learning that comes from continuous feedback loops, and the immediacy of action that comes from a unified and simultaneous response from all participants.'*
> Kania and Kramer 2013

15 See http://www.strivetogether.org/

Charles Sabel and Jonathan Zeitlin (2011) refer to a new model of 'experimentalist governance' developing in many countries in response to a new level of appreciation of the challenges presented by complex systems.

> *'One significant response is the emergence of a novel, "experimentalist" form of governance that establishes deliberately provisional frameworks for action and elaborates and revises these in light of recursive review of efforts to implement them in various context.'*
> Sabel and Zeitlin 2012

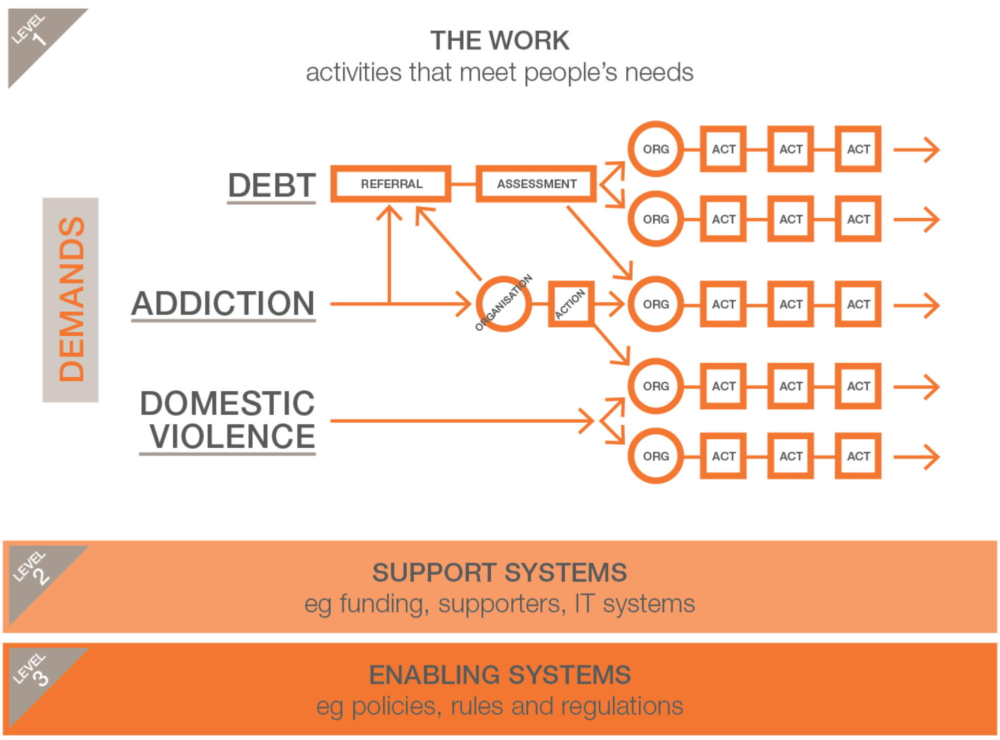
This ethos of deliberation and adaptive leadership is highly characteristic of how all these programmes operate to good effect, frequently modifying approaches in the light of experience. This focus on data and deliberation is one of the core features that make collaboratives notably different from a plethora of partnership models that have often proved less than fully effective in the past. There are 10 factors in all that make models of 'collective impact', or 'collaboratives', stand out.

1. A shared vision and agenda for action

In all successful collaborations, people work together to a single action plan. Here, achieving focus is of the essence – homing in on a very clear problem and a target audience that all participants agree is of critical importance. It is an easy mistake to make, to take on too broad a canvas and soon become lost in the scale and intricacy of interconnected systems and problems. The art of effective system change is to break the problem down and zoom in to a manageable level, while at the same time keeping in view the question of how strategic issues cut across one other.

In practical terms, this means zeroing in on one distinct segment of clients, such as a group of people or a theme across a geographic area – say, the needs of children on the edge of the care system – and considering only this segment in real depth.

Figure 3.1
Changing a system, need by need



Achieving focus should not, however, mean jumping to conclusions about the best actions to take. In the best programmes there is an ethos of starting not with answers or programme ideas or even efforts at theories of change but rather with burning questions – what do we need to discover or test out that is likely to prove critical in making things better? The commitment to build shared learning from the outset contributes to a sense of shared purpose, shared knowledge and perspective and, in time, a sense of shared ownership of the improvements as they begin to materialise.

The collaborative exploration of how systems work leads to a new shared understanding of how and why they work the way they do and how they can be changed and improved. There are many different tools and approaches for achieving this. In general, the best start in a highly participatory way, creating large-scale drawings of systems and then delegating more detailed process mapping and review work to smaller teams. Each group should be empowered not only to map their part of the system in a precise way but also to work to redesign it.

In a similar way, an extremely effective tool (drawn from the field of agile development) is to translate analysis of points of failure for the end-user into short stories about what the system should be capable of delivering: 'As a Mum with a family on the edge of the care system I need help with financial advice.'

These two techniques, 'systems pictures' and 'stories', specify necessary improvements from the service user's perspective, and as a result can help to 'ground' the work of the collaborative, so there is wide understanding of what change is required and why.

2. Shared data on needs and impact

All successful collaborations are data-rich and build directly on the set of good practices outlined in the previous chapter. Indeed, shared data on needs and outcomes is the lifeblood of every successful collaborative, helping participants to build baseline data to assess progress; understand people's needs, goals, outcomes and 'lived experience'; offer a feedback loop to test new ideas quickly and support potential redesign and reprioritisation of effort; help assess the probability of different outcomes being achieved; and offer evidence to funders and investors that targeted results of different kinds have been achieved.

Shared data of course is only a starting point – the next step is to translate that as much as possible into insight. Using classic quality management techniques, we need to map the flow of people through the system. How much support is being offered to whom and where? Where are people stuck in the system? How many of them recycle through the system? In the case of people with mental health problems, for instance, we might wish to adopt several timeframes for analysis, charting daily, weekly or monthly cycles through the systems, as well as longer-term service-user journeys, in order to examine where and how, with what 'volume' and cost, people come into contact with the system. Here, pictures as well as real-time data visualisations can be very helpful in identifying bottlenecks, critical failure points and waste of resource and effort.

We also need an overview of variation in performance across a range of dimensions, including metrics, providers and programmes. We can then home in on the outliers on the graph, and probe for the reasons and the potential solutions – building profound and useful knowledge.

As we saw in chapter 1, what these kinds of analysis commonly reveal is that much of the demand on public services – commonly 50 per cent or more – flows from failed efforts to help people properly the first time around. This does not just result in chronic levels of inefficiency, it manufactures ever greater cost and complexity, as well as increasing alienation from the very systems that are designed to support people.

Theorists of customer relationship marketing talk about 'moments of truth', points of customer experience that confirm positive or negative views of a service that are subsequently very hard to shift (see Beaujean et al 2006). However, in this respect public services are not exactly like customer relationships. If I am stuck in an endless cycle of conversations with a call-centre, at least I can change my energy supplier or bank. With public services, on the other hand, where there are no or few competitors, the result is alienation, cynicism, loss of engagement and ultimately erosion of legitimacy.

3. A central role for citizens and communities

There have been many partnership programmes in the past, but one thing that has marred all but the very best is the way in which they have tended to serve their own interests and become preoccupied with their own challenges and internal structures. All successful system change requires a shift in power to the subjects and primary agents of the system in question – its users, citizens and participant communities. As a matter of routine, system change builds in user panels or forums to help ensure that the voice of citizens takes centre-stage and grounds each and every effort at system improvement. Users are the primary source of information about a failing system: they define what user stories need to be prioritised and they are the ultimate judge of whether reform efforts are working or not.

4. Long-term, cross-sector engagement

Collaboratives are long-term ventures in their essence, because system change is long-term work. Time horizons of one, or three or 10 years are required. Progress can be achieved within a few months, as critical service-user stories and pieces of process change are prioritised. Notable improvements are possible within three years, but full consolidation, maintenance and refinement of a new way of working across a large population can take as long as a decade. Some programmes have ended much sooner than that only to see their achievements slip into reverse over time.

5. Alignment of resources and activities across many organisations

System change requires lots of different organisations from all sectors to work together in an expertly coordinated way. This does not mean that all actions need to be taken with other organisations; 'paralysis by meeting' does not have to be the norm for collaborative projects. The key as we saw in chapter 1 is to be adept at 'sorting' the issue in question: is it simple or complex? Is there existing capacity or not?

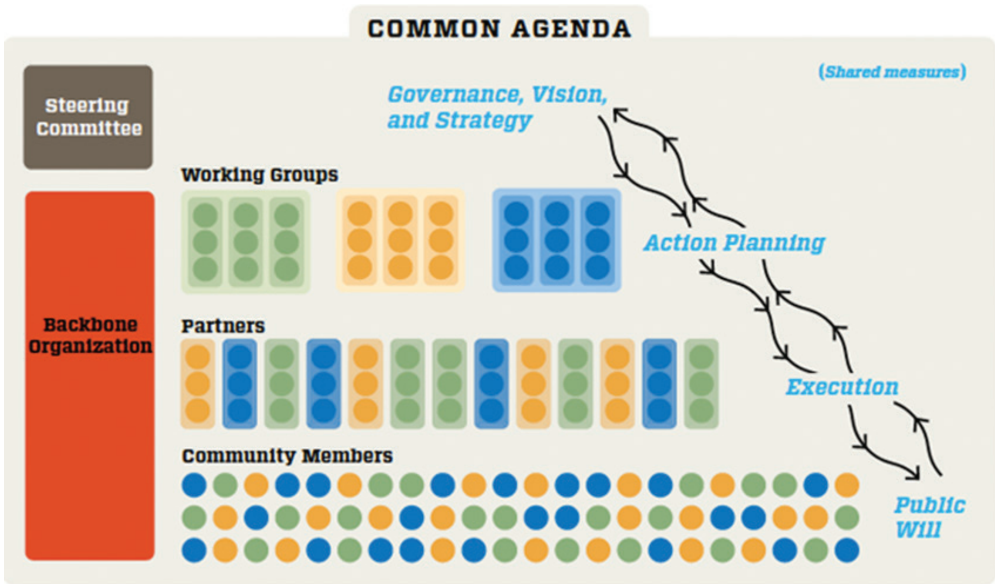
Addressing some user stories will require a grant and technical support to one or two organisations. Many problems can be addressed by achieving better coordination and alignment of action across organisations, or by making internal improvements within organisations. In this way, the time and resource-intensive work of collaborative open innovation can be focused on the truly complex, most mission-critical issues.

Effective system change requires access to substantial resources, which in turn places a premium on an asset-based approach, making the best use of the resources already at hand. This approach has several virtues. First, and most importantly, it helps to engender a 'can-do spirit': it is often possible to make significant strides in improving services with no additional funding of any kind. This has obvious appeal at a time of severe funding cuts. Second, an asset-based approach goes hand in hand with social entrepreneurial approaches that think 'resources outwards' and 'needs inwards' at the same time – what might this unique combination of resource and capacity help us to do differently that our target audience really needs? An effective system change model therefore needs to find ways of opening resources up to new uses and to act as a magnet for entrepreneurial talent. Finally, a truly strategic asset-based approach to systems change uses the opportunity to combine resources and capabilities as a means of dealing with and mitigating risk. The more dysfunctional a system is, the more complex and intractable the needs being served tend to be, and the more that risk is soaked up with the system as a whole. An asset-based approach to system change therefore needs to work in a collaborative way to reduce the chances of system failure. Often the key is a blending of expertise as much as money. Social entrepreneurs need accountants; improvement efforts need project management discipline; complex supply chains need state-of-the-art service integration. The set of capacities that produced a system's problems in the first place will never be sufficient to solve them – the more ambitious we are for change, the greater our determination should be to bring unlikely capacities together on a greater scale than before.

6. Support from a coordinating backbone organisation

At the heart of every successful collaborative is a 'backbone organisation': an organisation that is dedicated to the task of ensuring effective and broad-based collaboration in order to achieve shared goals. Backbone organisations can come from any sector and be national or local, but most commonly they are not-for-profit. Many national charities can be effective brokers and champions of local collaboration, but strong, well-respected local organisations can also often make excellent backbones. It is critical that they command wide respect, are not hampered by conflicts of interest, and are able to be at once a critical friend, a tough project manager and an astute problem-solver. The lead workers for backbone organisations need strong leadership skills. Ideally they will also be good programme managers, although this role is often taken on by others. Funders play a critical role in ensuring that backbone organisations have the long-term support they need to be effective, long-term change agents.

Figure 3.2
Cascading levels of collaboration



Source: Kramer and Kania 2013. Republished with permission from the *Stanford Social Innovation Review*.

Backbone organisations play several essential roles within the life of a successful collaborative programme:

- guiding vision and strategy
- supporting aligned activities
- establishing shared measurement practice

- building public will
- advancing policy
- mobilising funding.

In the field of international development where the term 'partnership broker' is sometimes preferred, typical behaviours associated with the lead worker include:[16]

- business manager – ensuring the work remains results-focused
- record keeper – providing accurate, clear and appropriate communications
- teacher – raising awareness and building capacity
- healer – restoring health and wellbeing to dysfunctional relationships
- parent – nurturing the partnership to maturity
- police officer – ensuring that partners are transparent and accountable.

7. A role for advocacy plus innovation plus programme delivery in combination

Collaborative system change is necessarily made of many strands. Often it does not conform to the boxes that funders like to put things in. It isn't focused on one distinct theme or issue: it isn't just about programmes; it isn't just about advocacy. Most notably of all, it does not conform to one or other theoretical model of 'social innovation' but straddles all kinds of modes, from incremental improvement and social entrepreneurship to disruptive service redesign. It is messy by nature.

Furthermore, these different modes of intervention can be seen to work together in a synergistic way. Advocacy, for example, is especially important not only in maintaining a focus on the voice and experience of the end user but also in building public goodwill towards the changes in question and supporting action and behaviour change among the people and communities involved.

System change methods are multistranded in order to impact on different aspects of the system at the same time. This can be seen, for example, in the Build Initiative, a collaboration of national funders in the US that supports state efforts to create comprehensive early childhood systems, which has developed a five-part framework to help define systems-building and its outcomes:[17]

1. **Context:** changing the political environment that surrounds the system and affects its success
2. **Components:** establishing high-performing and high-quality programmes and services
3. **Connections:** creating strong and effective linkage across the system
4. **Infrastructure:** developing the supports the system needs to function effectively and with quality
5. **Scale:** ensuring the system is comprehensive and works for all children.

8. Continuous communication

For people to work together in a well-coordinated way, on complex problems, for any length of time, good communication is critical; conversely, poor communication is frequently associated with less successful programmes. Programmes must communicate their plan outwards beyond the limited set of actors involved in its creation. Success, especially early on, must be disseminated widely and expressed in terms that everyone can understand. Often, service users are the best ambassadors, able to convey the difference and importance of programme improvements far more vividly than any organisational leader, who will tend to talk about the process and the structural challenges involved. Repeated, excellent

16 For more, see Tennyson 2005.
17 See http://www.buildinitiative.org/Home.aspx

communication helps to build the sense of common purpose across a collaborative, it helps to build the base of those involved in its work, and most critically of all it helps to build a sense of how everyone within a system, service users as much as anyone else, need to change how they behave.

Of course, without all the other critical factors listed above, good communication is merely a PR exercise, more likely to build cynicism about the programme than goodwill towards it. But as one of many key ingredients it plays a crucial role in sustaining work throughout the long timespans required.

9. Effective leadership, governance and operational management

It is critical that actions are taken up by teams that have permission to develop, test and put out for review a new solution to a problem. In many cases, these actions can be taken back into individual organisations by dedicated teams that have been given the mandate to bring about the improvements required. There is no need for everyone to spend long hours in meetings. Within individual organisations, improvement can focus on building 'repertoire' – a requisite variety of actions that people are competent to take in response to the top-priority problems that have been identified.

This process can also extend to testing out possible new actions that the organisation might support, in a form of rapid prototyping, or it might escalate to more radical redesign of internal services. The ultimate goal for one organisation to pass the baton to the next organisation as 'cleanly' as possible, with the presenting problem dealt with or reduced as far as possible.

Cross-organisational collaboration is focused first on how organisations refer between themselves or support individual clients jointly. This work may evolve into looking at how organisations might work together to produce better solutions to system failures. It can in turn progress towards a more radical redesign of major parts of the system, although more ambitious reform will normally take longer, cost more and present higher risk – hence the norm of a more incremental approach to improvement.

10. Long-term funding

In every single case study of effective collaboration (that is, in the 'collaboratives' that have produced major gains in performance), funders, especially independent trusts and foundations, can be seen to have played a decisive role. The critical help they can offer includes:

- convening meetings of different people and ideas
- creating incentives and permission for collaboration – without setting the agenda
- providing funding to test out ideas and build capacity
- investing in backbone organisations that help to organise change
- helping lever in resources of all kinds from all sectors
- helping to ensure that people and communities are placed centre-stage throughout the process.

Taking an ecological view

The requirement for system change can be an intimidating prospect, especially when described in the abstract. However, we can draw confidence from the range of approaches that are likely to characterise the new mainstream of the future. 'Community anchors' that offer an increasingly rich set of support services and colocated organisations. Libraries that offer a frontline for do-it-yourself citizen self-help. Cross-disciplinary, integrated teams working together at a neighbourhood level, perhaps with a relationship manage for each and every home. GP surgeries offering a ‘wide open door’ to a range of health and wider social support services. We can be confident that these kinds of approach will be a big part of future provision for the simple reason that they are already springing up in different localities across the country.

We can also draw reassurance, insight and inspiration from the way that systems work in nature to support powerful processes of regeneration. As Frances Westley has noted in respect of her pioneering work in Canada and elsewhere on systems innovation, in moving to change and improve systems it is very helpful to maintain an ecological view of the systems in question (Westley et al 2013). Systems that are dysfunctional are systems that have been thrown out of balance, with less effective feedback loops, reduced diversity and greater vulnerability to sudden internal or external changes.

Improvement efforts must therefore work to build in levels of appropriate variety, capability, coherence and resilience across the system as a whole.

- By **variety**, we mean that, given the variety inherent in any given need or goal due to the necessarily different lives of individual users, there is an appropriate range of responses available – what we have called repertoire. For example, positive physical activities for young people are an excellent way of diverting them from crime and can also offer first steps into new developmental pathways, but there needs to be a sufficient range of choice of activity, opening times and venues capable of serving as much of that need as possible – or other ways of working around the problem (such as free travel cards).
- By **capability**, we mean that the basic processes, skills and knowledge are in place to address need effectively the first time around. A lot of systems-improvement work focuses on capacity building – via shared learning – so as to pass the baton to the next provider in the system with as few residual problems as possible.
- By **coherence**, we mean that service-user experiences are designed to be intuitive, sensible and fit together as well as possible: ‘I’ve been helped with this, now I can go here or here to do this.’
- By **resilience**, we mean that the system is capable of standing up to excess demands placed on it, whether by peaks in use or dips in capacity, such as when staffing levels are low during evenings and weekends.

All systems, whether in nature or in society, move through a natural cycle: they collapse and then a new phase of regeneration begins. This is the point at which the UK finds itself now. As ever, the point of greatest stress is where innovation takes root. In time, the systems that govern our lives will move towards a new stasis, at which point the role of government will change once more. But in the meantime we have at least a decade of readjustment to navigate, and for now government is facing a burning imperative to work in a different way.

Funders as stewards of system change

What then is the role of funders within a paradigm of systems change? Funders themselves cannot lead system change in the traditional sense. Steering groups can oversee it and backbone organisations can organise it – very often with the secondment and full involvement of talented people from the public sector. Nonetheless, the real work is done at the coalface, in small multidisciplinary teams who have been given the space and support to do something new.

The role of funders in this context is to provide the ground on which learning and innovation can take place, while keeping a tight focus on the results that are being achieved. Above all, they need to learn the art of leading by standing back.

Power

All systems are bound by complex, unequal power relationships and entrenched interests. Effective system change is extremely unlikely to happen without these existing power relationships being disturbed. This is true of any system, but is doubly the case within the world of public services, where the ability of the service user to exercise choice, voice and exit is still outweighed by where and how resources are deployed and accounted for in the system. Hence the emphasis in chapter 1 of this paper on an explicit transfer of decision-making as a precondition for successful change.

In any successful process of system change, service users are given the means of saying what work needs to be done and whether that work has achieved superior results. This role can be done in a number of different ways, from participatory budgeting and personal budgets through to feedback via fluid user forums at one end of spectrum and direct involvement in formal governance at the other. Processes that call themselves ‘system change’ or ‘service integration’ but in practice spend months or years talking among themselves before eventually opening the process out to people and providers from all sectors will not turn public services around.

Leadership

The truth about systems is that they are more powerful and far more durable than any individual, even the most powerful politician or business leader. A new level of humility would serve us well.

New models of adaptive, servant leadership will be critical. There is no place for certainty. None of us knows all the answers to the problems we face as a society. We have to work together, as John Dewey once said, to discover the truth.

A new model of leadership is required that involves stepping back. Leadership and management in the future will surely feel closer to a process of action learning: frontline staff will lead the process of listening and learning and then adapting the model, shifting the system little by little.

At the same time, leaders also need to learn how to step forwards into a new set of often ambiguous collaborative arrangements, in pursuit of shared value and shared interest. Leaders will have to operate far beyond their official organisational boundaries, acting more like social entrepreneurs or ambassadors. This work does not happen without a compass. The acid test, both moral and practical, is simply this: **we should do whatever it takes to give people the help they need and the outcomes they have a right to expect**. The role of funders is to ensure that egos and interests do not win out over hard facts and practical action.

4.
ENSURING MONEY FOLLOWS VALUE: A NEW MODEL OF SOCIAL FINANCE

The agendas for reform outlined in so far in this paper amount to a sea-change in how government seeks to ensure public money follows maximum added value.

We have described in some detail a process of transformation that starts by listening to people, understanding what help they need to help themselves, recognising their strengths, applying real rigour to understanding what works better and what works less well, and doing more of the former and less of the latter – incrementally and remorselessly. We have seen how a focus on help and value leads naturally to a process of bottom-up, highly collaborative system change. At this point the process unavoidably comes into conflict with the local systems of funding and control that still rely upon a highly traditional model of top-down control by central government.

This is not to say that current funding structures present an insurmountable barrier to the approaches outlined in previous chapters. One of the good aspects of the Coalition government's laissez faire stance is that it has opened up plenty of latitude for local innovation. Nevertheless, the status quo acts as a massive dampener on local possibilities.

This final chapter is therefore concerned with structural reform of public funding and finance. It argues above all for a policy of local funding by default – a major move in power away from the centre towards localities across the UK.

Making localisation real

It is an open secret that government is not at all good at coordination. The need for government to 'join-up' different funding pots and services has been a mantra – indeed a cliché – of central policy from the time of the genesis of the Social Exclusion Unit. In practice, however, we have just as often rowed in the opposite direction.

The effect of uncoordinated and yet overly constrained government funding has worked to kill off collaborative improvement efforts in five crucial ways:

1. savings fall into different years
2. savings fall across different budgets of different agencies
3. it is hard to get agreement
4. it is even harder to get agreements over the medium term
5. different funders have different reporting arrangements and compliance requirements.

A good case study is provided by investment in early intervention. When seen across the range of funding pots that are impacted upon by prudent investment in early years prevention of future harm, the business case appears incontrovertibly strong. The problem is that the nature and timescale of the investment required means that all five of these disruptive factors come into play: the full payback comes in the medium term (and beyond) and cuts across many budgets. In particular, without some participation from the Department for Work and Pensions and the criminal justice system, the payback from savings tends not to cover the upfront costs involved. As we will see, this situation serves to frustrate many efforts to bring third-party finance to bear on social issues – such that the government has created, for the time being, a fund that serves as a proxy for the wider government interest that is served by investments such as those in early intervention. But this is a short-term fix, not a root solution.

Community budgets have been a recent effort to solve this problem, building on the experience of 'Total Place' under the previous administration. This process has certainly dramatised the opportunities for better joint-working. But its practical results have, thusfar, been somewhat disappointing. Given the depth of spending cuts required, it was perhaps inevitable that early attention would fall upon opportunities to share services and cut costs by working together, but the results to date have been meagre, viewed against the scale of the overall challenge.

The key weakness with Total Place and community budgets is that they have approached the problem from the wrong end, starting with money rather than value. As we have seen, a properly grounded process of service transformation starts with need and moves towards value, then collaboration and then shared funding. It cannot work the other way around. Need should dictate function, function should dictate form, and form should dictate the funding mechanisms required. Attempting to do the process otherwise all too easily leads to a situation in which where agencies talk with each other in exclusion of outside voices, structural change is placed above system change, great job insecurity is created, and years that could have been spent on frontline reform are squandered.

These frustrations with community budgets are not an argument for holding back on the pace of devolution of power. Instead, they support an increase in the pace and depth of change, based on confidence that funders are able to pursue reform in the ways outlined in this report – not as some form of blueprint but as a guiding set of heuristics for bringing about effective reform.

Four models for localisation

Local by results: devolve power to localities

Based on an understanding that local government will work in progressive ways to achieve superior results, central government needs to learn how to step back and offer a much greater range of discretionary powers. A key innovation will be the power to set five-year budgets, such that local agencies can invest with greater confidence for the longer term and escape from the cycle of poor value, short-term procurement.

Such a move should not be understood simply as the swinging of a pendulum from 'centralised' to 'localised'. Not only would localities be expected to work in new ways but above all they would be expected to show progress in achieving superior results over time. By results, we mean accountability across all the aspects of the balanced scorecard set out in chapter 2 and categorically not a return to the narrow, top-down targets that have plagued previous efforts at improvement of services.

Local on demand: introduce local pooled funding arrangements

Funding should be local by demand, as required by the needs, functions and forms that emerge from a process of bottom-up system change. Local agencies should be able to pool and control central and local funding as the business case demands, with a shared public purse linked to shared value derived from investment in specific needs or groups of people.

Possible examples of this include:

- Merging health and adult social care funding, for example to support prevention and reablement for older people.
- Pooling elements of 'human capital' funding, such as education, employment and potentially elements of welfare payments, as well as clawback of savings

to the Treasury, to boost the chances of those who are not in employment, education or training (known as 'NEETs').

- Pooling funding from social services, the NHS, police, the criminal justice system and central government to provide proper reward for investment in early intervention.

Local finance on demand: permit greater use of capital

Borrowing powers for local authorities should be relaxed so they can raise new capital against the value of their assets and the cashflow certainty offered by a five-year agreed budget from central government.

By these means, new hybrid forms of social investment can fulfil their potential, with coinvestment and joint risk-taking between local public funders on the one hand and cross-sector partners and external investors on the other. There is a massive untapped potential for local people and organisations to reinvest in the development of their own localities through not-for-profit structures, for a 4–5 per cent return on investment.

Central government would expect localities to develop cross-sector plans for improvement To support this move, there should be a new financial settlement between central and local government, with the creation of five-year capped budgets, offering scope for localities to plan for both investment and cost saving over a reasonable timescale.

Local by demand

Use of shared public purses would be still more powerful when set over a five-year spending review period. In particular, it will make it considerably easier for local authorities to exploit new and existing sources of investment, designed to achieve cost savings over the medium term. Of course, this extended predictability and flexibility of budgets will require new kinds of checks and balances to be put in place. However, if the accountability framework can be got right, linking it to robust measurement of all four quadrants of a public value model, then the simple act of setting five-year budgets can add to rather than undermine fiscal discipline.

Would this approach create a major diseconomy of scale? There is no evidence to support this concern: stripping out layers of funding bureaucracy will cut cost; pooling budgets should create cost-efficiency gains; dealing with clients as a whole set of needs and strengths is both better and more cost-effective. Furthermore, central government or networks of local agencies can also create shared infrastructure for accepting and reviewing tenders, as is already widespread in practice.

Towards a new model of social finance

Integrated, five-year budgets would provide a basis for unleashing major, bottom-up, highly collaborative efforts for reform. The final missing element is a method for channelling resource to the right people or places at the right time, in the right form, for the right activities and results.

The rise in importance of social investment is something that was pioneered by the last government and continued by the current government – a piece of bipartisanship that has led to the UK now being acknowledged as a world leader in this field. Social investment in its narrow sense involves the use of finance – essentially any form of funding that is repaid – to help organisations with a clear social mission to grow stronger, generate more revenue, deliver stronger impact, and so be able to pay the investment back.

There are now many funds offering different types of products for different types of organisations at different points in their lifecycle. Many of the most pioneering are based in the UK. The overall volumes of current investment are modest – heading towards £5 billion in the UK and $20 billion globally – but the potential funds available are massive and the projected growth rates, if somewhat conjectural, are impressive, heading towards $1 trillion by 2020 (Saltuk et al 2013). What started as a marginal activity has now entered the mainstream and, in doing so, has further blurred the boundaries between sectors and opened up the potential for new kinds of cross-sector collaboration.

Introducing social impact bonds

The point of disruption has come with a major financial and social innovation, the social impact bond, the work of UK-based Social Finance. Social impact bonds (SIBs) differ in structural terms from conventional lending. Normal provision of working capital takes the form of a line of credit, often from a high street bank that covers the cashflow pressures of working on a results basis. In a SIB, the transaction is not with a provider but between funders, investors and a managing agent. The private investment is designed to achieve greater results and cost savings than the locality would be able to achieve on its own.

In revenue terms, the investor pays one or more providers on a regular basis, not on a results basis, so their cashflow is not placed under undue pressure. SIBs thus recognise the inability of many good providers to work on at-risk basis (and the potential for great harm were they to try to do so). Investors get paid as the targeted results are delivered; in the UK version, these returns are capped, so there is an upper limit to the returns that investors can expect.

Somewhat confusingly, a SIB is not a bond at all but a form of equity that is considerably more expensive than conventional lending. This is because the investor is exposed to the risk of potentially significant loss that is therefore 'compensated' by returns of up to around 17 per cent (Centre for Social Impact Bonds 2013).[18] It is this capital structure that has been most widely criticised, both by commissioners, who are comparing this headline rate to the lower costs of prudential borrowing by local authorities, and by other investors, who also see more scope for use of lower-cost lending rather than equity investment.

Despite considerable effort, the take-up of SIBs has thusfar been relatively limited, although many more are in different stages of development – 53 in total at the time of writing. There are several reasons for this relatively slow development. The upfront investment of time and money is considerable. The structure is complex and needs to be tailored for each transaction. There is controversy around the level of return on offer to external investors and concern that the model acts as a form of privatisation, turning government into a purchaser of results rather than a partner in delivery. Finally, there is the problem that SIBs are not as flexible as they need to be to address the range of needs faced at a local level.

Where the value lies for public funders

Despite these valid criticisms, there are nevertheless some inherent benefits to the approach that need to be protected in any future version of SIBs. The biggest payback is arguably not the capital available but the extra degree of commercial rigour that is brought to bear on the funding process. The scrutiny and due diligence offered by seasoned investors and their partners invariably offers an extra degree of rigour in checking the aspirations set out in a business case. The act of borrowing and needing to repay capital focuses the mind in a way that grants from central government seldom do. The result is that a SIB-like review process will often create a business case that is so robust that it could be funded out of public funds in its entirety – subject to these funds being available.

On top of this additional rigour is the extra appetite and potential that SIBs create for judicious risk-taking. It may well be that government can access alternative

18 See https://www.gov.uk/social-impact-bonds

sources of funding and finance, but it is much less likely to be able to access flexible working capital that is consistent with the particular demands of system transformation.

The requirements for a new model

A 'next generation' successor to SIBs will need to be capable of responding to some clear requirements.

- 'Patient capital' that looks for a return over a sufficiently long period – typically four to five years.
- Flexible draw-down, not a one-off investment.
- A 'fair rate of interest' in line with government borrowing – perhaps 1–1.5 per cent above public borrowing (currently 2.86 per cent on a four-year term).
- Capable of investing in a portfolio of activities, not just one intervention.
- Capable of offering small grants to smaller organisations in return for a contribution to shared impact.
- An overall not-for-profit structure, to build confidence in the approach.

From risk-shifting to risk-sharing

The core problem with SIBs, like the private finance initiative, is that they purport to shift risk away from the state to the private sector but in reality the transfer of financial and performance risk leaves the state with a substantial contingent liability. Risk may be transferred to the private sector, but if the investor is doing their job properly, this risk will be priced into the cost of capital that the commissioner will end up paying for. If disproportionate risk is nevertheless transferred, by force of market power, that will very seldom result in a 'free lunch' for the local purchaser: there is still a wider cost to the state through reduced confidence, reduced capacity, lower competition or higher prices, as well as the increased perceived risk on the part of investors and thus a higher cost of capital in the medium term. Whether performance is good or bad, government will be left dealing with the consequences in the end.

The alternative lies in models of risk-*sharing* between state, social and private sectors. Under this model, the state acts as an anchor, providing a guarantee for a substantial portion of the capital deployed, such that that the finance required on top can be structured not as expensive equity but rather as a lower-cost, more flexible form of debt.

Improving the financial structure of SIBs

A new model of social finance will combine guarantees from local public sector organisations, potential credit enhancement (additional guarantees and perhaps insurance) from organisations like Big Society Capital and the European Investment Fund, and debt that earns a return on a performance basis, if a range of results are achieved.

A notable feature of this model is that because the state effectively guarantees that investors will not lose their capital, a larger set of investors will be encouraged to invest their capital in programmes of this kind. Indeed, the model could prove especially attractive to local institutions and individuals that want to put something back into the local community by reinvesting in local redevelopment programmes. With sufficient scale and track record, it could also be structured so as to be accessible to smaller investors through an ISA-like structure.

Just as the model cushions risk for external investors, it also helps to manage risk for the government, creating the ideal requirements for local system transformation as outlined above, especially by increasing the rigorousness of the process and encouraging a culture of well-informed risk-taking and innovation.

The model will be especially potent as local agencies are able to move from the single-metric outcomes that have characterised most SIB contracts to date, with a range of funders signing up to joint finance and funding agreements – essentially offering ‘pay as you save’ terms to local public agencies: as costs are saved, as demand falls, the funder pays the investor back, with the aim of generating a surplus that can be reinvested in further improvements.

The elegance of the model from a public sector risk-management point of view is that it reaps the benefit of all the investment in strong foundations of impact reporting outlined in chapter 2. Armed with real-time data, as well as access to the wider evidence base, investment can be structured so that guaranteed government repayment is pegged to the worst-case scenario. Put another way, government will only pay if impact and savings are achieved that are demonstrably beyond what it has achieved to date on its own.

Towards scale and maturity

The pay as you save investment funds of the future will look a lot more like traditional prudential borrowing, but with a risk-sharing component that is used to drive added-value through joint working and shared capacities for improvement.

We need to develop properly scaled funds with a value in the region of hundreds of millions of pounds. In many cases, complex and costly special purpose vehicle structures will be avoided, with different local backbone organisations able to act as a conduit for funds, backed up by clear funding and finance agreements with local public agencies. Next generation social impact funds are thus ideal mechanisms to drive the kinds of system-wide improvements outlined in chapter 3.

Asset-backed transactions

It is important to note that scaled funds that invest on a pay-as-you-save basis are only one way of scaling a new shared-risk approach to local reinvestment. We are already seeing experiments with new models of shared risk-taking that address some of the more shameful aspects of the old-style private finance initiative. Many local authorities are in an ideal position to bring landholdings and planning powers to the table, to work in partnership with private or social developers, and to act as a part guarantor to pension funds and other institutional and local investors to coinvest in ambitious programmes of asset development and wider place-shaping on a not-for-profit basis. A similar process could extend to partnerships with banks and specialist investment intermediaries, with a view to recycling capital into community development finance programmes for unbanked and exploited families as well as undercapitalised local enterprises.

The key in all these cases is a new spirit of cross-sector partnership and an equitable sharing of risk and reward that offers no place for excess profiteering.

Conclusion

What this final chapter illustrates is that the UK’s real challenge is not a poverty of resources but rather a poverty of ambition and imagination. The trick lies in learning how best to recombine and better coordinate these existing resources.

With imagination, the systems of funding and finance can be redesigned so as to maximise the potential of deep, collaborative learning and improvement. For this to happen, we need above all to have the courage to hold new kinds of conversations and try new joint actions – the more diverse the range of those involved the better.

New, grounded conversations will spark new actions. New actions will change relationships. These new relationships will in turn change culture. And this new culture – more respectful and resourceful – will, in the end, trump even the most engrained systems that govern all our lives.

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APPENDIX:
OPEN OUTCOMES MAP, v0.4

The open outcomes process is designed to build consensus through ongoing peer review of shared data and reporting standards. Organisations will always be able to choose metrics and data sources that are appropriate to them and their users, but the provenance and reliability of this data will be clear to all those that use it. Where possible they will draw on shared metrics (with data sources recommended for the users in question) and existing good data sources as set out below.

Social, environmental and economic outcomes and metrics

Social

1. **Right start in life** – weight, secure attachment, health review
2. **School readiness** – letters, shapes, motor skills, reading books, number recognition
3. **School commitment** – attendance, effort, behaviour
4. **Educational attainment** – grades and qualifications, by stage of education
5. **Can do** – control, self-esteem, general self-efficacy, range of personal skills/strengths, by perceived self-efficacy
6. **Employability** – job search, interview skills, communication skills, attitude and motivation, task specific skills
7. **Work** – net income, job security, locus of control, training opportunities
8. **Money management** – using bank accounts, understanding of the mechanics of credit, confidence in tasks such as filling out financial forms, drawing up a budget
9. **Living within means** – household income, household spend across main items, percentage of income spent on annual debt repayment, number of months arrears on debt repayment, number of months arrears on rent payment, percentage of income spent on energy costs
10. **Access to financial services** – cost of credit, use of a range of financial products
11. **Home** – secure tenure, satisfaction, suitable, state of repair
12. **Independent living** – self-control, wellbeing, activities of daily living, access to local shops and services, falls
13. **Healthy living** – '5+ a day', sleep, activity, alcohol, smoking
14. **Health status** – self-rated health, BMI, resting pulse, blood pressure, registered with GP
15. **Mental wellbeing** – mental wellbeing, clinical condition, depression, access to appropriate support
16. **Managing long-term health conditions** – control over medical support, access to information, satisfaction with support, self-confidence in managing condition, reduced use of hospital
17. **Substance abuse** – level of drug use, drinking, smoking, hospital use
18. **Wellbeing** – with life, family, friends, social activity
19. **Social connections** – number of intimate friends, wider network, level of trust, to friends, wider network and others, plus perceptions on locality

20. **Meaningful activity** – hours a week involved in art/music, sport, social activity
21. **Cultural experience** – quality of overall experience, risk and innovation, production quality, access
22. **Civic involvement** – volunteering, voting, governance, politics/campaigning
23. **Rights and responsibilities of citizens** – understand welfare rights, civil rights, wider legal rights, information on opportunities for engagement
24. **Safety** – law abiding, fear of crime, collective efficacy, victim of crime
25. **Perception of local area** – place survey
26. **Enterprise development** – businesses started, business sustained, jobs created, jobs sustained, investment accessed, growth in capabilities (number and level, change in turnover, confidence about future)
27. **Access to information** – access to the internet at home, access to the internet elsewhere, confidence in finding the information you need, perceived access to information
28. **Improvements in policy and legislation** – number of supporters, adoption of policy, legislation/policy guidance, adoption of key actions
29. **Housing supply** – new units developed, units sustained, BREEAM rating,[19] average gross square metres, use of environmentally responsible construction techniques, area of brownfield or previously contaminated land reused

Environmental

30. **Improved access to and enjoyment of the natural environment** – number of people visiting and number of visits to conserved spaces; cost of entry; satisfaction rating
31. **Reduced personal impact on the environment** – number of people who recycle, number of people who actively attempt to reduce waste and water usage, number of people using sustainable transport, number of people who actively attempt to save energy and minimise their carbon footprint, amount of energy saved through energy efficiency improvements
32. **Improved water use and efficiency** – volume of water consumed, volume of water recycled, volume of rainwater harvested, volume of water saved through efficiency schemes, volume of wastewater, method of discharge, impact on locality, measures of local pollution levels
33. **Improvements in general waste and recycling** – overall waste: percentage recycled, reused, donated, going to landfill; input materials: volume and proportion, from recycled/reused sources
34. **Reduction in harmful waste and pollution** – reduction in chemicals (eg nitrogen oxide, sulpher dioxide), particulate material, ozone depletors, toxic and chemical emissions to water, soil reductions (volume and type), hazardous waste, spills, volume of harmful waste responsibly disposed of, remediation of environmental damage from pollution
35. **Conservation of natural spaces, natural heritage and biodiversity** – area of natural space or heritage: habitats, forests, water bodies, coastlines conserved, area of natural space or heritage restored or created, area of derelict or brownfield sites converted, number of trees planted; population numbers: changes in wildlife/plant species, levels of biodiversity; air quality measures, number of visitors to conserved spaces
36. **Organic farming** – volume of organic produce, area of land farmed sustainably, associated reductions in greenhouse gas emissions and environmental damage (reductions in use of fertiliser, mitigation of soil erosion, meeting recognised standards for sustainable agriculture)

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19 See http://www.breeam.org/about.jsp?id=66

37. **Increased generation of renewable energy** – megawatt hours of renewable energy generated, greenhouse gas emissions, sale or retirement of certified emissions reductions, lifetime greenhouse gas emissions (of project, installation, product)
38. **Buildings meet environmental standards** – BREEAM rating, energy use and onsite energy generation, percentage of building with natural light, natural ventilation, volume of water consumed, recycled on site, volume of waste produced, recycled, reductions in greenhouse gas emissions and pollution, area of brownfield or previously contaminated land reused, populations of species of plants/animals conserved
39. **Sustainable transport** – provision of sustainable transport options; uptake of sustainable transport alternative; percentage of the population walking, cycling, using public transport; reduction in levels of unsustainable company travel by air miles and car miles; related reduction in greenhouse gas emissions; impact on locality (measures of local pollution levels and consequences)

Economic

40. **Good employer** – average annual salary, average hours across all contracts (including zero hours), ratio of lowest to highest paid, tax payment as percentage of turnover in tax jurisdiction, amount spent in area of presence as a percentage of local turnover (salaries, goods and services etc).