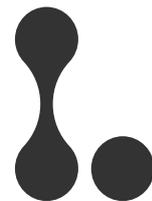


2019

Social outcomes contract in Norrköping - Interim evaluation

INTRODUCTION

In the spring of 2014, Leksell Social Ventures (LSV) took the initiative to explore opportunities to establish the first social outcomes contract in Sweden. In collaboration with Norrköping Municipality and Sweden's Municipalities and County Council (SKL), Sweden's first social outcomes contract (aka Social Impact Bond) was signed in 2016. The investor's ambition was and is to contribute to the construction of a transparent market for financially sustainable outcomes-based social investments. In this report, we at Leksell Social Ventures wish to summarize and share our observations and lessons learned from the investors perspective as we approach half time (final reporting of the contract is expected in 2021).



LEKSELL
SOCIAL VENTURES



“Halfway through the evaluation of this contract we seize the opportunity to share observations, insights and lessons learned.”

- Hugo Mörse, CEO

Findings in brief

- The initiative has led to the development of the “Norrköping-model”, a new method for coordinating efforts around children and youth in government care.
- The social results for the target group of children and youth in Norrköping are so far positive. School results in particular are above expectations.
- The parties’ experiences of cooperation under social outcomes contracts are very positive. In particular, the format of joint intervention councils has created room for constructive dialogue between the parties concerning the implementation of the intervention.
- In the short term, the financial outcome for the municipality is clearly positive for specific parts of the target group (young people with previous placements) and negative for other parts of the target group (older youth with more complex problems).
- As a result of the realization that the savings have taken more time than expected to prove, the parties have decided to extend the monitoring of the intervention for one additional year with final reporting in 2021. This does not change the duration and revision of the contract however, expected in 2020.
- As an investment, the social outcomes contract in Norrköping depends on savings for the municipality accumulated over the time of the contract to repay the investment. Initially, the intervention has increased the care of the target group and thus driven increased costs in the municipality. From 9 months into the effort, we start to see net savings accumulated. It remains to be seen whether the savings will catch up with the investment until the conclusion of the formal evaluation period in 2020.
- Halfway into the project, we can distinguish the most solvent parts of the effort and the sub-target group that respond best with the intervention method. This can serve as a basis for scaling up the effort with recommendations for specific adjustments to optimise the outcome for the target group.
- The municipality of Norrköping is making arrangements to implement the methodology of the intervention method alongside regular operation, with some adjustments to optimise the outcome.

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CEO

“The social outcomes contract as an innovation would not have been possible without the pragmatic leadership of Norrköping municipality. The municipality has displayed an enormous will, creativity and solution oriented focus in the ambition to drive innovation in public services.

This work is a fundamental stepping stone in our mission to contribute to a society where we secure and maximize social outcomes and impact.

Halfway through the evaluation of this contract we seize the opportunity to share observations, insights and lessons learned.

We do this in order to, in collaboration with others, continue the vital work to drive innovation in the modern welfare society.

Leksell Social Ventures looks forward to continuing to supply competence capital and innovation for a better Sweden.”



HUGO MÖRSE

CEO

CHAIRMAN



**LAURENT
LEKSELL**
FOUNDER & CHAIRMAN

“It is apparent that the existing Swedish welfare model is facing substantial long term challenges in fields of healthcare, education and social services. Lack of innovation and renewal has contributed to the social problems becoming more and more tangible today.

This remains the mission for Leksell Social Ventures - to contribute to driving social innovation and collaboration between sectors, in order to continuously improve the Swedish model of society.”

ADVISOR

“Since we commenced the work with Leksell Social Ventures in the autumn of 2013, impact investment has gained popularity and reached a broader audience in Scandinavia.

Social outcomes contracts in particular, attracts and engages across public, private and non-profit sectors and stimulates the kind of collaboration essential to tackling the challenges of modern welfare.”



**HENRIK STORM
DYRSSEN**
SENIOR ADVISOR

DEFINITIONS

“Outcomes-based models”

STRUCTURES, METHODS AND PROCESSES aimed at measurable results.

FINANCIAL OUTCOMES-BASED MODELS aim to pay for results. Examples are procurement with payment for earnings, social impact bonds and social outcomes contracts.

OPERATIONAL OUTCOMES-BASED MODELS are aimed at initiatives that are designed based on outcomes data. Examples are efforts aimed at creating better outcomes for the environment or social problems. Healthcare and social care, like many welfare activities, can be organised towards outcomes, even though organising by resource allocation or activities is more common.

“Outcomes-based social investment”

ECONOMICALLY SUSTAINABLE assumes that there is a transparent potential for financed operations to repay the capital expenditure, whether through direct revenues or through indirect savings that may form the basis for repayment.

EARLY INTERVENTIONS have greater potential for driving long term cost-savings. This is because social problems have a tendency to evolve and become more costly and complex to address over time.

MEASUREABLE with regards to social and economic outcomes. For “payment for results” to apply, results must be measurable. This requires indicators and benchmarks for social and economic outcomes set against a historical or parallel comparison (i.e. control groups).

SCALABILITY based on method development and implementation. Scalability consists of the potential to replicate, develop and implement interventions in regular operations, administration and governance.

“Social outcomes contract”

FINANCING MODEL for innovation and implementation of new methods in the vicinity of welfare.

A PRIVATE FINANCIER funds an intervention against some guaranteed reimbursement for services performed as well as repayment of principal capital expenditure and potential premium based on social and financial outcomes.

COLLABORATION between public commissioner and financier through joint oversight committee for follow-up and development of the intervention.

SOCIAL OUTCOMES CONTRACTS differ from so-called sustainable- or social bonds in that they do not legally constitute bonds.

“The Norrköping intervention model”

AN INTERVENTION driving more effective coordination of interventions for children and youth placed in public care.

AIMS to reduce replacement frequencies, increase school results and reduce social service costs.

IMPLEMENTED through a multidisciplinary team of sociologists, special needs educators, occupational therapists and project manager working across local educational and social services. The public services team is complemented by an external educational tutoring service.

DEVELOPED in collaboration between the Municipality of Norrköping, Leksell Social Ventures, The Association of Swedish Municipalities and Regions and the management consulting firm Lumell Associates.



“The unique collaboration in Norrköping is achieved through the first social outcomes contract in Sweden”. - Hugo Mörse

WHY OUTCOMES-BASED SOCIAL INVESTMENTS IN PUBLIC SERVICES?

A PUBLIC SERVICE WITH SUCCESSES AND CHALLENGES

One could claim that the Swedish welfare system is one of the real successes of modern civilization. It is a system meant to create equal basic protection and support for everyone's basic needs and participation in society. A grand ambition, largely achieved and that has survived for decades.

However, the Swedish welfare model's function and design is challenged today partly by demographic development driving increased costs and decreasing fulfilment of social outcomes. The public sector is under pressure to open up for innovation in order to live up to the expectations of responsibility bestowed upon it by government mandate.

The greatest limitation to the sustainability of the welfare model is the lack of innovation. By innovation we mean the development and adoption of operating models that increase social outcomes while reducing costs. The lack of innovation is in turn due to three systemic challenges related to increasing complexity in welfare provision and governance of public services.

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1

Complex problems undermine and create opportunity for leadership

Today's social problems challenge public leadership. Complex problems pose great demands on leadership to develop comprehensive and granular insight into all parts of the public sector and articulate directives and regulation that enables real collaboration without subverting important delineations of responsibilities between different parts of public services.

2

Innovation in public services is an artistic balancing act

Like all organizations, including private and non-profit, the public sector has the challenge of balancing different interests, priorities and goals in order to drive concerted effort towards change. A sharp diplomatic eye is key to succeed in implementing new perspectives and ways of working.

3

Effective collaboration is elusive

The complexity of social problems, such as in the case of education, integration or mental health, is greater than any individual actor or sector can manage on its own. Collaboration between public, private and non-profit sectors are absolutely necessary to achieve coordinated interventions transcending organizational silos to meet requirements for pragmatic and responsive individualized services.

ONE TOOL FOR THE DEVELOPMENT OF PUBLIC SERVICES

The hope for the Swedish welfare model is spelled new methods for financing innovation in order to achieve real collaboration between public, private and non-profit sectors. This needs to enable identification, analysis, development and implementation of cost-effective, evidence-based early interventions to today's social problems. Fortunately, such methods now see the light of day, exemplified here in the development of outcomes-based social investments.

An outcomes-based social investment involves capital earmarked for the implementation of a specific operating model with measurable economic and social outcomes. These investments are aimed at preventive and early interventions that create direct economic savings, greater accumulated savings over time and prevent or reverse the development of social problems at the individual level as early as possible. The projects are often multi-annual, which requires a contracted structure that allows participating stakeholders to have a clearly agreed framework for how the effort is to be implemented, managed and evaluated. Today, this exists in Sweden in the form of the social outcomes contract in Norrköping.

The potential for outcomes-based investment in public service is to create an economically sustainable and scalable model to develop and disseminate evidence based cost-effective interventions and operating models that generate short- and long-term savings for public finances, reducing risk and strengthening sustainability in disseminating innovation and bridging challenges with project organisation. With outcomes-based social investment, we can finally have a functional tool for industrial scale innovation in the public sector. This at the same time as private financiers can participate in and generate returns through an important social action, with the end goal of contributing to the sustainability of our welfare system.



“Only with true collaboration between public, private and non-profit sectors will we be able to tackle today's social challenges.”

- Laurent Leksell

SOCIAL OUTCOMES CONTRACT IN NORRKÖPING

STRUCTURE FOR SUCCESSFUL COLLABORATION TOWARDS OUTCOMES

A social outcomes contract is a structure for financing and organizing collaboration between public, private and non-profit actors where private financiers fund a budget for the duration of the intervention. The parties agree on who will own and direct the various parts of the operation and what elements of collaboration and governance is required. Processes and forms for evaluating economic and social outcomes are agreed and contracted from the outset. Evaluation is carried out by an external and independent party. If the intervention achieves the agreed benchmark social- and economic outcomes, the financier is repaid its initial investment and a premium linked to the result.

This structure enables the financier to view an outcomes contract as a financial investment with potential for return. This in turn opens this form of organised innovation to the resources of the international capital markets. Contracted collaboration and evaluation enable the parties to establish mutual control and transparent monitoring as well as secure governance and organisation of the effort with structured alignment and focus on economic and social outcomes. The public commissioner, who might procure such a structure, benefits from the financiers external eyes and ears to support monitoring the intervention as well as access to the financier's network of expertise and resources to optimize the management and organisation of the intervention. Non-profit or private service providers can be given parts or overall responsibility for the delivery of the operation. The principal for the implementation of the action can be a private actor or the public commissioner and can also be divided between the two.

TARGET GROUP – CHILDREN AND YOUTH PLACED IN PUBLIC CARE IN NORRKÖPING

The intervention in Norrköping, which goes by the term social outcomes contract, addresses a typical social and organisational problem that often arise in the public sector at the local level. Children and youth in care (formerly called foster home placements), which are the target group, tend to be placed over and over again in public institutions. Rates of replacement vary from municipality to municipality but goes as high as 80% in places (Swedish Association of Municipalities and Regions). The ambition is of course that one individual placement should suffice, but this is rarely the case. Placement at the institution costs around 1 mSEK per child and year. In Sweden, more than 30,000 children are in public care at any given time, most of them at institutions (Swedish National board of Health and Welfare). Singular challenges such as dysfunctional families or school failures are often further complicated for this target group by undiagnosed neuropsychiatric disorders such as ADHD or autism spectrum, in teenagers often further complicated by drug abuse and or criminality.



AS MANY AS 80% OF CHILDREN IN CARE HAVE HAD PREVIOUS PLACEMENTS



AS MUCH AS 1 MSEK PER CHILD PER YEAR IN PLACEMENT COSTS



OVER 30 000 CHILDREN PLACED IN CARE IN SWEDEN

Placement is made with the intention to care for children at risk. It is the most comprehensive intervention social services and authorities can decide on. However, the state is not a great parent. The prognosis for placed individuals is consistently negative: cycles of placements, home care, outpatient interventions, school failures and repatriations create a difficult living environment for these children. The complexity of the problem often puts the children in a greyzone between local social and scholastic interventions, regional health care interventions, state police and judicial interventions. Breaking the pattern of recurring placements and anchoring the individual back at school is thus the direct aim with the social outcomes contract in Norrköping - an effort that requires innovation and

THE “NORRKÖPING INTERVENTION MODEL”

The intervention involves cross-functional organisation of administrative branches as well as a private tutoring service all responding to the individual needs of each and every child in the intervention. A multidisciplinary team is established across social- and educational services with the capacity to support up to 60 individuals coordinating the municipality's efforts to support the reintegration of placed children into family and school. The goal is to improve the social, scholastic and economic outcomes.

In addition to establishing a new team in the municipality, a company specialised in educational support through tutoring is procured by the municipality. The work with the children begins as soon as a decision on placement is made and for 4 months following, during which the team monitors the individual during placement, prepares him/her for repatriation and supports the individual's reintegration after returning home. Post intervention the individual's social, scholastic and financial outcomes are evaluated for a total of two years from the date of inclusion in the intervention. The parties have subsequently expanded the time horizon of evaluation to three years in order to properly follow the target group.



TARGETING 60 CHILDREN PLACED IN CARE BY NORRKÖPING MUNICIPALITY



TEAM OF PROJECT MANAGER, SOCIOLOGISTS, OCCUPATIONAL THERAPISTS, SPECIAL NEEDS EDUCATOR AND TUTORING SERVICE



4 MONTHS OF INTERVENTION FROM THE TIME OF REPATRIATION



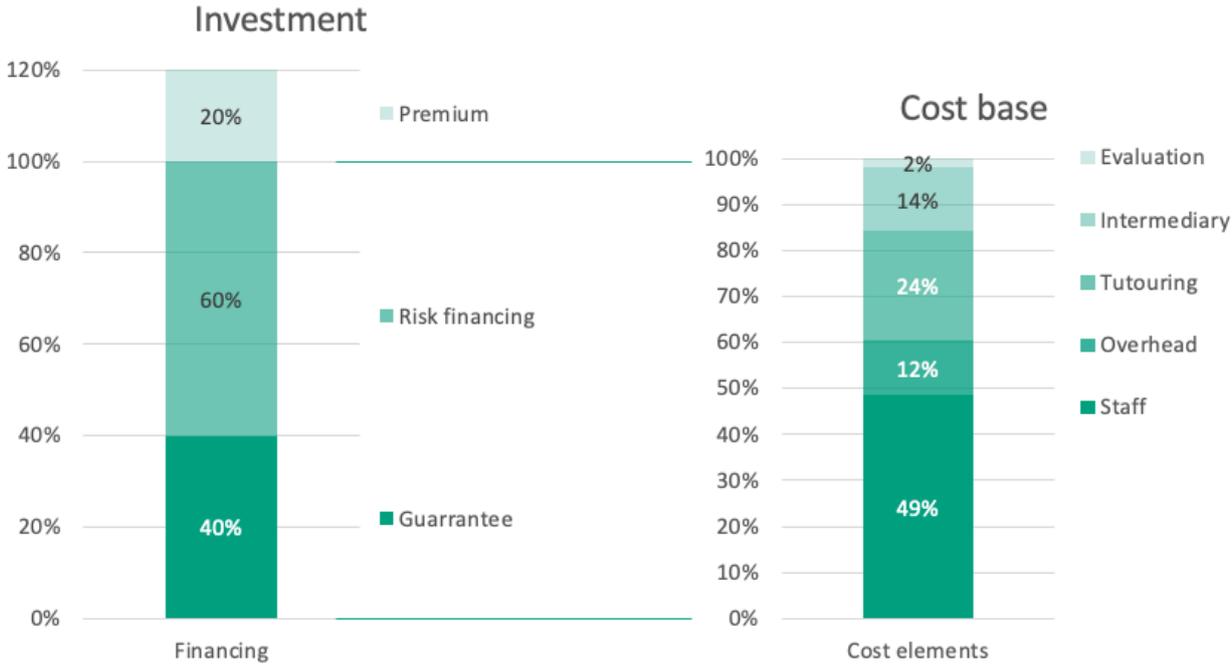
EVALUATION OF SOCIAL-, EDUCATIONAL- AND ECONOMIC OUTCOMES TWO YEARS AFTER INCLUSION

THE OUTCOMES CONTRACT AS AN INVESTMENT

The intervention runs from 2016-2020 and is evaluated by an external party to be determined. Revision of the contracted period is expected in 2020. The extended evaluation is expected during 2021. LSV has allocated 10 mSEK which is drawn down following cost reporting by the municipality.

Follow-up is conducted through quarterly joint supervisory committees enabled by data and analysis from an intermediary (Sweden’s Municipalities and the County Council). On these occasions, the financier and the municipality consult on the status and continuance of the intervention, the operational team’s experiences and observations and the statistical status of included individuals (anonymised) and any recommendations for adjustments to the intervention are made for the municipality’s consideration and decision.

If the intervention is successful and the social service costs decreases for the target group, savings are created for the municipality. To the extent that these savings exceed the agreed benchmarks, the financier’s investment capital is repaid. The municipality guarantees 40% of the amount as a fee for services provided. If the savings exceed the financier’s investment and the school results also reach agreed benchmarks, the financier is awarded a premium up to but limited to 20% of the accumulated capital expenditure, provided that the municipality’s savings are in excess of this amount. All savings in addition to this as well as future savings after the contract evaluation period is concluded accrue to the municipality. The potential return for the financier is thus nominally 5-8% on an annualized basis.



“Taking on the challenge of driving, supporting and integrating innovation into the Swedish welfare model we are tremendously happy to have achieved the first social outcomes contract in Sweden”. - Hugo Mörse

DEVELOPING A MARKET

THE INVESTOR'S PURPOSE PARTICIPATING IN SOCIAL OUTCOMES CONTRACTS

LSV's mission is to contribute to the development of a market for outcomes-based social investments where private and philanthropic capital can finance organizations and projects that lead to the development, validation, dissemination and scaling of evidence based solutions and operating models to solve social problems in society.

By taking the initiative on Sweden's first social outcomes contract, LSV seeks the development of a specific market for private financing of innovation in public welfare. The long term goal is to drive substantial amounts of capital in this direction and to offer the public sector, nationally, regionally and locally, a tool to achieve the collaboration and frameworks needed to address complex social problems that escape the capabilities of public services.

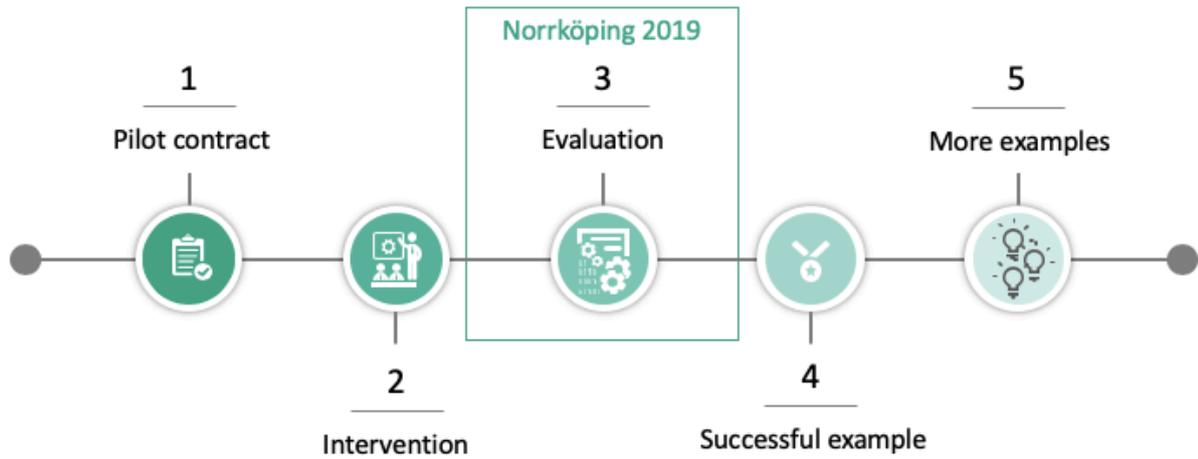
THE OUTCOMES CONTRACT'S CONTRIBUTION TO A MARKET

Social outcomes contracts open the door to a world of potential solutions and suppliers that can be organised to solve intractable social problems. Direct measurable financial savings justify the possibility of repayment of the financier's contribution and a potential premium. This opens up for the possibility of return on investment. That in turn makes it possible to attract financing from the capital markets as a complement to public funds, especially regarding risky investments in innovation as well as scaling implementation. Since repayment and possible returns are directly linked to social- and economic outcomes, a very strong incentive is created for all the actors involved to work together and align efforts towards maximum impact for the target group with regard to the specific social challenge addressed. This is a unique contribution to the organization of innovation for the public good.

A market evolves in steps:

- 1 First, a pilot-agreement is required, which shows that it is at all possible to agree and contract between the parties and enable necessary collaboration over a multi-year period.
- 2 The next step is implementation of the pilot intervention under such an agreement. Here, the parties' collaboration is put to the test in organizing towards agreed social- and economic outcomes as well as testing agreed provisions of the contract such as financial flows and key decisions.
- 3 Upon completion, the pilot intervention and the contract are evaluated, whereby the results achieved are ascertained and documented as well as compared with benchmarks to determine the degree of success against the stated goals. Lessons learned are documented like key factors driving results informing potential improvements in the operating model.
- 4 A concluded contract with adequate results and clear transparent lessons is a precedent example that gives rise to new such contracts, interventions and variations upon these.
- 5 Finally, a collection of such contracts create a sufficient body of experience to attract broader groups of financiers, public commissioners, intermediaries and service providers to try to multiply the phenomenon, thus creating a market.

The social outcomes contract in Norrköping reaches step 3 after the final evaluation in 2021. The market in Scandinavia has already moved towards step 4 as other outcomes contract formats are now being piloted and implemented for other types of interventions in Sweden, Finland and Denmark. Outside Scandinavia, there are now hundreds of social outcomes contracts, the first established in 2010 in Petersborough, England.



EVALUATING THE RESULTS

When we consider the results of the intervention, we do this in relation both to the construction of a market for similar investments, as well as the direct social and economic results of the intervention model itself.

DID WE CONTRIBUTE TO BUILDING A MARKET?

We can conclude that the intervention, the first of its kind in Sweden, has contributed to a general increased interest in, and willingness to invest in, outcomes-based models:

THE INTERVENTION has attracted attention from municipalities and politicians around the country and has led to 40 municipal visits and conversations about potential projects, 12 requests for proposals municipalities and 5 articulated investment proposals following Norrköping.

OUT OF FIVE PROPOSED CASES two have been realized, one in Botkyrka / Örnköldsvik (40 million for reduced sick leave among public sector employees) and one with Stockholm Regional Authority (Health Bond targeting Diabetes).

THE NATIONAL GOVERNMENT has articulated a strategy to support social investments and allocated 50 mSEK per annum 2018-2020 to support national authorities to investigate the potential for outcomes-based procurement and increased support support for social innovations and social enterprises.

Authorities like the national procurement authority (Upplandingsmyndigheten), the national innovation authority (Vinnova), the national authority for growth and commerce (Tillväxtverket) as well as the national ministry for industry (Näringsdepartementet) are investigating the potential for social outcomes contracts.



80 MUNICIPALITIES HAVE ESTABLISHED SOCIAL INVESTMENT FUNDS



TWO MORE REALIZED OUTCOMES CONTRACTS



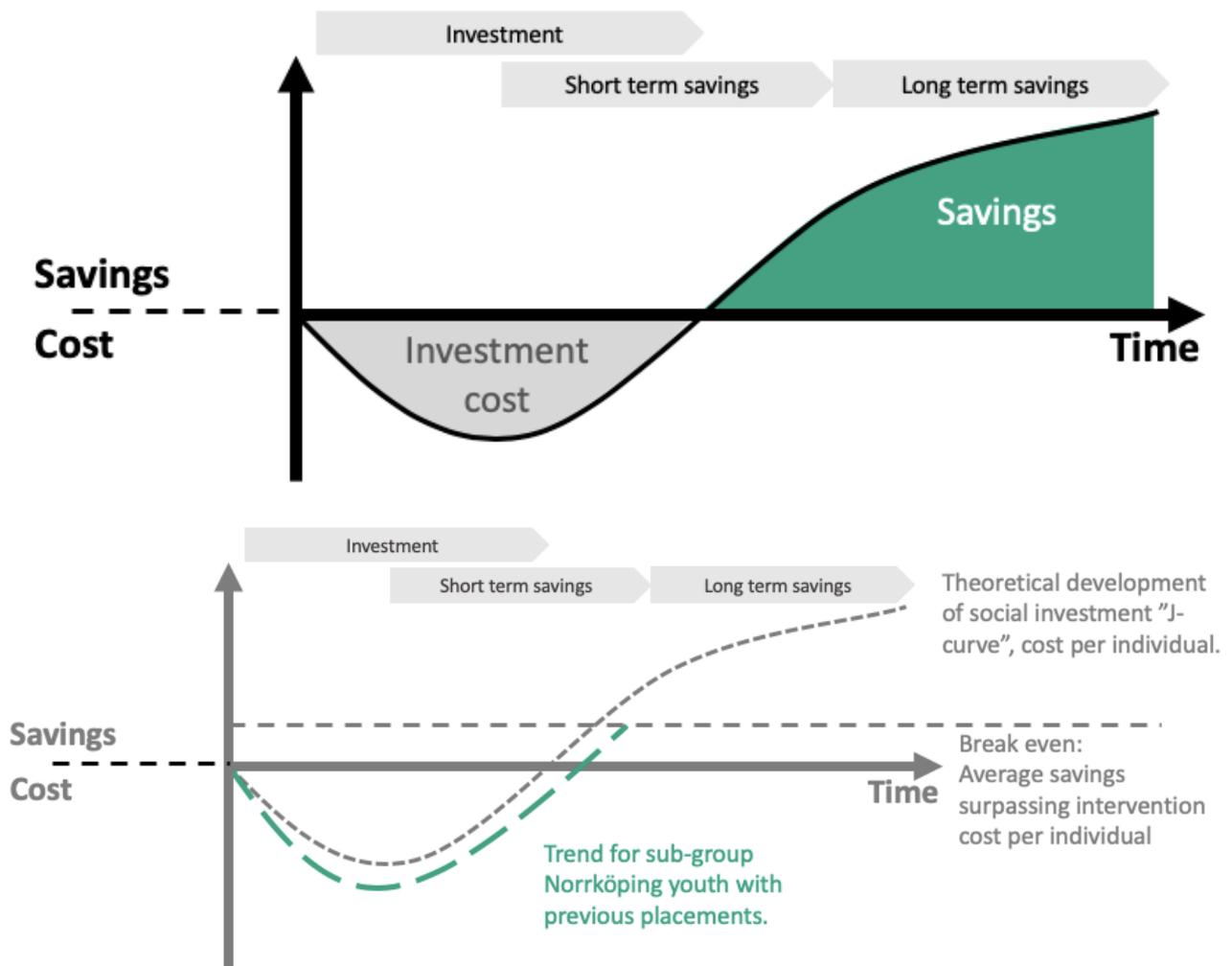
12 MUNICIPAL REQUESTS FOR PROPOSALS AND PRE STUDIES CONDUCTED



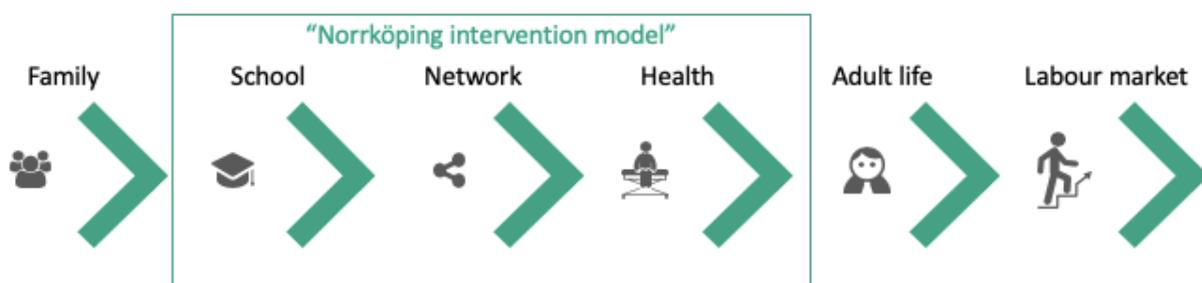
150 MSEK ALLOCATED BY NATIONAL GOVERNMENT UNDER NEW STRATEGY FOR SOCIAL ENTERPRISE AND INNOVATION

HOW SUCCESSFUL WAS THE CONTRACT AS AN OUTCOMES-BASED SOCIAL INVESTMENT?

ECONOMIC SUSTAINABILITY: The social outcomes contract in Norrköping was aimed at financial savings for the municipality. These potential savings are under the contract considered as a budget from which repayment can be made to the financier, provided social and economic benchmarks are reached. The investment thus has the structured potential for repayment as well as a premium potentially resulting in additional return on investment.



EARLY INTERVENTION: The Norrköping-model seeks to curb recurring cycles of replacement of children in care. Protracted and recurring placements has major consequences for the development of an individuals coial and economic life. In addition to short-term social and economic outcomes, the aim is to avoid long-term complex and costly problems such as mental ill-health, criminality and continued socio-economic exclusion stretching into adulthood. This makes the Norrköping model a relatively early contribution into the social problems involved.



MEASURABILITY: The social outcomes contract in Norrköping regulates the measurement of social outcomes in six dimensions. Mental health, substance abuse, experience of participation and self-efficacy, potential for family life, the individual's personal goal achievement and school outcomes. The target for school results has been defined with a score-card defining thresholds for unlocking any potential premium to the financier.

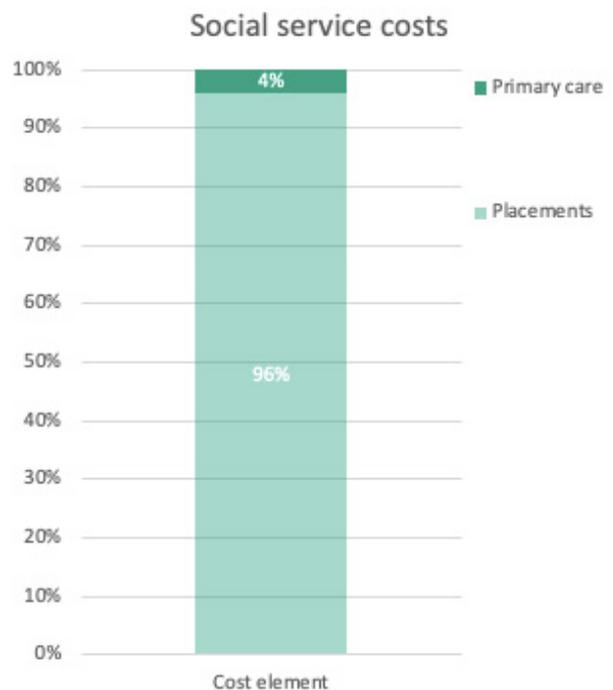
Interim evaluation indicates positive development for the first five social outcomes measures and above expectations development of school results. When measuring social outcomes (30 individuals have reached measurement waypoint 3 of 4), a majority of the included children show improved mental health, participation and improved supportive relationships. As many as 81% of children reported that they had achieved their personal goals. For established as well as forecasted school results, the target group shows indicative positive outcomes, a sharp contrast to historical trends with continuously deteriorating school results for comparable target groups.



ECONOMIC RESULTS: The contract regulates the measurement of financial outcomes for the municipality in the form of direct social service costs for the target group. This includes the cost of operating the intervention but also the development of costs for the target group with regard to placement costs and also outpatient efforts against a 2 year historical benchmark for comparable target groups in Norrköping municipality.

SCALABILITY One goal of the outcomes contract has been for the municipality to choose to implement the effort in regular operations. The municipality are now in full swing taking over the operational responsibility for continued ongoing intervention. The effort has led to great interest in both the collaborative model of outcomes contracts as well as the intervention model "The Norrköping-model" for coordination around children and youth in care.

The interim evaluation indicates increased social service costs for the target group compared to the historical benchmark. This increase is driven by an increased number of days in placement per individual during the first 6-12 months of the intervention. After 9 months, savings start to become visible and break the negative cost trend and starting to generate savings. The proportion of target group individuals with positive economics results increases every month after conclusion of the intervention. The data confirms the general assumption that preventive measures generate long-term financial results (a long-term investment calculation). It is too early to say anything about break even for the project on the whole, ie. if the savings for the municipality outweigh the costs during the evaluation period, as this becomes clear only after the final evaluation reporting in 2021.



WHAT DRIVES THE RESULTS IN THE “NORRKÖPING MODEL”?

When considering the results described above, a number of observations about what has driven them are worth noting:

Design of the intervention

DAYS IN PLACEMENT The intervention has initially led to an increased number of days in placement relative to the historical benchmark. This weighs down on the economic outcomes. More days in placement mean higher costs for the municipality. This is assessed to be due to the fact that the intervention has led to more nuanced and comprehensive information, which in turn has led to realizations of more substantial needs within the target group. The municipality has naturally responded to increased needs with stepping up interventions.

CAUSE AND EFFECT The design of the intervention has not sufficiently determined the causal relationship between the municipality's decision making process and the resulting number of days in placement. The risk that the intervention would lead to an increased number of days in placement had not been anticipated. Consequently there has been a lack of forward looking information and metrics informing this development, delaying corrective response and adjustment of the intervention. Instead the information was ascertained through investigation following dialogue in the joint intervention committee following observation of unexpected cost trends.

MUNICIPAL OWNERSHIP OF INTERVENTION The contract stipulates that the municipality assume the formal ownership and control of the intervention. This model naturally results in a more prescriptive design of the intervention in order to facilitate implementation. For innovative interventions with high demands on flexibility of implementation measures might be taken to make contracting accommodate for this.

ECONOMIC SUSTAINABILITY If the economic calculus is to break even, the increased cost developed during the first phase of the intervention, caused by increased days in care, must lead to a substantial reduction of days in placement or other costs during the latter stages of evaluation.

Continuous monitoring

THE RISK OF increased input/cost as an indirect consequence of the intervention had not been anticipated in the intervention's monitoring and the design of the contract. This has made it more difficult to react proactively or reactively to these factors. These costs are consequently regarded as consequences of the intervention rather than production factors within the framework of the intervention. Conceivably, the contract could have included provisions for managing such eventualities.

TECHNICAL SUPPORT from the intermediary have been an absolute necessity for continuous monitoring, evaluation and dialogue regarding optimisation of the intervention.

CLARITY OF GOALS AND METRICS are deemed to have been fundamental for the municipality, the financier and the intermediary to align and collaborate to achieve results for the target group.

Participation of external financier

ACTIVE PARTICIPATION of an external financier is assessed to be a useful element for public sector commissioners facing challenges to allocate budget for innovation. In any case a social outcomes contract requires the ability to secure multi year funding irrespective of periodisation of political mandates or annual budget decisions. An external set of eyes monitoring and querying implementation and outcomes are useful to support continuous evaluation.

THE CONTRACT did not include any discretionary budget or facility to supplement the effort in time to meet needs that surfaced throughout the continuous evaluation of the intervention. Such flexibility would be desirable to meet the needs of needs emerging as a matter or course in order to secure a responsive implementation.



Causality



Municipal ownership



Economic sustainability



External financing



Contracting



Collaboration

LESSONS LEARNED FOR OUTCOMES-BASED SOCIAL INVESTMENT

MORE INVESTMENTS BASED ON NORRKÖPING?

The experience in Norrköping lends credence to the potential to replicate the Norrköping intervention model for placed children with some adjustments to further optimize outcomes.

Target audience adjustment

PRELIMINARY RESULTS of the intervention indicate that the intervention was particularly effective for children and youth with a history of previous placements and was less effective for individuals without prior placements. Further, the intervention appears particularly effective for younger children of school age. For this target group, there are good indications of goal achievement for both social and economic results. Based on this, it is interesting to evaluate the design of a similar intervention tailored to a narrower target group.

Adjusting intervention design

THE SAME INTERVENTION PROGRAM based on coordination across social- and educational administration complemented by school support in the form of tutoring and a 9 month intervention period has good potential to drive desired outcomes for the target group. We would recommend an extended evaluation period after intervention of say a further 12 months further to the stipulated 24 months would be desirable to fully capture the trajectory of outcomes post intervention.

THE TARGET GROUP scope for inclusion might be limited to young people aged 10-15, ie ranging from 4th grade to 1st year of high school. This would limit the intervention to target the population seemingly benefitting the most from the intervention.

Adjustment of the contract

THE OBJECTIVES for outcomes contracts based on implementation of the Norrköping model might focus on implementation, limiting external financing to the period that the establishment of the team and the methodology and working procedures eg. the first 12 months.

Based on increased reliability in the effort's efficiency and expected results, the guarantee element of the financial model might be increased and the potential premium reduced to reflect lower risk for both the municipal commissioner as well as the financier following completion of the pilot project.

A case for grouping municipalities?

A smaller group of municipalities might collectively commission implementation of the Norrköping model. E.g. 5 municipalities with more than 100 placed children each might lead to reduced overhead costs of monitoring and project management. This makes it possible to spread the cost of the implementation work in the form of consulting resources that project manage implementation across several municipalities simultaneously. In addition, the ability for mutual learning between several municipalities that implement the model is strengthened at the same time.



“The model of outcomes-based social investments dispels the myth that improving outcomes is irreconcilable with ambitions for increased cost efficiency in public service.”

- Laurent Leksell

THE FUTURE FOR OUTCOMES-BASED SOCIAL INVESTMENTS

Substantial value for the public good

Implementation of Sweden's first social outcomes contract has opened new doors for innovation in welfare, and highlighted how outcomes-based investments have the potential to drive system change. A great value lies in the insights and lessons learned during the course of the effort, and it is important that these are shared and reflected in the continued construction of a social investment market.

As initially expressed in this document, outcomes-based investment in welfare can:

- Generate both short-term and long-term savings in public finances.
- Reduce risk and strengthen sustainability in spreading innovation.
- Bridging challenges with collaboration and organisation in project form.

As an investor, LSV sees outcomes-based social investment as key to securing the future of welfare. Linking early efforts with measurable social outcomes and cost savings for society while opening up for financial returns for investors is potentially a win-win-win, a virtuous cycle of and engine for social innovation. In particular, we note that this model breaks the myth that it is not possible to get better results together with lower welfare costs (and thus additional return on investment).

More actors must act to build the market

In order to establish a market for outcomes-based social investment, three key players need to be mobilized:

FINANCIERS: Private and non profit investors must dare to test and learn about the outcomes-based investments in practice.

PUBLIC COMMISSIONERS: Municipalities and county councils / regions must dare to consider outcomes-based investments to develop and implement new working methods.

SERVICE PROVIDERS: Organizations with the capacity, competence and experience driving outcomes for different target groups are needed to provide services on a payment for results basis

Payment for results is the key

In the welfare system, the main challenge is to get value for money when allocating public resources. This is subject to the great responsibility of using tax payers resources, to manage and maintain public sector responsibility both regarding formal mandates and within the broader cultural social contract.

At present, curiosity abounds for social investment and "impact" with interest growing among both conventional financial markets, politics and the non-profit sector. However, it is important to separate the chaff from the wheat. Traditionally, the focus has been on simply allocating resources to desirable activities, such as traditional charity or public administration. Some fields of practice and public activity have gone one step further in ear-marking resources to specific activities.

Outcomes-based investments take the pursuit of public good one step further still and focus resources on the actual outcomes desired. This creates room for real innovation in resource use and variation of strategy and operating models to achieve these outcomes. In order to purposefully achieve outcomes, it is absolutely necessary to direct resource allocation and specification of activities to follow outcomes. In addition, data on efforts and outcomes have the potential to powerfully drive broader system change in that such data generates insight into what works and what does not. We thus wish to make note of the following distinctions:

Simple budgeting

- Purpose: Manifesting intention
- Strategy: Allocation of resources
- Payments mechanism: Budget allocations

Directive procurement:

- Purpose: Running specific activities
- Strategy: Specification of activity
- Payments mechanism: Limitations of activity procured

Outcomes based model:

- Purpose: Achieving outcomes
- Strategy: Specifying measurable outcomes
- Payments mechanism: Payment for results

Level of ambition	Purpose	Payment mechanism	Outcomes-based model
Intentions	Allocation of resources	Budget allocation of public resources of commercial green/social bonds	No
Action	Specific activity	Procurement or financing of a specific defined intervention	No
Results	Measurable outcomes	Procurement or financing of interventions based on payment for results, outcomes contract	Yes

RECOMMENDATIONS

WE NEED MORE EXAMPLES of outcomes-contracted interventions so that we may build experience capital to build confidence in the potential of a sustainable market for outcome-based investments.

RECOGNIZE THE POTENTIAL OF PAYING FOR OUTCOMES: When the focus is on outcomes, we avoid the classic pitfall of public service - trying to determine in advance what resource allocation or activities will most effectively lead to outcomes. With payment for results, all parties involved can keep an eye on a common goal, with flexibility and openness to adaptation of how we organize ourselves to maximize outcomes.

STANDARDS ARE DEVELOPED WHEN WE DARE TO TEST: Many actors curious about outcomes based social investment are taking a back seat, resorting to simple observation of pioneering efforts, waiting for others to slowly build experience capital to build instead of contributing to building it. Instead, let a thousand flowers bloom. From a variety of examples of outcomes-based investments, we can together drive the development of standards and best practices that lower the thresholds for all to participate.

ONE TOOL AMONG MANY: Understand that outcomes-based investment is a tool among many. The purpose is not to replace public service or non-profits, nor to impose new models for privatization of public goods provision. There will continue to be great need for these fundamental operating models in their pure form. But for the complex social problems of society, new tools are needed, let's try and learn from outcomes-based investments as a promising advancement into this challenging field.

MORE EXPERIMENTS LOWERS THE RISK FOR EVERYONE: When stand by the wayside awaiting individual examples, such as the Norrköping model, too much emphasis is placed on too little empirical evidence. The more different experiences we make, with different clients of investors and suppliers, the more we all learn about how best to execute outcomes-based investments. With a greater range of projects we could also start building portfolios of investments, which lowers the financial risks and increases the potential volume of investments.

POLITICIANS MUST STEP UP TO LEAD: In countries that have succeeded in establishing functional markets for outcomes-based models, such as the UK and Finland, politics dared to lead the sector's development.

CREATE A GOVERNMENTKNOWLEDGE CENTER: This would create a sorely missing go to partner for the hundreds of public authorities that have shown interest in outcomes-based models. Such a center should drive the coordination of public sector and develop best practices as well as act as advisors and assess the public interest in individual outcomes contracts, supporting public commissions. SKL, RISE and the national procurement authority are examples of fragmented competence centers that still collaborate insufficiently and without a strong mandate.

DEVELOP PRACTICE FOR PUBLIC PROCUREMENT AND CONTRACTING and socialize guidelines for procurement of results. Public contractors must have clearer guidance and support for procurement of results and innovation. This would support both procurement with payment for results, as well as outcomes-based investments and enable the private and non-profit sectors to compete with quality instead of price in bidding for public service provision.

NATIONAL GOVERNMENTAL FINANCIAL GUARANTEES: Public commissioners and private financiers would both benefit from national government taking part of the risk of truncating in outcomes-based models. This lowers the barriers to participation for the contracting parties and has been hugely successful in for example the UK. It can also be a tool for signaling political priorities, linking guarantees to more indirect long-term societal benefits on which the parties rarely contract. Guarantees are furthermore very cost effective as resources allocated are only used if the contracts fully fail to meet expectations.

PRICE OUTCOMES: This would lend credence on a national level regarding the scale of economic costs social problems. This would truly be the holy grail that would signal to all actors involved the values at stake in various social challenges and thus facilitate prioritization of work with outcomes-based models.

-  **Valuing outcomes**
-  **Government competence center**
-  **Standards**
-  **Procurement practices**
-  **One tool among others**
-  **Financial guarantees**
-  **More experiments**
-  **Pricing outcomes**
-  **Political leadership**

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“As LSV looks forward to the coming years of social innovation in Sweden we do so with confidence that the outcomes-based contract in Norrköping has proven that it is indeed feasible to contract on outcomes and finance proven innovation to improve public goods provision.” - Hugo Mörse, CEO LSV