

Lars Hultkrantz
Örebro University School of
Business, Örebro University
lars.hultkrantz@oru.se

Elin Vimefall
Örebro University School of
Business, Örebro University
elin.vimefall@oru.se

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Abstract

Long-term investments in individual and social human capital such as preschool, school, family support, early-intervention for youth at risk and other programmes that are part of the welfare services provided by local government in Sweden are generally managed with one-year-ahead budget planning. In the light of criticism that the resulting resource allocation is biased due to short-sightedness, silo mentality and risk aversion, in recent years more than a fifth of Swedish municipalities have established “social investment funds” for promoting investment and innovation views on such measures. This article provides a background on the motives and current status of these funds at the national level and describes in more detail the design and project funding in two cases. Two critical design issues are discussed; whether investment returns should be paid back to the fund and whether assessment should be made of societal benefits other than costs avoided.

Introduction

Some new institutional approaches to social challenges have emerged in recent years that promote innovative and preventive measures in a time of fiscal austerity and perceived deficiencies of the public provision of welfare services. An example is Social Impact Bonds for private funding of social services (UK Government 2012/13). However, similar solutions can also be used as a means for allocation of resources within the public sector. This study describes and analyses one such case, the Social Investment Funds (SIFs) that recently have been created by several municipalities in Sweden.

Short-term budgets and planning horizons as well as poor skills in active risk management are often emphasised as major obstacles to public sector innovation (Albury, 2005; Daglio et al., 2014: section 3),¹ for which one possible remedy is to assign resources to innovation funds that evaluate, select, fund and administer innovation activities as if they were business investments.² The SIFs are partly motivated by such considerations (Hultkrantz, 2014b; Nilsson, 2014). Another main motivation is a desire to promote more dynamic, long-term and holistic perspectives in expenditure decisions that affect prevention and early intervention for children and young people (Bokström et al., 2014), as a result of a growing awareness that many problems at both individual and societal levels are the results of conditions in early childhood that can be corrected or mitigated at a much lower cost if done at an early stage (e.g., Heckman, 2006). Alternatives or complements to conventional budget planning in this respect are also sought that can overcome short-sightedness and silo mentality and thereby gain in dynamic and societal efficiency.

* **Lars Hultkrantz** is professor of economics. He has done research in applied microeconomics in several policy fields. A common denominator has been methods for benefit-cost analysis (BCA). He has been scientific advisor to the BCA guidelines in Sweden and Norway. He is a member of the Expert Group on Public Economics (ESO) at the Ministry of Finance.

Elin Vimefall is a lecturer in economics. Her main research interest is in evaluating early intervention for children from a societal perspective and in development economics with a focus on gender aspects and investments in children

Modernisation of the public sector has been set out by the European Commission as one of five key priorities to promote economic growth in the European Union (EU COM, 2013a). Member states are asked to pay attention to reforms aimed at facilitating internal and external administrative processes, including through strengthening the capacity for strategic and budgetary planning and encouraging innovation (EU COM, 2013a). Further, in a “Guide to Social Innovation” (EU COM, 2013b) the Commission emphasises that “(p)romoting social innovation within European societies and, more specifically, inside social politics, entails: - adopting a prospective view /.../ consistently with a logics of investment /.../” (p. 17).

An institutional innovation that takes the “logics of investment” into the public sector is Social Impact Bonds (SIBs), to be described below. SIFs, which have been created by a number of Swedish municipalities is another (Bokström et al., 2014; Hultkrantz, 2014b; Jonsson & Jannesson, 2014; Nilsson, 2014). Social investments in general are interventions promoting the development of individuals in socially beneficial ways. Both SIBs and SIFs aim to finance new, often innovative, such interventions that add to or modify those that already are provided through schools, social work, care of children and elderly, labour-market programmes and other welfare services.³ However, while SIBs draw funding from private sources for social purposes, SIFs allocate regular public funding for uses mostly within the public sector.⁴ The novelty of SIFs is not in addition of new financial sources but in a focus on some innovation and long-term aspects of the planning and management of such interventions that are taken to be underestimated in the ordinary budget planning.

The SIFs have resulted from what have mainly been spontaneous initiatives taken in some of the 290 independent, self-governed and mainly self-funded municipalities that constitute the Swedish local government level. As can be expected under such circumstances, there is a considerable variation in scope, scale and design that may affect the effectiveness of the SIFs as instruments for social innovation and promotion of long-term and societal perspectives on social services.

The purpose of this study is therefore to describe the current status of SIFs and discuss some design features that may be critical for their success as instruments to encourage long-term and innovation perspectives in the provision of welfare services by local governments. There is an emerging literature on critical design features for SIBs (Azemati et al., 2013; Gustafsson-Wright et al., 2015), but so far such issues for SIFs have been discussed only in Swedish-language literature (Hultkrantz 2014b, 2016). With this paper we want to introduce to the international public both the SIF case and the discussion on some related design aspects that also are relevant for the design of SIBs.

In achieving this aim we will briefly report results from a survey among municipalities on the current status of SIFs and describe in more detail the design of two advanced SIFs, in the cities of Norrköping and Örebro, as well as give a brief

overview of the projects that these have initiated. We will discuss how some critical design features may affect incentives for innovation and long-term perspectives on the allocation of public budgets.

The next section provides a background on the broader international movements in public administration that have been major sources of inspiration for the creation of SIFs, followed by a brief account of the national context and developments in which SIFs were established. Section 3 gives an overview of the current status of such funds. Section 4 presents two SIFs in some detail and section 5 discusses two critical design issues. The last section concludes.

Background

The creation of SIFs at the local government level can be seen as part of a worldwide trend in public administration reform; in particular the broad movement of *New Public Management*, the creative-funding model of *Social Impact Bonds*, and *Social Investment Funds* for micro-funding in developing countries.

A core issue in all reforms of public administration is how to make the trade-off between on the one hand accountability, i.e., enforcing compliance of the executive agencies and the civil servants to rules, regulations and political decisions, and on the other hand efficiency, i.e., making the best use of scarce resources in meeting political objectives (Pffner, 2004). In the principal-agent theory literature, this is identified as a choice between low-powered and high-powered incentives (Laffont & Tirole, 1993). The former type generally arises with input-based governance, i.e., when the principal directly controls the means that the agent uses to perform its tasks, while high-powered incentives require output-oriented governance that allows the agent more freedom in choosing means to meet ends. Loosely speaking, input control allows higher accountability while output control could lead to higher efficiency and innovation if (and that is an important if) the principal's objectives can be clearly stated and used to evaluate performance. The conventional way of controlling a public administration is based on budgeting, i.e., input control. Since the 1990s many governments have attempted to modernise in various ways, often based on some of the key elements of New Public Management (NPM) (Hood, 1995; Lane 2000, for a critique see, for example, Lapsley, 2009). While the nature of NPM varies in different settings and over time (Pollit & Bouckaert 2011), a general feature is the insistence on the use of performance measures to evaluate management, thus stressing efficiency at some expense of accountability (depending on to what extent budgetary control is relaxed).

Aside performance measurement, NPM is also commonly associated with flexible funding and local governance (Page, 2005). An innovative financial instrument that has these features is SIBs. Such bonds were first launched in the United Kingdom in 2010 and has since then been emitted in both industrialised and developing countries (Azemati et al., 2013; Gustafsson-Wright et al., 2015).⁵ SIBs are public-private partnerships that raise money from private sources, often

on altruistic grounds, for funding social programmes within or outside of the public sector. They provide financing upfront in exchange for repayments that usually are related to social outcomes. Feasible programmes for such funding therefore have to have meaningful and measurable outcomes, there has to be a reasonable time horizon to achieve these outcomes, and evaluations are needed to provide evidence of success or failure (Gustafsson-Wright et al., 2015). SIBs have been described as an answer to a question that policy makers face in difficult fiscal times: “How do we keep innovating and investing in promising new solutions when we can’t afford to pay for everything we are currently doing?” (Azemati et al., 2013: 24). Thus the focus is on innovation: Since repayments are required, SIBs are sustainable remedies to fiscal austerity only in so far as the funded programmes lead to reductions of future spending needs. As will be described below, the Swedish SIFs have a strong resemblance to SIBs in this respect.

While SIBs are the major source of inspiration for the Swedish SIFs, it can be observed that the term Social Investment Funds has been widely used since the 1990s within international development assistance to denote national funds for distributing international aid. The first such fund was set up in Bolivia in 1990 and similar funds have since then been extensively used by the World Bank’s social sector lending in Africa and Latin America and by various donors in Eastern Europe and former Soviet Union countries (Jack, 2001). The purpose of these funds is to select, fund and implement projects that typically are small in size and local in nature. The funds are demand-driven, i.e., based on requests from local communities and other organizations. They write contracts with or delegate authority to for instance NGOs or firms to carry out specific projects, thereby bypassing some public sector hierarchy. Performance is controlled by both sticks and carrots, including repayment requirements, blacklisting for future grants, publicly posted frequent reviews, and social sanctions through local media etc. (Jack, 2001). Repayments, however, do not play the same essential role as for SIBs.

The development of public administration in Sweden since the 1970s is a well-known example of the so-called welfare state retrenchment (Pierson, 1996; Starke, 2006), during which the welfare state has shown strong resilience to pressures to reduce the public sector share of the economy. In Sweden, public sector production that during the 1960s and 1970s had increased from below 10 to 23 percent of GDP has since then stabilised at around 18 percent. This reduction has been the combined result of, first, outsourcing, i.e., a transfer of production of public-funded goods and services to the private sector, both through public procurement and consumer-voucher systems, and, second, by various measures for improving efficiency of the remaining production of welfare services within the public sector. These reforms were all influenced by NPM. For instance, as a complement to the conventional budget planning, so-called results-based management was introduced at the central government level in 1988 and at local levels from

2004 (Hultkrantz, 2014a), introducing quantitative performance targets that were meant to be followed up annually.⁶

The Swedish welfare state rests to a large extent on local governments that provide among others for care of children and elderly, schools and social work. The municipalities are formally independent, with own elected assemblies that among others decide on the rate of the local income tax, which is the main source of funding. However, the central government and its agencies often express concerns over the quality of welfare services provided by the local governments. Some recurring issues are inadequate measures for curbing the growth of public mental-health problems (Försäkringskassan, 2015), poor performance of education as revealed in PISA (OECD, 2015), and a low or absent increase of productivity in production of the main services (Arnek, 2014). In the public debate, these issues are often related to alleged structural deficiencies such as lack of coordination between government authorities at the central, regional and local levels; lack of coordination between divisions within the municipalities (for example, between schools and social services or between preschool and school); and needs for preventive measures that can affect long-term developmental processes. For such reasons, a battery of stick and carrot measures has been developed at the national level over the years within education, health and social work policies, such as extended and stricter national legislation and ordinances, inspections and audits by specifically assigned national agencies, and national “coordinators” for mediating agreements between central and local governments and ear-marked grants for implementation of evidence-based practices (EBP).

However, these top-down efforts have had mixed results.⁷ Central control of local government is a demanding task anywhere and in the Swedish context the self-governance that municipalities are granted by the constitution aggravates the institutional complexity. Command-and-control measures by the central government may spread a sense of mistrust that undermines incentives at the local level for taking responsibility for finding solutions to various social problems (Montin, 2015). Also, as pointed out by e.g. Petersén and Olsson (2015: 1581) EBP, characterised by standardised assessment instruments and manualised treatments, “suffers from a dilemma whereby a narrow view of evidence is prioritised at the cost of relevance to social work”. These authors contrast top-down EBP to bottom-up praxis-based knowledge that puts an emphasis on social-workers’ experience and bottom-up governance. In this respect, the SIFs stand out by being bottom-up initiatives that are set up and administered by the municipalities themselves. As will be described below, while SIFs to some extent can be vehicles for implementation of EBP, they can also be instruments for building praxis-based knowledge from treatments that are adapted to local circumstances and for which costs and benefits depend on the local context.

The spark that ignited the creation of the first SIF was generated by “social accounting” work sponsored by a Swedish equity fund⁸ (Nilsson & Wadeskog, 2013), i.e., evaluations of the total cost to society of some life-time careers in crime, drug abuse, etc. A number of such exercises indicated that there are high

societal costs that are potentially avoidable, and that a considerable portion of these costs is expenditure borne by the same local governments that are responsible for social services, preschools, schools and other activities that possibly at an early stage could affect the later needs for expenses. This therefore suggested (but did not show) that early interventions may be beneficial to society and the persons concerned, and even sometimes could be self-funded by future cost reductions. This led the mayor of the city of Norrköping to propose the establishment of a local social investment fund.⁹ In 2010 the municipality decided to allocate SEK 40 million (Euro 4.2 million) for that purpose (Källbom, 2014). According to the statutes, the fund was to be used for preventive measures that lead to lower future costs to the municipality while also yielding “human benefits” (Norrköping, 2010). Further, the cost reductions should be returned to the fund to be used for continued financing of social investments.

A crucial conceptual component of the Norrköping SIF is that sustained funding for new projects should be held by yields from previous projects. However, such returns cannot be based on contracts between external parties. Instead they can be “paid” back by adjustments of future internal budget frames. For instance, if the SIF funds a school programme targeting potential high-school drop-outs this is expected to reduce the expenditure needs for the social services in the coming years, so budget resources can then be reallocated from such programmes to the SIF. While the original decision in 2010 states that returns shall be based on expected cost reductions it was later decided that these will be conditional on that such cost reductions actually are realised (Källbom, 2014).

The Norrköping initiative received much attention in national media and prompted a wave of proposals by local politicians all over the country, which eventually led to decisions by several municipalities in the coming years to set up similar funds. The Swedish Association of Local Authorities and Regions (SALAR) engaged in these events by giving methodological and economic support to a few pilot municipalities, including Norrköping (Bokström et al., 2014) and later also Örebro.

The SIF idea also met some resistance. The reasons for side-stepping the ordinary budget process seem to have been unclear to many and some fear was heard that SIFs were tools for allocation of resources to politically profiled projects of dubious value. However, during 2012 – 2015 many municipalities received substantial windfalls from re-payments of sick-leave insurance premiums for employees as a result of lower than expected sick-leave rates. Several municipalities used some of this money for funding SIFs, which then could be seen as making no infringement on regular budgets.

Another, maybe more important, problem was the formal position of SIFs in the municipality economic accounts. Fiscal policy, such as the use of automatic business-cycle stabilisers, is legally restricted to the national government so mu-

municipalities are not allowed to run budget deficits. A consequence is that a municipality is not allowed to set aside resources for an investment fund if that leads to a current account deficit. As it happened, the political majority in the city of Göteborg decided in 2012 to allocate SEK 400 million (EURO 42 million) to a SIF, although the opposition parties claimed that this was against the fiscal rules. In the next year the city audit came to a similar critical conclusion. As a result some municipalities¹⁰ decided against establishment of SIFs. However, partly because of the insurance premium windfalls most municipalities ran a surplus in 2012-2014 making this a non-issue in these years.

National overview

To get an overview of the spread of SIFs among Swedish municipalities we have combined results from a survey that was conducted by SALAR in May 2014, with a reminder in August (SALAR 2015) with results from our own web search. The SALAR survey was a web survey which was sent by e-mail to all municipalities in Sweden (n =290). In total, 252 municipalities answered the survey, which corresponds to 87 percent of the total number.

As a result of collaboration with SALAR we got access to this data. We also did a web search to fill in some of the non-responses and to get documents, such as protocols, memos and reports that gave more insights into the local discussions and decisions made.

The web search was made in June 2014. The basic search was made in Google with first the keyword “social investeringsfond” (in English: social investment fund) and then this keyword in combination with specific municipality names. This search often led to newspaper articles, blogs, etc. referring to decisions and documents that in a subsequent search step could be found on the municipalities’ web sites. Protocols and other documents, meetings with the municipality assembly, the municipality board and the municipality councils (for instance the school council, the social-services council, etc.) are public and can often be found online.

To get a deeper understanding of how the SIFs are working, in addition to this, we did two case studies of the SIFs in Norrköping and Örebro. These SIFs were selected by SALAR in 2015 for joint work to develop improved procedures for SIFs.¹¹ Therefore their experiences can provide important insights regarding the potential of and problems with SIFs.

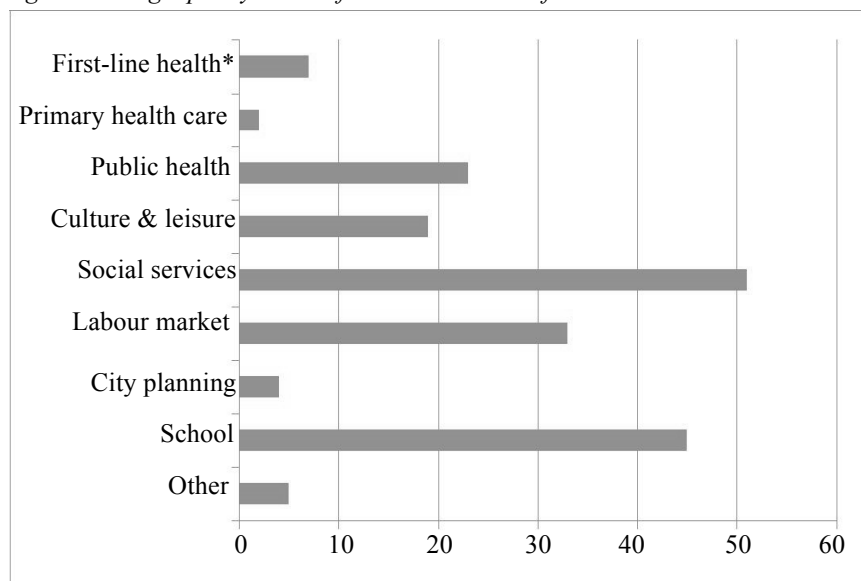
The case studies were conducted by studying information available on the home pages, by web search and by personal communication and interviews with the process manager¹² of each fund in Örebro and Norrköping. To learn about the different projects we studied the applications for the project (most of them available online, others have been given to us from the process managers) and, when applicable, by reading the evaluations available.

The result of this mapping is that at least 63 municipalities (21 percent) had allocated resource to a SIF in May 2014.¹³ There were at least 62 more municipalities (21 percent) that were considering launching a SIF.¹⁴ The total of allocated

funds was SEK 1.3 billion (Euro 140 million), which is approximately 0.2 percent of the annual total turnover of the sector.¹⁵ The funds are generally small in both absolute and relative terms. Two thirds of the SIFs were endowed with SEK 10 million (Euro 1.1 million) or less. As can be expected these amounts are correlated with populations size.¹⁶ The largest fund, Göteborg (see above), amounted to 1.2 percent of the annual turnover. More recently, in spring 2015, Stockholm launched a social investment fund with an initial capital of SEK 500 million (Euro 53 million).

While the web search suggested that there had been some rather tense local discussions on SIFs, there seems to be no clear political tendency in which municipalities that had allocated funds to a SIF. A simple political classification reveals that 20 of these were governed by liberal-conservative parties and 29 by left parties¹⁷ (the remainder by mixed coalitions and/or local parties).

Figure 1: Target policy areas of social investment funds



* First-line health is a cooperation between schools, primary-health care and social services that helps youth and children when they indicate that something is wrong. Since several categories can be part of the first-line health, the categories might to some extent overlap. Source: SALAR (2015)

The overwhelming majority of the SIFs were only open for internal applicants but some explicitly invited also NGOs, social enterprises and other private actors (as for instance Örebro, see below). Figure 1, which is based on the results of the SALAR (2015) survey, shows the target policy fields of the SIFs. The main areas were social services, schools, labour market programmes and public health, but

some municipalities mention also culture/leisure, health services and city planning.

A closer look at the results of the SALAR survey reveals that less than 20 municipalities had elaborated policies for how to use the SIF as an engine for innovations. For instance, only 15 municipalities had developed guidelines for how experiences from the funded projects can be implemented in the mainstream activities. 13 municipalities had followed Norrköping by requiring return “payments”, of which 9 were contingent on actual cost savings and 4 “unconditional”.

The web search shows that such payback requirements had been considered at several other places before being turned down by various arguments. For instance in Västerås, the city office refers to the difficulty in estimating cost savings, especially due to the long time-lags involved and that such effects appear in different parts of the city’s organisation (Energård, 2013).

Some municipalities that have made the payback conditional on outcomes state that return transfers should be made unless there are “extraordinary reasons”, while some require that there is a project evaluation that “clearly” shows that cost savings were not realised (e.g. , in Linköping). In an evaluation of the first year with the SIF in Södertälje (Skinnars, 2014), i.e., one of the municipalities that has a conditional payback requirement, it is reported that two initiatives that had been close to a funding application had been withdrawn because of this. In one case this was because the concerned administration was not fully confident in the estimated cost savings, in the other because the follow-up requirements were assessed to be too demanding.

Two cases: Norrköping and Örebro

In this section we describe the design of two SIFs, in the cities of Norrköping and Örebro, and give a brief overview of the projects that these have initiated. While, as already stated, the Norrköping fund started in 2010 with a capital of SEK 40 million (Euro 4.2 million), the Örebro fund got an initial capital of SEK 65 million in 2013, which in 2015 was extended to SEK 80 million (Euro 8.4 million). Both funds aim to promote measures that can prevent a negative development for individuals and thereby avoid future costs for the municipality by for example decreasing needs for extra support in school, placements at residential care homes, etc. Such efforts are also expected to have effects on future long term unemployment and social exclusion problems (Norrköping, 2010; Örebro 2013).

In both municipalities, funding applications can be made by consortia that involve more than one administrative division¹⁸ within the municipality. External actors are also invited to apply together with at least one municipality division¹⁹ (Norrköping, 2016; Örebro 2013). Funding is granted to innovative intervention programmes that are not part of ordinary activities and that have measurable impacts that can be predicted and followed up, including estimates of predicted and

achieved cost reductions. The programme period is limited to three years in Örebro, which also is the standard programme length in Norrköping although there is no formal limitation.

There are some formal criteria for selection of programmes in Örebro, but not so in Norrköping. The guidelines for the Örebro fund (2013) state that priorities shall be based on the following conditions: 1) Efficiency, measured by socio-economic effects and municipality cost reductions. 2) Strength of expected cooperation between different organisation units. 3) Credibility of the predicted size and timing of effects and of the plan on how to measure actual effects. 4) Whether long-term effects are expected.

Each of the two funds has currently granted funding to six programmes (by March 2016). Table 1 gives a short overview of the programmes, target groups and main objectives.

Table 1: Programmes funded by social investment funds in Örebro and Norrköping

Name	Municipality	Target group	Description/Objective
<i>Solid Return</i>	Norrköping	Youth (14-20) with drug addiction and/or criminal behaviour after institution treatment (SIS)	Aftercare with a person of contact to decrease the risk of relapse, shorten the time of placement and get the individuals back to studies, work or internship.
<i>All Children in School</i>	Norrköping	Youth and children (7-16) absent from school.	Evaluation of the reasons for absenteeism and provision of appropriate support to reduce the rate of absenteeism and thereby increase the individual's performance in school, which will decrease the risk of social exclusion.
<i>Service Trainee</i>	Norrköping	Individuals (>26) dependent on financial assistance who speak one of the municipality's main immigrant languages.	A one year trainee position in the municipality to increase the probability to get a job on the regular labour market.
<i>Skolfam</i>	Örebro/ Norrköping	Children (7-11) placed in out-of-home care.	Individual support to increase the child's probability to fulfil the goals of primary education (class 1-9), and get access to upper secondary school.
<i>NP-centre</i>	Noorköping	Youth (13-23) with neuropsychiatric disability.	Short-term accommodation, support in school and support for the family so the individual can function well in his/her daily life
<i>Drop In</i>	Norrköping	Youth (16-19) currently not in education, employment or training (NEETs).	Outreaching and coaching to find and motivate NEETs to get back to school or seek contact with the employment service.
<i>NP-cooperation</i>	Örebro	Youth (15-24) with neuropsychiatric disability.	Targeted interventions to improve the individual's probability to manage and finish primary (class 1-9) and upper secondary education (class 10-12) and to function in his/her daily life.
<i>Cooperation Sign Language</i>	Örebro	Individuals with sign language as main language with other limitations and not participating in the labor market	Creation of individual action plans to get the right financial and nonfinancial support.
<i>Cross-Competence Team</i>	Örebro	Parents and children living in an area with severe social-inclusion issues.	To change attitudes towards receiving disability support in schools, social service centres etc.
<i>Spec. Pedagogical Skill Development</i>	Örebro	Children in kindergarten and pre-school in an area with severe social-inclusion issues.	Special training for the teachers to help them to early notice children with special needs and to give these children the support they need.
<i>El Sistema</i>	Örebro	Children (5-7) living in an area with severe social-inclusion issues.	Music education to improve the children's social inclusion. It is also expected to improve the children's concentration and cooperation and thereby give better results in school.

As can be seen, most programmes target youth and children with a high risk for social exclusion (foster children, individuals with some disability, etc.), or already having problems (being absent from school, having a drug problem or engaging in criminal activities). The main goal is to support these individuals to improve their long-term wellbeing and avoid future costs for the municipality. So far three programmes in Norrköping have been completed: *Service-trainee* (payback period 2013-2015), *Skolfam* (payback period 2015-2017) and *All children in school* (payback period 2015-2017).

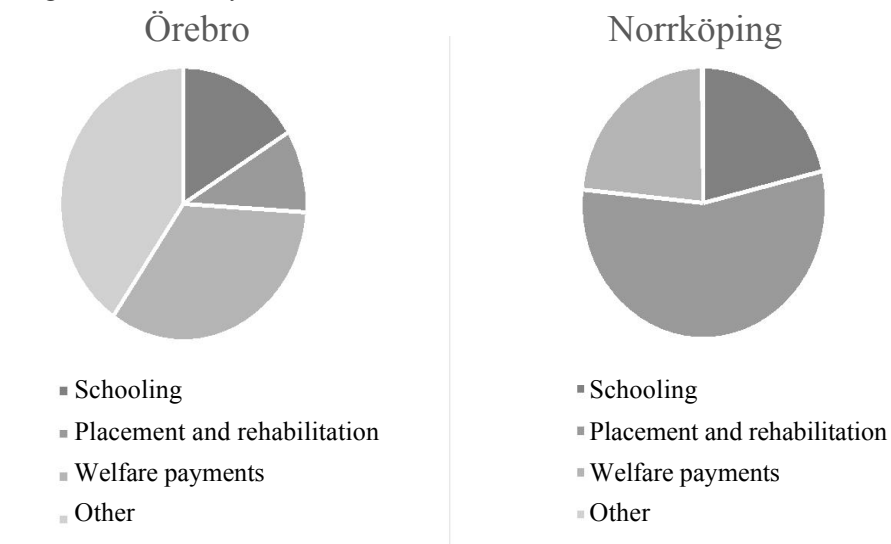
Service-trainee has already returned the full amount invested (Norrköping, 2015). *Skolfam* has been viewed as successful and is expected to return the full amount invested. It is now part of the municipality's regular services. Some parts of *All children in school* and the *Service-trainee* programmes have been included in the regular operations (Norrköping, 2015).

Both funds require conditional paybacks. When the expected cost reduction has been accomplished, the nominal value of the received grant shall be returned to the fund. This therefore implies that the magnitudes of actual cost reductions need to be assessed and, since the outcome of the impact evaluations in this way may have direct economic consequences, their quality is likely to become an important issue in the project planning. The payback schemes include no interest or inflation charges.²⁰ In Örebro re-payments are supposed to start three years after the project start (Örebro 2013), while in Norrköping the full amount is required to be returned within ten years (process manager, pers. com. 2015-11-23).

The payback is done by a reduction in the budget (therefore only units within the municipality can transfer back money). Estimates of expected cost reductions, and the agreed distribution among the participating divisions of return payments, have to be stated in advance (Norrköping, 2010; Örebro, 2013). An overview of the sources for expected cost-reductions from the programmes in Table 1 is shown in Figure 2.

The dominant source in Norrköping is avoided placements at residential care homes, while the major source in Örebro is reduced social-welfare payments (which is the second most important category in Norrköping). Both cities expect that costs of schooling will decrease. In Örebro the expected cost reductions are spread over more sources than in Norrköping, which explains that a large part falls into the category *Other*. Within this category the largest part comes from reduced needs of social services, which in part is motivated by less need for placements at residential care homes. However, since it is not stated how the cost reduction is divided between different services we cannot determine how large this part is and the full amount is therefore counted as *Other*.

Figure 2: Sources of estimated cost reduction



As seen in Table 1 and Figure 2 the projects span multiple areas. Some objectives are related to outcomes that can be quite readily measured at the individual level (such as increasing the probability to get a job in the regular labour market), others are related to social-level outcomes and therefore more difficult to follow up (such as attitudes or children's social inclusion). However, for all programmes specific measurable performance targets have been specified. The sources for the paybacks are sometimes a multitude of expected cost reductions (for example the payback from *Skolfam* in Norrköping is motivated by nine different posts), while in some cases (i.e. *Servicetraine*, *Drop-in* and *Cooperation Sign Language*) there is just one source (reduction of the need for welfare support). Obviously, when outcomes are vaguely defined, the time horizon is long and the payback is conditional on several effects, evaluation can be difficult.

The impact of the first programme that was completed in Norrköping, the *Servicetraine* programme, has been evaluated. This is probably the first municipality-funded labour-market programme that has been subject to an impact evaluation, although numerous such programmes have been conducted over long time (Thorén, 2012). The evaluation compares the intervention group, consisting of 30 long-term unemployed participants, with two non-randomly selected control groups; one including 30 individuals who applied for participation but, since there were only 30 positions available, were not accepted (the reason for selection was not stated), and another with 366 individuals with the same basic characteristics as the programme target population; i.e., unemployed, foreign born, with children, 27-65 years old. 83 percent of the individuals of the intervention group were no longer dependent on financial aid while the reductions were 42 and 39 percent, respectively, in the control groups. As a consequence there was a reduction of the

amount of financial aid by 80 percent in the intervention group and 57 and 45 percent, respectively, in the control groups. The estimated effect of the intervention was thereby a reduction in the amount of financial aid by about 23-35 percent (Manninen, 2014). However, it should be noticed that due to non-random selection there could be a selection-bias influencing these results.

Discussion

As we have previously observed, the Swedish SIFs resemble SIBs in several ways. This means that several features of the design of SIBs that have been identified as critical for success are also likely to be vital for the performance of SIFs. For instance, as pointed out both in Gustafsson-Wright et al. (2015) and Azemati et al. (2013), it is important that selected projects are consistent with the agendas of political decision makers, and that the number of individuals that benefit from the programmes are sufficiently large to make impact assessment meaningful from a statistical point of view. Another issue is trade-offs over the degree of innovation of the projects. On the one hand, solid international and/or domestic evidence on programme effectiveness is a desirable feature when projects are selected, on the other hand just repeating something that already is standard best practice will not bring much innovation.

A design issue that is more open for discussion in the case of SIFs than for SIBs is whether, or to what extent, return payments should be required. For bonds, such paybacks are an essential part of the public-private partnership deal. However, in the case of SIFs the deals are not between external parties but within different divisions of the same public body. Thus it is not obvious what a return payment is, or what purpose it has. In fact, as we noticed in section 3, unlike Norrköping and Örebro most municipalities have not made paybacks a part of the SIF design.

A somewhat related question is whether the selection of projects for funding should be mainly based on the cost-offset (“business case”) potential of the intervention, together with some loose consideration of its overall societal impact, or on an explicit societal benefit-cost evaluation.

In the remainder of this section we will briefly discuss these two issues.

A distinguishing feature of the Norrköping and Örebro SIFs are the *payback requirements*. As the national survey in 2014 showed, most SIFs do not have such requirements and can therefore not be sustained unless they are refilled with new allotments over the municipality budget. However, when the payback requirement is conditional on success this means that the programme risk is held by the fund and that unsuccessful programmes will drain it.²¹

Obviously, issues arise on whether credible commitments for paybacks really can be made, since the internal budget frames will be affected by multiple other

factors as well (and the political decision-makers can change as a result of elections every fourth year). In a principal-agent theory framework (Laffont and Martimort, 2002), a credible obligation for such a payback can affect incentives in several ways, depending on the precise rules. Generally, such an obligation can be thought to play a role by signalling an investment perspective, i.e., that resources are supposed to be allocated for productive uses, not for meeting immediate needs however urgent they are. An unconditional payback requirement (in contrast to a case when there are no such obligations) can be expected to reduce adverse selection due to asymmetric information in the selection of investment prospects by deterring “noisy” applications from less serious applicants. On the other hand, a conditional payback requirement gives the involved actors some stakes in the quality of the project evaluations (i.e., reduces moral hazard). In particular, impact evaluations (i.e., based on treatment-control comparison) are likely to reduce the risk of “type 2 errors” (i.e., falsely corroborating the null hypothesis) compared to conventional process evaluations (i.e., assessments of performed activities without control), and therefore decreasing the risk of having to pay back when the expected cost reductions were not (fully) realised (although the project was conducted in good order).

However, since the paybacks are based on the plan made in the application it is important not only that the effect becomes as expected, but also that the cost reduction following this effect is correct. Therefore if the information regarding the cost of a specific activity has changed since the application, the payback will diverge from the plan.

In the two cases we have presented there are examples of some of the difficulties in relating return payments to measurable performance variables. In some projects, for example labour market projects targeting a specific group’s probability to get a job, performance is easy to evaluate from readily available statistics in a short time, while in others, such as interventions in schools, there are multiple effects over a long time horizon. The payback requirement obviously may bias project selection and evaluation towards programmes and performance variables that are easy to monitor. For example the goal of *Skolfam* is to increase the children’s probabilities to complete primary education and get access to higher education. A full evaluation of that would take many years to complete as some of the children are quite young. However, the return payments for these projects are mostly based on direct cost reductions (for example, less need for placements at residential care homes), that emerge within a few years.

Both in Örebro and Norrköping, programmes are evaluated based on how they affect costs of the municipality, i.e., the focus is on “*business-case*” opportunities for avoiding own costs, while it is “assumed” that there are societal benefits as well.

As can be seen in Table 1, children and young people are the main target groups of most funded programmes. Many of them are expected to improve the results in school and thereby reduce municipality costs by less need for extra teacher support, fewer pupils who need to repeat one grade and less need for help

from school psychologist. Effects outside of school have also been included such as fewer needs for placements at residential care homes.

However, from a societal perspective one of the most important effects from increased education is that it increases the individual's productivity. This will influence both the probability to get a job and the expected wage level. Some of the funded projects are indeed expected to have an effect on the treated subjects' probabilities to get a job. This has been valued as the decrease in welfare support that is expected to follow. However, from a societal perspective a decrease in financial aid is not a benefit in itself. The standard method to value increased education is instead to estimate the increase in lifetime labour market earnings (e.g. Heckman, 2016; The Social Research Unit at Dartington, 2013; WSIPP 2015, Hultkrantz et al., 2017). Including this effect in the evaluation could have a large effect on how beneficial a project appears.

As an example, consider *Skolfam*, which is a programme that has been implemented both in Norrköping and Örebro. It targets children in foster care, which typically underperform in school (Vinnerljung et al., 2005). The programme has mainly been motivated by its expected ability to reduce costs for the municipality within a few years by for example reducing the number of children in need of placements at residential care homes and by reducing the number of children that have to repeat a class (Wiman-Olsson, 2011; Örebro 2015). The ex post evaluation of this programme in Norrköping (Bernfort & Lundqvist 2014) indicated a benefit-cost ratio at 0.85- 0.93, based on the benefits from internal cost reductions. Thus, the conclusion was that *Skolfam* was not profitable, although, on the other hand, the cost-reduction effects made the net cost quite low. However, this picture could be different in the context of a societal cost benefit framework.

Preliminary data show that 80 percent of the individuals who have participated in *Skolfam* and finished primary education (class 1-9) did so with grades that gave them access to upper

Secondary education (class 10-12).²² This can be compared to about 44-49 percent for boys and girls, respectively, in foster care in general.²³ Swedish data show that individuals who finished grade 12 are associated with 11 percent higher wage compared with individuals who only finished grade 9 (Fredriksson & Holmlund, 2014; Hultkrantz et al. 2017). Several Swedish studies have, based on register data for twin samples and on natural experiments, investigated to what extent such associations are causal. Based on a review of this literature Björklund et al. (2010, chapter 4) conclude that about half of the correlation derives from a causal effect. Furthermore, education can bring other societal benefits. For example Åslund et al. (2015) find that an education reform that prolonged the vocational upper secondary education with one year (from two to three years) reduced the number of property crimes, which thus suggests that measures that affect school outcomes may have effects on crime rates and thereby produce additional societal benefits.

Thus, while a “business case”, motivation for social investments may be important as a drive for social investment projects, it may lead to misleading results if not framed within a societal benefit-cost assessment. Unfortunately, models and data for such analysis at the municipality level in Sweden are mostly absent, but possibly the SIF “movement” will create an upsurge in development of such CBA tools.

Focusing on cost reductions that can be paid back within the budget of the municipality will also limit the type of project which can be financed by SIFs. For example, in Sweden the health care services is organised at the county level (higher administrative unit). Therefore projects that reduce health care costs, which is often the case with projects targeting the older population²⁴, will fall outside the scope of municipality SFIs.

Conclusions

More than a fifth of Swedish municipalities have in recent years established SIFs. We have argued in this article that at least some of them constitute an attempt to introduce long-term (as opposed to one-year budget planning) and holistic (as opposed to silo-mentality budgeting) perspectives in the administration of welfare services at the local-government level. The novelty is in how resources are controlled, not in how these resources are generated as the money, so far, comes entirely from transfers over the public budget. By a SIF, decision-makers can make resource-allocation priorities based on programme prospects that show how a specific resource use is expected to yield returns over several years, in various divisions within the municipality and, potentially, in the society as a whole. Moreover, such ex-ante investment planning makes it necessary to delimit the funded programmes from regular operations, and to identify the main outcome variables and how they can be measured, which thereby provides a basis that can be used for ex-post evaluation of outcomes, i.e. for learning from practical experience. In this way, SIFs could function as a platform for fostering innovation and systematic work for improving overall quality of welfare services.

However, it is far from clear that SIFs will make a lasting difference to the conditions for social innovation in Swedish welfare. The two cases that have been presented in this study are more sophisticated than the majority of SIFs in the country. So far, only a few funded programmes have been completed so it is not yet known whether these programmes will meet targets and deliver expected monetary returns, or whether it will at all be possible to make evaluations of impact and cost reductions, given methodological difficulties, changes of external and internal conditions, small sample sizes, etc. Even if SIFs in relative large municipalities like Norrköping and Örebro turn out to be successful, most Swedish municipalities are much smaller and will probably be more dependent on collaboration and support from national or regional authorities to get ahead. Also, there are several questions about the design of the SIFs and their procedures that remain to

be answered. Finally, the ultimate proof of the utility of SIFs will not be the success or failure of the funded projects but to what extent the lessons of these projects are used to improve regular procedures.

We have discussed two critical design issues in this article; whether investment returns from cost reductions should be paid back to the fund and whether assessment should be made of other societal benefits than avoided costs. It can be observed that these must not necessarily be related. In the two “best practice” example cases of Norrköping and Örebro, only internal cost reductions are considered as investment returns and all such returns are required to be paid back, up to the amount of the initial grant and conditional on that the effects are accomplished. However, many SIFs do not have such requirements and may also have a more comprehensive view on what benefits to consider in making decisions on which projects that will be funded.

There are several trade-offs involved in these design features. On the one hand, the model used in Norrköping and Örebro conveys a message to all involved parties that the grants are seen as investments, that receiving a grant also is a commitment to produce results, that results will be evaluated and that these evaluations will have real consequences. On the other hand this model may bias investments towards programmes that yield returns in the very near future, such as labour-market programmes that can reduce a municipality’s welfare payments, in contrast to for instance early interventions for disadvantaged children that may help them as adults in a more distant future. Also, it may lead to a focus on the municipality’s own expenditure reductions instead of on societal benefits.

However, it seems that both Norrköping and Örebro have been able to develop programmes for funding by the social investment funds that have possibilities to meet the payback requirement and that to a large extent target children and youth and therefore may give rise to wider long-term benefits. Also, as we have noticed, the state-of-the-art in societal cost-benefit modelling of these kinds of measures, conducted at the local-government level, is yet not very well developed in Sweden, although work is underway. It may therefore be a constructive choice that has been made in these two municipalities to start with own “business-case” projects so as to introduce social investment “thinking” in the provision of welfare services.

Later, when there hopefully will be better data and models available for projection of long-term societal benefits, the investment planning could be amended by explicit consideration of longer time perspectives and of benefits that are external to the municipality budget. Even though there are many methodological challenges to societal benefit-cost assessment, and projections of long-term outcomes are always uncertain, ignoring societal benefits and long-run effects is likely to lead to misallocation of resources.

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Notes

¹ A similar criticism of budgeting in firms has been expressed by e.g. Hope and Fraser (1997, 2003) and Wallander (1999), but Marginson et al. (2006) argue that the conflict between budgeting (encouraging stability and risk-averseness) and innovation (which needs scope for experimentation) has been overstressed by these authors.

- ² However, as Albury (2005) points out, some of the most innovative public service organisations have no specific such funds as they believe that innovation should be part of the mainstream activity.
- ³ In economics, an investment is a sacrifice of current consumption made for the purpose of increasing future consumption. Consumption can be interpreted in a broad way as anything that enhances individual and/or social welfare. In the national accounts, several activities performed by the public sector, for instance education of children, are classified as public consumption, although they to a large extent represent investments made by individuals and society in building human and social capital.
- ⁴ In March 2016 a social impact bond scheme targeting activities within a municipality was set up in collaboration between the social investment fund in Norrköping and a Swedish philanthropist.
- ⁵ Gustafsson-Wright et al. (2015) report that 44 SIBs were being utilised in developed countries as of April 2015.
- ⁶ However, a number of practical issues immediately arose. Measurable indicators were often lacking or inadequate and process oriented instead of focusing on output or outcome (ESV, 2007). Also, even if measurable targets could be set in terms of outcome it was often difficult to disentangle to what extent changes can be attributed to a specific agency and its operations. One response to that concern has been a considerable strengthening of capacities for performance audits and impact evaluations. Targeted “evaluation authorities” have been launched in specific policy fields such as for evaluation of labor market programs, social insurance and international assistance. These latter developments have been largely limited to the evaluation of national programs as the local governments in Sweden are autonomous to some degree.
- ⁷ See for instance the recent evaluation of the national agreement between the government and the Swedish Association of Local and Regional Authorities on evidence-based practice within social services (Statskontoret, 2014).
- ⁸ “Ideas for life”, belonging to the finance and insurance company Skandia.
- ⁹ Mayor Lars Stiernqvist, see Lundin and Åberg (2014).
- ¹⁰ For instance the city of Halmstad in 2012.
- ¹¹ More recently three more municipalities have joined this collaboration, one of them being Stockholm.
- ¹² Aina Rundgren in Örebro and Malin Bengtsson in Norrköping.
- ¹³ 51 of these were reported in the SALAR survey.
- ¹⁴ According to the SALAR (2015) survey 15 were preparing a decision and another 47 were “discussing”.
- ¹⁵ Notice that all resources in the funds were not supposed to be distributed during one year
- ¹⁶ The correlation coefficient is 0.9.
- ¹⁷ I.e., Social Democrats and/or the Left Party.
- ¹⁸ The Swedish municipalities normally have separate divisions in charge of the administration of schools, social work, city planning, etc. A common criticism is that the organisational split is an obstacle to improvement of early prevention as the costs of interventions are borne by other divisions (for instance the administration of preschools) than those that benefit through reduction of future expenditure needs.
- ¹⁹ In Örebro this concerns associations, foundations, cooperatives and charity organisations.
- ²⁰ Programme costs include evaluation costs.
- ²¹ Another feature that could potentially drain the fund is the fact that the repayment is based on the nominal value of the investment. This will reduce the real value of the funds available.
- ²² Statistics provided by the foundation Allmänna barnhuset (pers. com. Dec. 2015).
- ²³ Statistics provided by the National Board of Health and Welfare (pers. com. Dec. 2015).
- ²⁴ For example it has been shown that impact absorbing flooring reduce the number of hip fractures when installed in residential care facilities and the intervention as shown to be cost-effective. This is mainly motivated by a reduction of health care costs. (Ryen & Svensson, 2015)