

Summary

Entering the 2020s, Sweden is facing demographic challenges. The welfare needs of children and the elderly are rising far more rapidly than tax revenue generated by the working population. Budget cuts carry the risk that prevention initiatives, which have the potential to produce significant social benefits in the long term, will be pushed down the priority scale. The public sector is structured to deal with specific areas or issues without taking account of a broader totality. Hence, the public sector's ability to handle societal challenges proactively, and to prevent alienation while making the best use of available resources, is a topical debate.

One possible means of addressing the welfare challenges is social investment in some form or another. The term social investment in a Swedish context lacks an established definition, but is mainly used in two ways. In one sense, it is a *perspective* that gives prominence to the assertion that costs for social initiatives should be regarded as an investment in human capital. Secondly, it is used to describe concrete *practices* with associated methods and tools. On a practical level, the emphasis is on the development of new methods and practices that lead to early-stage prevention initiatives as part of a concerted effort to stimulate collaboration across administrative boundaries/break silos or with other actors, and to support organisational development. It is assumed this will generate both social and health benefits and promote more efficient use of resources or result in cost savings.

This report aims to provide an understanding of how Swedish municipalities and regions are working with social investment. The report also reflects how other actors, including the business sector, and the non-profit sector, are responding to social investment, and it examines the development in Sweden in relation to an international context. The fundamental issue is whether social invest-

ment, both as a concept and in practice, offers a new means to increase prevention and to foster more efficient use of resources over time and between sectors.

The report is based on four overall questions:

1. How widespread is social investment as a concept within municipalities and regions?
2. How is the concept perceived and what are the underlying reasons for working with social investment?
3. How is work on social investment being pursued, and what structural obstacles are there, what do these consist of and how are they perceived by different actors?
4. What possible effects and results can be ascertained in the form of a) outcomes for people, operations and socio-economic effects, b) changes on a more structural level in terms of organisation, coordination, and management of public sector.

Research is limited and an update is needed to reveal the extent to which social investment is having an impact in the local municipalities and regional contexts. This report is based on newly acquired empirical material in the form of a survey questionnaire sent out to all municipalities and regions, which is a follow-up of a 2014 questionnaire, and in-depth studies dealing with some of municipalities and regional practices. About sixty interviews were conducted with various individuals, including representatives from Swedish industry, NGO:s, our neighbouring countries, and the EU, all of whom are involved in different ways in processes related to the notion of social investment.

Social investment within municipalities and regions differ in scope and nature. The point of departure for this report is mainly the pathways that are represented to a varying degree in Sweden:

- Social investment as a *perspective* for clarifying investment in human capital and the value of investing in early-stage prevention initiatives.

- Social investment in the form of a funding provision for a specific initiative, which compared to normal working practice is expected to generate a better outcome for the target group and in time lead to lower socioeconomic costs (termed *social investment funds*).
- Social investment as a model for inducing different actors to join forces and work towards a defined objective, with financial risk allocation linked to social and economic outcomes as a supporting principle (*Social Impact Bond*).

A fourth pathway that has been identified but which is not yet represented in Sweden, is social investment as a financial instrument, i.e. *social bonds*, similar to green bonds.

How common is social investment in municipalities and regions?

Some 47 per cent of municipalities (137) have worked with social investment in one form or another. Of these, 70 have allocated funding specifically for social investment (social investment funds), which is an increase of 29 per cent compared to 2014. A certain degree of movement can be noted as around 20 municipalities that worked with the concept in 2014 were no longer doing so in 2018, whilst around 30 have been added. In every sixth municipalities the opinion is that this work has become more accepted, and a total of 111 municipalities, or 38 per cent, have on at least one occasion implemented an initiative that could be defined as a social investment. This way of working is applied primarily within larger municipalities with either by left-wing parties or cross-bloc majorities.

Allocation of funding for social investment is relatively limited in relation to the turnover of municipalities and regions and is equivalent to around 0.1 per cent of the municipalities' total costs. The size of what are termed social investment funds varies between one million kronor and 300 million kronor, with an average of five million kronor. Our study shows that a total of 744 million kronor was allocated to social investment in 2016 (1,687 million if open responses from the questionnaire are included), of which around one-third was utilised.

Since 2014, social investment has been implemented in 11 out of the 20 regions. In six regions, no work related to social investment appears to have taken place. Five out of 20 regions, report that they have allocated funding for social investment. Compared with the 2014 survey, the picture remains relatively unchanged. Social investment funding varies between 10 and 30 million kronor.

Only the municipality of Norrköping has a social impact bond with an external funding body, and in the municipalities of Botkyrka and Örnsköldsvik two so-called “internal social impact bonds” are in operation, aimed at reducing sick-leave.

Even if the number of municipalities and regions that have made special funding provisions for social investment has increased over time, the volume in relation to the operating budget is low and the impact has been modest. However, over the past four years we have seen the emergence of social investment as an approach or perspective, which can be attributed to developments internationally, and to growing interest shown by the business sector and non-governmental organizations.

Motives and driving forces

In the 70 municipalities and five regions that have allocated funding for social investment, the underlying motives have been set out in politically decided guidelines. The motives that stand out within the municipalities and regions are:

- Test and develop new methods and working practices for early-stage prevention initiatives.
- Bridge vertical organisational structures/break silos through inter-departmental collaboration and/or collaboration with other bodies.
- Act as a tool to promote organisational development and a learning organisation.
- Generate social and economic benefits and make more efficient use of resources.

What has emerged is criticism among some observers towards the concept of social investment as it is considered to conflict with

municipal economic control and established accounting principles. The term *social investment fund*, has led to confusion as it is not actually a fund but more a funding provision, either in the form of a grant in the operating budget or as allocated equity. The difference compared to traditional project funding can be found in the investment logic, where it should be possible to compare alternative courses of action, and in the working method, which is characterised by stricter requirements regarding evaluation of the impact on the target group and economic outcomes. The funding is dedicated to initiatives that transcend operational boundaries to stimulate collaboration and spread the risk between administrations/operating areas/brake silos. Investment in a Swedish municipal economic context is reserved purely for physical investment (buildings, roads etc.). Investment in human capital is regarded as public consumption, and as it is reported as a cost in the accounts it is regarded as direct expenditure rather than an investment. Budget planning and financial reporting follow this division, thus giving rise to terminological confusion.

Application

Whilst the way the work around social investment is organised differs, the decision-making processes relating to social investment are still considered important, both on the political and administrative level. The social investment target groups comprise mainly children and young people, the unemployed, newly arrived immigrants, and people suffering from mental ill-health. The operating areas that are typically involved in work of this nature are social services, the education sector, including student health, and the labour market/employment sector.

Effects and results

Our assessment is that social investments, both as a perspective and as a working method, have the potential to bridge vertical organisational structures by testing new ways of reaching risk groups that are difficult to reach. This approach is aimed at breaking down short-term budget thinking, promoting cooperation between

governing bodies, and emphasising the value of outcomes, both from a human and a socioeconomic perspective. At the same time, there are structural obstacles, competence shortcomings in certain areas, and gaps in knowledge relating to social investments, all of which need to be investigated further.

The social investments that are taking place in Sweden and internationally are leading to important discussions on ways by which we can address external impact, complex societal challenges, and the need for proactivity in publicly funded systems, can be reinforced.

Recommendations

Using the conclusions presented in the report, our main recommendations to the government focus on fostering an outcome culture and creating conditions for funding social investments within the public sector.

1. Demand social outcomes in public management

A lack of long-term consequence-based reasoning behind social initiatives pervades much of the public sector. Follow-up and reporting frequently focus on activities rather than outcomes. This applies both to projects as well as the follow-ups of ordinary welfare activities. The models that are designed and tested as social investment funds or social impact bonds involves needs analyses and consequence-based reasoning related to the actual outcomes and results that are achieved for the population. A clearer focus and more sophisticated analyses of how the best possible outcomes can be achieved and rewarded have the potential to provide activities for people that are more suited to purpose and at the same time promote more efficient resource management. A precondition for ensuring a clearer focus on outcomes is that decision-makers demand social and environmental outcomes from initiatives.

2. Establish a national competence centre/outcome laboratory

Access to evidence-based methods, knowledge related to practical application, and the development of evaluation skills, are lacking in many municipalities, regions and public bodies. In Sweden, there is

limited access to data on the cost and the effects of implementing prevention and social initiatives. There is a need to reinforce national support as a complement to statistical compilation and the work being done by national evaluation bodies.

3. *Investigate a framework for social investment budgeting*

There are uncertainties and differences of opinion regarding conditions for social investment budgeting and reporting in relation to practice as set out in the Local Government Act. The prerequisites and frameworks within municipalities and regions for using economic results to encourage social investment ought to be investigated.

4. *Investigate the establishment of a governmental outcome fund*

The state has a role to play as a welfare provider via various public authorities and agencies, and as a funding body for welfare services provided by municipalities and regions with general and directed government grants. Welfare challenges increasingly require effective collaboration between public sector bodies. A common objection to social investment voiced by municipal authorities, is that savings from early-stage prevention go to the regions and the state. These are caveats that a state fund and technical support capability can address by encouraging experiment with outcome-focused initiatives, collaboration, and risk allocation models.