Building a Stronger Society

A DISCUSSION PAPER ON SOCIAL IMPACT INVESTMENT

Government of South Australia

SOUTH AUSTRALIA

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Foreword from the Minister

South Australians are proud of our history as pioneers of social innovation. In keeping with that tradition, we must always be looking for better ways of doing things, and for ways to encourage innovation in responding to new challenges.

As a state we face a growing challenge to ensure that economic growth does not leave vulnerable members of our community behind. We need to do the best we can to ensure that all children have access to the same opportunities, and that we are able to continue to provide quality services to those in need – even as the cost rises as we grow older. A prudent government needs to be sure that public funding for community services is used effectively, to achieve the best outcomes for individuals and the community. We also need to focus more attention on early intervention programs which can prevent expensive social problems emerging.

Social impact bonds are a relatively new concept being piloted around the world to meet challenges such as these. I am closely following the trials underway in the United Kingdom and, closer to home, in New South Wales. Early indications of these trials are encouraging, and there is now growing interest nationally and internationally in the potential for this new form of social finance.

This discussion paper explores the opportunities for social impact investment in South Australia. It sets out some demanding areas of social policy where current efforts are not achieving the outcomes we want. The government believes that social impact bonds offer potential to support innovative new programs that will improve the lives of families while also reducing the cost of expensive health and welfare programs down the track. Any trials of social impact bonds in these areas would not replace or outsource existing government programs. The intended focus is new or expanded programs designed to tackle costly social problems in more innovative and effective ways.

Your responses to this paper will help inform the government's views around the potential for social impact investment in this state, and how they might be successfully implemented. The response template can be found at the back of this report or downloaded and submitted online at http://saplan.org.au/yoursay.

I would like to acknowledge the leadership of the Social Impact Investment Network SA in fostering this debate, and the Social Impact Investment Product Advisory Committee which has provided advice to the government to support the release of this discussion paper.

Hon Jack Snelling MP
Minister for Health and Ageing

Introduction

This paper has been prepared by the Government of South Australia to highlight its interest in trialling social impact bonds in this state. It provides a brief background to social impact investments, a discussion of the potential benefits and challenges facing social impact bonds, and possible areas for their application in South Australia.

Interested parties are invited to respond to the paper by 7 February 2014. Your responses will help shape the next steps in the development of social impact bonds in South Australia. In particular, the government is keen to hear about programs that have been shown to be effective in issues such as (but not necessarily limited to) out-of-home care, recidivism, end-of-life care and homelessness which could form the basis of a social impact bond trial in this state.

While the focus of this paper is on the emerging form of impact investments usually called social impact bonds,[1] it does not rule out exploring other forms of impact investing in South Australia to alleviate social problems, particularly those set out in this paper.

What are social impact bonds?

Social impact bonds are an emerging product which involve partnerships between governments, non-government organisations and private investors. The focus of these partnerships is to deliver new and innovative programs that intervene at an early stage to improve the resilience and capabilities of individuals and families and therefore act to reduce the risk that they will experience crisis situations down the track.

Successful early intervention programs lead to better outcomes for individuals and the community. They also enable the government to reduce some of the costs of expensive crisis services such as family protection, correctional services, acute hospital services and housing support. On this basis, the government is able to provide a return to the investors.

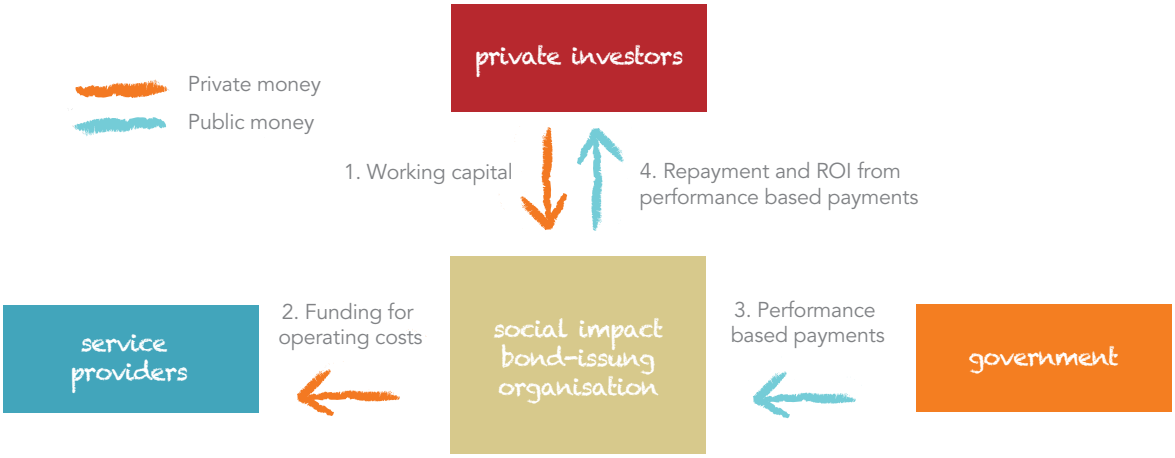
Social impact bonds are currently being trialled in the United Kingdom, notably at the Peterborough Prison to fund programs to help prisoners increase their education levels and vocational skills, aiming to reduce the incidence of recidivism. In Australia, the New South Wales Government has commenced two trials, one of which aims to prevent children going into foster care, while the other seeks to restore children in care to their families, with investors to receive a return if the program is successful.

Social impact bonds represent a departure from the traditional approach to government-funded community services, where the government provides funding directly to a non-profit organisation to deliver a specific program on the government's behalf. Under these arrangements payment is made on the basis of compliance with program delivery obligations specified in the service contract (usually the performance of specific activities).

By contrast, a social impact bond typically involves non-profit organisations delivering services to ***achieve specific outcomes*** targeted by government (for example, reducing the reoffending rate of offenders released from prison, or the number of children placed in out-of-home care). Initial payment for the services is made not directly by the government, but by the issuer of a bond using capital raised from investors.

At the end of the contract period (which may be five to seven years), the government pays the bond issuer – with the payment tied to the achievement of specific service outcomes. Investors in the bond receive a return on their investment linked to the achievement of agreed service outcomes. With some types of social impact bonds, part of the principal is protected; with other types, the investment is wholly at-risk.

The figure below[2] illustrates the relationships between parties, and the stages of the investment process.



Social impact bonds are an emerging form of impact investment. The Global Impact Investing Network defines impact investments as ***'investments made into companies, organizations, and funds with the intention to generate measurable social and environmental impact alongside a financial return'.***[3]

Impact investing is generating significant interest globally, as demonstrated by the Social Impact Investment Forum convened by the G8 in June 2013, and has entered a 'market building' stage both globally and in Australia with emerging centres of activity, increasing activity and falling transaction costs.

Social impact bond investment process

1. The social impact bond issuer raises funds from private investors.
2. The social impact bond issuer distributes those funds to service providers to finance operating costs of delivering services to a target group of people.
3. The government then makes payments to the social impact bond issuer if agreed performance targets are met.
4. Finally, the social impact bond issuer uses these payments to reimburse the private investors and provide them with a return on their initial investment depending on outcomes.

1: How big is impact investment?

Global commentators estimate a market potential for total impact investment in the range of US$400 billion to US$1 trillion.[4] There is not yet comprehensive data on the size of impact investing in Australia; however the market potential for total impact investment is estimated to grow from $2 billion to $32 billion over the next decade.[5]

Almost all of the deals identified as impact investments in Australia are designed specifically to finance the particular social, cultural or environmental need in a way that also meets the needs of investors to deliver a financial return.[6] Social impact investments in Australia cover activity in a broad range of impact areas, from health and housing, early childhood, environmental sustainability and clean energy.[7]

The New South Wales experience indicates that the market response to social impact bonds in that state surpassed expectations. UnitingCare Burnside's Newpin social benefit bond – the first in Australia – sought to issue $7 million in bonds over a seven-year term, and was over-subscribed one month before it was due to close.

The Benevolent Society issued $10 million in bonds for a five-year term, which have also been fully subscribed.[8] Both of these trials are aimed at reducing the social and financial cost of foster and guardianship care by investing in programs that strengthen families.

Potential benefits of social impact bonds

The key driver for investigating a social impact bond trial in South Australia is that there are many social problems which cause significant costs to the community, but which could be potentially avoided or alleviated through earlier interventions.

Social impact bonds offer significant potential benefits. While no social impact bond trials have been completed to date, participants in other jurisdictions' trials report that several benefits can be achieved from the outset, including greater program efficiency, improved outcome reporting and measurement, and a stronger evidence base.

Social impact bonds impose a discipline on accountability for outcomes, because measured outcomes are linked to investment returns.

The focus on outcomes rather than delivery models potentially allows more scope for program innovation, and gives service providers the flexibility to move resources away from programs that are not working towards those that do.

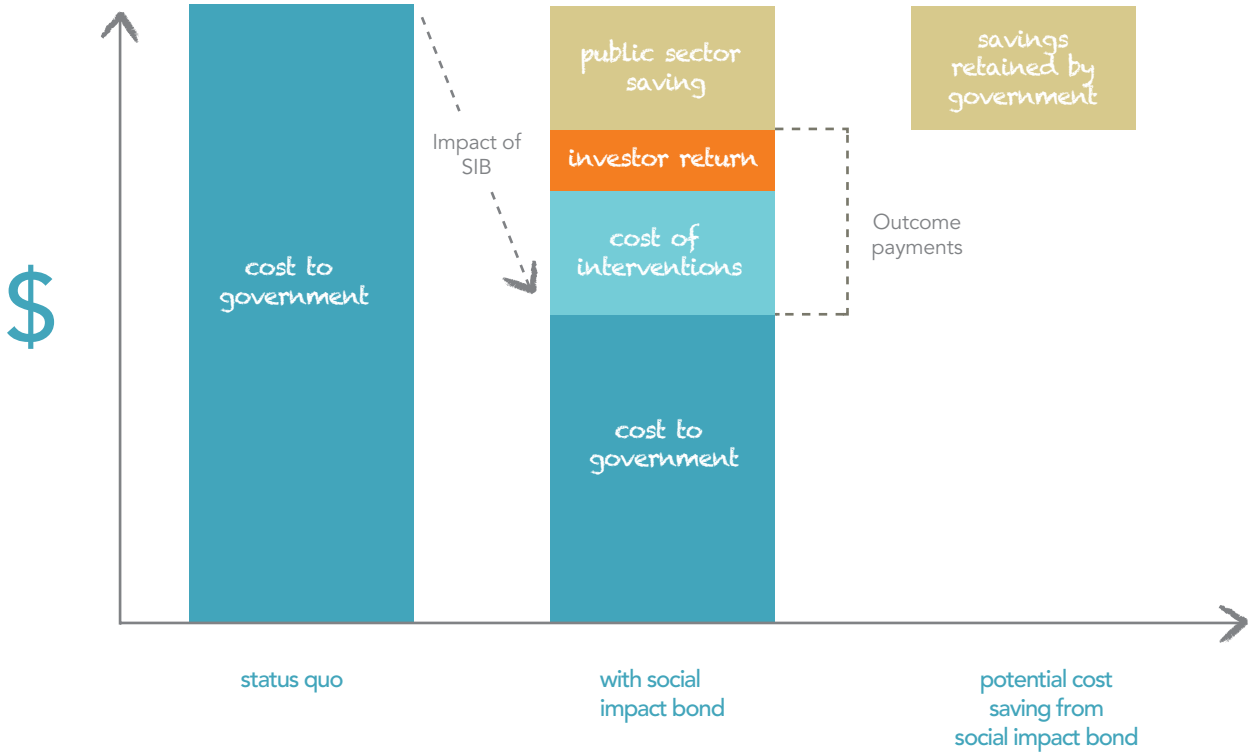
Social impact finance can help build capacity in non-profit organisations to deliver better outcomes for the community.

Building capacity in service delivery may require up-front investment, for example by employing key staff, training staff in delivery of new programs or in analysis and reporting of program data, or forming new partnerships.

Social impact bonds can potentially deliver better results at lower cost.

As depicted on the following page, the savings to government generated from successful early intervention programs can more than offset the cost of delivering the program and the investors' return on investment. Furthermore, where interventions do not prove successful, the cost to government of the program can be less than it would otherwise have been under a traditional funding arrangement, depending on the amount of investor capital at risk.

Potential cost savings from a social impact bond[9]



Social impact investment is not an 'outsourcing' of public service delivery, but a way for private investors to share some of the risks of innovative programs and services.

The benefits of social impact investment can be realised by taxpayers, investors and the community.

The emergence of social impact bonds as a new asset class will require a demonstrated track record that provides confidence in their viability as a financial instrument which is attractive to investors seeking financial and social impact returns. Nonetheless, early experiences have shown some promise.

There are some challenges to overcome however. One criticism of social impact bonds is that they are an expensive funding source for governments.

While investors demand a return on their investment that is higher than the cost of government borrowing, the higher cost of financing can be justified if the program achieves the desired outcomes and the contractual arrangements ensure that those outcomes are associated with lower costs of government services to those who benefit from the program.

Social impact bonds also require the management of complex negotiations across the public, private, and social realms.[10] The legal and financial complexities involved present potential barriers to participation, particularly for smaller organisations.

Based on the experiences of New South Wales social benefit bond trial participants, contracts between the parties can be highly complex. It has been acknowledged that trials in other jurisdictions have taken up to two years from conception to launch, with significant up-front investment of resources required from all participants.

Measuring outcomes

Being able to effectively specify and measure the social outcomes sought through a social impact bond arrangement is crucially important, not least because it determines whether the government is obliged to repay the capital provided up front by investors. The capacity to identify whether the intervention contributed to the outcomes achieved is essential. If accurate and reliable measures cannot be formulated, social impact bonds cannot work.

Outcome metrics form the foundation of social impact bond contracts. All stakeholders need to trust that there is an objective mechanism for assessing and agreeing on the degree to which social outcomes have been achieved.

In the New South Wales trials, outcome measures used for calculating returns are simple and straightforward, using clear and regularly updated data. For example:

- for family restoration – did the child go back to the biological family, and did the child stay there, during a 12 month period?
- for out-of-home care (OOHC), service providers were expected to achieve a reduction in all of three measures – number of calls to Helpline, safety and risk assessments, and OOHC incidents.

Once outcome measures have been identified, baselines for comparison need to be constructed. Outcomes compared with historical trends may not necessarily prove that the program has been successful, or that it has been the sole factor contributing to the achievement of those outcomes. A range of other factors may have contributed – such as changes in the general economic situation, reduced unemployment etc. More sophisticated techniques may be required to provide evidence that outcomes can be linked conclusively to program delivery.

One way to approach this is through the use of control groups. The outcomes for participants in the program can be compared to a control group of similar individuals or families receiving more traditional forms of service support. This provides a robust counterfactual scenario through which to test the success of the intervention program. Establishing a control group that will provide a valid comparison for the life of the program will require considerable investment to establish and maintain. A clear process also needs to be established to identify and rank clients for referral to social impact investment programs.

Table 1: comparison of selected social impact bonds

Program	Bond issuer	Financial product	Intervention program	Measurement and KPIs	Comments
Newpin SBB (NSW)	Newpin SBB Trust (Social Ventures Australia as manager and security trustee)	• $7 million • 7¼ year term • Annual coupon payments (min. 5%) and principal payment subject to performance • Target annualised return of 10-12%	• Family restoration (some placement prevention as well) • Targets 700 families, 55% with at least one child under 5 in OOHC • Delivered by UnitingCare Burnside	• Restoration rate	Australia's first social benefit bond developed with assistance from Social Ventures Australia - used to maintain and expand the existing Newpin program from 4 centres to 10 centres. Measured against a matched cohort control group.
Essex County Council SIB (UK)	Social Finance	• £3.1 million • 5 year term • Fully at-risk • Annualised returns of 8%-12% if successful	• Family preservation (OOHC placement prevention) • 380 vulnerable adolescents aged 11-16 • Multi-systemic therapy – (community and family based), average 60 hours over 4 months • Delivered by Action for Children	Primary • Days spent in care (over 30 day periods) Secondary • School performance • Offending rate • Emotional well-being	First social impact bond to be commissioned by a local government authority. Measured against historical data, not a matched cohort control group.
Benevolent Society SBB (NSW)	Benevolent Society	• $10 million, consisting of Class P principal protected ($7.5 million) and Class E at-risk ($2.5 million) • 5 year term • Annualised returns up to 10% (Class P) or 30% (Class E)	• Resilient Families: family preservation (OOHC placement prevention) • 400 families with at-risk children under 5 • Intensive family support: crisis prevention (up to 6 weeks), followed by plan and ongoing support (up to 9 months) • Delivered by The Benevolent Society	• Improvement (linked to return) calculated using: • Entries to OOHC (66% weight) • Helpline reports (17% weight) • Safety and risk assessments (17% weight)	Program modelled on US Homebuilders program. Measured against a matched cohort control group.
Peterborough (UK)	Social Finance	• £5 million • 6 year term • Fully at-risk • Annualised returns of 7.5%-13% if successful	• Reducing recidivism amongst 3,000 short-term prisoners • Various programs around education, vocational skills, and confidence • Delivered by a coalition of four social sector organisations	• Reduction in the combined number of reconviction events	World's first social impact bond. If reoffending rates fall by 10% or more, measured against a matched cohort control group, investors will receive a return, funded through UK Ministry of Justice and Big Lottery Fund.

Savings to government

Even where there is a clear ***social*** benefit to be gained through social impact bonds, this may not translate to a budget saving, particularly in the shorter term. While intervention services may reduce demand for crisis services from the targeted population, the success of the program may help constrain ***future*** growth in demand for crisis services, rather than generate an immediate saving.

Where budget benefits are identifiable, they may also be spread across several departments. Government will have to address this should a social impact bond trial proceed.

Suitable candidates for social impact bonds

A social impact bond funding arrangement will not suit all social problems or programs. For example, it would not be appropriate where there are no benefits associated with transferring risk to an independent provider or private investors, or when better social outcomes cannot be reliably linked to a particular program.[11] While social impact bonds can vary substantially in their detailed design, structure and operation, for them to work the following conditions must be present:

- the service or program must be directed at a social problem which the government is vitally interested in solving or ameliorating
- the methodology of the program must be proven, documented and replicable, must be directly relevant to the problem which the government authority seeks to address, and the outcomes of intervention must be statistically measurable
- the non-profit partner organisation must be credible and must have sound financial management practices and the capacity to undertake outcome measurement
- there must be proven/promising service models that have capacity to operate at scale if adequately resourced
- there must be experienced, independent and well-resourced intermediaries available to monitor performance reporting during the life of the bond
- there must be investors prepared to support the investment issue.

The ideal candidates for social impact bond funding are non-profits with programs that have been shown to be effective.

Participants and their roles

Investors

There are a range of active impact investors in Australia. 'Financial-first' investors include banks, pension funds, sovereign wealth funds and development finance institutions that seek to maximise financial return with a floor for minimum expected social and environmental impact. In contrast, 'impact-first' investors such as philanthropic organisations seek to maximise social or environmental returns while having a floor for financial return.[12]

One potential benefit of social impact bonds is that they may enable philanthropic investors to unlock their capital to fund investments that achieve both a social and financial return.

However, impact investments are not easily traded, and until secondary markets develop investors must be prepared to adopt a long term investment horizon. In addition, the often limited scale of impact investments makes it difficult for large investors to commit resources towards researching and exploring their opportunities.[13]

2: Balancing risks and returns

Varying levels of financial return can be found across the spectrum of impact investment, reflecting that the required level of financial return differs between investors depending on each investor's risk appetite and motives for entering the market.[14]

J.P. Morgan reports that the majority of respondents (65 per cent) to its 2012 annual impact investing survey principally sought 'market rate financial returns' with the balance targeting financial returns that are 'below market rate'.[15]

Social impact bonds can take the form of a range of financial products to suit different investor risk profiles. A low risk product would protect investors' principal, placing only reward payment at risk. At the other end of the spectrum, both principal and reward payment could be fully dependent on the achievement of an agreed outcome. This option is attractive to government as there is a greater transfer of risk to the investor, which is reflected in higher reward payments.[16] The risks and returns of some established social impact bonds are illustrated in Table 1.

The Centre for Social Impact (CSI) recommended an option for the New South Wales pilot that balanced risk-sharing between government, the non-profit organisation and social investors. Under this option, part of the costs of program delivery would be paid by government through a standing charge, and the remaining costs and reward payment would be dependent on the achievement of a successful outcome. In other words, some (but not all) of the capital was at risk, with upside reward potential as well. CSI considered that this option would be attractive not only to philanthropically-minded investors but also to a wider group of social investors who are prepared to accept non-traditional terms and new and innovative investment models.

It is also possible for an impact investment to involve both higher risk and lower risk components.

In New South Wales, the Benevolent Society's bond includes a tranche where the principal is protected, with annual returns up to 10 per cent, and a tranche where the principal is at-risk, where returns may be up to 30 per cent. In both cases, the return rate is linked to the level of measured improvement following the intervention (intensive family support) program.

In the United Kingdom, the Essex Future for Children Bond is another example of a hybrid investment product. It combines a low-risk ethical investment in affordable housing to provide repayment of principal with a high-risk investment in a social impact bond to create a high social impact and the potential for an additional return. Seventy eight per cent of the funds invested in the bond will be loaned at a fixed rate to Places for People Homes (PfPH). It is the repayment of this loan plus compound interest at the end of the bond's 8 year term that provides the financial intermediary with the funds to repay bondholders the principal amount invested. PfPH is a registered provider of social housing that builds, sells and rents homes and provides services and support to those who live in them. The remaining funds are committed to investments in Children's Support Services Limited (CSSL), a company established to manage an outcomes contract with Essex County Council. CSSL use this money to commission the delivery of Multi-Systemic Therapy, an intensive family support therapy, for the 11-16 year-olds who are referred to the program. Essex County Council will pay an agreed amount for every care placement day saved, meaning that the return on investment depends upon the success of the program. Whatever payments are received from CSSL over the life of the program will be rolled up and paid on maturity as a variable return to bondholders.

Intermediaries

Financial intermediaries are vital in unlocking capital, directing it to impact investments and generating deals. They help bridge the gap between the supply of investment capital and demand for capital by brokering connections, attracting and managing capital, structuring deals and facilitating interest across the investment market.[17] In New South Wales, Social Ventures Australia has acted as a financial intermediary for the Newpin social benefit bond.[18]

The government is interested in hearing from organisations that could play the role of financial intermediary for a trial of social impact bonds in South Australia.

Industry bodies such as Social Impact Investment Network South Australia (SIINSA) and Philanthropy Australia also play an important role in building connections, generating awareness and developing the marketplace for impact investing.[19]

Government

Government must have an interest in improving social outcomes through early intervention and sharing the benefits of successful performance with investors.

Other than paying for the successful achievement of agreed outcomes, the role of government involves:

- encouraging collaboration across sectors
- building capacity within its own agencies and service delivery partners
- implementing policies to adopt new financing options
- contributing resources including data, evidence and research capability.[20]

It is important for government to shift its focus from the immediate demands of crisis delivery towards achieving the long-term benefits from successful intervention, and adopt a stable policy position to support the development and uptake of social impact bonds.

Service providers

The service provider is an essential part of the social impact bond arrangement.[21]

Early intervention and prevention programs typically involve the provision of multiple services and require non-profit organisations to provide comprehensive services to meet individuals' needs.[22] For example, in the case of OOHC, a suite of interventions could be tailored to address the needs of both a young person and his/her family members, and which reflect local circumstances.[23]

There are a number of non-profit organisations operating in this state that deliver a range of community services to South Australians, supported in many cases by government. Some of these organisations might be well placed to deliver services under a social impact bond.

Non-profit organisations suitable for social impact investment will have a strong reputation for governance, financial control, high quality service delivery, monitoring and evaluation systems, and outcomes data collection systems.[24] They will be able to provide evidence of measurable success with the proposed target population and intervention approach, delivery capacity, and financial viability.[25] Where service providers need to build capacity to deliver new or expanded programs, a social impact bond could help to achieve this.

Discussion question: What would service providers need to be a partner in a social impact bond?

Discussion question: What potential is there for collaboration in providing services funded by social impact bonds?

Social impact bond issuer

The issuer of a social impact bond is typically a non-profit organisation or financial service intermediary, or a special purpose vehicle established by them to issue an impact bond.

The issuing organisation may itself be a service provider, or it may outsource the provision of services.

Independent auditors

Given the challenges in developing agreed outcomes and measurement frameworks, especially in relation to the trigger mechanism for payments to be made to investors, it is essential that a credible independent body performs the audit and performance reporting role for the benefit of all stakeholders.[26]

This independent body must have access to relevant information from both the host non-profit organisation and relevant government agencies. The role could be performed by a professional service firm, a government agency or an academic institution that is acceptable to all stakeholders.[27]

The government is keen to receive submissions from bodies which are interested in, and have expertise in performance assessment for social programs.

Social impact bond development

The following table depicts the stages of development involved in launching a social impact bond. South Australia is currently in the early stages of this process and has identified services in this state that need reshaping.

Social impact bonds: stages of development[28]

Potential areas of application in South Australia

The Government of South Australia is interested in exploring the potential for a social impact bond to be trialled in South Australia.

The following criteria have been developed to identify which areas might be best suited to a social impact bond trial.

3: Criteria for identifying focus area for a social impact bond

The focus area must be a pressing social problem where:

1. New approaches to intervention exist, and there is evidence to suggest that they will be effective in addressing the problem, based on experience either locally or in other jurisdictions.
2. The impact of the new approach on the focus area can be measured accurately and with confidence against current performance and cost or a matched control group.
3. The expected outcomes of the new approach can be demonstrated to:
   a. improve wellbeing for individuals and the broader community.
   b. reduce the cost per intervention on the public sector within a five year timeframe.

Using these criteria, four areas have been identified where trials of social impact bonds programs might be initially pursued in South Australia: out-of-home care, recidivism, end-of-life care, and homelessness. The first two of these are well-established with trials underway elsewhere; the latter two are promising but less tested.

***Discussion question:** Are there other potential focus areas that meet these criteria, in addition to the ones discussed below?*

Out-of-home care

Nature of the problem

The number of South Australian children in out-of-home care (OOHC) has doubled in the last ten years.[29] In 2003, there were 1,245 children in an OOHC placement and this had increased to 2,548 by 2012. While the number of family placements has increased, the number of foster carers has not grown at the same rate to meet increased demand and this has resulted in an increase in state funded residential care.

Given the growth in the number of children and young people in OOHC there has been a continued increase in the amount of direct funding spent in the child protection system. The Report on Government Services 2013 demonstrated a significant increase in government expenditure for child protection services, OOHC and intensive family support services in the past five years.

Expenditure on child protection services in South Australia has increased from $36.5 million to $50.5 million from 2006-07 to 2011-12, an increase of 38 per cent. Similarly, in the same period, spending on OOHC increased by 62 per cent from $87.4 million in 2006-07 to $141.6 million in 2011-12.

The direct economic costs of child abuse and neglect are substantial. There are long-term costs associated with child abuse and neglect and with not providing good OOHC, including higher rates of hospitalisation and incarceration, remedial education, productivity losses, and cost of protection and care programs.

The prevention of child abuse and neglect is a priority. If families can be supported to safely care for their children the outcomes for their children are often better and the direct costs of state care and protection reduced.

Outcomes sought

At a broad level the following outcomes are sought:

- reduction in the number of families that are the subject of a child protection re-notification
- reduction in the number of children and young people entering out-of-home care
- preserve and strengthen family relationships to ensure children and young people reside in a safe and stable home environment.

Specific targets that could be sought include:

- families not receiving a confirmed child protection re-notification for a defined period after the service has ceased involvement with a family
- children and young people have been maintained with their family as a result of the service
- families have reported that the service has assisted them to achieve their Case Plan goals.

Targeting

There is a proposed focus on the following target group:

- families who have been notified to the Child Abuse Report Line (CARL) and referred to a Families SA office, where a priority response to children at low or moderate to high risk of harm is required (Tier 2 or 3); or
- children or young people who are at risk of entering the child protection system, but who are not currently on a Supervision, Custody or Guardianship of the Minister Order
- the majority of families will have at least one child aged under five years old
- one third of children and young people will identify as Aboriginal or Torres Strait Islander.

Services are to engage effectively with Aboriginal and Torres Strait Islander families and are to ensure that the services reflect the social and cultural traditions for Aboriginal and Torres Strait Islander families.

Interventions

It is intended that proposed interventions would:

- deliver a range of services to children, young people and families which increase family functioning and help to prevent family breakdown
- provide culturally specific services to children and their families to promote cultural identity and connections with their cultural community
- increase the wellbeing, coping skills and self-regulation skills of the child/young person and their family.

There are a number of family support programs that have been demonstrated to allow more children and young people to safely return home or stay at home. It is anticipated that these could be expanded or adopted in South Australia under a social impact bond initiative. Examples of child protection programs in the New South Wales social benefit bond trials are:

- The Resilient Families program – an intensive family support service operated by the Benevolent Society in partnership with Westpac and the Commonwealth Bank. The program is based on the Homebuilders program that operates in Washington State, USA. The program provides intensive, in home practical and therapeutic support to families who have children at risk of significant harm. The program runs for one year with the first 12 weeks consisting of intensive work with families followed by a 40 week less intensive, step down approach. More than 300 families will receive a service over a five-year period.
- The Newpin program delivered by UnitingCare – which delivers an intensive therapeutic program for families with children aged less than five years who are either in statutory OOHC or are at risk of harm. The program aims to safely restore children to the care of their families or prevent children entering OOHC. The Newpin model involves the provision of parenting modules, group therapy sessions, child development activities, peer mentoring, and a safe, supportive and stable environment for parents and children.[30]

Discussion question: Are there other innovative interventions, either in South Australia or other jurisdictions that deliver better outcomes for children and families in contact with child protection services?

Recidivism

The government is seeking to reduce re-offending by offenders after they are released from prison.

Evidenced-based and targeted rehabilitation and education and training programs are the key to reducing recidivism.[31] A number of protective factors have been evidenced to reduce the likelihood of an individual engaging in criminal behaviour. Where they are strong, these protective factors can effectively reduce the likelihood of continued criminal behaviour by managing exposure to, and offsetting the influence of, multiple risks. Protective factors that have been identified as reducing the risk of engagement in criminal activity include:

- pro-social behaviour (such as empathy)
- stable accommodation
- general wellbeing, including good mental and physical health
- financial stability
- good cognitive performance (such as appropriate language development and good academic performance)
- supportive network, including family and partner
- positive community influence
- engagement with meaningful activities, including education and work
- social and problem-solving skills
- sobriety.

The government considers that an integrated approach to the provision of services that target these protective factors is likely to have a positive impact of the rate of recidivism in South Australia.

Nature of the problem

South Australia has the lowest rate of any jurisdiction for the rate of prisoners returning to prison (29.1 per cent in 2011-12 compared with the national average of 39.3 per cent). Nevertheless, the impact of recidivism on the correctional services budget is significant.[32]

In 2011-12, South Australia's average daily prison population was 2078, of which 1947 prisoners were male and 493 were Indigenous. South Australia's net operating expenditure on prisons was $160 million, with a net operating expenditure per prisoner per day of $211.[33] This figure excludes capital costs and the broader costs to the justice system and society attributable to reoffending.

Outcomes sought

The outcome sought is a reduction in reoffending by offenders after they are released from prison.

This could potentially be measured by frequency reconviction rates rather than a binary measure of did they offend or not, measured against a matched comparison group. For the purposes of a trial, a reconviction could be counted if the crime has been committed within 12-months of release and the reconviction at court within 18-months.

Targeting

Programs could target adult sentenced prisoners with a sentence of 365 days or less, because by nature of their sentence these prisoners may not have any supervision requirements by community corrections.

Of the 1680 prisoners discharged from prison during 2011-12 having been sentenced for a major offence, 1307 served less than 12 months.[34]

Targeting female prisoners in a way that is also respectful to their specific gender-based needs would have significant benefits for this client group and would potentially be a way of delivering evidence-based services in an innovative way.

The government is committed to addressing the needs of Aboriginal people in the criminal justice system, and consideration would be needed for working with Aboriginal prisoners.

Interventions

A considerable body of research has shown that the provision of evidenced-based and targeted programs that focus on criminogenic risk factors provide the best possible opportunity to support meaningful change in an offender's life and reduce their engagement in criminal activity.

Service provision could be designed to target multiple needs including accommodation, medical services, family support, employment and training, benefits and advice.

In this respect, the interventions themselves are not intended to be innovative, and indeed many of them will already be targeted in some form in South Australia. The innovation however, lies in the joined up approach to delivering these services and in the 'one-stop shop' approach to accessing services to meet multiple needs.

It is intended that a case management approach such as this would allow for flexibility in adapting service provision to the needs of the client. Immediate support with a focus on engagement and developing an effective and respectful working relationship with the client could be followed by the provision of a longer-term case management service that targets multiple needs.

4: Peterborough trial

The world's first social impact bond was launched in September 2010 at Peterborough Prison in the United Kingdom. It was developed by Social Finance Ltd and the Young Foundation in conjunction with the Ministry of Justice. The bond raised £5 million from philanthropic investors to help rehabilitate 3,000 short-term prisoners at Peterborough Prison, expected to be released over six years.[35]

Under the Peterborough social impact bond contract, four UK non-profits, St. Giles Trust, Ormiston Trust, the YMCA, and Supporting Others through Volunteer Action (SOVA), are implementing programs to help inmates increase their education levels, vocational skills, and confidence both during and after confinement. St. Giles Trust and Ormiston Children and Families Trust focus on the immediate needs of an offender and his family before and after he is released from prison. These needs include accommodation, medical services, family support, employment and training, benefits and financial advice. SOVA and YMCA then assign a volunteer to support the offender over the subsequent months and continue the work on longer-term objectives.[36]

The reoffending rate of the Peterborough prisoners is measured against a control group of 30,000 short-term prisoners from other prisons who are not receiving these preventive support services.[37]

The investment principal is at-risk, and contingent on a reduction in reoffending rates of at least 7.5 per cent. If successful, the return varies from 7.5 per cent to 13 per cent. Results on reoffending rates and investment payments will not be available until 2014.[38]

As of 31 October 2013, interim data on the UK Peterborough trial indicate a 12 per cent reduction in the frequency of conviction events per 100 prisoners since 2008, compared to an increase of 11 per cent nationally over the same period.[39]

***Discussion question:** Are there innovative interventions to address the causes of recidivism that could be adapted in South Australia under a social impact bond?*

Preventing and reducing hospital transfers from residential care facilities

Nature of the problem

The government is concerned about the appropriateness of admissions to hospitals for some patients in residential aged care facilities (RACFs). Hospital care and treatment can be difficult for nursing home residents.

While a large proportion of people from RACFs need hospital admission for treatment of illness, a proportion may be at the end of life and may have been transferred for a range of other reasons; such as RACF service provider or family preference, poor understanding of available options, or reduced capacity to manage and care for patients at the end of life.

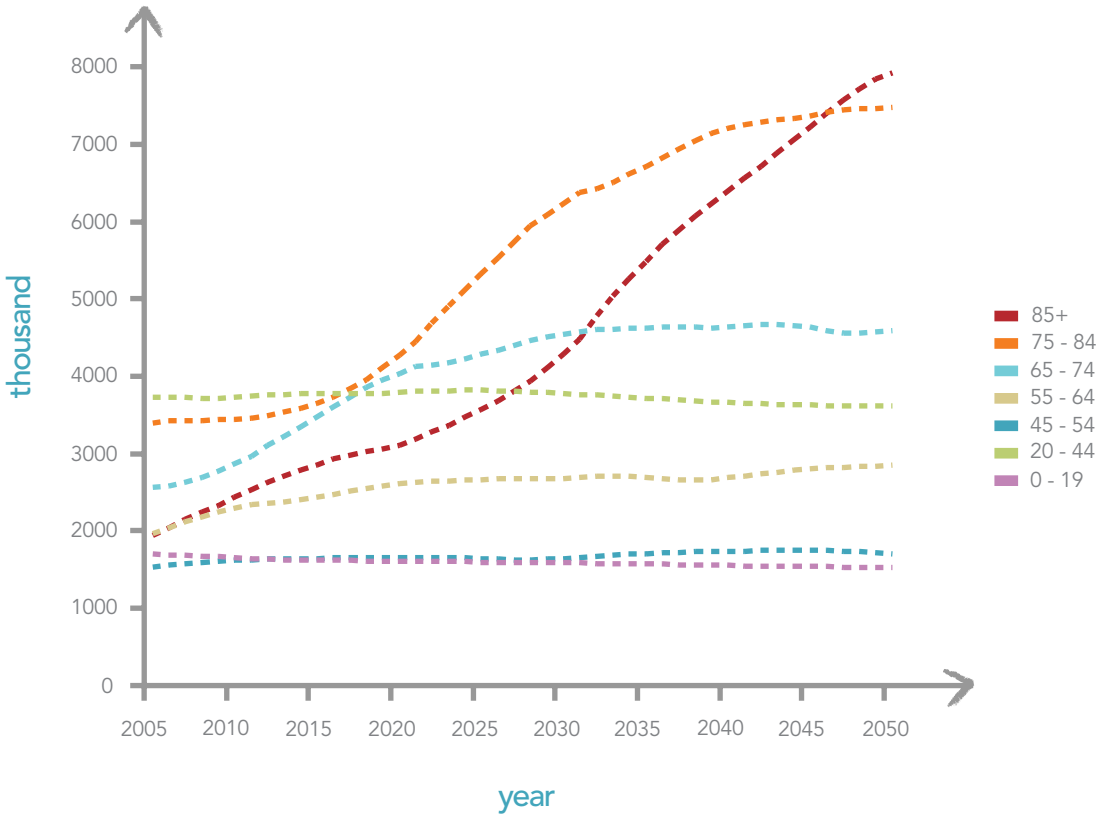
There is a need to minimise interventions where good evidence suggests that they are ineffective or of marginal value for patients in RACFs.[40] Individual, family and community expectations about care for family members in RACFs need to be focused on more appropriate care, especially for those at the end of life.

There is also a need to ensure universal use of clinical care planning,[41] including end-of-life planning[42] as well as palliative care in RACFs, to optimise end-of-life care, and encourage the uptake of advance care plans to ensure individual needs are known and can be supported.

In 2011-12 there were 6,489 total separations from RACFs with average overall cost per separation of $7015; average cost per day of $1,442 and 31,573 total bed days.[43]

Admissions from RACFs to public hospitals account for only 1.2 to 1.3 per cent of total admissions: however the ageing population in South Australia will continue to increase demand for hospital services, as depicted below. Whilst the 80+ age group comprises 4.9 per cent of the population, it currently accounts for 26.9 per cent of hospital bed day use.

Growth in demand for hospital bed days, by age, Australia 2005 to 2050[44]



Transfers to accident and emergency and hospital admissions from RACFs are often a first but should be one option. For example, 10 per cent of acute hospitalisations of older patients consist of transfers from RACFs, but prior GP assessment is only undertaken in 25 per cent of cases.

Residents in RACFs, as an older population, usually have complex, high health and care needs. Their health care is often managed by a GP and there can be limited opportunity to involve family and carers in health decision-making.

RACFs are generally neither sufficiently skilled nor adequately supported to play a greater role in hospital avoidance strategies. Whilst some good work in workforce/skill development in this area has been commenced, uptake is uneven across RACFs. Under current arrangements, personal costs to individuals, families and the community remain high but there is evidence this could be reduced if hospital avoidance programs were in place.

Outcomes sought

At a broad level the following outcomes are sought:

- improved quality of life, health and wellbeing for individuals in RACFs
- advanced end-of-life care planning routinely in place
- improved optimal end-of-life care for individuals and their families
- reduced hospital costs associated with avoidable transfers and admissions and lengths of stay.

Specific targets that could be sought include:

- reduce each of the key indicators below within a RACF trial group relative to a control group benchmark or to a proportionate comparable average of the previous year:
    - o total separations within an agreed timeframe
    - o total presentations in emergency department
    - o total number of bed days
    - o recurrent rates of episodes of hospital care
    - o ambulance transfers.
- reduced cost per intervention per client within the public sector within an agreed period relative to average cost per admission
- a statistically significant increase in the uptake of clinical care planning that includes end-of-life care planning for RACF clients
- a statistically significant increase in the uptake of advance care plans that includes end-of life-care planning for RACF clients
- increased delivery of palliative care or other specific care provided as needed at end of life within the RACF.

Given the challenge of the changing ageing demographics of the South Australian population, the value of this initiative will be better patient care by avoiding unnecessary transfers and future hospital costs: that is, avoiding costs through containing hospital bed numbers and associated staffing, as well as the higher capital outlays incurred as a result of unchanged practices between the aged care and the hospital sectors.

Targeting

The proposed focus is on RACFs. The RACF sector is a well-defined sector. It is diverse in size and ownership and includes major NGO providers as well as private operators. Whilst this diversity adds complexity, coordination and collaborative arrangements are more easily organised to achieve the proposed outcomes for a social impact bond initiative.

In the first instance, project proposals should target RACFs in the Adelaide greater metropolitan area. The model for the delivery of RACF care in country areas differs from that in the metropolitan area and is considered less suitable for a social impact bond for a range of reasons (area, small size of populations and local service delivery arrangements).

Program initiatives could comprise:

- a major region of the Adelaide metropolitan area
- a control area and intervention area
- sufficient population within the RACFs control and intervention areas to produce statistically sound results and outcomes.

Interventions

Better RACF based care can reduce the need for transfer to hospital emergency departments, reduce hospitalisations and improve outcomes including end-of life-care planning for RACF residents.

A range of interventions have shown to have great effect on reducing hospital transfers from RACFs. Better RACF nursing assessment and decision-making, earlier intervention, improved access to GPs (especially after hours) and clinical care planning for end-of-life care may result in less transfers and admissions to hospitals and reduce costs associated with ambulance transfers, emergency department assessments and admissions, and general hospital admissions and bed day utilisation.

***Discussion question:** Are there innovative programs that could deliver more appropriate end-of-life care for residential aged care facility residents?*

Homelessness

Nature of the problem

Housing, health status, living standards and well-being are intricately linked. A lack of adequate and affordable housing contributes to housing stress and homelessness, and is detrimental to people's physical and mental health. People who are homeless have a much higher prevalence of mental illness than the general population. Homelessness affects life expectancy, with homeless people estimated to live 15–20 years less than the mainstream population.[45]

The provision of housing assistance and homelessness services can improve people's education, health and employment outcomes, community cohesion and reduce crime.[46]

There are about 6000 homeless people in South Australia. 18 per cent of these people are aged between 25 and 34, while 16 per cent are younger than 12 years of age. 36 per cent cite domestic violence and relationship issues as the reason for their homelessness.[47]

Persons at risk of homelessness are heavier users of non-homelessness services than the population in general. The potential annual cost offset per client - if health, justice, welfare, children in care and eviction rates were to be reduced to population averages - ranges from $14,700 per client/year for street-to-home services to $44,100 per client/year for single men. If this offset were able to be maintained over the average remaining lifetime, this would equate to a cost offset of between $352,800 per client for street-to-home and $1.06 million per client for single men. Even if cost savings were only to relate to a five-year period, they would range from $67,400 for street-to-home clients to $202,100 for clients of services for single men.[48]

Outcomes sought

Improved outcomes are sought for homeless people across health, education, economic and social indicators. Particular measures could include:

- an increase in the sustainability of tenancies
- a reduction in episodes of repeat homelessness
- engagement in employment and training
- a reduction in use of acute hospital services.

Targeting

Based on previous work and a preliminary analysis, the greatest opportunity for social impact investment in the housing and homelessness sector is likely to be through improved sustainability of tenancies for highly disadvantaged groups (young people, people with disabilities) leading to longer-term savings from stability and additional support.

Interventions

To facilitate discussion, four broad areas have been identified:

- *transition program for young people out of care into secure housing:* This could include life skills, living skills, mentoring, linkages with educational programs, private rental support. It would address the challenge of sustainable housing for young people leaving care, and create social and economic opportunities that would be of longer term benefit to government.
- *intensive outreach service for rough sleepers:* Similar to the Journey to Social Inclusion Program and Michael Project discussed below.
- *innovative approaches to independent living for people with disabilities:* Upgrade program that retrofits appropriate amenity and technology to reduce impact on the health care system. Housing SA and Disability SA have recently partnered in Woodville West to provide high technology independent living options for people with disabilities in this manner.
- *supporting young people into employment:* Housing SA's 'Ladder' model in Port Adelaide provides homeless young people (16-25) with strong support and mentoring to develop independent living skills, maintain employment, training and or education and to engage positively with local communities.

For all of these areas, consideration must be given to the availability of appropriate data to evaluate the success of the programs. At a national level, comparable and reliable data availability has been a particular issue in homelessness service delivery, especially where there are flow-on costs across other areas of government (health, justice etc.)

There are a range of programs that have been developed through homelessness services designed to provide intensive support to people who are homeless or at risk of homelessness to realise longer term savings and flow on costs. Examples include:

- the Journey to Social Inclusion Project which is being evaluated by RMIT University, and
- the Michael Project conducted by Mission Australia from 2007-10, which provided intensive support to homeless men in Sydney, and led to a reduction in government health and justice costs over time.

***Discussion question:** Are there other new approaches to tackling homelessness that could be established in South Australia using a social impact bond model?*

Where to from here?

Your responses to this discussion paper will help shape the next steps of social impact investment in South Australia.It is anticipated that this paper will lead to further engagement with interested stakeholders on suitable focus areas and programs for a social impact bond trial. A stakeholder consultation forum is planned for early February 2014.

We welcome your ideas regarding programs that might alleviate the costs of dealing with complex social problems. These could be programs operating currently that could be expanded or reconfigured, or could be new programs where the evidence base can demonstrate effectiveness (for example, based on interstate or overseas experience).

Subject to the responses to this paper and further consultation, the government may issue a formal request for proposals to develop a social impact bond trial in South Australia, or some other form of innovative, outcome focussed partnership. We welcome input from potential investors, service providers, financial intermediaries, and research organisations to help inform and shape this process.

Response template

Submissions are welcome from interested organisations, in particular potential investors, financial intermediaries, service providers, as well as the general public.

You are encouraged to use this response template and frame a submission in response to any or all of the following questions, if possible. Feel free to attach additional sheets if needed.

This response template can also be downloaded and submitted online at http://saplan.org.au/yoursay

Discussion questions:

1 *What would service providers need to be a partner in a social impact bond?*

2 *What potential is there for collaboration in providing services funded by social impact bonds?*

3 *Are there other potential focus areas for social impact bonds other than those discussed in the paper?*

4 *Are there other innovative interventions, either in South Australia or other jurisdictions that deliver better outcomes for children and families in contact with child protection services?*

5 *Are there innovative interventions to address the causes of recidivism that could be adapted in South Australia under a social impact bond?*

6 *Are there innovative programs that could deliver more appropriate end-of-life care for residential aged care facility residents?*

7 *Are there other new approaches to tackling homelessness that could be established in South Australia using a social impact bond model?*

Feel free to attach additional sheets if necessary.

Contact Details:

Name _____

Organisation _____

Telephone _____

Email _____

☐ I would like to attend a consultation forum in February 2014.

☐ I would like to learn about the Social Impact Investment Network SA.

I see my organisation might potentially play a role as:

☐ Investor

☐ Bond issuer/financial intermediary

☐ Service provider

☐ Independent adviser

☐ Other

Responses will be published unless indicated otherwise.

☐ I prefer my response not to be published.

Please return this form to sib@sa.gov.au or by mail to Economic Analysis Division, Department of the Premier and Cabinet, GPO Box 2343 Adelaide SA 5001.
Due date for responses: 7 February 2014.

Notes

Notes

Glossary

Term	Definition
annualised return	the return an investment provides over time, expressed as a time-weighted annual percentage
capital at risk	the amount of investor principal that is exposed to being lost
coupon payments	the interest paid on a bond, expressed as a percentage of the face value of the bond
criminogenic	causing or likely to cause criminal behaviour
fixed rate	an interest rate that remains fixed for part or all of the term of investment
market rate	the prevailing interest rate available at any given time
metrics	a system or standard of measurement
net operating expenditure	excludes payroll tax and is net of operating revenues from ordinary activities
non-profit organisations	an organisation that is not operating for the profit or gain (either direct or indirect) of its individual members
out-of-home care	the term used to describe the placement of children away from their parents, due to concern that they are at risk of significant harm
principal	the original amount invested
recidivism	the reversion of an individual to criminal behaviour after he or she has been convicted and sentenced for a prior offence
reoffending rate	the extent to which people who have had contact with the criminal justice system are re-arrested, re-convicted, or return to community corrections
return on investment	a measure of the profitability of an investment, expressed as a percentage and typically calculated as: (gain – cost)/ cost
standing charge	a fixed amount of money paid for the provision of a service

Notes and References

1. 'Social impact bond' is a widely used term for the financing model discussed in this paper, although the nature of this product is more like an equity investment because these products usually pay variable returns based on performance.
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3. Charlton et al (2013) *Impact Investments: Perspectives for Australian Superannuation Funds*
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8. http://www.westpac.com.au/about-westpac/media/media-releases/2013/4-october
9. Social Finance (2013) *Guide to Social Impact Bond Development*
10. Mulgan, G et al (2011 revised) *Social Impact Investment: the challenge and opportunity of Social Impact Bonds*
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17. Addis, R, McLeod, J, Raine, A (2013), *op. cit.*
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35. McKinsey & Company *From Potential to Action: Bringing Social Impact Bonds to the US*
36. Social Finance (2011) *Social Impact Bonds The One Service.*
37. McKinsey & Company, *op. cit.*
38. *ibid.*
39. Social Finance Ltd, Peterborough Interim Figures – 31 October 2013
40. Ian Scott (2010) "Operating Hospitals Differently" AHHA-AIHPS 2010 Congress Adelaide
41. The definitions for the following key terms used in this section: Advanced Care Directives, Advance care planning, Advance care plans and Clinical Care Planning are to be found in the following document: *A National Framework For Advance Care Directives* produced by the Clinical, Technical and Ethical Principal Committee, Australian Health Ministers' Advisory Council (September 2011)
42. *A National Framework For Advance Care Directives* defines end of life as an umbrella term to denote that part of life where a person is living with, and impaired by, an eventually fatal (or terminal) condition, even if the prognosis is ambiguous or unknown. End of life can refer to varying prognostic time spans where the person's condition will no longer respond to curative treatment, and may be used to describe deteriorating illness trajectories for up to 2 years before eventual death.
43. SA Health 2011-12 Integrated South Australian Activity Collection (ISAAC) data
44. Schofield, D and Earnest, E. "Demographic change and the future for public hospital care in Australia, 2005 to 2050", *Australian Health Review* (November 2006) Vol 30 No 4 (reproduced with authors' permission).
45. Report on Government Services 2012 *Housing and homelessness services sector summary*
46. *ibid.*
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