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Review of Social Impact Bonds

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Social Impact Bonds (SIBs) are a new mechanism of social financing proposed for New Zealand. This paper summarises literature detailing how SIBs function and discusses potential issues with their use.

The New Zealand Government has allocated $28.8 million to four Social Impact Bond (SIB) programmes in the 2015 budget. These programmes will encompass specific health and social initiatives which will be funded through private investment.

The initial SIB planned for New Zealand is to be an expansion of a pilot delivering employment services to people with mental health conditions. Details surrounding the target population and desired outcomes remain vague. The SIB programme ties in with other Government priorities of supporting the Better Public Services (BPS) target of reducing benefit dependency. Details are yet to be confirmed of start date, agency involvement and exact structure of the SIB in question.

This research brief summarises information about SIBs. It details issues around the theoretical premise of SIBs and explains how SIBs function as well as highlighting potential issues with their suitability in the New Zealand context. It is not an analysis of the implications and risks.

What are SIBs?

SIBs are a specialist mechanism of social financing that has been in use, mainly in the United States of America (USA) and the United Kingdom (UK), since 2010. SIBs have also been developed in Australia with two SIB programmes rolled out (see Social Ventures undated and NSW Premier and Cabinet undated). The key characteristics of SIBs are as follows (adapted from Ross Philipson 2011 p14):

1. The government contracts out a required social outcome (usually preventative and outcome-based) to a broker or contract manager. Targets (outcomes), timeframes and target population are agreed on.
2. The broker or contract manager collects funding from investors who may be large corporations, NGOs, philanthropic organisations or individuals. Bonds are issued to the investors.
3. Subcontractors may be used to provide specific services. These are overseen by the broker/contract manager.
4. If the targets/outcomes are met, the government pays the broker/contract manager the capital invested, plus a return. If outcomes are not met, the investor does not receive a return.

SIBs are heralded on the basis that they are a new and innovative funding mechanism that uses less taxpayer money than traditional funding arrangements. With the outcome-based emphasis of SIBs, financial risks are transferred away from the public sector and borne primarily by the private investors. Taxpayers only pay for what 'works', thereby improving the cost-effectiveness of public service provision. This is seen as attractive to governments in situations of financial austerity or sector-wide funding shortfalls.

The outcome-based contracting arrangements are touted as enabling a greater focus on innovation. In a SIB arrangement, social service providers can attain funding for programmes and issues that they might not normally receive and, in turn, can deliver the services in more flexible ways than 'business as usual' models that focus on process measure-driven contracts.

This change in emphasis away from 'block funding' and contracts has the potential to allow service providers to tailor interventions to the needs of various individuals within the programme to meet various stipulated outcomes. For example, one SIB in the UK was given the freedom to customise its services to the extent that "service recipients received swimming lessons or a television in response to requests for entertainment to deter a return to negative, previous behaviours" (Provider 7 cited in Tan *et al* 2015 p65).

Proponents of SIBs thus frequently emphasise their capacity to improve the delivery of social services by addressing preventative interventions rather than reactive crises, and to foster a focus on quality of outcomes rather than efficiencies in service delivery (Disley *et al* 2011). As a consequence, SIBs are heralded on the basis that they have potential to solve some of the most "intractable social problems including… recidivism, youth unemployment and substance abuse" (HM Government 2009 cited in Tan *et al* 2015 p7).

The use of SIBs can be understood as part of a broader ideological argument where importing 'market discipline' into the public sector is both warranted and necessary (Tan *et al* 2015). SIBs accordingly share much in common with other market-based programmes that give financial incentives for meeting outcome targets, such as payment by results programmes in the British NHS and 'payments for performance' (P4P) in various guises elsewhere.

The rationale for SIBs follows other thinking that competition will assist in providing more efficient services and a concurrent increase in quality *vis a vis* improving performance management, accountability and rigor in outcomes and service delivery. This subtle shift in framing has raised the ire of many critics who cite "abrasive commoditisation" of people who require health and social services as mere statistics (Robins 2015). Irrespective of this critique, however, are a host of questions around costs, complexity and evidence that this approach is appropriate and can work.

Metrics and outcomes and accessing information

Perhaps the most complex feature of SIBs both for potential investors and governments interested in using SIBs is the ability to generate accurate metrics, both in terms of what will be measured and how outcomes will be attributed and identified. Debates around measurement feed into broader issues around the amounts of risk that investors are willing to shoulder, issues around attribution of outcome and factoring in the broader social context of individuals and how outcomes will be linked to payments for investors. Being able to identify what likely outcomes will be, and how these will be measured, is, therefore, of critical importance.

From a government's point of view, measurements of both potential and actual results are needed to assist with the establishment of performance targets, assessment of costs and determining the rates of return for investors. Ross Philipson (2011 p16) frames measurement as three core issues: assessing the chance of success, estimating the likely amount of savings to be made (which affects the size of the fund from which to pay investors for success), and assessing the risk of failure and associated planning around this for the target population. It is worth noting that recent Questions for Oral Answer in the House (1 July 2015) have focused on how much of the Government's allocation in the 2015 Budget is money set aside to pay for outcomes, as opposed to an 'upfront payment' for potential investors (see Kirk 2015).

Literature on SIBs clearly suggests that in order to generate the requisite robust outcome metrics, SIBs require an easily identifiable and clearly definable user or population group as well as a ready counterfactual against which to compare the success of interventions (Ross Philipson 2011). Commentators have raised issues about attending to contingent factors such as target population dynamics, the broader social context in which intervention is occurring and understanding changes over time (McHugh *et al* 2013 cited in Tan *et al* 2015 p20). The question in this respect is how to attribute outcomes solely to SIB programmes alone, given the 'social embeddedness' of individuals. SIBs, therefore, necessarily require appropriate levels of analytical complexity and time frames in order to fully understand and analyse the 'impact' that a SIB intervention is creating.

The ability to prove attribution is crucial in terms of ensuring investor confidence and a willingness to continue funding to the programme at hand (Tan *et al* p70). Proving attribution of outcomes to the work of the SIB in question can be tricky and requires access to good baseline data. Issues of attribution are further underlined when considering the likely time frames of SIBs. Ross Philipson (2011) notes that social benefits can take many years to emerge from an intervention and as a consequence, SIBs will need to operate on lengthy timeframes. This may have implications for the willingness of investors to participate and/or require flexibility in terms of exit strategies from SIBs for investors in that the timeframe and risk profile may not be palatable to all potential investors. Accordingly, the attribution of impact has a key role in terms of assessing the likely savings to government that a SIB can deliver. The report by Ross Philipson Consulting, for example, notes that broader social benefits that may arise from a SIB cannot be taken into account when costing up the likely savings to the community as only direct savings to the Government can be taken into account.

Tan *et al* (2015) note that this greater emphasis on data collection and analysis may require the commissioning of new information management systems which will have implications for the costs associated with establishing a SIB. There is a strong rationale for the government commissioning the SIB to have the requisite data and associated data management systems in place, particularly if attempting to scale up from a pilot, but if such a system is itself costly, this may act as a deterrent to doing so. Further, given the need for accurate measurements over potentially lengthy time frames, it will be difficult to assess the potential cost savings that a SIB can provide at the outset. Significantly, it is unclear as to who will be required to meet the costs associated with metrics. Tan *et al* further note that there is tension over who should bear the responsibility for the necessary performance monitoring, and that this may give rise to conflicts of interest. The ideal may be for external and independent bodies to undertake evaluation but from the research provided on SIBs undertaken to date, few projects could incorporate this due to financial constraints (*Ibid* p68).

Early findings from research by Tan *et al* (2015) and Disley (2011) suggest there may be issues about public access to information on SIBs, not only in terms of the details of negotiations about the establishment of a SIB, but also key data detailing contractual obligations and outcomes. Given the costs, time frames and extensive negotiations likely to precede a SIB starting, data pertaining to specific SIB contracts and negotiations are likely to be cited as commercially sensitive. This has implications for the availability of information around best practice guidelines, data management and analysis systems, and other information that may be protected under the guise of commercial sensitivity. In New Zealand, it is worth considering how this would affect access to data that would normally be available under the Official Information Act (OIA) but would be restricted if held by private organisations (cf. charter schools which are now exempt from the OIA).

There has been a dearth of information about the SIB planned in New Zealand. While the Minister of Health remains adamant that information is readily available on the Ministry of Health's website, there is a worrying lack of detail about the pilot, with important information withheld under confidentiality agreements (see Ministry of Health 2015 and Chip 2015). Specifically, it is unclear how the pilot's success has been judged, and what service funding may be stopped as the pilot is upscaled and the full SIB rolled out (see Ministry of Health Cabinet Social Policy Committee proposal for further details on the initial scoping and Office of the Clerk 2015 for transcript of questions for oral answer).

In summary, there are many complexities and concerns surrounding the development and use of SIBs, especially in New Zealand where our small scale brings particular challenges. While proponents of the use of SIBs highlight the potential to improve the delivery of public services, and a concurrent reduction in the amount of taxpayer funding to meet social need, this is far from proven. Critics of the proposed roll out highlight concerns about the lack of evidence that SIBs can improve outcomes or generate savings in health and social care, as well as expressing concern that the most vulnerable in society will be unfairly affected should things go wrong.

There are significant challenges – and unknown but potentially large costs – in developing the ability to generate accurate metrics, both in terms of what will be measured and how outcomes will be attributed and identified, as well as managing the associated risks.

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