Social Impact Bonds and NDIS funding

What are social impact bonds and how do they work?

- Social impact bonds are one form of social impact investment, which is investment by the private sector in outcomes that achieve both measureable social and financial returns. This investment can occur directly, or through an intermediary such as a social bank or impact investment fund manager.
- A social impact bond is a financial instrument or contractual arrangement that pays a return based on the achievement of agreed social outcomes. Private investors provide upfront capital to fund service delivery, or to improve a particular social outcome. Achievement of this outcome should reduce the need for, and therefore government spending on, acute services. Part of the resulting public sector savings are then used to repay investors' principal investment and provide a financial return. The repayment of the principal and the level of return are dependent on how much outcomes have improved.
- Social impact bonds may help to:
  - shift the role of Government from paying for inputs into social services, to paying for outcomes;
  - encourage innovation; and
  - direct resources to early intervention rather than more expensive acute responses.

Examples of the use of social impact bonds

NSW

- The NSW Government launched its first social impact bond trial in September 2011 in the policy areas of parenting skills for at-risk families and juvenile justice. Only the parenting skills program proceeded to implementation phase.
  - The trial program, known as Newpin, provides intensive support to improve parenting.
  - In this trial, the bond's key performance indicator is the restoration rate of children who enter the program. This rate is the proportion of children referred to the Newpin program that are returned from out of home care to their families.
  - In its first year Newpin restored 28 children in out-of-home care to their families. That constituted a 60% success rate against the NSW Government's comparison rate of 25%. The program also prevented children in 10 at-risk families from entering care. This result delivered a 7.5% return to investors.
- NSW has since released a Social Impact Investment Policy which notes the Government's aim to deliver two new social impact investment transactions to market each year.
- Priority areas identified by the NSW Government as having strong potential to deliver better outcomes for individuals and the community through impact investment include:

- managing chronic health conditions;
- supporting offenders on parole to reduce their levels of re-offending;
- managing mental health hospitalisations; and
- preventing or reducing homelessness among young people.

United Kingdom

- The United Kingdom trialled the first social impact bond in Peterborough Prison. The bond raised £5 million for a pilot program to reduce re-offending of prisoners with short sentences leaving Peterborough.
  - Initial results showed an 8.4% reduction in re-convictions for the first group of 1,000 prisoners compared to the national average. The result did not trigger a payment to investors, but showed the bond should deliver outcome payments in 2016.
- The UK has also commissioned 28 further social impact bonds in areas such as at-risk youth employment, youth educational attainment, foster care and health care for older people.

United States

- There is a US$17 million bond to reach Chicago children from low income families before they start school to increase readiness for kindergarten, improve literacy and reduce the need for special education services. This is paid if students realise positive academic results.

Application of social bonds to the NDIS

- Private investors would provide upfront finance to either the National Disability Insurance Agency (NDIA) or a disability services provider. The Government would guarantee a return for the private investor in the event that certain outcomes are achieved.
  - This would create a financial incentive for business to invest in and contribute to programmes that lead to positive social outcomes. There may be some potential to create a linkage between private investors and the NDIS Board or NDIA.
- The large majority of NDIS clients have severe and permanent disability. The goal of the NDIS is to create opportunities for Australians with disability to participate in the community and to lead a dignified life. In comparison to programmes where there is a focus on prevention/early intervention, achieving the goals of the NDIS are unlikely to significantly reduce future Government costs. Savings may be limited to family members of NDIS participants returning to the workforce, and/or reducing the amount of carers' payments that are required.
  - Given this, the rate of return the Government could offer is likely to be very low. Paying a rate of return greater than savings to government would increase overall costs of the scheme to Government.
- However, there is an early intervention stream in the NDIS which includes children who have developmental delays (3 per cent of participants in the NSW trial site) where the provision of

early intervention supports is likely to reduce the person's future needs for disability supports. It may be possible to issue social bonds to investors in these areas because:

– it could be cost effective for the Government to pay the private investor a rate of return as there could be a substantial reduction in the cost of future disability supports and an increased likelihood of these children joining the workforce in later years; and

– measures of success could be defined more objectively (such as children reaching targets in speech performance or controlling bodily movements).

- Social impact bonds have only been used for relatively small scaled programmes and there may be select cohorts within the NDIS that may be suited to the trial of social impact bonds.

Commonwealth involvement

- Given the potential benefits of social impact investment and its current limited use in Australia, the Financial System Inquiry recommended that the Government explore ways to facilitate development of this market and encourage innovation in funding social service delivery.

- The proposed Government response to the FSI recommendation is for Treasury to prepare a public discussion paper that explores ways to facilitate development of the impact investment market, including consideration of possible legislative impediments. The Government would consult on options to facilitate impact investment in the first half of 2016, and introduce legislative amendments if necessary in the second half of 2016.