

The opportunities and
challenges for the
homelessness sector in
South Australia

Social Impact Bonds

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Table of Contents

Acronyms	2
Executive Summary.....	3
Aim	5
Methods.....	6
Results and Discussion.....	7
Why would a Not-For-Profit be interested in Social Impact Bond?	7
Who is a suitable service provider for a Social Impact Bond?	8
What is a suitable social issue?	8
How is a social outcome measured?.....	10
Social Return on Investment	11
Concerns and Recommendations.....	13
State Government's Position on Social Impact Bonds	13
Investors and Social Impact Bonds	13
Creating a Proposal	13
Results Based Investment	14
Social Return on Investment	15
Homelessness and Social Impact Bonds.....	16
Intermediaries	17
Summary of Recommendations	19
Conclusion.....	20
Bibliography	21

Acronyms

GLA: Greater London Authority

HMP Peterborough: Her Majesty's Prison Peterborough

NFP Service Provider: Not-for-profit Service Provider

NPAH: National Partnership Agreement on Homelessness

PbR: Payment by Results

ROI: Return on Investment

SA: South Australia

SIB: Social Impact Bond

SIINSA: Social Impact Investment Network South Australia

SIIT: Social Impact Investment Taskforce

SROI: Social Return on Investment

SVA: Social Ventures Australia

Executive Summary

Since 2009, specialist homelessness services in South Australia have been funded by the National Partnership Agreement on Homelessness (NPAH) and the State Government. The NPAH is an agreement between the Federal and South Australian State Government to help “people who are homeless or at risk of homelessness achieve sustainable housing and social inclusion” (Department of Social Services, 2013). The NPAH was implemented in 2009 by the Labor Government, and although scheduled to end in 2013 has been continued for the past two years. There is no current indication the NPAH will continue beyond June 2015 (Australian Government, 2013).

Social Impact Bonds (SIBs) have been promoted by the SA Government as an alternative method of funding for community services including homelessness and have been received with enthusiasm by some not-for profit service providers (NFPs). An NFP in New South Wales is already implementing its first SIB and South Australia looks to follow closely, with capacity building workshops financed by the SA Government completed. The SA Government has revealed expression of interest forms will be released in the near future.

This research critically analyses SIBs for the purpose of providing an independent overview of this new topic of interest for NFPs and State Government. It also provides recommendations for improving current arrangements for progressing Social Impact Bonds.

Although SIBs appear to provide a positive alternative to financing community services, there are a number of opportunities and challenges that have not yet been adequately addressed. This research demonstrates the lack of theory and evaluation that surrounds SIBs and highlights how the SA State Government is in a position to implement a more equitable SIB program. The SIB projects that have commenced provide a small sample for analysis.

Introduction to Social Impact Bonds

SIBs are a new method of funding community services that are being promoted by the South Australian (SA) Government. The purpose of SIBs is to implement a preventative intervention that will reduce government expenditure on community services (Muglan et al., 2011). If the NFP can produce objective evidence of the success of the intervention, the government will return a percentage of the savings to the investor. Conversely, if a lack of social change or a lack of measurable evidence of change is evident, no payment or reduced payments will be made to the investor and they in turn will make a loss (Disley et al., 2011).

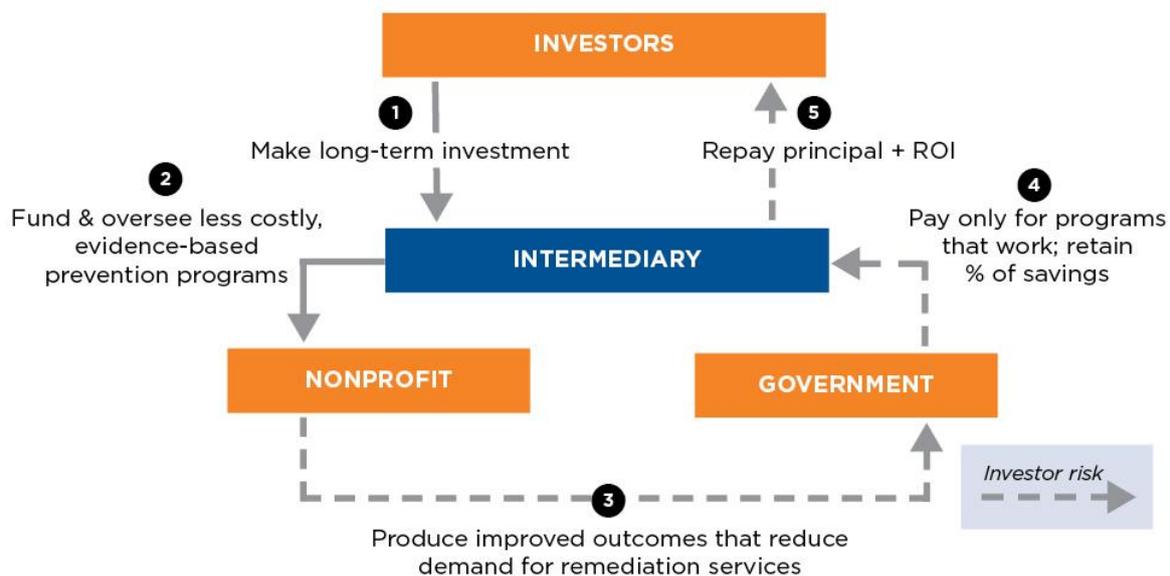


Figure 1 – Key stakeholders in social impact bond funded projects (Forbes, 2014)

There are four key stakeholders involved in SIBs:

1. **Government:** A commitment is needed by a government entity to provide a financial return on investment if the community service intervention achieves its agreed goals and results in a reduction in government spending on a specific social issue.
2. **NFP:** The NFP is the driving force of an SIB, responsible for proposing and implementing the intervention, ensuring that targets are met and accurately recording social impact.
3. **Investor:** the stipulations of investment vary for each SIB with respect to the level of risk on investment. In some cases there will be limited risk on investment, and in others there may be full risk, with return based solely on the success of the intervention.
4. **Intermediary:** An intermediary is defined as 'an entity that acts as a link between parties in order to try and bring about an agreement' (SVA, 2014) who acts as a mediator between the three aforementioned parties.

Aim

The aim of this research is to determine whether SIBs are an appropriate and economically feasible alternative to direct government funding for homelessness services in South Australia; and if so, whether SIBs are applicable to peak bodies, such as Shelter SA, who are not service providers. Shelter SA is the peak body for the housing sector in South Australia and advocates for the interests of that sector. This report has been written predominantly for the benefit of Shelter SA's members and stakeholders and other prospective service providers working within the homelessness sector who may be interested in developing their understanding of SIBs. SIBs are a new concept, in Australia and internationally and the majority of information available on SIBs is written by parties who possess a vested interest in the success of SIBs. Hence, there is a significant absence of academic literature that critically analyses the benefits and challenges of SIBs. This report provides an independent, critical analysis of SIBs and will aid in opening up a diverse and inclusive discourse on SIBs for all interested parties.

Methods

The academic literature on SIBs is limited. To provide a perspective, the search terms “Social Impact Bonds” and “homelessness” were entered into the JSTOR database. This process returned only two results. The same search terms only produced one result from the Scopus database. The Google Scholar database provided a limited number of applicable search results. In existence at the time of writing there are no academic or objective analyses of SIBs. As a model of funding, SIBs lack any theoretical basis.

Two specific examples of SIBs are critically analysed for this research. The first SIB, based at Her Majesty’s Prison Peterborough (HMP Peterborough), aimed to reduce the reoffending of short-term male prisoners and is analysed on the basis that it is the only SIB in the world that has proceeded from commencement to finalisation. Critical analysis of the project is available, giving insight into the potential success and challenges for future SIBs. The second SIB for analysis was commissioned by Greater London Authority (GLA) to target rough sleepers in the City of London and is the only SIB underway in the world targeting homelessness. There is limited research on this SIB as it is still underway; however, it is important for this report as it provides insight into the potential of SIBs in the homelessness sector.

This research is for a South Australian audience. There is a clear need for research on this topic as across Australia; Social Ventures Australia (SVA) is being relied upon as experts in the area of SIBs. The information presented by SVA in a capacity building workshop earlier this year, coupled with a thorough analysis of SVA and other intermediaries will allow this report to determine whether the presence of a single intermediary, dominating the field of SIBs is a desirable or undesirable situation for prospective service providers of SIBs.

A discussion of three key sources, along with an analysis of emerging South Australian and Australian reports on SIBs will enable a discourse about SIBs between service providers, State Government, businesses and peak bodies and in the process answer important questions and concerns. In addition, this research will raise research questions for future consideration.

Results and Discussion

SIBs are of significant interest to State Governments and other interested parties, including investors and NFPs. The Payment by Results (PbR) method of social finance is appealing to State Governments and the wider public as it removes the funding of some social interventions away from the tax payer, whilst ensuring important areas of social concern are addressed and financed (Department for Communities and Local Government, 2014). The recent cuts to government spending announced in the Federal Budget 2014 and the uncertainty surrounding the continuation of the NPAH (SACOSS, 2014) has created public interest in alternative means of funding for some NFPs.

Currently, significant government funding to NFPs is spent on remedial procedures as opposed to preventive ones, and as a result social problems persist requiring governments to constantly expend funds on the same issues. SIBs have been developed to provide funding for preventative interventions, which aim to alleviate long-term costs for NFPs and governments.

Extra funding, and an altered focus from solutions to prevention, will reduce the prevalence of social issues and the amount of funding required in community services. For example, the HMP Peterborough SIB was successful in reducing the rate of young male reoffenders in their first cohort by 8.4% (Jolliffe and Hedderman, 2014). The UK Ministry of Justice calculated the average cost of keeping an individual in prison for a year is £40 000 and therefore, to reduce reoffending by 8.4 % in a cohort of 1000 would be to save approximately 3.5 million in costs (Cabinet Office, 2013). This not only presents a great outcome for the social issue of recidivism in HMP Peterborough but has also reduced the average necessary expenditure for short-term reoffenders significantly.

SIBs have successfully generated significant interest from NFPs. Positive reports of SIBs coming from SVA (SVA, 2014) and Social Impact Investment Network SA (SIINSA, 2014) have added to the excitement surrounding SIBs in SA. This excitement, however, has not come without apprehension for interested NFPs. SVA, the intermediary group commissioned to host the capacity building workshops in SA has made it clear that the process of developing a SIB is not quick or easy (SVA, 2014). SVA, along with SIINSA, have succinctly touched on and alleviated some queries and concerns held by interested NFPs. However, their in-depth analysis into some of the main concerns and potential faults of an SIB is limited.

Before establishing any criticisms and concerns, this research will describe how SIBs are established, as presented by SVA to provide a brief understanding of the logistics of SIBs to interested NFPs. From this, NFPs can determine whether their community service is applicable for a SIB as required by the government in this early stage and conversely, whether interested stakeholders believe a SIB is a suitable venture for the purpose of their services.

Why would a Not-For-Profit be interested in Social Impact Bonds?

SIBs are a new form of social finance and are potentially beneficial for NFPs who are looking to implement a community service based preventative intervention but do not have adequate government funding to pursue their idea.

Who is a suitable service provider for a Social Impact Bond?

The State Government has stated in its discussion paper on SIBs that in the initial development of SIBs, potential NFP projects must fall within one of the four 'SA Focus Areas' (Government of SA, 2014), which are:

- Out of home care
- Recidivism
- Hospital admissions
- Homelessness

If the NFP project falls within one of these focus areas, the State Government indicates:

'The non-profit partner organisation must be credible and must have sound financial management practices and the capacity to undertake outcome measurement' (Government of SA, 2014, p 9).

From the above statement there are two requirements that command a contextual understanding. The request for *'sound financial management practices'* and *'capacity to undertake outcome measurement'* in a field with extremely limited data behind it makes it difficult to know exactly what the State Government is requesting of interested NFPs. The information provided at the capacity building workshop facilitated by SVA, shows the level of funding and staff required to be able to create a government accepted SIB proposal are so high that for the majority of NFPs, at this point in time, a SIB is not a feasible prospect.

What is a suitable social issue?

For a NFP to be successful in having their intervention approved by the State Government for a SIB, they must have an intervention that:

'The government is vitally interested in solving or ameliorating' (Government of SA, 2014, p 9) and *'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'* (Government of SA, 2014, p 9).

Again, State Government in its discussion paper presents a plethora of requirements that come without guidelines or context. To determine what social issues *'the government is vitally interested in solving or ameliorating'* the four 'SA Focus Areas' in conjunction with current trends in government support of community services and the previous successful and unsuccessful SIBs can be evaluated as a point of reference for what interventions the government may support.

Figure 2 and 3 outline where and what issues have been approved for a SIB worldwide and show that nineteen of the twenty-five SIBs have targeted children and/or young people. This leaves community services that do not target young people or children specifically at a significant disadvantage due to both the chances of their project being approved and the lack of data available to support NFPs to develop SIB proposals.



Figure 2 –SIB projects across the world (Tomkinson, 2014)

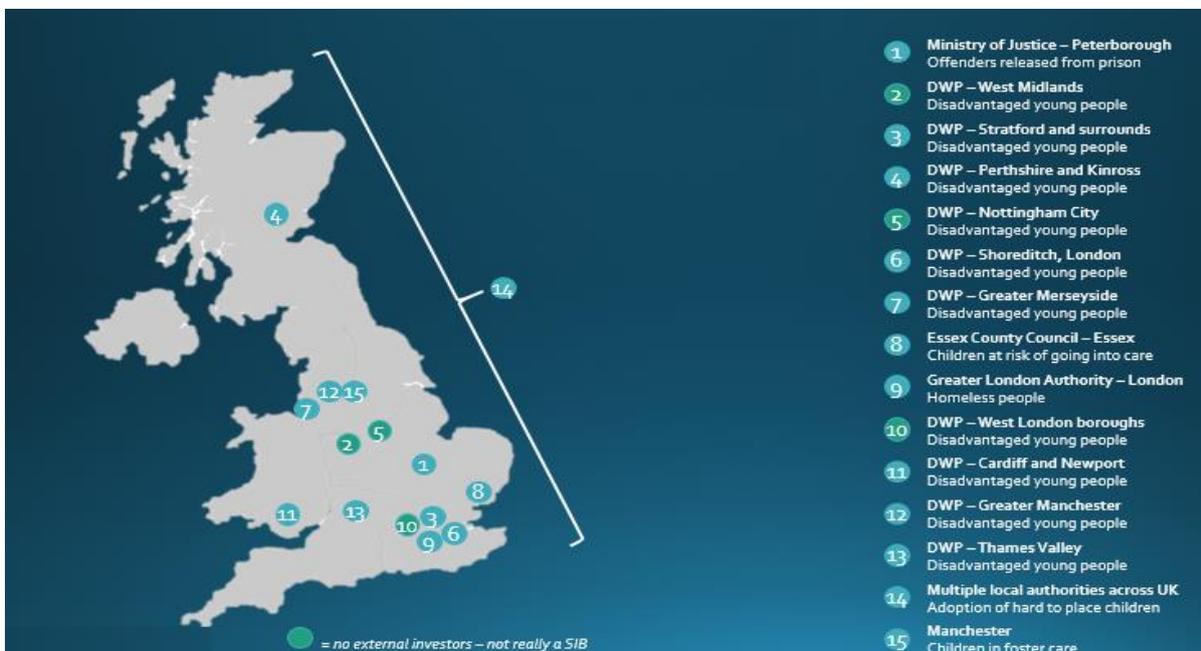


Figure 3 –SIB projects in the United Kingdom (Tomkinson, 2014)

The reason for State Government’s preferences for social issues and an intentional oversight of others can be narrowed down to two factors that appear to be shaping SIBs.

Firstly, the project must appear attractive on a social and economic level. As there are third party investors involved, the intervention must be appealing to investors, government and their respective social concerns. An attractive social issue will tend to be one that has significant media attention making it important in the public arena. Media coverage plays an important part in what the public see as social areas of high importance. Western based media sources place disadvantaged youth as a social issue that is of prominent importance because of the emphasis such societies place on childhood innocence and potential. In addition, an attractive social issue for SIBs is something that achieves significant and tangible results quickly. For this reason, young people transitioning into a state of vulnerability are likely to be much more attractive to investors and NFPs as they are much more likely to make a quick

transition/recovery from their state of vulnerability. By contrast, a vulnerable person who has been in the same position for many years and is in need of long term care and assistance is much less likely to generate this short term, positive outcome. This is concerning as the purpose of a SIB is to develop an intervention with long-term benefits to society and for SIBs, results at an early stage should not be expected.

SIBs have already faced an issue of unrealistic expectations and unfair time constraints on the results they aim to achieve. HMP Peterborough was stopped two years before its proposed end, as the reduction of reoffending rates was 8.4 percent when it was agreed at inception that the reduction would be 10 percent (Joliffe and Hedderman, 2014). Although an 8.4 percent reduction in reoffending is an appealing figure, the social impact was deemed not significant enough and the project was stopped. Stopping the project early also suggests the government was not serious about achieving long term outcomes as proposed by the SIB structure, but became fixated on the short term results.

How is a social outcome measured?

The second factor the government is using to determine desirable projects for SIBs is the intervention's ability to be measured for the purpose of return on investment. The SA Government's discussion paper on SIBs states:

'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'(Government of SA, 2014, p 9).

The measurement of social issues is a globally new concept and is currently being trialled with a lack of consistent results being produced. Whilst it is necessary to provide an objective measurement on progress for the purpose of the return, it must be acknowledged that the measurement of social issues, especially when it involves people in vulnerable positions is difficult to quantify.

The SA Government has made it clear that only measurable SIBs will be accepted and therefore, it is imperative that the intervention is being set up accordingly with the outlined measurement requirements. Being an outcome based approach, very specific targets and guidelines must be defined in the initial stages of planning to ensure progress can be measured by the government who determine the success of the intervention. To do this it has to be possible to place a measurable value upon the circumstance that the NFP is seeking to prevent.

For example, Social Finance and The Young Foundation determined that the average government expenditure on rough sleeping costs for a single rough sleeper in London is £1644. However, when the average accommodation costs, criminal justice costs, employment costs and health costs are added to this rough sleeping cost, it is estimated that each rough sleeper is costing the government in excess of £20 000 per annum. From this, Greater London Authority (GLA) and its investors were able to determine through thorough research that this cost could be reduced by 30% each year, saving long term government expenditure (The Young Foundation, 2014).

The first progress report for the GLA SIB shows a great disparity between the estimated figures and the actual figures, and that HMP Peterborough also did not reach their proposed outcomes. This section of research acknowledges these results but will provide a brief synopsis

on the concept of Social Return on Investment (SROI) firstly before moving onto related concerns and recommendations.

Social Return on Investment

SROI is 'a term originating from return on investment (ROI) used by traditional investors. It describes the social impact of a business or non-profit's operations in dollar terms, relative to the investment required to create that impact and exclusive of its financial return to investors' (Olsen, 2003) and it seeks to 'tell the story of how change is being created by measuring social, environmental and economic outcomes and uses monetary values to represent them (Cabinet Office, 2009).

SVA suggests only SROI programs that have been accredited by the International SROI Network and hence have adequately followed the six principles for SROI outlined in the *Guide to Social Return on Investment* will be successful in gaining approval for their SIB.

These principles are:

The Principles of SROI		
	Principle	Steps
1	Establishing scope and identifying stakeholders	<ol style="list-style-type: none"> 1. Establishing scope 2. Identifying stakeholders 3. Deciding how to involve stakeholders
2	Mapping Outcomes	<ol style="list-style-type: none"> 1. Starting on the impact map 2. Identifying inputs 3. Valuing inputs 4. Clarifying outputs 5. Describing outputs
3	Evidencing outcomes and giving them a value	<ol style="list-style-type: none"> 1. Developing outcome indicators 2. Collecting outcomes data 3. Establishing how long outcomes last 4. Putting a value on the outcome
4	Establishing impact	<ol style="list-style-type: none"> 1. Deadweight and displacement 2. Attribution 3. Drop-off 4. Calculating your impact
5	Calculating the SROI	<ol style="list-style-type: none"> 1. Projecting into the future 2. Calculating the net present value 3. Calculating the ratio 4. Sensitivity analysis 5. Payback period
6	Reporting, using and embedding	<ol style="list-style-type: none"> 1. Reporting to the stakeholders 2. Using the results 3. Assurance

Figure 4: The SROI Network: A guide to Social Return on Investment (2009)

The concept of measuring SROI seems reasonable and achievable however, SVA and the SA Government have presented this process as highly time consuming and expensive. To create a successful SROI plan, according to SVA, the NFP must hire an intermediary, a legal advisor

and also must have a team dedicated to creating the proposal. SVA unapologetically suggests that without the monetary capacity to fund a SROI project, a NFP will not be successful in applying for a SIB.

Concerns and Recommendations

State Government's Position on Social Impact Bonds

The State Government's position on SIBs is well documented and has been described multiple times throughout this paper. The SA Minister for Health and Ageing, Jack Snelling stated *'the Government believes that Social Impact Bonds offer the 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'* (Government of SA, 2014, p.3). There is no surprise that the State Government is positive about SIBs as they are the party directly involved with the investment that stands to gain the most with arguably the least amount of input or risk.

There is a certain social expectation that it is primarily a government's responsibility to provide adequate funding for community services. However, with the current economic climate, in Australia and internationally, keeping up the current financial expenditure necessary to maintain the services already provided, whilst also sourcing income for new preventative interventions is no longer sustainable. The Social Impact Investment Taskforce (SIIT) believes *'the challenges facing society in the 21st century are too large and too complex to be solved by government and the social sector alone'* (Government of SA, 2014, p.3) and hence the introduction of third party investments such as SIB will be a welcome source of funding in the social sector.

In addition, the SIIT makes it clear that they believe there has been a generational shift in the idea of a social conscience where *'doing good and doing well are no longer seen as incompatible'* (SIINSA, 2014, p.1) implying that there is a multitude of third parties that believe the onus of social finance should not be placed solely on the government anymore.

Investors and Social Impact Bonds

Data collected by SIIT and SVA, provides strong evidence that there are a significant amount of potential investors who are not only willing but also actively interested in making a financial commitment to a social issue.

SVA reported that the New South Wales Newpin SIB investors were asked what they would have done with their investment money if they had not invested in Newpin. Eighty percent of the investors indicated that they would have invested the money regardless, suggesting that there is money available to be invested in social projects (SVA, 2014).

SIIT reinforces this idea through a collection of data that shows *'The amount invested [in social finance] by the 125 leading impact investors is forecast to grow by nearly 20% this year'* (SIINSA, 2014) and *'\$45 trillion are in mainstream investment funds that have publicly committed to incorporate environmental, social and governance factors into their investment decisions'* (SIINSA, 2014, p.1). This overwhelming evidence suggests that there is no lack of interested investors for SIB projects regardless of the uncertainty of their return in many cases.

Creating a proposal

Will the large costs for setting up a Social Impact Bond create an uneven playing field for NFPs?

The facts provided by SVA show the start-up cost of a SIB is extremely high and time consuming. In addition, it has been strongly recommended by SVA that for a SIB intervention to be successfully accepted by the government, the NFP will need to employ an intermediary to act as a link between the stakeholders, a legal advisor to look over the intervention proposal and a team of workers to dedicate a significant amount of time towards developing the proposal. Without these requirements, evidence shows that the government will not hesitate to reject the proposal.

A clear concern about only large NFPs being able to afford the initial costs involved in developing a SIB, is that this will put smaller NFPs at a greater disadvantage, faced with less potential income from the government and external sources. Whilst these large scale projects have been proven to be beneficial, it is concerning that those smaller social ventures with targeted and small scale impacts will be left aside with no funding from investors and a lack of funding from the government.

Smaller NFPs with small but specific target cohorts are vitally important to SAs community services sector. These small NFPs have the potential to execute some of the best and most specific preventative programs that would be of a great benefit to the government and society if they were able to gain adequate funding. However, this current model for SIBs will not allow for these types of projects.

If SIBs in the format they are currently being applied continue, it can be suggested that only large, multi-faceted NFPs will be successful in presenting a proposal to the governments and smaller NFPs who cannot afford the unreasonably high costs involved, will not only be unable to gain finance for their equally important preventative interventions, but will continue to fall victim to government budget cuts and will potentially in time, no longer be able to sustain their work financially.

Adopting a 'slippery-slope' perspective on this, SIBs if implemented by SA in the way they have been adopted elsewhere, with the high set up fees and elitist selection criteria by the government, the current social set up where there are many NFPs with a targeted and specific skill set, will potentially be replaced by a small number of large corporation-style NFP service providers, financially sound enough to set up SIBs covering wide areas of social service and no small specific NFPs left due to inadequate funding.

Results based investment

Will investors be interested only in projects with easily achievable results so they receive their return on investment?

Understandably, investors will be interested in investing their money in a project that proposes to have a large and obvious impact in society. They will also be looking for projects that are of a low risk of not reaching its goals, to ensure a return on their investment. This means investors may not fund innovative programs that are of a higher risk, but at the same time have to potential to create a greater benefit to society.

The SIIT, however disagrees with this assumption that investors will be working primarily for their own benefit discussing their belief that social impact is becoming increasingly entwined with everyday business. They suggest that 50% of young people want to work for ‘a business with ethical practices’ (SIIT, 2014, p.12) and use the example of Toms a brand of shoes who as a part of their business model, for every pair of shoes sold, give a pair of shoes away to children in need (SIIT, 2014, p.12).

Examples of selfless giving entwined in a business model do exist however, it is reasonable to assume most investors will be hoping to gain a return on their investment. To combat this happening, the State Government must be willing to support the programs of higher risk and NFPs who wish to implement a preventative intervention that works with more vulnerable groups of people, and hence will require more financial input into the program and a reasonable agreement on the social impact for the SROI measurement. Without an understanding and commitment to target all groups of vulnerable people, the State Government will continue to overlook certain social issues that will become increasingly difficult to combat over time.

Social Return on Investment

Is Social Return on Investment the right way to measure social impact?

The need for SIBs to be measured by SROI, makes it clear that this type of social finance simply will not be appropriate for all NFPs. Some social issues compared to others have a comparatively straightforward SROI measurement. For example, recidivism in Peterborough prison looked at a single issue, reoffending between a specific cohort of individuals. GLA however was required to provide accurate measurements of five proposed outcomes:

1. Reducing rough sleeping
2. Into stable accommodation
3. Sustained reconnection to home country
4. Progress towards employment
5. Better management of health

GLA was required to put the time and effort into calculating and measuring the goals and working towards their achievement for five times as many focus areas as Peterborough.

Regardless of the stringent, time consuming and expensive costs in creating a SROI plan, the two SIBs that have been looked at for this research have not achieved their targets, and the GLA SIB especially achieved a great disparity between its proposed results and the results it achieved one year into the SIB.

HMP PETERBOROUGH RESULTS OF COHORT 1		
	Target	Achieved
Reduction of Reoffending	10%	8.4%

GREATER LONDON AUTHORITY RESULTS AFTER ONE YEAR		
	Target	Achieved
Reducing Rough Sleeping	121	82
Stable Accommodation	94	139
Sustained Reconnection	48	13
Employment	67	20
Health	NO APPLICABLE MEASUREMENT	

These results raise two applicable questions to the issue of SROI:

Is it possible for SROI to provide an accurate and achievable target for a social return on investment program?

Is the expectation of results too high?

The latter issue is a comparatively easy one to rectify. The clear solution to this issue is to reduce the proposed targets of SIBs to a more reasonable and achievable level. In Shelter SA's opinion, SIB ROI target levels should be balanced with the value of a successful social outcome. . The State Government should be reasonable and flexible in their return on investment schemes, promoting returns to investors as achievable and putting the emphasis of the SIB on the social improvement and not just on the SROI numbers.

The former however, is a complex issue that is especially problematic in the field of SROI for homelessness.

Homelessness and Social Impact Bonds

Are Social Impact Bonds applicable to homelessness?

Homelessness has been chosen by the State Government as one of the four 'focus areas' for SIBs in South Australia. However, GLA shows that homelessness proves very hard to measure via SROI, begging the question, should homeless be measured this way? An important consideration to note for the GLA SIB is that the only factor in the findings that was deemed successful was the progress in the target group's health. Research suggests that achieving improved health was the only factor of the five that was not being measured as numerical data was not a coincidence. The limited evidence strongly supports the idea that prevention of homelessness cannot be measured in such a stringent way that has been required so far in SIBs.

How can Social Return on Investment be applied to homelessness?

Measuring the success of a social intervention for homelessness is a difficult task and this is not the first time the issue has been grappled with. Drawing again from GLA, the complexities of preventing homelessness are vast and difficult to measure.

Homelessness is a result of a wide range of social, mental and physical health issues and each individual's experience of homelessness is different. Therefore, it must be assumed that each pathway out of homelessness will be different also. When developing a SROI scheme, these factors must be acknowledged accordingly. GLA did not fail to accommodate the complexities of homelessness prevention programs by implementing five different outcome targets. What the statistics have failed to highlight is some of the results such as employment are only feasible upon the occurrence of another result such as health and hence to judge a SIB program after its first year is unjust to the intervention and the NFPs working hard to achieve their goals.

Whilst calculating a SROI for homelessness is not impossible, there are two lessons the State Government can learn from the GLA SIB to improve the potential for homelessness SIBs in SA:

Firstly, State Government must limit the number of targets set for any given SIB. GLA suggests that five is too many. Restricting the targets will allow the NFP service providers to focus specifically on a small set of tasks and execute them thoroughly, providing a greater likelihood of success and therefore a return on investment.

Secondly, State Government and NFPs must be careful to ensure that the same targets (ie employment) are not the sole targets as this may result in a concentration of specific types of homeless people who are deemed more capable of gaining employment, leaving those more vulnerable with little help or support. For example it can be suggested that State Government and investors will be interested in homelessness SIBs where employment or self-sustained living is the target. However, to achieve these goals only a specific group of the homeless population of SA will be suited to the intervention. The State Government must take into account there are vulnerable homeless people whose level of progress may only advance to improved health over a one-year period and these people must not be overlooked.

Will the pressure of an outcomes based approach result in a biased selection of clients by the NFP to ensure proposed outcomes are being met?

It is imperative for community services and for homeless people that the NFP's clients are recruited in an equitable and fair basis and that each individual, no matter how difficult their circumstances, is treated with the same services in both prevention and treatment. The driving force behind charitable work must be for the primary benefit of the clients receiving the services rather than for a financial return on investment. A SIB with the use of SROI seeks to place a numerically measurable value on a number of very vulnerable people and puts pressure on a NFP to work with this person as a value that needs to be appropriately reduced, and not as a person with individual needs and concerns that may not correlate with the SROI program they are required to abide by.

It is possible in a venture such as a SIB that the NFP will feel pressured by the investor's expectation of results and will in turn 'cherry pick' clients who will act accordingly to the proposed outcomes of the project. This would present an outcome where the clients with the greatest need for assistance will be turned away for the fear that they will skew the progress data negatively. The example of a homeless person who may only be able to achieve improved health over a one year period of help from a SIB intervention, may be overlooked or turned away as a viable candidate for the program whose success depends on reaching the target of employment and self-sustained living as it is known by the NFP service provider that this individual will not be able to achieve these targets. This will devalue the needs of one vulnerable person in comparison to another and is something the government needs to take into account when approving homelessness SIBs.

Intermediaries

Will the presence of a single intermediary create an intermediary monopoly?

An intermediary is a reasonably new concept in the community services sector. The State Government has endorsed the necessity of an intermediary for a SIB to work as a link between the NFP service provider, State Government and the investor/s. Intermediaries, as experts in the area of social finance will work to aid NFPs who presumably have limited experience in investment procedures with aspects of their SIB such as sourcing finance from investors and working closely between all interested parties of an SIB to ensure procedures are running as agreed upon.

Especially in the early days of SIB it is reasonable to suggest that such a party is necessary for successful implementation of the process. However, Shelter SA is concerned that the State Government has endorsed only one intermediary (SVA) to work in this field.

There is no question the State Government is expecting the field of social finance to continue to develop a great amount of interest from NFPs and investors alike. Additionally, SVA are an experienced intermediary in the field of social finance who come at a significant expense. This again puts smaller NFPs at a disadvantage at successfully gaining approval for an SIB as they will not be able to afford SVA to facilitate their project.

Should there be other intermediaries involved in South Australia's Social Impact Bonds?

Shelter SA recommends that State Government explores the development of one or more new intermediaries into the SA arena of social finance, with a view to making sure these intermediaries are based in SA. Not only will this have a clear advantage for the SA economy, it will ensure the intermediaries are connected to SA community services. An SA intermediary would also help to create competition for SVA and ensure a high standard of work from all intermediaries.

Creating a market in intermediary services may prove a difficult task and will require a significant amount of input from the SA Government. Whilst peak bodies such as Shelter SA do not propose to act as an intermediary, their knowledge in of research methods and connection with community services will be helpful in determining what is required in a desirable intermediary and potentially the measurement of social impact.

Summary of Recommendations

The State Government must seek to commission a second, South Australian based intermediary to provide competition and accountability to the current SVA monopoly. Setting up a qualified intermediary party for SIBs in SA will require a significant amount of time and capacity building and it is very important that this happens in the early stages of SIBs in SA to ensure a choice of intermediary services into the future.

The State Government should also aim to provide support to smaller NFPs with SIB intervention plans that have a significant level of potential. This support could involve financial assistance in hiring lawyers, intermediaries and new staff members and also should involve facilitating further discourse between interested parties for SIB.

It is important the State Government does not set the targets and standards for SIBs so high that NFPs are set up to fail or that reaching them would require NFPs to select only participants who are most likely to succeed, further marginalising the most vulnerable citizens. The onus of this requirement also falls upon NFPs during the measurement stage of their SIB proposal to be realistic and accurate when measuring targets.

Lastly, the State Government should work with NFPs and intermediaries to determine and include types of measurement that are not objectively measurable by SROI for certain SIB schemes. This will allow for a wider scope of issues to be accommodated in SIB projects, especially in sectors such as homelessness where in the early stages of an intervention, objective targets such as employment may not be realistic. This has already been demonstrated by the GLA SIB where 'health and wellbeing' was listed as a target and the results were based on individual interviews and not numerical data.

Conclusion

Shelter SA is the peak body for housing in SA advocating for improved housing outcomes for South Australians through systems and policy advocacy and research.

It is not readily apparent if peak bodies are a good fit with the SIB model of funding. Shelter SA does, however, have a place in the development of SIBs in South Australia. Shelter SA will continue to advocate to State Government to implement the recommendations that have been proposed in this research with the aim of progressing the model, improving the quality of SIBs and how social return on investment is measured amongst vulnerable populations. Shelter SA will continue to inform stakeholders about SIBs aiming to engage a wider range of people from industry, investors, not for profit service organisations and State Government - acknowledging both the potential benefits and the concerns identified.

A critical analysis of available resources on SIBs clearly shows that beneath the surface of positive reports on SIBs conducted by parties that stand to gain significantly from their success, there are a significant amount of under-analysed concerns. These concerns do not detract from the potential of SIBs, but instead should be seen by State Government as an opportunity, with a view that they will help to improve SA's SIB program and simultaneously set SA apart from other states as proactive and innovative in this field.

The concerns raised relate to the ethical nature of SIBs, suggesting that the current structure considerably favours the intermediaries and State Government. Investors also stand to gain a financial return on their investment but there is evidence that the standards of SIBs are being set so high that investors thus far have not profited at the expected level or at all. The amount of work and funding required by the NFP has also been set beyond the reach of many NFPs who may benefit from this type of finance before the merits of their intervention can even be considered. The last party that stands to lose from SIBs in their current state is the very vulnerable people seeking community services. The pressure from the high standard of SIBs may place stress on the service providers to carefully pick individuals who are likely to achieve the desired results, such as employment.

As such, any program which ultimately does not serve those who it sets out to help must be re-evaluated. The State Government is in a position where critical analysis on SIBs is now available to them, and if they choose, they can address certain concerns and lead the Country and the world to create a more ethical SIB structure.

It is equally important that critical analysis of SIBs continues, drawing on completed and current SIBs as well as the extensive amount of promotional material available from invested parties. With constant reflective analysis, data collection and evaluation, the structure of SIBs will continue to adapt and improve, allowing SIBs to reach their full potential.

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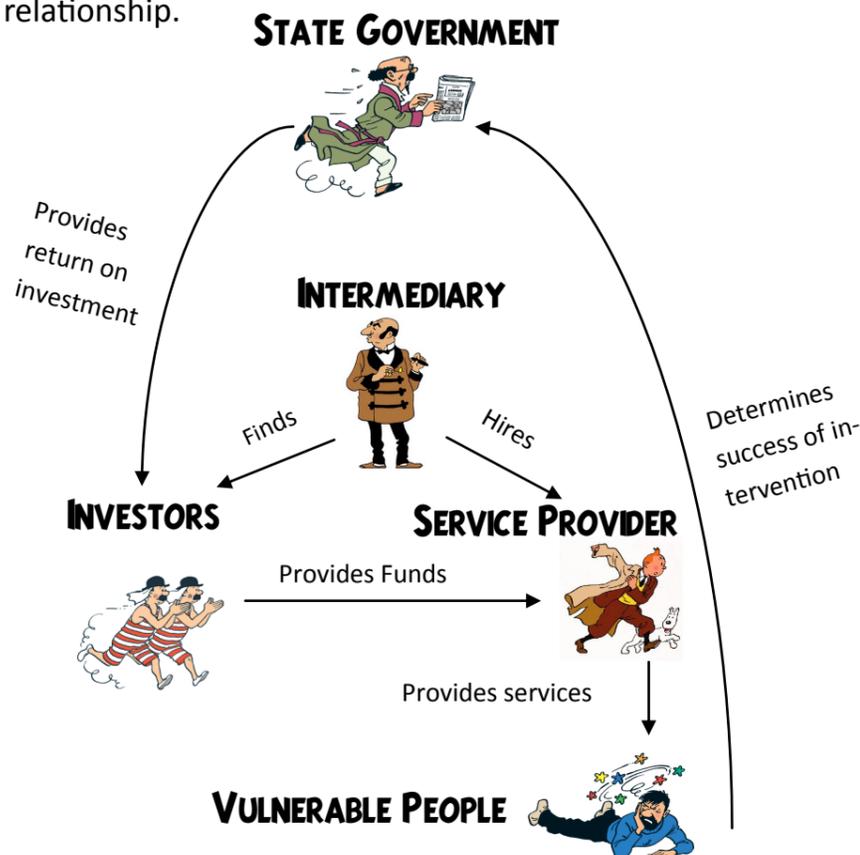
SOCIAL IMPACT BONDS

WINNERS & LOSERS

BY CASSIE EDWARDS

DEFINITION

A Social Impact Bond (SIB) is a model of social finance which aims to reduce government expenditure on social services by allowing investors to provide funding to community services to deliver agreed upon preventative interventions. The success of the intervention is the factor that determines whether the government will provide a financial return to the investors. A SIB requires the co-operation by government, investors and service providers in order to deliver a measurable social and financial saving and an intermediary facilitates the relationship.

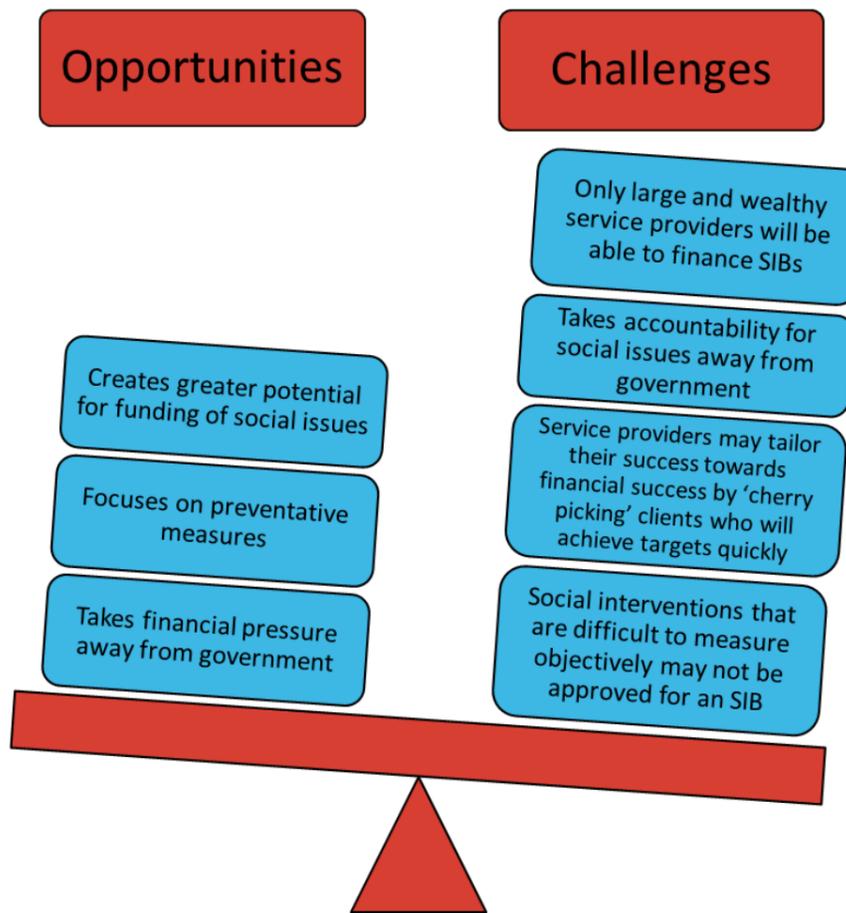


BACKGROUND

SIBs have occurred in an environment of stress for the public service sector. They have been promoted by the government and received with enthusiasm by service providers. The UK

has implemented multiple SIBs and NSW is the first Australian state to undergo an SIB. SA looks to be close to follow with capacity building workshops financed by the SA government completed and expression of interest forms to be released in the near future.

SIBS OPPORTUNITIES AND CHALLENGES



Failure to address the challenges in previous SIBs has resulted in a hierarchy.

With the current structure of SIBs, the party that stands to gain most is the intermediary. The SA Government has commissioned one intermediary, Social Ventures Australia



who will set price points and corner the market.

Government will gain socially and financially with the power to choose the interventions and set the targets for success.

Investors can choose the interventions they invest in but current SIBs show that targets are not being achieved and investors are not getting a return on investment.

SIBs can be unfair for service providers and very vulnerable people due to the high costs and strict requirements to objectively measure social impact.

RECOMMENDATIONS FOR GOVERNMENT

Learn from limitations of previous and current SIBs and implement changes to make SIBs equally successful and equitable for all parties involved.

Commission an SA intermediary to provide competition for SVA and to create accountability, set standards for work and costs and return funding back into the SA economy.

Provide support to smaller service providers with good preventative intervention programs so not only large service providers are successful in gaining SIB approval.

Develop a range of methods to measure outcomes.

Ensure interventions target a wide range of community services and social issues.

