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Social Impact Bonds and the Financing of Child Welfare Revisited

By John Loxley

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Introduction

This paper builds on my *Social Impact Bonds and the Financing of Child Welfare* (CCPA-Manitoba. 2017). It updates the three case studies in that paper; the Sweet Dreams Supportive Living project in Saskatoon, Canada, and two Australian ones, the Newpin Social Benefit Bond and the Benevolent Society Social Benefit Bond, both in New South Wales. To these it adds another, relatively new Australian social impact bond, the Newpin Social Benefit Bond of Queensland. The objective is to assess the performance of the first three, all of which will have matured by June 2020, and see what extent, if any, lessons learned have been applied to the relatively new one.

The Sweet Dreams Supportive Living Project

This five-year SIB commenced in May 2014 and was aimed at keeping 22 children (under age 8) of single parent mothers with their mothers. The women were considered at risk of requiring services from the Child and Family Services Branch of the Ministry of Social Services. The Saskatoon Downtown Youth Centre (through EGADZ, a well-known and respected provider of services to at-risk youth) provided safe shelter at The Sweet Dreams House as well as programs designed to improve parenting and improve the employment prospects of the mothers. In actuality, the program provided a supported living environment for 36 women and their families and 55 children, more than twice the initial target. Of these, 54 remained out of care of the ministry and safely with their families by the end of the program (Saskatchewan, 2019). Savings to the government were estimated at between $0.54 million and $1.5 million over five years when 22 families were targeted, so in reality they should be well in excess of that. The investors received the whole of their $1 million investment back together with a 5 per cent return on their investment.[1]

The success was perhaps, to some extent the result of sample selection bias, choosing mothers most likely to succeed, and there was no control group against which to measure performance. Nonetheless, it did succeed spectacularly in keeping children out of care.

Perhaps the most significant outcome of this project, however, is that the government has decided to finance the scheme directly, providing $120,000 a year, so it will no longer be an SIB (Saskatchewan. 2019).

1 We were unable to ascertain whether this was simple interest or compound interest.

The Newpin Social Benefit Bond

By June 2019, this $7 million SIB with a lifetime of 7.25 years seemed to have been highly successful. It had assisted a total of 627 Cohort One (high risk) children from 366 families (SVA. 2019a. p.7). By that date, the latest for which data is available, 328 net restorations had been made, consisting of 364 restorations and 36 reversals within the first 12 months. A total of 157 children had exited the program before restoration (ibid. p. 9). Of the net restorations, 246 have been made to mothers, and the other 82 to fathers. The overall reversal rate for mothers was 11 per cent, while for fathers it was 7 per cent (Social Ventures Australia, 2019a. p8).

Cohort 1 children had a restoration rate, therefore, of 64.52 per cent at the end of year six, arrived at as follows:

> Restoration Rate = (Restorations – Capped Reversals) / (Restorations + Unsuccessful Exits) = (276 – 27.6) / (276 + 109) = 64.52 per cent

This is very high relative to that of the control group, which had an estimated restoration rate of 20 per cent in 2019. By this yardstick, the Newpin Program has successfully reunited 214 children who would otherwise have been expected to remain in out-of-home care (ibid. p. 10).

Payments to investors are based on an interest rate (capped at 15 per cent) tied to the restoration rate and in 2018 it was calculated as follows:

> Interest rate = 3 per cent + [0.9 x (Restoration Rate – 55 per cent)] = 11.568 per cent (ibid. p. 13).

As was argued in Loxley (2017. p.8), capping reversals to 10 per cent of the cumulative number of restorations artificially raises the restoration rate and, therefore, returns to investors,[2] but in the second three years of the project reversals fell sharply relative to those in the first three years, so capping had less of an impact. Without the 10 per cent capping, the restoration rate in 2018

2 My 2017 paper (*Social Impact Bonds and the Financing of Child Welfare*. https://www.policyalternatives.ca/publications/reports/social-impact-bonds-and-financing-child-welfare) argued that capping raised returns to investors whereas Social Ventures Australia (2015. p.9) argued it reduced them. This is explained by SVA originally not using net restorations at all i.e. they did not deduct reversals from restorations so when a cap was brought in on reversals they saw this as cutting into investor returns. I assumed only NET restorations should have been recognized and rewarded in the first place so a cap would actually increase investor returns.

TABLE 1 Newpin Family Cohorts

Cohort 1	350 Families that have at least one child aged five years or less who has been in out-of- home care for at least three months.
Cohort 2	175 Families that have at least one child aged five years or less that has been assessed as being at risk of serious harm. These children will either be the subject of a Supervision Order or a safety and risk assessment by Family and Community Services (FACS).
Cohort 3	175 Families that have at least one child aged five years or less that do not meet the definitions above but have been identified as needing support to prevent deterioration in the family.

SOURCE Social Ventures Australia (SVa), 2016 p.5 and Gustafsson-Wright et al. 2016, p.119.

would still have been 62.3 per cent and the interest rate 9.6 per cent.

By June 2019, interest payable to investors since inception amounted to just over $5 million, on an investment of $7 million! The lowest the cumulative annual interest rate can be at the end of the project life is 9.97 per cent (ibid. 14). These are extremely high returns, given that a return of 5.5–6 per cent is the best that can be 'expected from a good quality, highly rated Australian corporate bond with a seven-year spread' (Rose, 2013). And even though yields on 7-year A-rated corporate bonds had risen to around 6.5 per cent by 2018, they were still well below that of the Newpin bond (CEIC. 2018). At the same time, the proportion of principal repaid when the bond matures, will almost certainly be 100 per cent (at which it is capped), given the high restoration rates since inception, as the formula is:

Principal payable on maturity = 50 per cent + [2.5 x (Restoration Rate – 35 per cent)]

so any restoration rate equal to or in excess of 55 per cent will guarantee full recovery of the amount invested. The Newpin bond is, therefore, lucrative to investors and will be fully redeemed.

It seems then that this bond arrangement was successful for Cohort 1 children and families. But the initial proposal on which funding was based had a much longer reach, as Table 1 reminds us.

The initial proposal was, therefore, for 700 families and 1,400 children (Loxley. 2017. p5). In the reporting on the Newpin bond, there is scant mention of Cohort 2. The Newpin Investor's Report of 2019 (SVA. 2019. p11), states that 'during year 6, five families were successfully supported in preventing their children entering into care. This brings the total number of families successfully supported to 55'. This is less than a third of the initial target and no mention is made of the shortfall or of why it might have happened. The 2018 evaluation by URBIS (2018) gives more, but conflicting, information on Cohort 2 children and families, stating that 124 children of 81 parents participated in the program between 2013 and 2018. Children completing the program numbered 116 and 75 were reunited with their families (URBIS 2018. pp12–13). Cohort Two children are not included in the restoration rates or in the calculation of interest payments or principal repayment (Social Ventures Australia. 2013. p. 29). Neither are they included in the Control Group (ibid. p.39)

No mention is made in annual reports or in annual evaluations of any Cohort Three children and families, so it's not clear why they were introduced as a separate category in the first place.

One further complication with the Newpin SBB is that it adopts a very narrow definition of restoration rates, which are so key to the measurement of success and vital for interest payment and principal repayment. Depending on when children and families withdrew from the program, the restoration rate could be between 52 per cent and 63 per cent up to 2018, the former including those withdrawing after 12 months of restoration. It is the higher number that is built into investor contracts. Had the lower number been built in, interest payments would have been much lower and principal repayment would fall from 100 per cent to 92.5 per cent. This demonstrates the importance of clarifying investor payment metrics; it also highlights why there can be alternative views of the degree of success.

Once the SIB has matured in 2020, UnitingCare expects funding of the program to be rolled over into a normal payment-by-results contract (Impact Investing Australia. 2020).[3]

3 Payment by Result (PbR), of which SIBs are but one form, is becoming more common as private sector encroachment on conventional delivery systems. PbR frameworks are complex to implement, may not be suitable in many contexts and can have negative implications for service quality and value for money. See Chapter 3 of Hajer, Jesse and John Loxley. 2020. *The Political Economy of Social Impact Bonds*. University of Toronto Press. Forthcoming.

The Benevolent Society Benefit Bond

On 3rd October 2018, this five-year bond became the first Australian social impact bond to reach maturity (Benevolent Society. 2019. p.2). It provided services to 303 families with 816 children, 18 per cent of whom were Aboriginal and/or Torres Strait Islander families. It accomplished positive results in keeping families together, with an 86 per cent preservation rate for families referred to the program. Compared to families in the control group, which received 'business as usual care' from the NSW government, 32 per cent fewer children entered out of home care.

It will be recalled (Loxley. 2017. p.15) that there were three different indicators on which performance and investor returns were based: the number of entries into out-of-home care, with a weight of 66 per cent, the number of Child Protection Helpline calls for suspected risk of significant harm to children (17 per cent), and the number of safety and risk assessments (17 per cent). Each was measured for the intervention group minus the same measure for the control group. The "Improvement Percentage" for an Annual Cohort was calculated as follows:

> Improvement Percentage = (66 per cent x Entries) + (17 per cent x Reports) + (17 per cent x Assessments)

At the end of the five years this was calculated to be 16 per cent (Benevolent Society. 2019. p.2). Returns to investors were very high, the Protected Class Investors receiving six per cent per annum (p.a.) and the capital-exposed Equity Class Investors 10.5 per cent, even more than the Newpin investors received. The biggest difference in performance between the Index Group and the Control group appears to have been in the number of very high risk children being taken into out of home care, 22 per cent for the Index Group and 44 per cent for the Control Group (ARDT Consultants. 2018. p. 33). The explanation given for this key difference is that 75 per cent of contact received by Control Group clients was by phone, email or text whereas 85 per cent of RF contact was face-to-face (ARDT Consultants. 2018. p. 26). This finding has important implications for delivery of preventive child welfare programs. It is particularly important in the era of the Corona virus when face-to-face contact is being severely restricted across the board.

In the earlier years of the SBB there were suggestions of sample selection bias which might have exaggerated investor returns. In the final measurement, 88 of the 303 families included were classified as non-participant families, but were still counted in outcomes measurement, countering any suggestion of the earlier bias. The success of the program has been considered all the more remarkable because the number of children entering out-of-home care was three times higher than it was 20 years ago (Luke. 2018).

Since the end of the SBB, the Benevolent Society and the government have continued the Resilient Families Service under a performance based contract supporting families in Sydney. They have thus established Australia's first pay-by-results model to fund the continuation of the program (Benevolent Society. No date). Thus the Benefit Bond approach has been institutionalized in a different form.

The Newpin Queensland Social Benefit Bond (Qld SBB) Program

The Context

In Queensland, Australia, over 9,000 children are in out of home care (OOHC), Over 80 per cent for more than one year and over 40 per cent for more than 5 years. The children of Aboriginal and Torres Strait Islander peoples (referred as First Australians) are grossly over represented in the child welfare system being nine times more likely to be in care than non-Indigenous children (Social Ventures Australia, 2017, p.14). As in Canada, children who have lived in OOHC complete less education, experience more homelessness or unstable living arrangements, have higher levels of unemployment, earn lower wages, have higher rates of incarceration, have children earlier and at greater risk of being taken into care, experience poorer physical and mental health, more substance abuse problems and lack informal social supports (Social Ventures Australia, 2017, p.14). The costs to those in OOHC are, therefore, potentially huge. The costs to the state are also very high. Five years ago the average cost per child in OOHC was estimated to be $50,000 (Social Ventures Australia, 2017, p.14). The aim of the Newpin Qld SBB is to decrease the number of children in care to reduce both the social costs to individuals and families and the fiscal costs to the Qld government.

The Program

Launched in June 2017, the Newpin Qld SBB, the first SBB in the State, is a 7.25-year, $6 million program which aims to reunite children in OOHC with their families. "The aim of the program is to provide parents with the opportunity to address their own emotional issues, to improve attachment with their children and to develop positive parenting skills" (Social Ventures Australia, 2019, p.4). It is run by UnitingCare Queensland (UCQ) and is based on the NSW Newpin program. It is a centre based program with Newpin centres being opened in Cairns (2017), Logan (January 2019) and Ipswich (planned for January 2020) (Sainty and Casey Taylor. 2018). Like the NSW program, participants or families with at least one child aged five and a half years or less attend the centre for up to 18 months. Unlike the NSW program which requires attendance of four times a week, the Qld program requires a minimum attendance of twice a week.

Also, unlike the NSW program, the Qld one is geared mainly to First Australians. It is anticipated that around 200 families, the majority being First Australians, will be referred to the Program over a five-year period. Each family will have at least one child of pre-school age, and collectively the Program is expected to support around 560 children who are in OOHC when they start the Program (Social Ventures Australia, 2017, p.3). The program is, therefore, much smaller than the NSW program which aimed at 700 families and over 1,400 children (perhaps because the NSW program fell well short of that).

The Qld SBB is restricted to mothers only whereas the NSW program is also offered to fathers. The reason for this, apparently, is that the license provision of the UCQ confines services to women.

The Qld program also does not divide potential participants into differential risk cohorts, but available data shows that the majority would fit easily into the highest risk cohort of the NWT bond, given that of the participating parents, 84 per cent express domestic violence as a current issue; 77 per cent have experienced abuse or neglect in their childhood including instance of sexual abuse or placement in out-of-home care; 71 per cent present with an ongoing issue with substance misuse (alcohol or drugs) and 68 per cent have current mental health concerns (Social Ventures Australia, 2019, p. 9). The Qld program is servicing, therefore, high risk participants dealing with very complex personal and social issues. Nevertheless, the expectation is that reunifications will be 2.5 times what would have happened without the program.

The Structure of the Arrangement

The structure of the Qld SBB is very similar to that of NSW. There is no intermediary as such but SVA designed the bond, arranged investors and acts as the interface between UCQ and investors. SVA manages the Newpin Qld SBB Trust through which bond subscriptions are raised and loan disbursements are made to UCQ. The Department of Communities, Child Safety and Disability Services (DCCSDS) refers families to the program and is responsible for outcome payments. The performance of the program is monitored by the Newpin Qld SBB Joint Working Group (JWG), consisting of representatives from SVA, the State and UCQ.

While there is no First Australian representation on the JWG, there is in Queensland an Aboriginal and Torres Strait Islander Reference Group, designed to promote the cultural integrity of the program and to support collaboration between the major actors. The Reference Group includes Wuchopperen, a Cairns based community-controlled Aboriginal health service provider as well as representatives from The Institute for Urban Indigenous Health, The Department of Aboriginal and Torres Strait Island Partnerships, Secretariat National Aboriginal and Islander Child Care, The Department of Child Safety, Queensland Indigenous Family Violence Legal Service, a Torres Strait Islander elder and an Aboriginal elder (Social Ventures Australia, 2018, p.10). The reference group is unique to the Qld SBB.

The Qld SBB bonds are issued in minimal amounts of $50,000, as they were in NSW. There are said to be 34 investors, but the only three we have information on (Tomkinson, 2017) are NGS Super (a superannuation fund specialising in the non-government education and community sectors with assets of $11 billion: https://www.linkedin.com/company/ngs-super/about/), along with QIC (an asset fund of $81 billion, https://www.qic.com.au/knowledge-centre/nexus-20191130) and HESTA an asset fund of $53.5 billion for the education and community sectors, https://www.hesta.com.au/about-us.html). One assumes that VA would also have purchased bonds, but we do not know that. It is, in fact, ironic that while the issue of bonds and the annual investor reports give the public more information than is available in other SBBs and Social Impact Bonds elsewhere, the holders of those bonds is not open to public disclosure.

Performance Metrics for UCQ and Bond Holders

Outcome payments by the DCCSDS to UCQ as well as payments to bond holders by UCQ are both determined by the number of Incremental Reunifications achieved by the Newpin Program. On average, it is expected that reunifications will occur after nine months of participation, although this will vary from family to family. The decision to reunify a family is made by the courts, in response to a recommendation by DCCSDS. Incremental Reunifications are reunifications that have taken place after the children in the Intervention Group have reached their assessment milestone, which is 18 months after their inclusion in the Intervention Group, less the counterfactual of reunifications that would have happened in the absence of the program, plus an allowance for Deemed Incremental Reunifications in relation to any shortfall in referrals relative to the Minimum Referrals (Social Ventures Australia, 2017, p. 26). In short, Incremental Reunifications are actual reunifications less the counterfactual unifications, plus deemed reunifications on account of fewer families/children being signed up than minimally planned. In the planning documents a reunification rate of 41.5 per cent was assumed, less a counterfactual of 16.5 per cent, leaving an estimated 140 reunifications. State savings from these reunifications might be in the region of $58 million gross while payments to UCQ under the terms of the Implementation Agreement might reach $26.5 million (Social Ventures Australia, 2017, p.11) or, they might be as low as $6 million and as high as $32.9 million depending on measured performance (Social Ventures Australia, 2017, p. 26). It is impossible to verify these numbers as the Implementation Agreement is not available to the public.

It is to be noted that the use of 'counter factual reunifications' replaces the use of the control group in the NSW SBB.

Payments to bond holders take a number of forms. In the six years between 2018 and 2023, UCQ will make Fixed Interest Payments at 2 per cent p.a in arrears on 30 September each year. In year 2024, Performance Interest will be paid equal to 50 per cent of all payments by the State to UCQ minus $20 million (Social Ventures Australia, 2017, p. 27). Thus, the last interest payment will be a function of all performance payments to UCQ up to that point. In the target performance scenario, the Performance Interest Payment is 50 per cent x ($26.5m - $20m), or $3.25 million which, together with the fixed interest payments of $0.75 million, equals interest payments in total of $4.0 million.

While it is not disclosed how the interest rate formula was arrived at, it differs from that used in NSW in a number of ways. First, fixed interest payments in NSW were made at 5 per cent p.a in the first 3 years, thereafter between 0 per cent and 15 per cent depending on the Restoration Rate. Second, in NSW interest payments linked to performance were paid annually while in Qld they are paid only at the end of the project. Third, in NSW the extent of reunifications which are reversed or deemed unsuccessful is capped at 10 per cent whereas no such provision is made in the Qld SBB.

At the maturity date of the bonds in Qld, the per cent of principal repayable to bond holders is also a function of the reunification rate achieved, using the following formula:

> Principal Repayment Proportion = 50% + 2 per cent x (IR – 50) subject to a minimum of 50 per cent and a maximum of 100 per cent

where IR is the aggregate number of Incremental Reunifications as defined above. Thus principal repayments to bond holders will be 100 per cent if the number of reunifications exceeds 75, which is a rate of reunification of 29.5 per cent, 13 per cent points above the counterfactual. Any incremental reunifications below 50 will lead to the minimum repayment of 50 per cent of the principal.

Based on the above methods of calculating interest and principal, internal rates of return are estimated to lie between -7 per cent p.a. and +12 per cent p.a., with the target being +7.5 per cent p.a.

All of the above assumes that the project will proceed to maturity. Elaborate provisions are made, however, for early termination of the Implementation Agreement, both before and after June 2020, the first Measurement Date. Provision is made for fixed interest payments, performance payments and principal repayment depending on the reason for early termination, the date of termination and the achieved rate of reunification. While similar to early termination provisions in the NSW Newpin SBB, there is a greater degree of detail which might reflect the perceived heightened risk of focusing on the First Australian population and its attendant social and economic problems.

Progress to Date

At the end of 2019 it is too early to say if the program is working or not. There are signs, however, that the challenges in meeting the needs of Aboriginal and Torres Strait Islander families have been greater than originally anticipated. This shows itself both in the low number of enrolments of families and children into the program, and in the much lower proportion of Aboriginal and Torres Strait Islander families participating than originally envisaged. By June 2019, only 89 children from 43 families were enrolled in the Newpin Program. Of these, 19 children from nine families were subsequently excluded from the program for a variety of reasons, such as incarceration, ill health, movement of families,[4] etc. leaving 70 children out of a planned 120, or only 59 per cent of the plan (Social Ventures Australia, 2019, p. 7). As a result, the forecasts of number of children in the Intervention Group over the life of the bond has been reduced by 21 per cent to 437, while the number of families referred has been increased by 11 per cent (Social Ventures Australia, 2019, p. 8).

In 2018 the minimal referral number of 22 was not met, there being only 19 families, so 8.4 deemed children (2.8 per family) will be included in the calculation of Incremental Reunifications in future.

As at the end of June 2019, only 49 per cent of the parents and 42 per cent of the children actively participating in Newpin identify as Aboriginal and/or Torres Strait Islander (Social Ventures Australia, 2019, p. 9). This is well below initial expectations but is perhaps not surprising given the complex social profiles of the participants listed above. Even then, these proportions are at least double those achieved in the NSW Newpin SBB program which indicates some success in reaching First Australians. While there have been some reunifications to June 2019, it is too early in the program to assess success in these terms.

The Implementation Agreement apparently provides for periodic reviews of the program by the JWG. The first such review took place in December 2018 and focused on the difficulties the Cairns Centre was having in recruiting participants. It gave rise to 'a number of contractual amendments and operational adjustments' designed to address the difficulties, though these were not specified publicly (Social Ventures Australia, 2019, p. 10). A further review was anticipated for 2019.

Assessment

The question could be asked why did Queensland decide to pursue a SBB to provide Newpin services when the NSW experience had already shown that the model was successful? The alternative of financing those services directly through the State would clearly be cheaper than through a SBB. The answer lies partly in the State having a political inclination towards SBBs and partly in the timing of the decision to proceed with them.

4 'The outcomes of excluded children are not counted in the determination of Incremental Reunifications, but their family's referral does count toward the Department's Minimum Referral obligations' (Social Ventures Australia, 2019, p. 9).

Queensland began a process of inviting proposals for SBBs as far back as 2015 when the NSW Newpin SBB was in its infancy. By the time the Queensland government decided to pursue the Newpin proposal in October 2016, it was too early to assess the success of the NSW trial. Nonetheless, some lessons from NSW were clearly built into the Queensland SBB by the time of its implementation in 2017.

The focus on Aboriginal and/or Torres Strait Islander populations, given the social problems they face, is an understandable and welcome improvement, though one that unquestionably renders the SBB more difficult to implement. Moving away from the cohorts of the NSW model and the use of a control group, with all the ethical concerns that use of such groups raises, simplifies the Qld approach but in turn simply reflects the more difficult emphasis on First Australian populations.

Like the NSW Newpin SBB, both interest and principal guarantees are given to bond holders to reduce their investment risk and adjustments are made with experience. Overall rates of return are likely to be somewhat lower in the Qld SBB but still much higher than Qld bond yields. Transactions costs for the Qld SBB are not known but are likely to be much lower for SVA, given its experience in NSW, and about the same for the government of Qld as for NSW as they developed their approach to SBBs in relative isolation of each other.

Lessons: Keep the Programs, Get Rid of the Social Impact Bonds

What we learn from the above examples is that there is a real need for the prevention programs underlying the social impact bonds. In each case families have benefitted from the programs, children have been kept out of care and families strengthened. The three Australian programs were based on successful prevention programs elsewhere so the social impact bonds were really a testing ground for their efficacy in the Australian context. In two of the cases now at or near completion, they passed that test and the private investors, with help from government, profited substantially. The most recent case, the Qld SBB, the program, is branching out by targeting specifically First Australians, whose needs are great, but the underlying program is, again, well known and effective.

The Saskatoon case study did not have a tried and true underlying program of prevention but with the help of an accomplished and respected social agency, developed and delivered an effective one. Given the need for an accompanying house suitable for the program, it would not be cheap or easy to replicate this program. But in Saskatoon both the house and the program are there and these ingredients were shown to work effectively by the SIB. Once the program ended, the Saskatchewan government did the sensible thing and continued to finance the program directly out of public coffers. The SIB is not needed.

The two Australian cases which have matured have not been replaced by normal government funding but rather by payments-by-results arrangements. Given the proven effectiveness of the underlying programs, and the large government savings ascribed to them, it is surprising that the Saskatchewan approach was not adopted and NSW seems to be politically and ideologically committed to private funding of these child welfare activities. It is not clear what the terms of the private funding will be, but those of the SBBs were extremely generous, so much so that they could not serve as a general model for funding state activities. The SIB model is simply unsustainable at such high rates of return. If the rationale for using SIBs was to test that the underlying programs could work in Australia, we are well past that point. SIBs, with their accompanying high transactions costs and exorbitant returns to investors, are not needed and should be replaced by normal government funding arrangements.

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