

Social Bonds: Proposal for a New Zealand Pilot

Proposal

1. This paper seeks Cabinet approval to establish a social bonds pilot in New Zealand.

Executive Summary

2. In February 2013, Cabinet was briefed on cross-government work, being led by the Ministry of Health, to explore the potential for social bonds in New Zealand. Cabinet agreed to the Ministry of Health testing investor and provider interest in piloting social bonds and, subject to positive findings, considering whether to take a pilot to market [SOC Min (13) 1/4 refers].
3. Social bonds are an innovative form of social sector investment in which private capital and expertise are deployed for a social purpose. Social bonds enable working capital to be raised from investors to meet the costs of new services, or to scale up existing services. If better outcomes are achieved, government repays the capital invested, plus a return – greater improvements mean higher returns for investors and better results for New Zealanders.
4. Certainty of working capital over a multi-year period gives providers the freedom to deliver services in the best way to achieve outcomes. At the same time, shifting the financial risk and reward for service performance to investors means a greater incentive for these groups to apply their resources and expertise to designing and managing services in ways that make a difference.
5. This paper proposes that a social bonds pilot ('the pilot') be established in New Zealand. The pilot would test the model in the New Zealand context and begin to develop the market conditions and capabilities needed to use social bonds more widely in the future. Lessons from the pilot could be applied to payments-for-results and outcomes-based contracting across the social sector.
6. Two key policy decisions are necessary to proceed to the procurement phase:
 - **Approach to selecting social issue:** It is proposed the social issue of focus for the pilot be selected from ideas generated by the market. Social bonds have wide potential application and this approach will allow the best proposal to be identified.
 -

7. Establishing the pilot in a timely way means there will be several critical decision points over the coming months. It is proposed that decision-making on the pilot design be delegated to a sub-group of Ministers: the Ministers of Finance, Health, Social Development, Community and Voluntary Sector and any other Ministers required in light of the social bond outcome areas that emerge during procurement. The Minister of Health will report back to this group on progress and a short list of possible outcomes before the end of 2013, with an update to Cabinet in early 2014.

Background

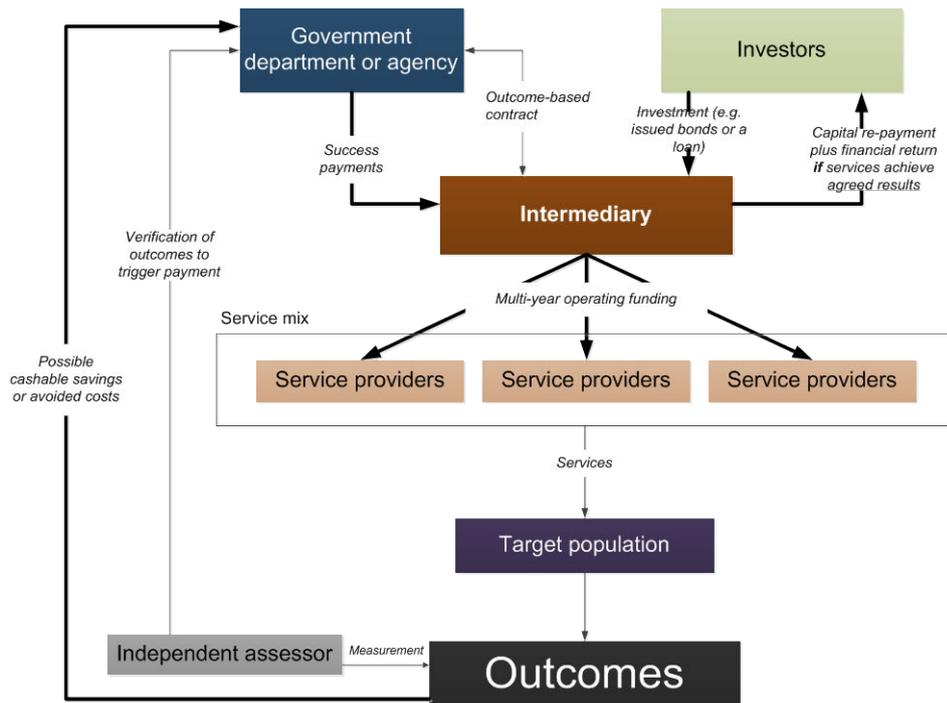
8. Getting traction on New Zealand's most pressing social issues requires services that are innovative, enterprising, driven and focused on delivering results. Changing the way government works with non-government organisations and the private sector, to increase collective impact, is an important part of achieving these goals.
9. In 2011/12, government agencies purchased \$5.2 billion worth of community and social services from not-for-profit and private providers. Yet, existing contracting practices do not always make it easy to reward successful innovation or to identify services that are no longer proving effective. Input and output-based contracting, without a clear focus on results, can entrench outmoded service designs, act as a disincentive to innovate and create an obstacle to scaling up what works.
10. Actions are already underway to begin addressing these concerns. Through initiatives such as the Social Sector Trials, Children's Action Plan, payment for success contracts in Youth Services, Investing in Services for Outcomes, and Whānau Ora, government agencies are now focusing on *what* is being achieved, not *how* services are delivered. Service providers are gaining greater freedom to respond to local needs and to design services that achieve results.
11. Social bonds are another way of combining forces for greater collective impact. They are an innovative form of social sector investment in which private investors and/or philanthropic organisations take a stake in getting better social outcomes – and are rewarded by the government for the results.
12. The Ministry of Health has been leading a cross-agency project exploring the potential for social bonds in New Zealand. In February 2013, Cabinet agreed to:
 - potential investors and providers being invited to express interest in, and discuss, a social bonds pilot; and
 - consider whether to take a pilot to market [SOC Min (13) 1/4 refers].
13. This paper outlines the conclusions of the exploratory phase of work and sets out a proposal for a social bonds pilot in New Zealand.

Social bonds – what they are and how they work

14. Put simply, a social bond is a set of contracts between:
 - a government agency or agencies (or, potentially, other purchaser(s) of social services, such as iwi groups or insurers)

- an intermediary organisation, responsible for raising finance (e.g. through issued bonds or a loan) and working with service providers to facilitate achievement and measurement of results
- investor(s) who provide working capital to fund services, based on the expectation that this will be repaid, with a return, when outcomes are achieved
- service provider(s)
- independent assessor(s) who review and verify service results.

15. These roles are illustrated in the diagram below.



16. The intermediary role is a defining characteristic of the social bonds model. Internationally, this role has been undertaken by banking, financial advisory services, consultancies, or venture capital firms. However, it could be taken on by any service providers or investors with sufficient financial and program management capabilities.

How social bonds differ from other types of contracting

17. Social bonds are one form of ‘payment-for-results’ or ‘outcomes-based contracting’ in which payments are made primarily on the basis of outcomes that are achieved. These models are increasingly regarded by governments and service providers alike as a way of enabling flexibility and innovation in service design and delivery.
18. However, payment-for-results and outcomes-based contracting models assume that providers have sufficient capital to meet the upfront costs of delivering services and can take on the financial risk that results are not achieved within the contract term. Because changes in social outcomes can take some years to become evident, access to these types of contracts may be limited to only those providers with ready sources of working capital.
19. A key difference between social bonds and other outcomes-based contracts is that they deploy private capital and expertise. Social bonds create a vehicle for raising working

capital for social services, bridging the gap in financing and giving providers the security of funding to design and deliver services in the best way to achieve outcomes.

20. At the same time, shifting the risk and reward for achieving outcomes away from government to investors, creates an incentive for the investment community to apply their resources and expertise to ensure that service design and delivery lead to results. Consequently:
- service innovation is more likely to succeed because providers have guaranteed access to the necessary capital to adapt or modify service design during the course of the contract
 - there is a greater need for robust, disciplined performance measurement and evidence-based action, as investors will only receive a return on their investment if improvements in outcomes can be clearly attributed to the purchased services
 - successful service designs being offered by smaller providers, that would otherwise be unable to expand, could be financed and brought to scale.

International examples of social bonds show the potential, and also a note of caution

21. Social bonds are at the cutting edge of public sector reform. Social bonds are currently underway in the United Kingdom, United States, and Australia, and are being actively explored in Canada, Ireland and Israel (see Appendix 1 for further detail, including the interim results available). The range of social issues to which they are being applied include reducing recidivism, increasing employment, improving outcomes for children in care, improving management of chronic health conditions, increasing participation in early childhood education, facilitating independence amongst older people and decreasing homelessness.
22. In general, social bonds are showing promise as a vehicle for improving results and encouraging investments in preventive services (see Appendix 1 for examples). However, international experience cautions that the model is relatively complex and resource intensive to establish. While this is expected to reduce over time as governments, investors and service providers become familiar with the approach, international reports suggest careful design and decision-making will be important if social bonds are to be piloted here.

There is interest in a pilot in New Zealand

23. The Ministry of Health engaged KPMG to prepare a “business case” for a New Zealand social bonds pilot, including testing the interest of investors and service providers in this prospect. KPMG found interest from both providers and investors in participating in a pilot. Over 50 investors and providers responded to a market feedback exercise, and many others attended presentations held by the Association of Non-Government Organisations of Aotearoa (ANGOA) and Philanthropy New Zealand. Interested service providers ranged from smaller local providers (e.g.) to larger national organisations (e.g.). Potential investors included banks, iwi groups and philanthropic trusts.
24. Service providers saw the potential for social bonds to provide stable, multi-year funding, and to better focus services on improving delivery and outcomes. Some investors were cautious, questioning whether service providers have the capabilities to operate in a

genuinely outcomes-focused model. However, they also saw potential for a social bonds pilot to support the growth of 'impact investing' and 'venture philanthropy' in the social finance community.

Proposal: a social bonds pilot in New Zealand

25. The KPMG work, combined with the international experience, suggests the time is right for piloting social bonds in this country. It is therefore proposed that a pilot be established to test social bonds in New Zealand. The purpose of the pilot would be to:
- test the concept in the New Zealand context to see whether social bonds are an effective and efficient way for government to reduce social problems
 - develop the conditions needed in New Zealand to use social bonds more widely in the future, including growing the investor market and building capabilities of government agencies and service providers
 - learn lessons that could be applied to other forms of payments-for-results or outcomes-based contracting in the social sector, including the kinds of social issues, service providers, and funding vehicles to which these models could be applied
 - enable the Government to make more informed decisions on whether to use payments-for-results and outcomes-based contracting more widely in the future, and if so, how.
26. The pilot would operate for between three and five years. An indicative timeline is in Appendix 2.

How the pilot would work

27. The pilot would have the following characteristics:
- **A service or programme with good potential for net benefits**
Social bonds work if they produce a combination of social and economic benefits such that government and investors come out ahead. International experience recommends that the pilot target a service or programme model with a strong evidence base and/or proven track record, and be delivered by an effective service provider(s). If the proof-of-concept for social bonds is established through the pilot, future social bonds could be used to attract capital to promising (rather than just proven) services.
 - **Willing investors**
Social bonds require private investors. Feedback from potential investors suggests some interest in a pilot, but that, before committing funds, they will need confidence that risks and returns are appropriately balanced, compliance costs will be manageable, and that providers have the capability to deliver. International experience is that early engagement with potential investors and the involvement of a credible intermediary organisation are important for gaining investor confidence.
 -

- **A well-defined cohort of service users**

To be able to determine whether the outcome was produced by the service rather than chance, there needs to be a sufficiently large sample size of service users. This rules out piloting social bonds on high cost services targeted at very small populations. Equally, the cohort must be defined in a way that avoids service delivery to only the easiest to access groups.

- **A robust measurement framework**

The measurement framework must be feasible for service providers to report against, allow performance to be independently assessed, be backed by quality data, be acceptable to investors, and provide a suitable trigger for outcomes-based payments.

Some decisions can be made now

28. The specific details of the pilot, in terms of the social issue, detailed service design, and costs and payment terms, will not be known until the procurement process is underway and a short list of proposals identified. Key policy decisions necessary to proceed to the procurement phase are proposed below. It is recommended that decisions on detailed design and financing of the pilot be returned to Cabinet or delegated to Ministers (refer to paragraph 37) in the course of procurement and implementation.
29. Table 1 identifies decisions to be taken now, and those that should be deferred until procurement is underway. Further details on timelines over the next 12 months are provided in Appendix 2.

Table 1: Key decisions to establish a social bonds pilot

Decisions to be made now (September 2013)	Decisions to be made during procurement (October 2013 – May 2014)
Key parameters for designing the pilot – Approach to selecting social issue – Approach to payment terms	<ul style="list-style-type: none"> • Detailed pilot design (including costs, services and contract) • Specific framework for measuring performance (including audit and controls) • Specific payment terms (e.g. level of returns and risk sharing) • Pilot social issue • Size and source of funding envelope • Preferred consortium (i.e. providers, intermediary and investors)

Approach to selecting social issue for the pilot

30. International experience shows that social bonds have wide application and that it is desirable at the outset to gather ideas from the market, rather than pre-selecting certain social issues. It is proposed that this approach be adopted in the New Zealand pilot, with the social issue of focus selected from ideas put forward by the market here. However, to ensure there is alignment between the pilot and other activities, guidance on government priorities and other programmes underway will be provided to the market during the procurement process. A good fit between proposals and other priorities will then be considered as part of selecting the final pilot project.

31. Potential social issues will become apparent during the first stage of procurement (Registrations-of-Interest) in which respondents will be required to identify their specific outcomes of interest in their proposal. Registrations-of-interest (ROI) will be invited from any social services, delivered by non-government organisations or private sector providers, with a track record of success and/or a strong evidence base.
32. An initial short-list of possible outcomes (and associated providers and intermediaries), based on ROI responses, will be considered by a sub-group of Ministers (refer to paragraph 37). Final decisions about the social issue for the pilot will be taken by Cabinet, informed by the short list, modelling of financial implications, and strength of proposals received.

Approach to payment terms and risk-sharing

33. In theory, social bonds are self-financing with success payments met by savings accrued, and the financial costs of poor performance met by investors. However, the social bonds model is still new and its ability to generate cashable savings still being tested.

Principles for social bonds payment terms and risk-sharing

1. The combined cashable and non-cashable (e.g. lessons learnt, capabilities built) benefits of the pilot will exceed the costs
2. The pilot can be readily financed by government – the baseline level of performance will represent government's break-even point
3. Access to and quality of services should not be compromised by the pilot
4. Outcome measures must be closely linked to financial benefits that can be realised
5. Proceeding with the pilot is not a given – at any point during procurement, government will

withdraw if Cabinet is not satisfied that the benefits accrued in the life of the pilot will outweigh the costs

6. The ultimate aim is for social bonds to be self-funding – favourable terms offered by government as part of the pilot are not a precedent for any future social bonds
 7. Risk-sharing arrangements will ensure investors have sufficient incentives to drive improvements in services.
-

Governance

37. Timely procurement of the pilot requires several critical decision points in the coming months (see Appendix 2). It is proposed that decision-making on the pilot design be delegated to a sub-group of Ministers: the Ministers of Finance, Health (Chair), Social Development, the Community and Voluntary Sector and any other Ministers required in light of the social bond outcome areas that emerge during procurement. The Minister of Health will report back to the group on progress and a short list of possible outcome areas before the end of 2013.
38. Cabinet will also have an ongoing interest in the development and funding of the pilot. In early 2014, the Minister of Health will update Cabinet on the pilot progress, specific proposals and financial implications.
39. The Ministry of Health will continue to lead cross-agency work on the pilot until a shortlist of intermediaries and/or service providers are selected to proceed to the Request for Proposals and joint development phase.
40. Once potential social outcome areas have been identified through the procurement process, further decisions will be taken on on-going resourcing and government agency leadership for the pilot. The Ministry of Health will work with the Social Sector Forum and other relevant agencies to identify options.

Pilot risks and mitigations

41. Designing a pilot will require a number of parties to come together who are willing and able to fund, design and implement a social bonds pilot that delivers value for all involved and wider New Zealanders. This is no small ask.
42. As with any innovation, using social bonds has risks. Set-up risks relate to affordability for government, design of a robust measurement framework, suitability of providers and willingness of investors.
43. To protect against these risks:
 - decision points will be built into procurement of the pilot to allow the Crown to withdraw if Cabinet is not satisfied the benefits accrued in the life of the pilot will outweigh the costs. This will be informed by financial modelling of the costs and (cashable and non-cashable) benefits in light of proposals made.
 - The Ministry of Health will also keep in touch with other jurisdictions trialling social bonds to share and leverage lessons about these risks. Key risks and how they will be mitigated are outlined in Appendix 3.

Consultation

44. The following agencies have been consulted: the Treasury; Ministries of Justice, Education, Social Development and Business, Innovation and Employment; New

Zealand Police; the Department of Internal Affairs; Te Puni Kōkiri; and the State Services Commission. The Department of Prime Minister and Cabinet has been informed.

Financial implications

45. The Ministry of Health will contribute resources to support the ROI process until a shortlist of intermediaries and/or service providers are selected to proceed to the Request for Proposals and joint development phase.
46. The level and source of Non-departmental Expenditure required to implement a social bonds pilot will depend on the characteristics of the pilot selected for implementation, particularly the services and outcomes to be delivered.
47. It is proposed the Minister of Health report back to Cabinet with proposals and funding options for the pilot in early 2014.

Human Rights implications

48. The proposals in this paper are not inconsistent with the New Zealand Bill of Rights Act 1990 or the Human Rights Act 1993.

Gender implications

49. This proposal has no gender implications.

Legislative Implications

50. This proposal has no legislative implications.

Regulatory Impact Analysis

51. A regulatory impact analysis is not required as this proposal does not involve regulatory options.

Disability perspective

52. Changes are underway in the disability support system to give disabled people greater choice and control over their supports and their lives. The ROI process for the pilot will be open to evidence-based services that provide support to disabled people, with the possibility that the pilot be focused in this area.

Publicity

53. Media and public interest in social bonds is growing. To proactively manage this interest, the Ministry of Health website has a section on social bonds providing progress updates on this work and access to key documents. Subject to my agreement, this Cabinet paper and documents produced by KPMG about social bonds will be released on this website (with commercially sensitive information redacted where appropriate).
54. A communications plan has also been developed to build awareness of social bonds and the pilot, engage with potential investors and providers, and provide a single point of contact for queries.

Recommendations

The Minister of Health recommends that the Committee:

1. **note** that in February 2013 Cabinet agreed to consider whether to take a social bonds pilot to market [SOC Min (13) 1/4 refers]
2. **note** that social bonds is an innovative form of social service contracting in which:
 - i. private capital is raised to finance a social service over a multi-year term
 - ii. government repays investors entirely or almost entirely on the basis of improvement in outcomes
 - iii. returns are commensurate to the level of results, up to an agreed maximum
3. **note** that social bonds are showing promise in the United Kingdom, United States and Australia, and that there is interest from potential investors and service providers in piloting social bonds in New Zealand
4. **agree** that procurement begin for a social bonds pilot in New Zealand
5. **agree** that the social issue of focus for the pilot will be selected from ideas from the market through a Registration-of-Interest process

8. **note** that exit points will be built into procurement of the pilot to allow the Crown to withdraw if Cabinet is not satisfied the benefits of the pilot will outweigh the costs
9. **note** that final decisions about the design, financing and government agency leadership of the pilot will be made once the procurement process has identified a short list of proposals
10. **agree** that further decisions about the pilot design be delegated to a Ministerial sub-group, made up of the Ministers of Health (as chair), Finance, Social Development, the Community and Voluntary Sector, and any other Ministers identified once the likely social outcome areas are apparent
11. **invite** the Minister of Health to report back to:
 - i. the sub-group of Ministers listed in rec 10, by the end of 2013, on progress and a short-list of social issues based on responses from the market
 - ii. Cabinet, in early 2014, with an update on the pilot progress, specific proposals and financial implications.

Hon Tony Ryall
Minister of Health

_____/_____/_____

Appendix 1 Selected international examples of social bonds

Social bond prototypes are underway in the United Kingdom, United States and Australia. Key examples from these countries are as follows:

- **Peterborough Social Impact Bond (United Kingdom)**

The Peterborough Social Impact Bond, launched in September 2010, provides funding for programmes aiming to reduce the rate of recidivism among prisoners serving short sentences at Peterborough Prison. Data released from the first two years of the programme showed a six per cent decline in reconvictions amongst programme participants, compared with a 16 per cent increase in reconvictions for similar ex-prisoners nationally.

- **The New York City Social Impact Bond (United States)**

The New York City Social Impact Bond, launched in 2012, has raised USD\$9.6m capital to finance a programme aimed at reducing recidivism among adolescent offenders at Rikers Island correctional facility. If successful, the City is expected to gain net savings between USD\$1m and USD\$20m, depending on the reductions in re-incarceration rates achieved. The bond is being funded by Goldman Sachs, and partially underwritten by Bloomberg Philanthropies.

- **Newpin Social Benefit Bond (New South Wales)**

The Newpin Social Benefit Bond, launched in March 2013, has raised AUD\$7m capital for a parenting programme to restore children in out-of-home care to their families, and prevent at-risk children from entering care. The programme is expected to generate savings of AUD\$80m if the targeted level of child restorations is achieved.

New opportunities for social bonds

Opportunities for social bonds are also being explored in Canada, Ireland and Israel. Possible areas of interest are as follows:

- Israel: increasing employment opportunities, decreasing diabetes rates.
- Ireland: reducing homelessness, reducing the impact of diabetes, reducing behavioural drug prescriptions for Attention-Deficit Hyperactivity Disorder.
- Canada: decreasing high-school drop-out rates amongst aboriginal youth, providing housing for people with mental disorders, finding suitable employment for new Canadians, improving support for cancer patients from disadvantaged groups, and reducing recidivism.

Appendix 2 Indicative timeline for implementing a social bonds pilot

(Note: This timeline assumes suitable proposals are identified during ROI phase and that an investable project results.)

	Pre-procurement	Registrations of Interest (ROI) October - December 2013	Request for Proposals & Joint Development Early - mid 2014	Negotiation with preferred parties, implementation planning, investment and start-up Mid 2014 onwards
Key steps	Cabinet decision on whether to test social bonds in New Zealand (September 2013)	Market briefings Registrations of Interest	Request for Proposals Preferred proposal(s) selected and jointly developed by parties	Contracts for pilot negotiated and entered Implementation planning Capital raised Services operational (last quarter 2014)
Pilot features identified	<ul style="list-style-type: none"> • Aims of pilot • Risk sharing approach • Procurement approach and principles 	<ul style="list-style-type: none"> • Providers • Intermediaries • Possible outcome areas • Possible services/programmes • Indicative costs • Target population (characteristics and size) 	<ul style="list-style-type: none"> • Investors • Selected outcome and services • Measurement framework • Payment terms, including returns and payment schedule 	<ul style="list-style-type: none"> • Any service refinements • Performance information • Payments made as they fall due
Key outputs	Key parameters for procuring a pilot	Shortlist of intermediaries/providers to proceed to Request for Proposals stage Information to inform modelling on costs and scale	Detailed preferred pilot proposal(s) Modelling of costs and scale of pilot	Performance data Cost data
Ministers sub-group decisions before proceeding (or Cabinet as appropriate)	Agreement to key parameters for the pilot: <ul style="list-style-type: none"> • Approach to selecting social issue • Payment model 	Agreement to: <ul style="list-style-type: none"> • size and source of funding envelope • shortlisted outcome areas 	Agreement to preferred proposals and to enter negotiations.	Agreement to final terms of pilot, including: <ul style="list-style-type: none"> • detailed pilot design (including costs and services) • specific payment terms (e.g. level of return and risk sharing) • target social issue • consortium (i.e. providers, intermediary and investors)

Appendix 3 Risks and Mitigations of Social Bonds Pilot

Risk	Description	Mitigation
Insufficient market – parties lack the willingness or ability to carry out roles required	<p>Insufficient investors are willing and able to invest, for example, because:</p> <ul style="list-style-type: none"> Investors ‘pull out’ of funding in later years, threatening the viability of a pilot Rules governing the use of charitable funds prevent or deter investing. 	<p>Before procurement, investor interest and ability to invest will be tested through information sessions about social bonds.</p> <p>During procurement, robust due diligence of providers may build investor confidence. Pilot proposals will need to set out how they will access sufficient private capital.</p> <p>During operation, payments or contracts will be structured to ensure investors have sufficient incentive or obligation to ensure their funds remain in the services for the duration of the pilot.</p>
	Insufficient parties willing and able to be intermediaries	<p>Initial market feedback suggests some interest in this role.</p> <p>Understanding of this role will be built in information sessions ahead of procurement. During procurement, pilot proposals need to show how intermediary functions will be carried out.</p>
	Insufficient service providers willing and able to deliver proposed services effectively	<p>Initial market feedback suggests some provider interest in trialling social bonds. Provider understanding of social bonds and the skills required for this role will be built in information sessions.</p> <p>During procurement, provider interest will be tested. Pilot proposals will need to establish who the providers will be and show they have the skills to deliver the services proposed.</p>
Service design does not deliver	For example, services based on a past track record are not as effective when scaled up through the pilot	<p>During procurement, pilot proposals will be required to show a strong logic for why services proposed will deliver outcomes. During operation, robust performance monitoring is expected to drive any service adjustments necessary to deliver outcomes – allowing for ‘fast failure’ is a key advantage to the social bonds model.</p> <p>Exit points will be built into the procurement process so that government can withdraw if the pilot is not affordable nor offer value for money.</p>
A robust measurement framework cannot be designed or	Parties cannot set or use a robust measurement framework, for example, because they lack data, methods or infrastructure to	Government will work with parties to identify the measurement data, methodologies, and the infrastructure required for a pilot. It will

Risk	Description	Mitigation
agreed	measure and attribute the outcomes of services, or because parties delivering outcomes manipulate results	<p>not proceed without evidence of these.</p> <p>Specialist expertise may need to be sourced externally as part of the design process.</p> <p>Independent audit and assurance of performance will verify the authenticity of results.</p>
Not economically viable for government	Government's costs may be driven up by the expected returns of investors, an inability to shift all the risk of delivering outcomes to investors, and high transaction costs given the need to build skills and infrastructure to undertake complex outcome measurement	During procurement detailed cost analysis will be undertaken. Exit points will be built into the procurement process so that government can withdraw if the pilot is not affordable nor offers value for money.
Not economically viable for providers/investors/intermediaries	<p>Participating in a pilot (procurement and operation) will have transaction costs for intermediaries, investors and providers. These include, for example:</p> <ul style="list-style-type: none"> • preparing proposals • the costs of raising funds, including complying with financial market and anti-money laundering regulations. Depending on the type of finance raised, these may include customer due diligence, transaction monitoring, and preparing a prospectus. 	<p>To reduce the risk of unexpected costs threatening intermediary, investor and provider viability, during procurement:</p> <ul style="list-style-type: none"> • the Ministry of Health will provide guidance on procurement steps, government priorities, and data available in likely social bond outcome areas • robust diligence of service costs will be undertaken, including the costs of complying with anti-money laundering and financial regulations. <p>The compliance costs of raising funds are expected to be lower if, as expected, there is no public issue of bonds and intermediaries have experience in this task.</p>
Negative impacts on service users	<p>Service users could be negatively impacted by services, for example, if they receive services of poorer quality than alternatives because:</p> <ul style="list-style-type: none"> • services are ineffective at achieving results or • providers 'cherry pick' to avoid hard to reach users. 	<p>Pilot proposals will need to clearly define target users and outcomes, to reduce the incentive and ability of providers to 'cherry pick' to avoid 'hard to reach' service users.</p> <p>Pilot services will need to be non-essential health services, and meet legal and ethical review requirements.</p>