

Open Ideas:

Wrap-up of market sounding session

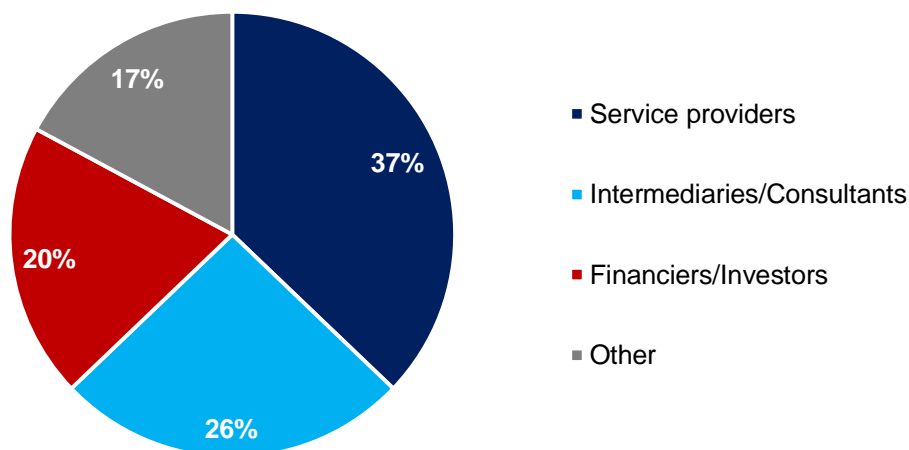
10.30am to 12.30pm

11 March 2015

Balcombe meeting room, Level 28, 52 Martin Place Sydney

Key statistics

- Of 67 RSVPs, 35 stakeholders attended.



Questions and answers

- In some priority areas, it's clear who the contract is with since the policy area aligns clearly with a government agency. How does that work with open ideas? Who will we be negotiating with in the joint development phase (JDP)?**

The purpose of this market sounding session is to hear about other policy and service areas that the market is interested in. If we receive proposals in areas that are not part of the four priorities identified, then we will determine which agency is primarily responsible and the contract will be with them.

The Office of Social Impact Investment will facilitate the JDP process, but responsible agencies will be at the negotiating table, together with service providers and other participants. These parties will need to agree the terms of the transaction. We recommend that if you make it to this stage, you bring a small, core negotiating team with authority to make decisions. During the early stages of the development of the social benefit bonds, the teams were too large, making the process slower and more cumbersome. We'd like to see smaller, responsive teams in the next round.



2. There will be instances where costs and benefits don't entirely accrue to the NSW Government, but also to the Commonwealth and local governments. How do we account for these? Similarly, how do we account for cross-agency gains?

We acknowledge that in some policy and service areas, benefits do accrue to other governments and, where possible, we would like to understand and quantify them. Similarly, we would also like to understand non-financial benefits, or benefits that aren't easily quantifiable. However, NSW is the only government participating in the proposed transactions, and so only those benefits that accrue to the state can be factored into financial models associated with payments.

In terms of benefits that accrue to multiple agencies, we are interested in including them in financial models and encourage you to consider them in your proposal. Be mindful, though, that this may increase the complexity of your proposal. This issue is discussed in more detail in the *Principles for Social Impact Investment Proposals to the NSW Government*.

3. Thinking about direct savings to government – in the health portfolio, any spare bed days will usually be taken by other patients. This makes it hard to realise cash savings. How will this work?

An example of a direct cost saving is in out-of-home care, where a child entering foster care costs the government x-dollars so if a child is prevented from entering care and remaining safe with their biological family, there's a direct saving to be achieved.

However we are open to including opportunity-cost savings in evaluations of proposals for transactions. For example, in chronic health care, it could be that an intervention leads to a shorter stay in hospital or less intensive treatment. The savings that arise from this type of scenario will be recognised because it lessens demand. The health system can then treat other patients without adding new beds, which in turn, slows the growth in the cost of the system and assists the system to be more efficient.

Refer to the *Principles for Social Impact Investment Proposals to the NSW Government*, which discusses the nature, timing and recipient of benefits and how this interacts with the complexity of the proposal.

4. You've identified four priority policy areas for the request for proposals (RFP) but are only doing two transactions a year. How does that work?

The RFP is open to proposals in any policy or service area. The *Statement of Opportunities 2015* identified the four areas that government thought had the most potential for a social impact investment transaction. We hope these market sounding sessions will help us understand in which area there is the highest likelihood of success with these transactions. The RFP will use examples to illustrate what we're looking for, which may be one or all of the priority areas we've identified, but it will be open. So we want to hear your ideas.

5. How do I protect my intellectual property (IP) during this process?

The government will recognise and maintain the confidentiality of your pre-existing IP throughout the RFP and JDP stages. The JDP will be subject to a confidentiality agreement and there will be rules governing how information is treated.

- 6. We've been working on an idea that doesn't involve direct savings to NSW but still delivers tangible benefits to society. We're not asking the government to cover any costs, though we would need your non-financial participation to make it viable. Are you open to this kind of proposal?**

Yes. The RFP is open, so we would consider this type of proposal.

- 7. Ronald Cohen, who pioneered social impact bonds in the UK, has spoken about the UK Government's unit cost database, which is designed to facilitate market development. Is that a source of information where we could understand the breakdown of government services? It's hard to model cash flows without working directly with the agency – how do we get access to data we need?**

We've looked at the UK's unit cost database and in our policy have committed to developing one of our own. That work is underway and we will build on it over time.

We're aware that proponents will need to understand service costs to participate. The Office will consider all data requests that are made to us and we will direct you to publicly available information, wherever possible. During the JDP, with a confidentiality agreement in place, proponents will have greater access to agency data to assist with modelling.

- 8. How can the JDP be less intensive, particularly for smaller NGOs?**

The JDPs for the bonds took us 12 months. Based on what we learned in that process, we think we can reduce that to six months. We acknowledge this is a resource intensive process and this is something to consider when developing your proposals. You may want to consider partnerships with specialist organisations or consortia with other service providers to help overcome this challenge.

- 9. What sort of capacity building are you doing with government agencies to prepare them for this process?**

We've held seminars with human services agencies on the learning we've gained from the social benefit bond pilot. We are developing a work program to address this issue more systematically over time.

- 10. Can we assume that the agencies responsible for the four priority areas are up to speed and ready to go?**

Yes. We have been working with them throughout this process and each has presented at their respective market sounding session.

- 11. There appears to be a gap between the Ministry of Health and Local Health Districts (LHDs). Is there sufficient expertise and understanding among CEOs and local boards?**

We are working with the Ministry of Health to arrange a roundtable with LHDs to explain social impact investment in more detail and how we might work together throughout this process. Ultimately, their level of involvement and participation will depend on the proposals we receive.

12. You've invested a lot of resources into developing the policy and holding these market soundings. What is the ultimate goal for this process? Is it innovation in service delivery, or positively impacting on social outcomes, or achieving savings to government?

We're looking for opportunities to achieve financial and social outcomes. Of course, direct savings to government are attractive, but we also want to see greater flexibility and effectiveness in service delivery that achieves real gains for people.

13. How will you evaluate proposals when those proposals are likely to be vastly different from one another?

We are working on the exact criteria and weighting against which proposals will be evaluated. However, they will be based on the principles outlined today (and in *Principles for Social Impact Investment Proposals to the NSW Government*).

14. Will proposals that don't make it to the JDP be provided to agencies? How do you differentiate between proposals that proceed to the JDP, or to agencies, or that go no further?

We are considering how to best manage this process and it will really depend on the quality of proposals and how well they meet the selection criteria.

Looking at the bigger picture, we don't want every social impact investment proposal to have to come through the Office. We want to build capacity in agencies to be able to define their priorities, identify opportunities, and assess proposals themselves.

15. I'm part of an organisation with an interest in building more dwellings, which has more intensive capital costs. This process seems focused on services, but will you consider asset-based proposals?

Yes. This issue was raised during the market sounding sessions on youth homelessness and mental health hospitalisations. We will consider asset-based proposals, factoring in the greater levels of investment that these need.

16. How many applications are you expecting? How many have been received in other jurisdictions?

That's a difficult question to answer. We don't have information from other jurisdictions, but we received about 20 proposals for the social benefit bond pilot.