

STATEMENT OF OPPORTUNITIES 2015

February 2015

*NSW Social
Impact
Investment Policy*





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Social Impact Investment**

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Introduction

On 4 February 2015, the NSW Government launched its Social Impact Investment Policy. The policy builds on the success of NSW's social benefit bonds and sets out the Government's intent to support a broader social impact investment market in NSW. As part of the policy, the Government aims to deliver two new social impact investment transactions to market each year.

This Statement is designed to guide market soundings on the next NSW social impact investment transactions and to help interested parties prepare for a formal Request for Proposals (RFP) process later this year. It outlines priority areas in which the NSW Government has identified that there are strong opportunities to achieve better outcomes for individuals and communities through social impact investment.

The priority areas are:

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

For each of these areas, this Statement outlines data and information that may inform the development of proposals. It also provides general guidance on the Government's risk appetite and approach to outcomes measurement, though the approach to both of these elements may vary depending on the proposed model/s.

The Government will use this Statement as the basis for market soundings to be conducted in the coming months. Feedback from the market soundings will inform development of the RFP process, including refining the proposed outcome measures and target cohorts. Market consultation will also inform the expected type of social impact investment transaction (for example, a social benefit bond or payment-by-results mechanism). All of these elements will also be subject to negotiation with successful proponents.

While the NSW Government believes the priority areas outlined in this Statement have the most potential for social impact investment at this time, the RFP process later this year will also be open to proposals in other areas.

1. Managing chronic health conditions

Keeping people healthy and out of hospital is a priority for the NSW Government. People with chronic and complex conditions often use a lot of acute health services. It may be possible to reduce this use by providing care in other settings, which could enhance these individuals' quality of life and impact positively on the capacity and cost of the NSW health system.

The NSW Health budget continues to increase and takes up a larger proportion of the overall State budget each year. By 2020, chronic conditions such as Type 2 diabetes, cardiovascular conditions, certain cancers, respiratory diseases, chronic kidney disease and oral diseases are forecast to account for 80 per cent of the disease burden in Australia.¹

The NSW Government is looking to partner with suitable organisations to develop and implement an integrated care model that improves support for patients with chronic conditions. This means developing a system of care and support based around the needs of the individual that provides the right care in the right place at the right time. An integrated approach will facilitate collaboration across the healthcare system, and include public and private healthcare systems and non-government organisations.

1.1 Outcomes sought

Investing in a new approach to chronic and complex disease management will help NSW Health provide a more effective and efficient model of care that:

- improves the health outcomes of patients, helping them lead more productive lives
- potentially frees up resources to better meet the future healthcare needs of a growing and ageing population.

Social impact investment can help deliver these longer-term outcomes by:

- improving the effectiveness of expenditure on health services
- harnessing the innovative capacity of both investors and service providers
- improving the evidence base of what works in preventing and managing chronic and complex conditions.

1.2 Outcome measures

Historical data is available on the occasions that people use acute care services in the public health system. Data collection has become more detailed with the implementation of Activity Based Funding (ABF) and will support the identification of outcome measures.

Depending on the nature of the intervention and data availability, the outcome measures would likely include:

- reduced hospital admissions for people with chronic or complex conditions where clinically appropriate
- reduced length of stay when a patient is hospitalised
- reduced emergency department presentations through enhanced care provision in out-of-hospital settings.

¹ National Health Priority Action Council, *National Chronic Disease Strategy*, Australian Department of Health and Ageing, 2005.

Additional outcome measures also of interest include:

- improved health outcomes identified by a GP chronic disease management plan and an annual review (e.g. change in biomedical indicators HbA1c, cholesterol, weight, etc.)
- positive patient experience
- increased capacity for patients to self-manage their condition (i.e. behaviour change).

Measuring these outcomes may require comparison against a control group.

1.3 Potential Cohort

There are more than 34,000 people across NSW over 45 years of age who are at high risk of ongoing poor health due to underlying chronic and complex conditions. These people frequently use acute health services, defined as having four or more admissions in two years, with at least one emergency visit and one recent overnight admission. Many of these admissions are preventable and avoidable, and can be treated in the community.

1.4 Data

The potential cohort is spread across NSW, with approximately:

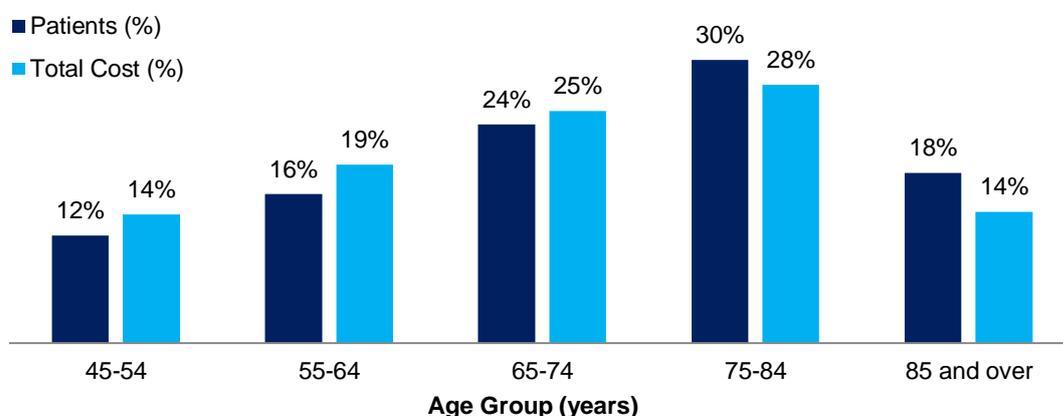
- 17,600 (51%) patients presenting to hospitals in the Sydney Metro area
- 8,600 (25%) patients presenting to the Central Coast, Hunter New England and Illawarra Shoalhaven local health districts (LHDs)
- 8,100 patients (24%) presenting to the remaining six LHDs.

During the period from 1 April 2012 to 31 March 2014, these patients presented to emergency an average of 7.2 times and averaged 6.6 hospital admissions.

This cohort accounts for a disproportionately large amount of the public health budget. Annually, this cost amounts to approximately \$1.024 billion, or around \$29,845 per patient.

The table below illustrates the cost of each age group and number of patients as a percentage of the total identified cohort in 2012/13. The challenge for the health system is how to best target patients aged 45 to 64 years with effective interventions to prevent unnecessary and costly presentations and admissions to hospital later in life.

Table 1. NSW patients with chronic and complex health conditions by age and cost as a proportion of the total identified cohort (2012/13)²



² Source: NSW Ministry of Health

1.5 Principles of effective interventions

Part of the value that social impact investment brings is that it enables greater innovation and flexibility in tackling policy issues. However, an evidence base or clear program logic is essential so that the Government and investors can assess the likelihood that a proposal will achieve stated outcomes, as well as understand and price risk.

Essential activities and components of effective integrated care management programs include:³

- mechanisms for identifying and engaging patients who are at high risk for poor outcomes and avoidable use of health services
- comprehensive health assessments to identify problems that, if addressed through effective interventions, will improve care and reduce the need for intrusive and expensive services
- working closely with patients and their caregivers as well as primary care and social service providers
- assisting individuals to play an active part in determining their own care and support needs through personalised care planning
- engaging each individual in a single, holistic care planning process with a single care plan irrespective of how many long-term conditions they have
- collaborative relationships between patients and professionals, shared decision-making and self-management support
- rapidly responding to changes in patients' conditions to avoid use of avoidable services, particularly emergency department visits or hospitalisations
- the aggregation of individual needs and choices to inform and support planning by LHDs
- provision of self-management support by community and self-help groups alongside core services.

³ CS Hong, AL Siegel & TG Ferris, *Caring for High-Need, High-Cost Patients: What makes for a successful care management program*, Issue Brief, The Commonwealth Fund, August 2014

2. Supporting offenders on parole to reduce their levels of re-offending

The NSW Government is committed to enhancing community safety and has goals to reduce the overall level of crime in NSW, as well as the level of re-offending. Addressing re-offending is important both to ensure the safety of communities and reduce costs to the community.

Governments around the world have implemented social impact investment mechanisms to help reduce crime and re-offending, and to achieve savings. Key examples are the social impact bonds in Peterborough, United Kingdom and Rikers Island, New York. NSW has previously investigated opportunities for a social benefit bond to reduce recidivism, which did not proceed to implementation. However, the NSW Government considers that there are opportunities for different mechanisms that will help address this key policy issue and contribute to keeping the community safe, for example, through a payment-by-results (PBR) contract.

2.1 Outcomes sought

The key goal in this priority area is to improve community safety and lower costs by reducing incarceration and re-offending among parolees. An additional outcome sought is to increase rates of employment among parolees.

Intermediate outcomes the Government may also seek to achieve with parolees, as a pathway to the key goals, include increased time after release without further incarceration, re-offences, and reduced severity of re-offences, if any.

2.2 Outcome measures

The outcome measure sought will account for the return to custody of parolees within a specified period of their release to supervised parole. This data is reliable, available and will give the Government a way to measure the savings associated with the outcomes. The length of the measurement period may be negotiated, but 12 to 24 months following the first release to supervised parole (or date of referral to the intervention) is considered appropriate.

The NSW Government is also interested in innovative ways of incorporating additional outcomes, such as reduced severity of, and increased time to, re-offence; and return to custody for non-compliance.

2.3 Potential Cohort

Evidence shows that interventions are more successful when they are targeted towards those with a higher risk of re-offending. Government data demonstrates that people serving parole have a higher risk of re-offending than those serving legal orders wholly in the community. Accordingly, targeting parolees has the potential to maximise reductions in re-offending and improvements in community safety, as well as returns to investors.

A broad cohort is preferred to ensure that sample sizes are sufficient to enable valid measurement of results. However, not all parolees are as likely to re-offend. Efforts should be focused on those considered most likely to re-offend and who are supervised by Corrective Services NSW on release to parole.

2.4 Data

2.4.1 Rates of re-offending

A study found that 12 months after release, 49 per cent of unsupervised ex-offenders in the study had re-offended compared with 44 per cent of the supervised parolees. At 36 months, the comparative rates of re-offending were 70 per cent for the unsupervised group and 66 per cent for the supervised group.⁴ Further, unsupervised ex-offenders re-offended more frequently than those under supervision.

Table 4. Re-offending characteristics of supervised and unsupervised parolees⁵

Variable	Unsupervised Group (n = 2,772) %	Supervised Group (n = 4,722) %
New proven offence	64.1	59.7
New proven offence resulting in imprisonment penalty	31.1	31.4
Return to custody	62.0	62.6
Number of new proven offences within 12 months (Mean)	1.8	1.4
Number of new proven offences within 24 months (Mean)	3.1	2.6
Number of new proven offences within 36 months (Mean)	4.2	3.6

2.4.2 Survival rates

Another significant characteristic of parolees is the likelihood that they will re-offend in the first three months following release. In NSW a parolee is 2.5 times more likely to return to custody in the first three months following release compared to nine to 12 months post release.

2.4.3 Costings data

Re-offending, particularly when it leads to re-incarceration, is a costly problem for society and government. Costs include:

Table 5. Costs of re-offending that may be saved by the NSW Government⁶

Variable	Average cost to government that may be saved
Direct cost to Corrective Services NSW for incarceration	\$189 per inmate per day if a wing or prison can be closed as a result of the reduction in re-incarceration ^{7 8} \$19 per inmate per day (excluding fixed costs)
Court costs associated with a court finalisation leading to an imprisonment penalty	\$1,202 ⁹
Police costs associated with court finalisations	\$2,696 ¹⁰

⁴ W-Y Wan, S Poynton, G von Doorn & D Weatherburn, *Parole Supervision and Re-offending: A propensity score matching analysis*, Trends and Issues in Crime and Criminal Justice No. 485, 2014

⁵ *Ibid.*

⁶ Police and court figures are indicative only. However, they may be used for modelling purposes at this stage.

⁷ The different costs to Corrective Services NSW arise from the fixed costs in prisons that can only be saved if a wing or entire prison may be closed.

⁸ Steering Committee for the Review of Government Service Provision, *Report on Government Services 2014*, Table 8A.29, Productivity Commission, 2014

⁹ *Ibid.*, Table 7A.31

¹⁰ Allard et al. *Average police costs for main transactions with criminal justice system*, 2014

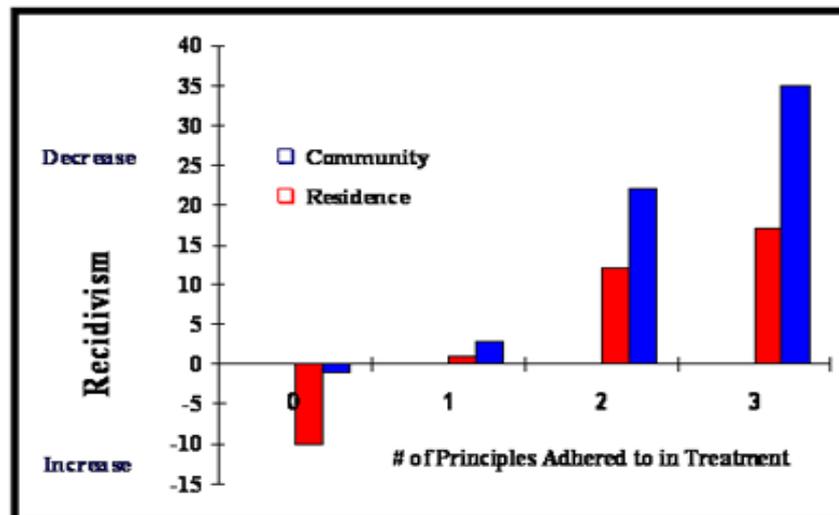
2.5 Principles for effective interventions

International research on ‘what works’ in reducing re-offending has grown substantially over the past two decades. Based on this, the following principles of effective interventions in the management of supervised offenders have emerged:

- The Risk Principle – interventions that target those at higher risk of re-offending have greater impact.
- The Need Principle – interventions have greater impact when they target needs that are directly related to further offending (sometimes called ‘criminogenic’ needs).
- The Responsivity Principle – interventions are more successful when they maximise an offender’s ability to change behaviour by tailoring the intervention to their learning style, motivation, abilities and strengths.¹¹ Responsivity issues can also include major mental health disorders (including schizophrenia, bipolar disorder and major depressive episodes) and stress/anxiety.

Table 6, below, shows the likely effect size from interventions that incorporate the above principles, both in residential settings and in the community.¹² It demonstrates that a well-designed and well implemented intervention can have substantial impact on rates of re-offending, particularly when delivered in the community.¹³

Table 6. Likely effect size from interventions incorporating the risk, need and responsivity principles¹⁴



¹¹ DA Andrews & J Bonta, *The psychology of criminal conduct (4th Ed.)*, Cincinnati, OH; Anderson.

¹² Andrew & Bonta, *Benefits of adherence to the Risk, Need and Responsivity Principles in reducing re-offending*, 2006

¹³ *Ibid.*, 12

¹⁴ *Ibid.*, 12

3. Managing mental health hospitalisations

The Mental Health Commission of New South Wales recently published *Living Well – Putting People at the Centre of Mental Health Reform in NSW: A Report*. This report highlighted:

- one in five Australians experience mental illness every year
- 2.7 million work days are lost each year due to mental illness in Australia
- 54 per cent of the NSW mental health budget is spent on inpatient care.^{15 16}

In 2012/13, there were over 28,600 instances where someone with a mental illness was treated as an in-patient in an acute or sub-acute setting. This amounted to more than 405,000 bed nights at a cost of more than \$497 million. However, these may not always be the best settings in which to provide care and there is growing recognition that responsive community-based support can aid recovery and prevent future hospital admissions.

In December 2014, *Living Well: A Strategic Plan for Mental Health in NSW* was launched. The Government committed to enhance services in the community that complement in-patient acute mental health services. The Plan provides a roadmap for Government action focused on five key areas:

- strengthening prevention and early intervention
- greater focus on community-based care
- developing a more responsive system
- working together to deliver person-centred care
- building a better system.

3.1 Outcomes sought

The outcomes sought in this priority area will contribute to the delivery of *Living Well: A Strategic Plan for Mental Health in NSW* through:

- reduced severity and frequency of illness episodes
- increased opportunities for those with a mental illness to have greater participation in their communities, education and employment
- greater stability in the lives of individuals with a mental illness, their families and friends
- contributions to the evidence base on what will improve the lives of people with a mental illness.

3.2 Outcome measures

Outcomes arising from service delivery models in this area should be measured on both a clinical and broader social level. Dependant on the nature of the intervention and data availability, the outcome measures would likely include:

- reduced frequency of readmission to a mental health facility
- reduced presentations to emergency departments
- reduced length of in-patient stay when admissions occur.

¹⁵ Australian Bureau of Statistics, *National Survey of Mental, Health and Wellbeing 2007: Summary of results*, ABS Cat. No. 4326.0. Australian Bureau of Statistics: Canberra. 2008

¹⁶ Mental Health Commission of NSW, *Living Well – Putting People at the Centre of Mental Health Reform in NSW: A Report*, 2014

From a broader social and quality of life perspective, additional outcome measures also of interest include:

- increased stable and permanent housing
- increased employment
- reduced contact with the criminal justice system.

3.3 Potential Cohort

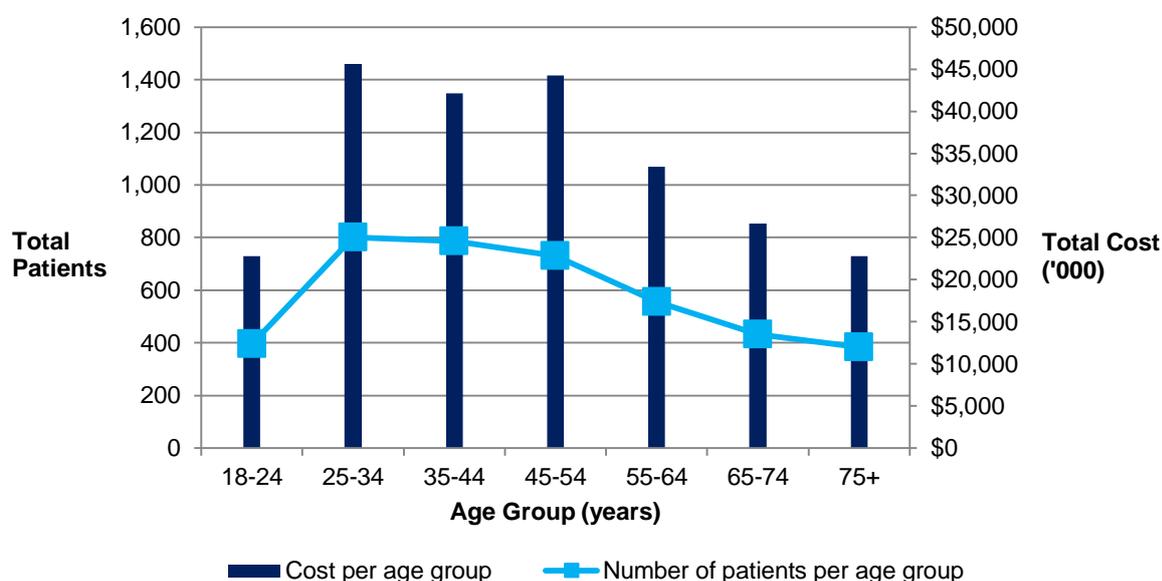
A total of 28,600 individuals received treatment in an acute or sub-acute setting for a mental health condition in 2012/13. Of this total, more than 4,000 patients (aged 18 years or older) were admitted for 28 days or longer in one or more episode. The NSW Government is particularly interested in mechanisms that propose to work with individuals like these.

3.4 Data

The potential cohort of over 4,000 patients represents around 15 per cent of all acute and sub-acute patients who received in-patient treatment in 2012/13. They accounted for almost \$237 million or 48 per cent of the total mental health acute or sub-acute service cost.

The average length of stay for someone admitted for 28 days or longer was 53 days. The current costs of treating these patients range from \$11,026 to \$1,226,206 with an average annual cost per patient of just over \$58,000.

Table 7. Target mental health cohort – Patients and costs per age group (2012/13)¹⁷



3.5 Principles for effective interventions

There is international acceptance of community care models, although researchers have noted variable findings depending on the level and type of support provided. The Housing and Accommodation Support Initiative (HASI) is designed to support people with mental illness to participate in the community, improve their quality of life, maintain successful tenancies, and assist people in their recovery from mental illness. A 2012 evaluation of HASI

¹⁷ Source: NSW Ministry of Health

in NSW found the program positively impacted on consumers' mental health and general quality of life, with reduced hospital admissions and length of stay.¹⁸

Elements shown to be effective include:

- providing people with mental illness ongoing clinical mental health services and rehabilitation within a recovery framework
- assisting people with mental illness to participate in community life and to improve their quality of life
- assisting people with mental illness to access and maintain stable and secure housing
- establishing, maintaining and strengthening housing and support partnerships in the community.

¹⁸ J Bruce, S McDermott, I Ramia, J Bullen & KR Fisher, *Evaluation of the Housing and Accommodation Support Initiative (HASI)*, for NSW Health and Housing NSW, Social Policy Research Centre Report, Sydney, 2012

4. Preventing or reducing homelessness among young people

The NSW Government is committed to reducing levels of homelessness. Reducing homelessness, rough sleeping and repeat homelessness requires housing assistance, as well as integrated and coordinated support including mental health, drug, alcohol and domestic violence services.

There are different potential cohorts of individuals experiencing homelessness. Social impact investment may be best used to prevent or intervene early in the lifecycle of difficult and costly problems before they become entrenched. A cohort of young people, who are over-represented in the homeless population, provides the most scope for improved outcomes.

4.1 Outcomes sought

The ultimate outcome sought through a social impact investment mechanism in this area is the prevention or reduction of homelessness among young people.

Broader outcomes that may also be achieved for young people provided with a homelessness prevention or intervention service include:

- improved capacity to maintain stable housing
- improved mental health and life skills
- improved educational outcomes
- increased rates of employment
- reduced need for health services
- reduced contact with the justice system.

4.2 Outcome measures

To measure the extent to which the intervention achieves the ultimate outcome sought, the number of young people who receive the intervention and who access emergency accommodation or specialist homelessness services (SHS) following the intervention could be identified using data collected by the Department of Family and Community Services.

Secondary outcome measures which could also be used include:

- the percentage of participants engaged in employment or education programs
- the percentage of participants who present to emergency departments and the number of presentations
- the percentage of participants who have contact with the justice system
- an increase in the mental wellbeing of the participants measured through a developmentally appropriate standardised tool.

4.3 Potential Cohort

The NSW Government is most interested in social impact investment mechanisms involving an intervention focused on young people who are homeless or who are at imminent risk of homelessness. This could include a focus on a sub-group of young people leaving statutory out-of-home care (OOHC) or other high risk groups.

Young people leaving OOHC can be easily identified as a cohort for intervention. Australian research indicates that close to half of young adults exiting the OOHC system experienced

periods of homelessness.¹⁹ A 2009 study identified approximately 33 per cent of young people as being homeless in their first year of leaving care.²⁰

4.4 Data

Accurate data on the levels of homelessness in NSW is difficult to obtain as it is hard to count those who are sleeping rough or couch surfing. Nonetheless, ABS Census 2011 data indicates that 28,191 people were experiencing homelessness in NSW on census night. This represents an increase of 20 per cent in the rate of homelessness since the 2006 Census.

The Census also shows that children and young people aged between 12 and 24 years are over-represented in the homeless population, where they account for 25 per cent of those experiencing homelessness, compared to 17 per cent of the general population in NSW.

Data from SHS shows a more nuanced picture of the homelessness experience of young people aged 15 to 24 years. Table 8, below, identifies the number of 15 to 24 year olds who have presented alone to a SHS over a three year period. This represents the numbers of individual young people that have received a SHS or other services over a 12 month period. This may include information and advice, case worker support and/or accommodation.

Table 8. The number of young people (15-24 years old) presenting alone to a specialist homelessness service in NSW from 2011 to 2013²¹

	Year		
	2011-12	2012-13	2013-14
Number of young people	12,463	12,157	12,169
Proportion of young people of all SHS clients in NSW	23.3%	23.4%	23.5%

Compared with the overall population who accessed SHS in Australia in 2013-14, young people presenting alone were more likely to be identified as needing assistance with living skills / personal development (35% compared with 21%), education (19% compared with 9%), employment (16% compared with 7%) and training (13% compared with 5%).²²

This correlates with qualitative evidence regarding the long term needs of young people who have experienced homelessness and the future costs to government. These costs to government arise from increased use of child protection, employment, health and mental health services. Other costs to the community include the opportunity cost of people not being engaged in the community, economic participation, social inclusion and positive family functioning.

A study on OOHC leavers in Victoria estimated that this cohort costs state government approximately \$738,741 more over their lifetime than the average person who was not in

¹⁹ A Osborn & L Bromfield, *Young people leaving care* (Research Brief 7). Australian Institute of Family Studies: Melbourne, 2007 cited in P Crane, J Kaur & J Burton, *Homelessness and Leaving Care: The experience of young adults in Queensland and Victoria, and implications for practice*. School of Public Health and Social Work, Queensland University of Technology, 2013

²⁰ J McDowall, *Report Card 2009: Transitioning from Care: Tracking Progress*. CREATE Foundation: Sydney, 2009

²¹ Source: NSW Department of Family and Community Services

²² Australian Institute of Health and Welfare, *Specialist Homeless Services 2013-2014*, Australian Institute of Health and Welfare: Canberra, 2014

OOHC.²³ This figure includes costs to the police and justice portfolio, and the child protection and housing areas. It is considered by the researchers to be a conservative estimate.

4.5 Principles for effective interventions

Young people who are homeless or at risk of homelessness have diverse experiences and needs. Interventions to prevent youth homelessness should be consistent with the principles articulated in the NSW Government's *Social Housing in NSW: A Discussion Paper for input and comment*, which aims to create a social housing system that provides opportunity and pathways to independence. For young people, this means designing supports that consider the diverse needs of each individual, while improving access to appropriate education and employment opportunities.

While high risk young people will need higher levels of intervention, the evidence base for interventions addressing homelessness among young people indicates that the following principles should be included in any homelessness intervention proposed for this cohort:

- robust tools are used to assess the risk or level of need
- young people are empowered to plan for their future education, employment and housing options
- support is linked with appropriate housing options. It should be noted that not all housing options are suitable for the needs of all young people (e.g. large congregate or shared housing is generally not suitable for young people with higher levels of need).

Interventions could also include the following (or a combination of the following):

- trauma-informed therapeutic care
- support to develop future plans, and access education, training and employment
- assistance with living skills and with relationship formation
- housing options could include specific youth accommodation or private rental market subsidies
- brokerage to obtain housing in the private market.

Any social impact investment mechanism that includes the provision of housing should consider how the accommodation will be delivered and managed during the intervention period, including the type of housing, procurement (e.g. direct provision or through partnerships), rent setting and operational sustainability. The rent setting approach should be affordable and appropriate to the needs of young people, and the operational costs of tenancy and property management should be factored in.

The consultation period for the NSW Government's *Social Housing in NSW: A Discussion Paper for input and comment* provides an opportunity for the community to consider many of these questions and also to contribute to the future of the social housing system. Consultation is now open and closes on 20 February 2015.

²³ C Forbes, B Inder & S Raman, *Measuring the cost of leaving care in Victoria*, Monash University, Department of Econometrics and Business Statistics, 2006

5. NSW Government's approach to measurement

Measuring impact is at the core of social impact investment. Just as financial investments are measured by their dollar return, social impact investments require a 'currency' for investors to see social impact.

Robust social impact measurement is important for all parties in a transaction because it allows:

- funders (e.g. government, philanthropists) to be clear on what outcomes they are supporting
- service providers to understand what works and get better outcomes for their clients
- the market to achieve scale by making it easier for investors to assess, purchase and trade investment products.

Social impact investment products generally make payments dependent on the achievement of outcomes. Therefore, the measurement framework involved in a transaction needs to satisfy all parties that outcomes and savings to Government can be accurately quantified and, in some cases, independently verified.

Essential elements of a measurement framework are:

- clear and reliable outcome measures
- a well-defined client group
- a robust methodology for determining performance.

The NSW Government recognises that practical data considerations, as well as allocation of risk, will shape the measurement framework. The NSW Government is developing principles for robust measurement in social impact investment transactions in consultation with stakeholders in the market. Feedback on these principles will be sought by the Office of Social Impact Investment.

6. Guidance on sharing risk

Where a social impact investment requires private finance, potential investors must be considered during the development of the proposal, particularly the risk-return profile these investors are willing to accept.

An ideal investment will deliver market returns to the intended investors in the most likely performance scenario. This will ensure that it is an attractive financial product as well as a vehicle for achieving social benefits. Market returns will differ depending on the intended investors and the balance of risk proposed. The term of the product and the payment schedule are key to the development of a return profile for investors. A comparison to other products on the market with similar profiles will ensure the proposal is attractive.

6.1 Government's appetite for risk

The risk assumed by the Government must be balanced appropriately, with the level of risk taken by others and the likely returns (savings) generated by the anticipated benefits. In the social benefit bonds, a 'standing charge' or payment to assist in providing an appropriate risk profile for investors was paid by the NSW Government. While these bonds involve a standing charge of approximately 50 per cent of the service delivery costs, a lower level of support/risk for the Government is sought in future transactions.

The size of the financial risk assumed by the Government via a standing charge will need to be balanced with the structure of the charge, which may be a one-off payment at commencement or at another point in the arrangement. Alternatively, it may be a regular payment throughout the life of the contract.

It is important to note that the standing charge is not a NSW Government guarantee to investors, but a payment that will be deducted from future payments due when outcomes are measured and known. It enables the provider to offer a risk-return profile appropriate for the investors sought in the particular proposal.

The NSW Government also assumes risk through the referral and implementation details negotiated. Guarantees of the number of referrals (if the Government is providing them) and the support that the Government will provide during the delivery of the service will be factored into the assessment of the balance of risk.

6.2 Financial risk borne by service providers

Many investors will also require the service providers involved in the arrangement to take on some element of financial risk to ensure there is an incentive to maximise both social and financial outcomes. Examples of how financial risk may be allocated to service providers include:

- aligning service delivery payments to outcomes, such that a low level of achievement will not give rise to payments that cover the entire costs of delivering the service
- guaranteeing to cover all service delivery costs with performance incentive payments for over-achievement in delivering outcomes
- requiring service delivery organisations to invest in the product
- a combination of the above.

7. Next steps

The NSW Government anticipates seeking proposals for the next social impact investment transaction through a RFP process later this year. Prior to that, market sounding activities or roundtable events will be held to workshop the four priority areas discussed in this Statement, seek views from the market about the scope and nature of the potential transactions, and provide further information about the Social Impact Investment Policy and transaction processes.

An overview of the stages to seek and agree a social impact investment is below.

