

Statement of Progress 2015

The NSW Government's Social Impact Investment Policy was launched in February 2015. The policy includes 10 actions to grow the social impact investment market, all of which have either been delivered or are underway.

KEY ACHIEVEMENTS

2

Released two requests for social impact investment proposals (RFPs), with the first focused on improving outcomes for vulnerable young people and offenders on parole, and the second on improving outcomes for people with chronic or mental health conditions.



Published the *2015 Statement of Opportunities and Principles for social impact investment proposals to the NSW Government* to help the market prepare for future transactions.



Held seven market sounding sessions attended by service providers, intermediaries and potential investors to discuss and seek feedback on priorities for social impact investment.



Launched the Expert Advice Exchange (EAX) to connect NGOs with pro bono expert advice from leading legal, professional services, and financial firms in NSW.



Established an intergovernmental social impact investment network that meets periodically to discuss local approaches and developments in the market.



Established the Office of Social Impact Investment, a joint Treasury and Premier & Cabinet team, to work with its partners to facilitate growth in the social impact investment market.

Progress on the 10 actions

A. Deliver more social impact investment transactions

1. Target delivering two new social impact investment transactions to market per year

The NSW Government released two RFPs in 2015. The first RFP called for proposals to improve outcomes for offenders on parole and vulnerable young people. A joint venture between ACSO and arbias was selected to proceed to joint development for their proposal to reduce reoffending. A joint venture between Uniting, St George Community Housing and Social Ventures Australia was selected to proceed to joint development for their proposal to support vulnerable young people transitioning to independence. Negotiations are in progress.

The second RFP was released in December 2015 for proposals to manage chronic health conditions and mental health hospitalisations, closing in February 2016.

2. Publish Social Impact Investment Principles

Principles for social impact investment proposals to the NSW Government were published in June 2015. The principles form the basis of evaluation criteria for proposals submitted through formal RFPs and include robust measurement, value for money, a service likely to achieve outcomes, appropriate sharing of risks and returns, and a focus on high priority social problems.

3. Publish benchmark cost and outcomes data

Being able to define and accurately measure outcomes is an important enabler for social impact investment transactions. Costing those outcomes underpins transactions' performance and payment frameworks. The Office made significant progress in developing technical guidance on measuring outcomes in social impact investment transactions with the Government and expects to publish it in 2016.

The Office also developed a prototype unit cost database and is now working with agencies to populate it for selected policy areas. When finalised, it will provide the unit cost of government services or activities in a range of policy areas. It will be publicly available via the Knowledge Hub. Those interested in a social impact investment transaction with the NSW Government will be able to use it and have confidence that we will accept their initial modelling where our unit costs have been used.

4. Deliver a Social Impact Investment Statement of Opportunities

The Statement of Opportunities identifies potential policy areas in which the NSW Government may pursue social impact investment. The *2015 Statement of Opportunities* was published in February and identified four priorities for future transactions:

- (i) Managing chronic health conditions
- (ii) Supporting offenders on parole to reduce their levels of reoffending
- (iii) Managing mental health hospitalisations
- (iv) Preventing or reducing homelessness among young people.

Released 2 RFPs focused on improving outcomes for (i) vulnerable young people and offenders on parole, and (ii) people with chronic or mental health conditions.

B. Grow the market and remove barriers

5. Hold a series of social impact investment roundtables and market sounding sessions

The Government held seven group market sounding events and many individual meetings throughout the year to brief interested stakeholders on its priorities for social impact investment. More than 200 people attended events in February, March and October. Some organisations also chose to meet individually with the Office and its agency partners. These events and meetings were a good way to gauge interest and ability to transact with Government and seek feedback on proposed priorities and processes.

6. Aim to establish an Intergovernmental Taskforce on Social Impact Investment

The Office established a social impact investment network for Australian and New Zealand government agencies to exchange information on priorities and activities in this space. The network met four times via teleconference in 2015 and is well attended by representatives from federal and state government agencies.

7. Promote understanding of the social impact investment market

The Office developed the online Social Impact Investment Knowledge Hub to promote understanding of the market, publish resources and information, and keep interested parties informed about its work.

Resources available on the Hub include a suite of sample legal documents for entering into social benefit bonds with the Government, links to social impact investing intermediaries, and presentations from the Office and its partners at a range of conferences and events during the year.

More than 200 people from service providers, intermediaries and financiers attended social impact investment market sounding sessions throughout the year.

C. Build the capacity of market participants

8. Improve government agencies readiness for social impact investment

The NSW Government established the Office of Social Impact Investment, a joint Treasury and Premier & Cabinet team. The Office has worked closely with partner agencies – including Corrective Services NSW, Family & Community Services, and the Ministry of Health – to deliver market sounding activities, run RFP rounds, and prepare for joint development with selected proponents. Early in the year, the Office also hosted a workshop to explore how to develop transactions and reflect on lessons from the social benefit bonds.

9. Facilitate non-government sector preparedness for social impact investment

The NSW Government launched the Expert Advice Exchange (EAX) in May 2015. The EAX is a flagship capacity building initiative that connects NGOs with leading legal, professional services and financial firms for pro bono expert advice. In the two rounds held this year, the Office connected 77 NGOs with 35 advisory firms that provided nearly 1,400 hours of advice across legal, strategy, financial management, and program development issues.

Some EAX advisory firms also developed introductory advice packages on governance, legal structure and intellectual property issues for NGOs in NSW. The packages are available on the [Social Impact Investment Knowledge Hub](#).

10. Publish a Statement of Success

This Statement of Progress reflects on the achievements of 2015 and lessons for future work.

The EAX connected 77 NGOs with nearly 1,400 hours of pro bono expert advice from 35 advisory firms in 2015.

Lessons from 2015

In the spirit of collaboration, it is important to reflect on and share our experiences as a participant in the social impact investment market. Key lessons are outlined below.

1. BE FLEXIBLE

Social impact investment is still new and the transactions are often bespoke. Whether it be developing or implementing transactions, it is clear a flexible mindset is needed. For the NSW Government team, that has meant trying to think differently and take new approaches. We are not limiting ourselves to social benefit bonds or particular types of savings when assessing potential transactions and their value for money. We are also prepared to make changes when something is not working or could be improved.

2. FOCUS ON EVIDENCE-BASED SERVICES

At this early stage in the market, social impact investment proposals are more readily developed if they are evidence-based and interrogated early in the transaction development process. Both the government and investors need to be confident that the proposed service can achieve the outcomes it is designed to, and that the provider has the capability and capacity necessary to deliver the service as planned. It is also important that services can be rolled out in a way that integrates with existing government services and processes. But, as the next point suggests, that does not mean there is no room for innovation.

3. INNOVATION HAPPENS AT MANY LEVELS

Innovation is often seen as large scale transformation or revolutionary change. Our experience with the bonds suggests that incremental, micro innovation can also lead to big improvements. The key is to be responsive to what data and experience is telling us. Both our social benefit bond partners, Uniting and The Benevolent Society, have embraced this principle, continuously adapting their services to meet their clients' needs. Since the bonds began in 2013, Uniting has implemented many program changes to Newpin including targeting higher risk families, while The Benevolent Society has implemented a new service and adapted it to the NSW environment.

The Department of Family and Community Services has also adopted changes to existing practices to support the implementation of the bonds and joint operations with our partners. These include different referral processes for clients receiving services through the bonds and pathways for the sharing of information.

4. SOCIAL IMPACT INVESTMENT IS NOT A PANACEA

There are over 75 social benefit bonds being developed or implemented worldwide. We are watching closely to learn and apply the lessons from these experiences to our own work. Mixed results were reported internationally in 2015, clearly suggesting social impact investment cannot solve everything. Our interpretation is that it must be selectively applied and carefully implemented, with a clear understanding of the policy environment. At the same time, benefits flow beyond transactions, such as improving performance measurement capability.

5. MORE CAPACITY IS NEEDED ACROSS ALL SECTORS

Interest and enthusiasm for social impact investment remains high. The response to the EAX and RFPs suggests an appetite to learn more and build capacity. Alongside Uniting and The Benevolent Society, we have participated in many events and forums to share our experience of the social benefit bonds. The Office has also met with those who responded to RFPs to discuss the strengths of their proposals and where they could improve. But there is more we can do to support organisations and government agencies to engage and participate. A focus of this work will be exploring our approach to linking outcomes to payments.

What is next? Plans for 2016

In 2016, the Office intends to build on the progress made in the first year of the policy.

- Finalise negotiations with selected proponents from the first RFP.
- Begin negotiations with any proponents selected from the second RFP.
- Publish outcomes measurement guidance.
- Deliver a second Statement of Opportunities.
- Hold more market sounding sessions on the priorities in the 2016 Statement of Opportunities.
- Publish and begin implementing capability plans for NGOs and government agencies.
- Evaluate the 2015 pilot of the EAX and, subject to its success, open additional rounds for applications.
- Open a third RFP (priorities to be informed by market sounding sessions).
- Launch the unit cost database.
- Continue periodic meetings of the intergovernmental social impact investment network (yearlong).

