

# **Social Impact Investment**



## **Market Sounding:**

Open ideas

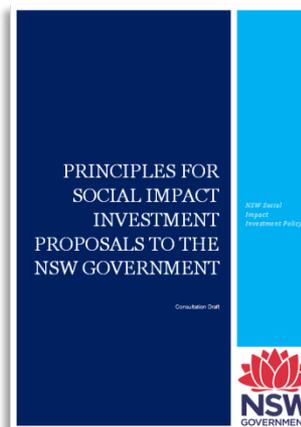
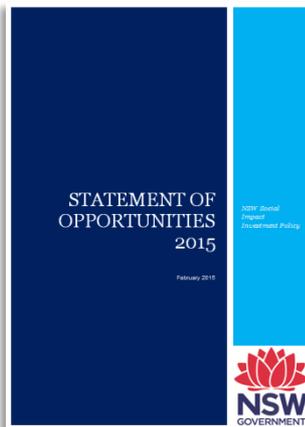
11 March 2015



# Purpose of this session

- Brief the market on the requirements, process and timeframes of a request for proposals (RFP) in April and December 2015.
- Understand where the market sees opportunities for social impact investment.
- Receive constructive feedback and suggestions to understand how we can support the market to respond.

## Useful reading:



# Agenda

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- 10:30 – 10:40** Welcome and overview of the Social Impact Investment Policy  
Danny Graham
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- 10:40 – 11:10** Proposals, process and timeframes  
Kirrin Winning and Jeremy Harris, Office of Social Impact Investment
- 
- 11:10 – 11:40** Morning tea
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- 11:40 – 12:30** Questions and discussion  
Danny Graham
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# Proposals, process and timeframes

# The RFP is open to all ideas

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- The RFP will include examples where we think there are opportunities for transactions.
- Examples will depend on the feedback from the market soundings and will include one or more of the following:
  - managing chronic health conditions
  - reducing re-offending among parolees
  - managing mental health hospitalisations
  - preventing or reducing homelessness among young people.
- You are not limited to these examples but other ideas must demonstrate how they meet the selection criteria which will be based on the principles for proposals.



# Principles for social impact investment proposals

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Proposals will have the greatest chance of success when they demonstrate:

1. Robust measurement
2. Value for money
3. A service likely to achieve social outcomes
4. Appropriate sharing on risks and returns
5. A focus on high priority social problems

We're seeking feedback on the **Principles for Social Impact Investment Proposals to the NSW Government**. Send your comments to [socialimpactinvestment@dpc.nsw.gov.au](mailto:socialimpactinvestment@dpc.nsw.gov.au) by 29 March 2015.

# 1. Robust measurement

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Methods for selecting clients and measuring outcomes are rigorous, supported by reliable data, and designed to minimise adverse outcomes.

## Essential elements of measurement framework:

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

## 2. Value for money

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Achieving the social outcome will deliver measurable benefits, which are sufficient to support payments to investors. Where benefits cannot directly fund investor payments, the proposal must clearly demonstrate value for money relative to public delivery of services.

<b>The nature of the benefit</b>	cash savings	avoided costs	productivity gains	other
<b>The beneficiaries</b>	a single govt agency	multiple govt agencies	other govts	individuals & communities
<b>The timing of benefits</b>	immediately	months	years	decades

Increasing complexity of transaction



### 3. A service likely to achieve social outcomes

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Evidence or analysis indicates that the proposed service is highly likely to achieve social outcomes. The service provider has the capabilities to implement and, if necessary, adapt the service.

#### Proposals should demonstrate:

- evidence of service performance, locally or abroad
- or
- if unproven, the link between the activities and the outcomes of the service (i.e. program logic)
- ability to deliver and adapt the service.

#### OUTCOMES VS OUTPUTS

“Not how many worms the bird feeds its young, but how well the fledgling flies.”

United Way of America, 1999



## 4. Appropriate sharing of risks and returns

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The balance of sharing risks and returns between investors, service providers and government is sufficient to attract investors, as well as ensure value for money to the public.

### Proposals should outline:

- the risk-return profile for each participant
- the level of return to investors under different performance scenarios
- how the proposed risk-return profile compares to similar products in the market

The higher the risk, the higher the potential return is a good rule of thumb for private investors.

The government will consider providing a standing charge to create a more attractive risk profile for investors – up to 50% of the service delivery costs.

# 5. A focus on high priority social problems

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The service delivery area is one in which the government is seeking to address a major problem and is likely to be supported by investors.

## Things to consider:

- prevention and early intervention services
- addressing unmet needs or targeting those not accessing government services
- opportunities for scale or growth over time
- periodic Statements of Opportunity that identify the government's policy priorities for social impact investment.

# Capabilities and capacities needed

- Legal structure for the proposed transaction
- Business case development
- Financial modelling, including cash flows
- Identify costs & benefits
- Service design (key features)

## Prepare proposal

- Contract negotiation
- Project management
- Relationship management
- Risk management
- Data modelling & analysis
- Decision making approval

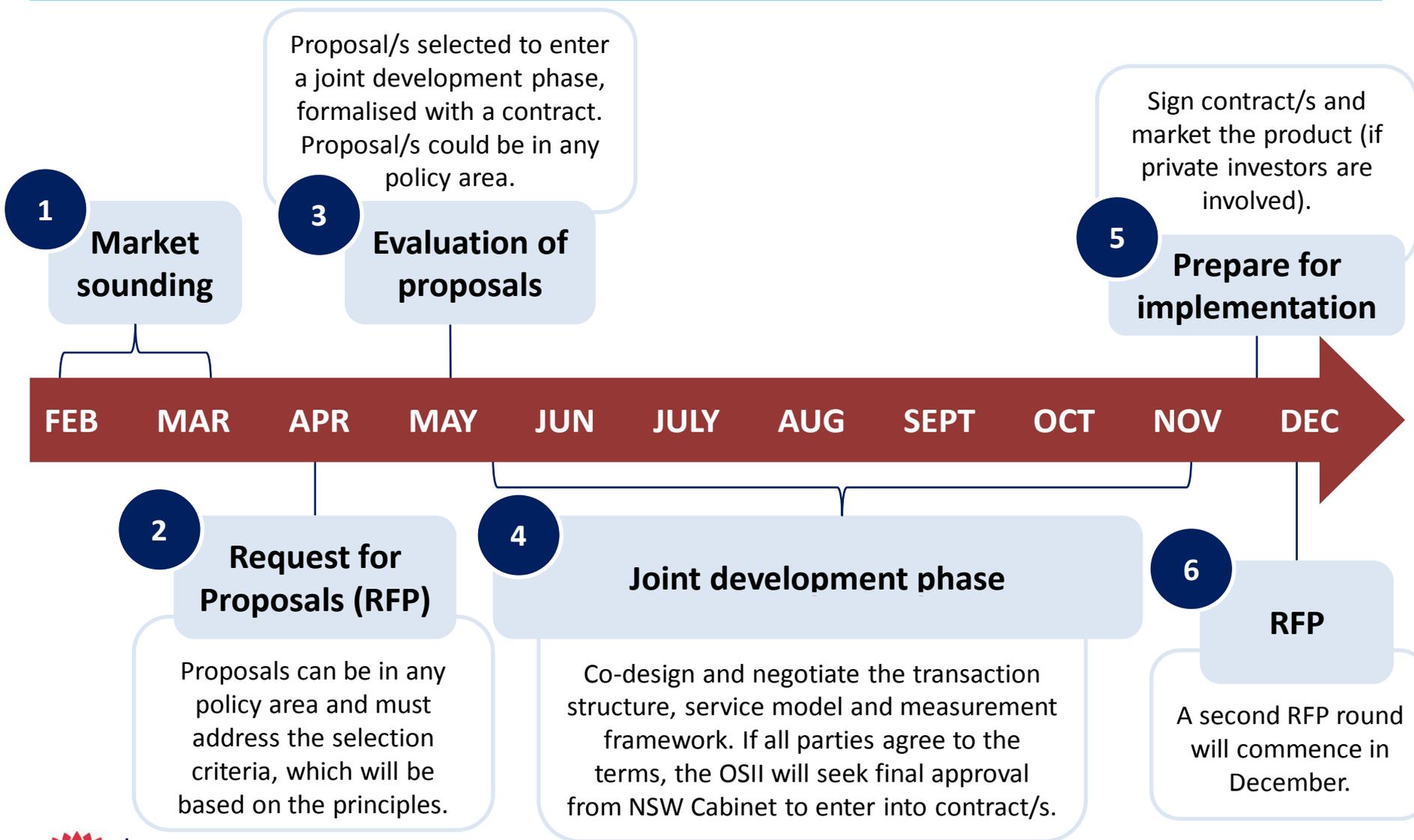
## Develop transaction

## Deliver the service

- Frontline service delivery
- Contract management
- Relationship management
- Data collection
- Continuous improvement
- Appropriate operating systems and governance

Partnerships with other providers or specialist organisations can help fill skill gaps.

# Process and timeframes for 2015



# Implementation considerations

## Choosing a product

- Proposals for social benefit bonds will need to adhere to the principles to a high standard.
- Other models include payment-by-results, and joint or layered investments.
- Advice from an intermediary may be helpful.

## Terms & payments

- The contract is with the agency primarily responsible for the policy area.
- Terms must be agreed between the proponent, the government and investors (if any).
- Investor returns should reflect the length of the investment, and the regularity and size of payments.

## Attracting investors

- Consider engaging an intermediary to help market the product.
- There are resources to help address concerns of different investors.

## Collaboration

- Good governance structures are critical, particularly if partnering with others.
- Operational processes will need to be established and outlined in an operations manual.
- Systems to collect and report on data will be needed.



# OSII Assist

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## We can:

- provide general information about social impact investing
- provide general information on NSW Government activity and priorities in social impact investing
- provide information on RFP processes, timing and requirements
- facilitate contact with other government agencies and market participants
- consider and facilitate information and data requests.

## We can't:

- develop and implement proposals outside a formal RFP process
- give detailed advice or feedback on proposals prior to or during a formal RFP process
- advocate or promote potential proponents or their proposals to other government agencies and market participants.



**BREAK**

# Questions and discussion

# How can we help?

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We have identified four areas where we think there are opportunities for social impact investment. What other areas do you think have potential?

What barriers and challenges do you foresee in responding to the RFP?

What do you think about the principles outlined earlier?

What questions do you have for us?



# Social Impact Investment Policy



Leading the way in delivering better  
outcomes for the people of NSW.



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