

**Principles for  
social impact  
investment  
proposals to the  
NSW Government**

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*Office of Social  
Impact Investment*



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# Introduction

Social impact investment encourages innovative ways to deliver better social and financial outcomes for individuals, families and communities. There is a spectrum of products associated with social impact investment – from outcomes-focused grants and payment-by-results contracts, to equity and debt instruments, social impact bonds and more. In this document, ‘social impact investment’ refers to all the products on the spectrum, not just social impact bonds.

With its partners, the NSW Government pioneered Australia’s first two social benefit bonds. The following principles are derived from our experience investigating, developing and implementing the bonds. They aim to guide the development of social impact investment proposals seeking NSW Government involvement and to reduce costs associated with their development.

These principles are not limited to social benefit bonds and can be adapted to suit any social impact investment transaction. They also apply equally to proposals for social services and those that include social infrastructure or asset elements (e.g. acquiring or constructing dwellings or facilities).

As part of its [Social Impact Investment Policy](#)<sup>1</sup>, the NSW Government intends to regularly call for proposals for social impact investment transactions. Proposals to the NSW Government that consider and incorporate these principles are more likely to be selected for further development. During a formal request for proposals (RFP) process, this document should be read with any tender documents also available.

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<sup>1</sup> Available at: [www.osii.nsw.gov.au/policy-and-guidance](http://www.osii.nsw.gov.au/policy-and-guidance)

# Five principles for NSW social impact investment proposals

Social impact investment proposals to the NSW Government will have the greatest chance of being selected for further development when they demonstrate the following:

1. **Robust measurement.** Methods for selecting clients<sup>2</sup> and measuring outcomes are rigorous, supported by reliable data, and designed to minimise adverse outcomes.
2. **Value for money.** Achieving the outcomes will deliver measurable benefits to the NSW Government in terms of savings, avoided costs and/or productivity gains, and these benefits are sufficient to support payments in the transaction. Where benefits cannot directly fund these payments (e.g. through cash savings), the proposal must clearly demonstrate value for money relative to the government directly delivering services.
3. **A service likely to achieve social outcomes.** Evidence or analysis indicates that the proposed service is highly likely to achieve social outcomes; and that the service provider has the capabilities to implement and, if necessary, adapt the service.
4. **Appropriate sharing of risks and returns.** The balance of sharing risks and returns between investors, service providers and government is sufficient to attract investors to the product and ensure value for money to the public.
5. **A focus on high priority social problems.** 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.

## 1. Robust measurement

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Measuring impact is at the heart of social impact investment. Just as financial investments are often measured by their dollar return, social impact investments require a 'metric' for investors and the government to see social impact. Robust social impact measurement is important because it helps:

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

We recognise that measuring social outcomes is difficult. The issues that governments and service providers tackle are often complex and hard to solve. Data can be hard to access (or may not even exist) and outcomes may only be realised over the long term; sometimes over 10 or 20 years. Service contracts and social impact investment transactions are unlikely to cover that entire period, so proposals need to consider creative but reliable ways to measure outcomes in the short to medium term.

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<sup>2</sup> In this document, 'clients' refer to people or communities who receive or benefit from a service. See [Glossary](#) for more definitions of key terms.

Social impact investment products generally make payments depending on the outcomes achieved. Social impact investment proposals to the NSW Government should have measurement frameworks that satisfy investors, the government and the service provider that outcomes and associated payments 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
- robust methods to determine performance.

Different proposals may apply these elements differently depending on the scale and nature of the services involved. While proposals should demonstrate rigorous measurement, the NSW Government recognises that practical data considerations, as well as risk to investors and service providers, will require trade-offs.

## 1.1 Clear and reliable outcome measures

Outcome measures are the basis for making payments in a social impact investment transaction. Selected measures must be closely linked to the social and financial benefits the service aims to deliver. It is important client outcomes have been captured for a satisfactory historical period. This is so a robust model of the service and its benefits can be developed when designing the social impact investment transaction.

Because it can be difficult to measure social outcomes, particularly in the short term, it may only be possible to use proxy measures. A proxy measure is a reliable indicator of an outcome that can be used in the absence of a direct measure. However, it is only an indicator and will need to be evaluated for its correlation with the intended social outcomes.

For example, the overarching outcome of the NSW social benefit bonds is to have happy, healthy children in safe families that go on to lead contented and productive lives. This is impossible to measure over the five- to seven-year life of the bonds. Instead, we use proxy measures that are accepted indicators of this outcome – for example, whether children are in statutory out-of-home care or not.

Outcome data captured during the life of the transaction must be reliable and, to reduce the risk of dispute, must also be as clear and unambiguous as possible.

The NSW social benefit bonds used binary measures captured reliably in government systems for this reason – for example, whether or not a child at risk enters statutory out-of-home care.

Graduated measures that involve increments are also possible, provided they are robust. For example, in the recidivism area, this may be a reduction in the seriousness of a re-offence, a reduction in the severity of a sentence, or a longer period from release to re-offence.

The availability of data in the proposed service area and, specifically, on the intended group of clients who will receive the service (the ‘intervention group’), is essential. While it is possible for the government and providers to collect new data, the costs may be considerable. Proposals should consider the practical aspects of collecting data, including the number of steps and agencies

involved, the costs involved, legal requirements and restrictions (e.g. privacy and ethical matters), and the processes for checking and remediating data.

In the social benefit bonds:

- existing data systems of the government agency are used to collect and report on outcomes achieved
- data are remediated annually and records are periodically reconciled with partners in the bonds (subject to relevant privacy and other laws).

While often complex and time-consuming, these processes improve data and measurement systems within government and the service provider, which is another benefit of social impact investment transactions.

## 1.2 A well-defined client (or ‘intervention’) group

Proposals should identify the potential intervention group, and outline objective and detailed eligibility criteria to demonstrate an efficient referral process is possible. This will enable existing data on eligible clients to be extracted and analysed to develop a model that predicts the performance of the service and design of the investment product. In some circumstances (e.g. data for a client group does not exist), data on a similar group of clients may be used to generate the model, although the results may be less robust.

It is important that outcomes are measured for all clients who are referred to the service, including those that refuse to participate. This will help avoid the risk of “cherry-picking” clients who are more likely to achieve positive outcomes. The eligibility criteria and referral process also need to be carefully examined for any other potential adverse consequences, with remedial measures put in place accordingly.

## 1.3 Robust methods for determining performance

Outcomes for the intervention group should be measured against a comparison group (or ‘control group’) who are subject to the same eligibility criteria but do not receive the service. This will help ensure that outcomes can be attributed to the service and are not the result of other changes in the environment.

Ideally, the control and intervention groups will be selected randomly from the same population. Other options for assessing performance, in order of robustness and preference, include:

- i. a ‘real-time’ or live comparison group with similar characteristics
- ii. a comparison group created using a one-to-one matching process at the time of referral
- iii. a rolling average performance baseline.
- iv. a historic or static performance baseline.

While historic comparisons are easy to implement and provide greater certainty to investors and providers on likely outcomes, there is a risk that outcomes will be attributed to the service when they are in fact a result of changes in the broader environment.

A satisfactory measurement framework will also ensure the intervention and control groups are large enough to provide statistically reliable results. In the case of the social benefit bonds, it was considered that at least 300 people should be included in the groups measured. A robust

measurement framework will ideally involve significantly larger intervention and control groups over the life of the transaction, though the costs and viability of collecting data on large groups needs to be considered. If a service is proposed in a limited number of locations or eligibility is restricted, it may be hard to obtain sufficient numbers to satisfy this criterion.

Similarly, the period of measurement required is important as this will impact the term of the social impact investment instrument and the timing of payments.

For example, the Newpin bond measures whether restorations of children are stable for at least 12 months. Recidivism interventions often measure outcomes over 12 to 24 months after release from prison.

Together with the statistical reliability of the results, the timing of measurement and therefore payments will influence the risk profile of the product, which is discussed further below (see [4. Appropriate sharing of risks and returns](#)).

## 2. Value for money

Social impact investments seek to provide both a social and a financial return. In addition to measuring social returns, proposals must also identify a source of funds to support a financial return and other payments involved in the transaction. This might include one or a combination of the following:

- savings to government from successful prevention services
- revenue from other government or philanthropic payments
- sales of goods or services
- other returns from assets (e.g. rental income).

Just as for infrastructure and commercial investments, social impact investment proposals should only proceed when expected benefits outweigh costs. All measurable benefits – financial, economic and social – can be used to support a business case for a social impact investment proposal. However, the likelihood of the government accepting the proposal will depend on the nature, beneficiaries and timing of the benefit. These factors will also influence the complexity of the transaction (see Table 1, below, and [Attachment A](#) for more specific examples).

Table 1. Different benefits and how they contribute to the complexity of social impact investment transactions

Nature of benefits	cash savings	avoided costs	productivity gains	other
Beneficiaries	a single government agency	multiple government agencies	other governments	individuals and communities
Timing of benefits	immediately	months	years	decades

Increasing complexity of transaction



## 2.1 Nature of the benefit

Among the most straightforward ways of funding financial returns and other costs is immediate cash savings to the government. These savings could result from avoiding acute services, for example, reducing meal and laundry costs by keeping offenders out of prison or stopping foster care payments when children are safely restored to their families. Ideally, cash savings should be sufficient to cover the set-up and delivery costs of the service, transaction costs, returns to the government, and a market return to investors. Importantly for government agencies, actions to realise the benefits from the transaction are needed to ensure that savings are actually delivered and are not just on paper.

Indirect benefits, such as avoided costs over the long term and productivity gains, while important, are generally unable to directly fund payments to investors and/or cover service costs. For example, preventative health services to keep people out of hospital may prevent or delay the need to build a new health facility, but unless that facility is funded in the budget, it does not provide cash to support financial returns.

Where indirect benefits are used to support a social impact investment proposal, the government will need to assess the value of the proposal against competing new policy proposals and decide whether to provide funding as part of a budget process. In this case, the proposal must offer value for money relative to government directly providing services. For example, investors may take on the risk of non-performance, or services may be delivered at lower cost.

## 2.2 Who benefits?

In some cases, benefits are dispersed across different government agencies. For example, an effective service to a homeless person may lead to savings in the housing, health, and police departments. Benefits may also accrue across different levels of government, such as when ex-offenders are provided with training that returns them to work (rather than re-offending). In this case, the NSW Government saves on prison costs and the Commonwealth Government saves on paying unemployment benefits.

Outcomes may also benefit individuals and communities. While these are the ultimate aim of social impact investment proposals, they do not provide a source of funds to offset government payments during the transaction. In general, the wider the benefits are dispersed, the harder it will be to complete a social investment transaction, with negotiation and partnerships required across different organisations, government agencies and jurisdictions.

## 2.3 Timing of the benefit

As noted earlier, many services will not achieve outcomes for some time. For example, savings from restoring foster children to their families accrue over years. In the case of early childhood or preventative health programs, benefits may not be visible for decades. The government is open to proposals where benefits accrue over time. However, proposals that generate sufficient benefits to outweigh costs over the life of the contract are more likely to be selected by the government for further development, given the greater certainty of the policy and budget environment.

## 3. A service likely to achieve social outcomes

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### 3.1 Evidence of service performance

By paying for outcomes instead of inputs, social impact investing frees service providers to innovate and add to the evidence base on tackling social challenges. Successful proposals need not have services proven in a local setting; indeed, if services are already conclusively proven, there is less need for a social impact investment funding model.

Nonetheless, evidence or analysis must support the likelihood of the service delivering outcomes. At a minimum, a proposal should set out the service principles, program logic for the service, and its links or similarities to effective services. For example, the proposal may include studies of services in other parts of the world with a similar approach that have achieved results. Robust evidence of a service's success will reduce risk and be more attractive to the government and investors.

### 3.2 Ability to deliver the program or service

Ideally, a proposal will demonstrate the provider's ability to deliver the service at a scale required to achieve the projected outcomes. A robust business case is a central part of the proposal and should consider:

- hiring and training practitioners
- sourcing facilities and tools
- organising operations
- appropriate governance structures
- adequate IT and financial management systems and practices.

Proposals should provide supporting evidence of past achievements in managing similar efforts. Smaller or newer organisations may wish to partner with other providers to maximise the scale and achievement of outcomes by the program.

Social impact investment generally involves extensive collaboration across the public, non-profit and commercial sectors. Proposals should outline approaches and past achievements in effectively managing partnerships with government, investors, and other partners.

Given the importance of measurement and innovation, a provider's ability to continually assess and adapt services to best achieve results is critical.

For example, the Newpin service has been reshaped throughout the length of the bond, including introducing robust tools to deliver the service and new reporting systems. These changes were a result of an enhanced focus on outcomes required by the bond structure.

If the proposed service is untested, or the ability of the provider to deliver is unproven, the risk-return profile for investors will need careful consideration. This is discussed further below.

## 4. Appropriate sharing of risks and returns

Risk of failure is a key reason for underinvestment in prevention and early intervention services (including secondary or tertiary prevention services). Resources are tied up with high cost, ever-growing acute services, and it becomes impossible to redirect these resources unless there is a high chance of success in prevention services. By sharing this risk with those better equipped to manage it – in exchange for sharing the returns on success – social impact investment products can help expand prevention and early intervention in a sustainable way.

### 4.1 Financial risk

Depending on the type of transaction, financial risks and returns can be shared differently between government, investors and service providers. The balance of financial risk among participants will differ for proposals for outcomes-based grants, payment-by-results contracts and social benefit bonds, for example, with service providers and investors taking on more risk progressively through this spectrum.

In developing a proposal, a risk-return profile for each participant should be articulated. The balance of financial risk between all parties will need to consider the risk appetite of all parties and potential returns.

Where private investors are involved, an ideal proposal should outline how it will deliver market returns in the expected performance scenario. This will ensure the product is attractive financially as well as being a vehicle for achieving social benefits. Market returns will differ depending on the type of investor and the degree of risk proposed. Higher financial risk is generally accompanied by higher returns, and vice versa. In some instances, philanthropists may be willing to assume greater risk and/or below market returns, whereas institutional investors will more likely require market rates. A comparison to other products on the market with similar terms of investment and payment schedules will ensure the proposal is attractive.

With many international bond models, all financial risk is transferred to investors. However, this is not the case with social benefit bonds in NSW. Recognising the early stages of the social impact investment market, the NSW Government provided a 'standing charge' as a way to help manage financial risks for investors.

The standing charge is a payment to service providers to help reduce risk and offer a more attractive risk profile to investors in the Newpin and Benevolent Society bonds. The standing charge is approximately 50 per cent of the service delivery costs.

As the market develops and investor interest grows, a lower level of financial support from the government will be provided (i.e. the financial risks to government will be lower in future transactions).

The standing charge is not a government guarantee to investors but an early payment that is deducted from the amount due from the government when outcomes are known. Its size and structure will depend on the type of transaction and service model proposed. It is important that standing charge arrangements give the government an appropriate risk profile in the context of the risk allocated to investors and the service provider.

Other ways to manage investor risk include:

- payment triggers set at levels that are highly likely to be achieved
- government guarantees of client referral numbers
- government support during the delivery of the service (e.g. commitments to provide information on clients, joint meetings, or facilities)
- evaluation methods with greater certainty (e.g. historic baselines)
- break points in contracts
- government support for buy-back arrangements.

In some social impact investment products, service providers may take on some financial risk, in addition to the inherent reputational risk, to ensure there are incentives to maximise both social and financial outcomes. In the case of our social benefit bonds, service providers participated as financial investors. This is not a requirement for all proposals to the NSW Government.

Other examples of how financial risk may be allocated to service providers include:

- aligning service delivery payments to outcomes, so 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 overachievement in delivering outcomes
- requiring service delivery organisations to invest in the product
- a combination of the above.

## 4.2 Other risks

Social impact investments are a new way of funding and delivering services. Principally, they make funding contingent on achieving specific, agreed outcomes. As a result, proposals should consider ways of managing other types of risks that come with these transactions, such as reputation and industrial relations.

## 5. A focus on high priority social problems

The NSW Government believes that tackling our most pressing social challenges is best done by harnessing the innovation and capital of the non-government sectors. We spend tens of billions of dollars on social services. Much of this is on high cost acute services and not enough of it is evaluated. Social impact investment transactions have the potential to be a 'circuit breaker' by rebalancing spend towards prevention services, building evidence on what works, and bringing market discipline to financing programs that achieve social outcomes.

Proposals should target issues identified as a government priority and that are appealing to investors.<sup>3</sup> Ideally, a proposal will address an unmet need or target clients who are not currently accessing government funded services.

In the case of the NSW social benefit bonds, services are *additional* not replacement activity. This has helped to build support for the model, as existing clients and services are unaffected.

<sup>3</sup> Government priorities for social impact investment will be identified in a periodic Statement of Opportunities. Preferred policy areas are also likely to be flagged in formal RFP documents.

Over time, maximum benefits will come from scaling transactions to cover the billions in base social service expenditure rather than just incremental new pilots. In part, this will happen from the lessons learnt in the pilots being applied to services more broadly. In the case of the NSW pilots, the Department of Family and Community Services has embraced the focus on outcomes and enhanced collaboration with the service providers. These relationship building techniques are able to be applied to other areas of the department.

The NSW Government may also support existing services being replaced by those financed through social impact investments where they:

- do not disadvantage clients (existing or potential) of current services by, for example, applying a more stringent eligibility criteria and reducing the number of clients that can access the service
- are likely to achieve demonstrable improvements in the efficiency and effectiveness of current services
- are able to be sufficiently scaled.

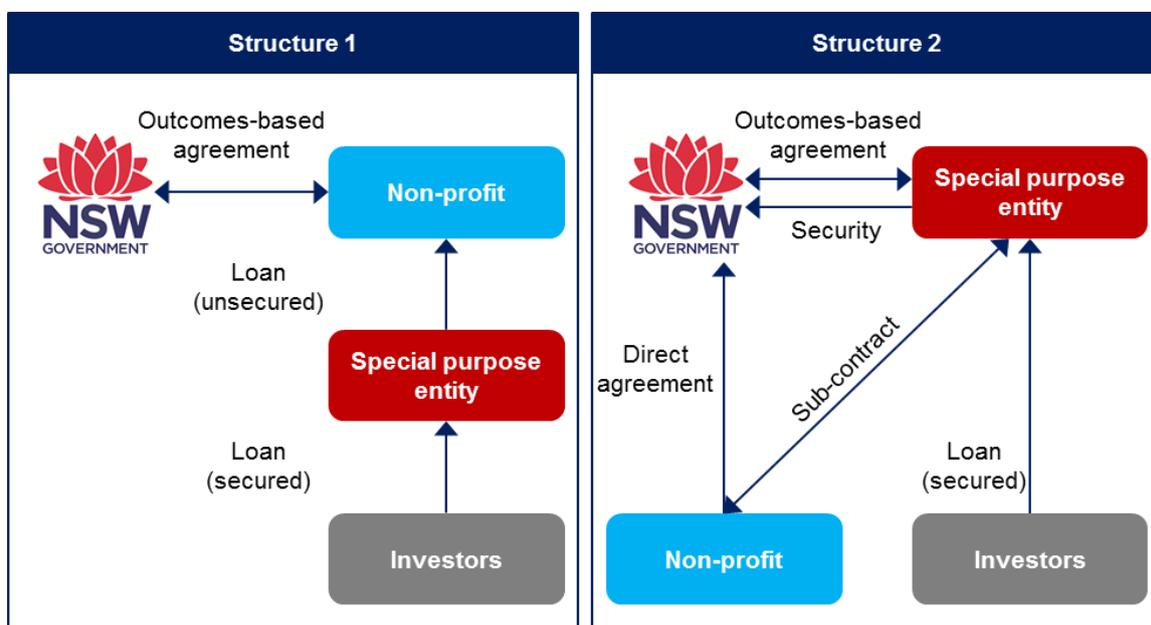
# Implementation considerations

## Choosing the product

Social benefit bonds (also known as social impact bonds) are perhaps the best known social impact investment product. They require significant effort to design and implement, and a high standard of evidence of adhering to all of the principles outlined in this document. Where these conditions are not met, alternative instruments, such as outcomes-focused grants, payment-by-results contracts, and joint or layered investments may be more appropriate.

In the event that a proposal is well-suited to a bond, different options are available for structuring contracts. The NSW Government has entered into bonds with two different contractual structures, represented below.

Figure 1. Contractual structure of NSW social benefit bonds



In Structure 1, the government contracts directly with the service provider (a non-profit in this instance) through an outcomes-based agreement. In Structure 2, the agreement is between the government and a special purpose entity. In both structures, investors enter into a contract with this entity, which issues the bonds. The use of a special purpose entity is not essential. However, using this vehicle minimises the risk to the service provider and is preferred by the NSW Government. Organisations proposing a social benefit bond should consider using a special purpose entity and seek professional advice about the implications of different legal structures.<sup>4</sup>

Structure 2 is the most common structure employed in social impact/benefit bonds to date, however either of these structures and variations on them can be considered when developing a proposal that includes bonds.

<sup>4</sup> A list of specialist organisations that could advise on these structures is available on the [Social Impact Investment Knowledge Hub](https://www.osii.nsw.gov.au) (or [www.osii.nsw.gov.au](http://www.osii.nsw.gov.au)).

It should be noted that if Structure 2 is adopted, the government is likely to seek a direct agreement with the service provider to ensure it is in the same legal position as if it had contracted directly with the service provider. Additionally, the government may require security over the assets of the special purpose entity depending on the financial structure agreed.

Proponents should consider working with a financial intermediary to structure the transaction. Intermediaries can advise on the financial, operational and legal details of the proposal. The evaluation of the planning and development of the NSW bonds found that the involvement of financial intermediaries was beneficial.<sup>5</sup>

## Term and payments

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All parties involved in the proposal will be interested in the term and payment structure. The government will be interested in ensuring that the length of the service, and therefore the product, provides flexibility in a changing policy environment. Investors and service providers will be interested in ensuring stability during the term of the product.

Additionally, the returns to investors should reflect the length of time for which the funding is committed and the regularity and size of payments. The size of the transactions is a related consideration and, given the costs of raising capital, a transaction of less than \$5 million may not be attractive for private investors. Many payment structures are possible and a financial intermediary can provide guidance on this. It is worth noting that not all service providers will need investors and may be able to cover upfront costs themselves.

Service providers will also be interested in the regularity and size of payments in the model and this will depend on the risk profile they are comfortable with.

## Attracting investors

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While social impact investment models are growing in number around the world, many Australian investors are yet to discover them. In developing a proposal, consider how to market the product to investors and manage the investor relationship throughout the term of the arrangement. A financial intermediary will have experience in marketing and managing products and may be a helpful partner.

Depending on the target investors, concerns regarding fiduciary and other duties may be a barrier to marketing efforts. Useful resources are available to ensure investors, like superannuation funds and private ancillary funds (and their advisers), are aware of the opportunities in the social impact investment market and may address concerns.<sup>6</sup> Consider how these resources can be used in the education and marketing efforts associated with the product.

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<sup>5</sup> KPMG, [Evaluation of the Joint Development Phase of the NSW Social Benefit Bonds Trial](#), 2014

<sup>6</sup> See Kylie Charlton, Scott Donald, Jarrod Ormiston and Richard Seymour, *Impact Investments: Perspectives for Australian Charitable Trusts and Foundations*, March 2014 and Kylie Charlton, Scott Donald, Jarrod Ormiston and Richard Seymour, *Impact Investments: Perspectives for Australian Superannuation Funds*, October 2013

## Collaborating with partners

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Smaller organisations may wish to partner with others to maximise the scale and achievement of outcomes by the service. If this is the case, appropriate governance and operational processes must be established. Reporting structures to support decentralised service delivery and achievement of outcomes must also be considered and agreed. Evidence that the service provider has the skills and capability to manage such a partnership will also support a proposal with this characteristic.

A further operational consideration is the role of the government in the proposal and how collaboration will be facilitated. An objective and streamlined referral process is ideal, whether this is performed by the government or not. Proposed government involvement in support functions for the delivery of the service and in measuring the outcomes achieved by the service are also important considerations. Ideally, proposals will demonstrate evidence of a service provider effectively managing similar relationships.

## Glossary of key terms

Term	Definition
Avoided costs	When a proposed service or program prevents a future cost to the government that was reasonably expected to arise.
Cash savings	When a proposed service or program results in immediate savings to the government.
Clients	People or communities who receive or benefit from a service or program.
Control group	A group of people who are statistically similar to the intervention group but who do not receive a service or program.
Counterfactual	An estimate of what would have happened in the absence of a service or program (a control group is often used as a counterfactual).
Intermediary	An organisation that acts as a link between service providers, investors and the government. Intermediaries may also advise on transaction structures and provide other support services.
Intervention group	A group of people who receive a service or program.
Joint investment	An arrangement where more than one investor contributes capital for a service or program. This could include the government, service providers and private investors.
Layered investment	An arrangement that combines different types of capital in non-traditional ways, commonly disrupting the traditional risk-return profile so that investors taking greater risk may get a lower return.
Outcome	The effect on a client during or after their involvement in a service or program. <i>Adverse outcome.</i> A negative effect, often unintentional or unforeseen, on a client during or after their involvement in a program or service.
Outcomes-focused grant	Grant funding provided on the basis that a service or program is evaluated and the outcomes achieved are measured.
Payment-by-results contract (or outcomes-based contract)	The government pays a provider to deliver a service based on the results achieved. This may mean that the provider is responsible for covering the initial costs of delivering a service, like in a social benefit bond. Payment will vary based on the results achieved and may not cover full service delivery costs if results are below baseline.
Performance baseline	A measure of service or program performance at a point in time, which is used as a reference from which to compare current or future performance.
Productivity gains	When a proposed service or program leads to greater efficiency in achieving an outcome compared to an existing service or program. This could be by reaching more clients (at the same or lower cost), reducing costs without a decline in quality, or redeploying resources to more productive activities.
Proxy measure	A reliable indicator of an outcome that can be used in the absence of a direct measure.

Term	Definition
Risk-return profile	An evaluation of an individual or organisation's willingness to accept financial risk (or the risks to which they are exposed) against the potential financial gains from participating in an investment. Typically, the greater the risk associated with an investment, the greater the potential return.
Rolling average	An indicator that helps smooth random fluctuations in data and identify trends. A rolling or moving average is based on past data. The average is calculated using a subset of a complete data set, usually a time range. At the end of each new time period, the oldest data point is removed and replaced by the most recent data point.
Social benefit bond	A financial instrument that pays a return based on the achievement of agreed outcomes. Private investors provide the working capital to deliver a service or program. The savings generated from achieving better outcomes enables the government to repay the upfront investment and provide a return. <i>Also known as a social impact bond.</i>
Social impact investment	The provision of finance and/or other resources with an expectation of social and financial return.
Special purpose entity	A legal entity created solely to serve a particular or temporary purpose, typically to reduce financial risk for an organisation in complex financial arrangements.
Standing charge	An early government payment to a service provider to help reduce financial risk and offer a more attractive risk-return profile to investors. The payment is deducted from the amount that government pays when outcomes are known. The size, structure and timing of payment can vary.
Value for money	The difference between the total benefit of a service or program against its total cost, when assessed over a period during which it can be reliably measured. Benefits and costs include monetary and non-monetary factors.

# Attachments

- A Different benefits and how they contribute to the complexity of social impact investment transactions**

## A. Different benefits and how they contribute to complexity

Increasing complexity of transaction	WHO RECEIVES THE BENEFIT?	Community	<ul style="list-style-type: none"> <li>Effective crime prevention and re-offender strategies could reduce the need for businesses to pay for legal costs due to criminal activities.</li> </ul>	<ul style="list-style-type: none"> <li>Better health outcomes could result in future savings for non-government organisations that provide non-health services (i.e. housing).</li> </ul>		<ul style="list-style-type: none"> <li>Improved health and education outcomes could lead to better productivity and jobs, and more people able to participate in and their communities.</li> </ul>	<ul style="list-style-type: none"> <li>Safer, more productive communities and better functioning families due to reduced antisocial behaviour.</li> <li>Improved access to services for disadvantaged families and communities.</li> <li>Greater transparency for taxpayers due to increased focus on outcomes.</li> </ul>	
		Private individuals	<ul style="list-style-type: none"> <li>Effective crime prevention and re-offender strategies could reduce the need for private individuals to pay for damage to property and other costs (i.e. temporary vehicles due to car theft).</li> </ul>	<ul style="list-style-type: none"> <li>Better literacy and numeracy outcomes could reduce the need for parents to hire private tutors for their child(ren) in the future.</li> </ul>		<ul style="list-style-type: none"> <li>Improved health outcomes could lead to increased individual productivity.</li> <li>Reduction in crime could reduce the level of lost productivity associated with the victims of crime (i.e. time spent in hospitals, fixing damage, away from work, etc.).</li> </ul>	<ul style="list-style-type: none"> <li>Improved family functioning, relationships, health and wellbeing, employment opportunities, and living conditions.</li> <li>Improved school attendance from better literacy and numeracy outcomes leading to better qualifications.</li> <li>Better housing outcomes lead to better quality of life.</li> </ul>	
		Other government – Commonwealth	<ul style="list-style-type: none"> <li>Positive change in outcomes for those accessing homelessness services could lead to reduced need for benefits (i.e. welfare).</li> </ul>	<ul style="list-style-type: none"> <li>Better education levels, increased employment and reduced income inequality could lead to future savings in welfare payments.</li> </ul>	<ul style="list-style-type: none"> <li>Decreased need for the Commonwealth to contribute to facilities for acute services.</li> </ul>		<ul style="list-style-type: none"> <li>Increased employment due to improved education outcomes could boost tax revenue.</li> </ul>	
		Multiple NSW government agencies	<ul style="list-style-type: none"> <li>Lower recidivism rates could lead to cost savings for corrections, health services, police and court services.</li> </ul>	<ul style="list-style-type: none"> <li>Increases in permanent supportive housing could lead to future savings for health, corrections and housing.</li> <li>Reduced youth homelessness could lead to future savings from reduced hospitalisations and contact with the adult justice system.</li> </ul>	<ul style="list-style-type: none"> <li>Improved education outcomes could reduce the demand not only for remedial teachers but also for new social housing units.</li> </ul>	<ul style="list-style-type: none"> <li>Improved mental health outcomes could slow increasing demand for programs providing non-income support, disability and community services, housing and homelessness services, special schools and support classes, police, courts, prisons and juvenile justice.</li> <li>Lower re-offending rates could help reduce cost pressures across criminal justice system including police, courts, legal aid, correctional services, juvenile justice and public prosecutions.</li> </ul>	<ul style="list-style-type: none"> <li>Increased evidence base and availability of robust data for future policy makers as a result of the need for robust measurement.</li> <li>Improved accountability for the effectiveness of expenditure on social services.</li> <li>Limiting the risk to the government of funding ineffective programs.</li> </ul>	
		Single NSW government agency	<ul style="list-style-type: none"> <li>Reduced care placements could lead to care cost savings.</li> <li>Reduced homelessness could lead to savings in temporary accommodation costs.</li> </ul>	<ul style="list-style-type: none"> <li>Reduced offending behaviour among adolescents could reduce local youth offending costs.</li> <li>Savings to the government from reducing the number of children in out-of-home-care (through prevention and restoration) as they are not in long-term care.</li> <li>Better literacy and numeracy could reduce the future need for remedial teachers.</li> </ul>	<ul style="list-style-type: none"> <li>Improved health outcomes could lead to avoided capital costs for hospital and community care facilities (i.e. new hospitals).</li> <li>Reduced offending could lead to reduced need for justice facilities.</li> </ul>	<ul style="list-style-type: none"> <li>Reduced offending could lead to a more efficient police force.</li> <li>Reduced homelessness could reduce pressure on outreach services.</li> <li>Improved health outcomes could lead to more efficient hospitals.</li> <li>Improved health due to increased physical activity levels could reduce pressure on treatment for diseases linked with lack of exercise.</li> </ul>	<ul style="list-style-type: none"> <li>Accessing private capital facilitates upfront expenditure over and above what is available from public funds when expenditure is needed.</li> <li>Better outcomes by providing a direct financial incentive for a service provider to focus on and improve the outcome in question.</li> <li>Better evidence base for agencies on which services can achieve outcomes.</li> </ul>	
		Cash savings (current)	Cash savings (future)	Avoided costs	Productivity / capacity enhancements	Other measurable benefits		
		TYPE OF BENEFIT						

Increasing complexity of transaction