

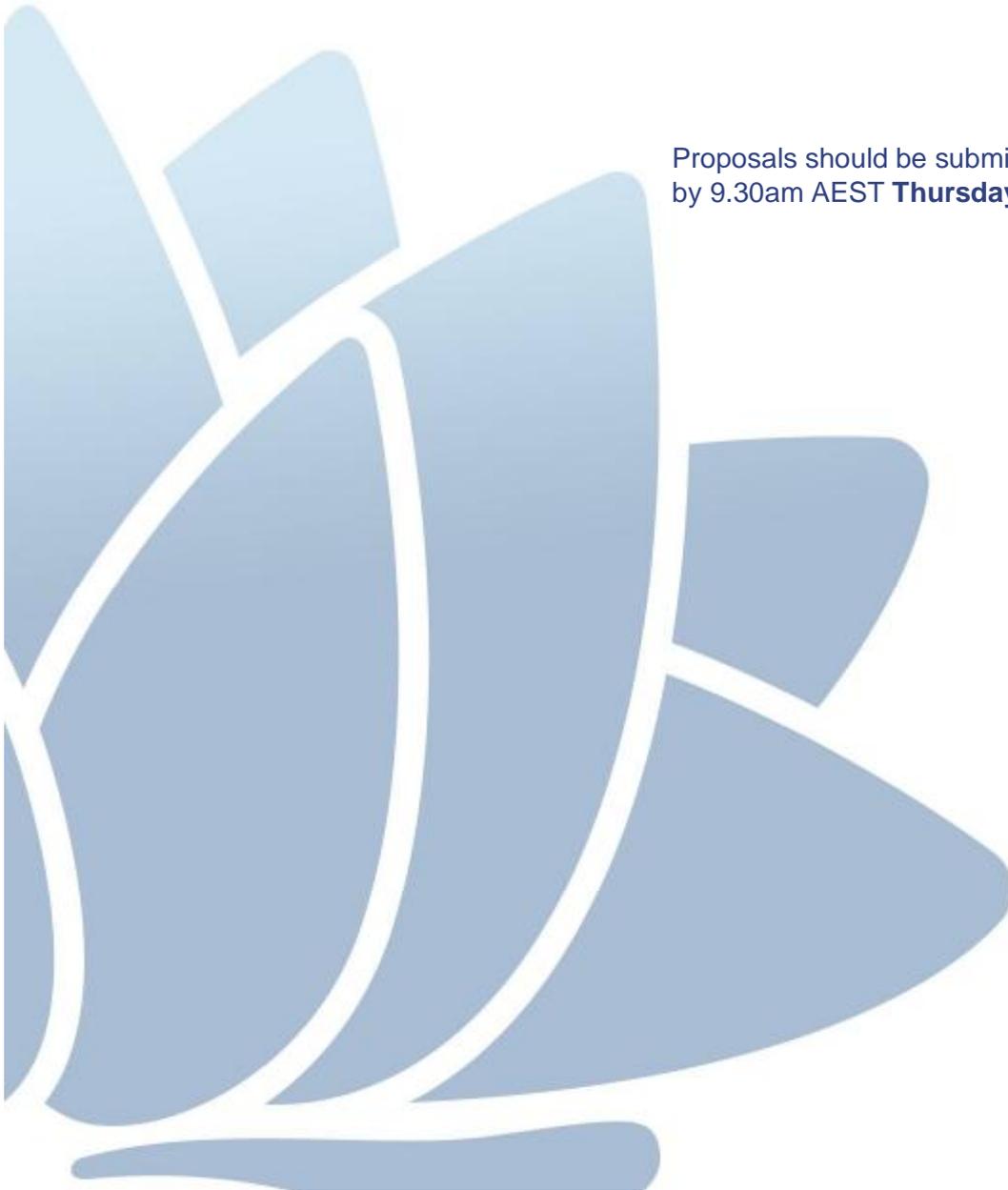


# NSW Treasury

Request for Proposal

Social Benefit Bonds Trial

Proposals should be submitted on <https://tenders.nsw.gov.au>  
by 9.30am AEST **Thursday 24 November 2011**



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# 1. Background

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A Social Benefit Bond (SBB, sometimes known as a Social Impact Bond) is a new financial instrument that pays a return to private investors based on the achievement of agreed social outcomes. Under a SBB, an investor provides upfront funds to a partner (non-governmental organisation (NGO) or intermediary) to provide services that will, if successful, reduce future costs to Government. Part of the Government savings are used to repay this investment and provide a reward payment commensurate with the outcomes achieved.

A SBB is intended to provide a number of benefits.

## *Additional resources towards early intervention*

Releasing funds for prevention and early intervention is difficult because resources are oriented towards acute and crisis services. SBBs aim to provide an expanded source of private upfront funding for early intervention and prevention services that mitigate the escalation of social problems. In doing so, it is expected that SBBs will create the potential for future financial and economic benefits.

## *Innovation*

The SBB payments regime directly rewards outcomes rather than specifying how they are delivered. By focusing government payments on outcomes, NGOs are encouraged to be more responsive to community and sector needs and identify improved professional practices, as well as innovative new approaches that deliver better outcomes.

The involvement of investors should further drive innovation in service delivery. It is expected that investors will require some review of the evidence behind any proposed intervention as well as ongoing monitoring of performance, increasing the likelihood of positive social outcomes. In addition, some investors may wish to become more directly involved in ensuring outcomes are delivered, for example by participating in the governance of the SBB-funded intervention.

### *Improving the evidence base*

The evidence available on the effectiveness of early intervention services is limited. Because SBBs require a sound performance management framework to be established to measure outcomes prior to payments being released, agencies and service providers will need to develop and enhance methodologies and skill sets in program design and outcomes tracking. The improvement in reporting means a better evidence base for future policy makers, both in the particular SBB area as well as in other areas of Government policy.

### *Accountability*

The focus on clear outcomes measurement in SBBs ensures that there is clarity about what NSW Government funding is achieving, both in financial and economic benefits and in practical improvements in social outcomes.

### *Directions in other jurisdictions*

The United Kingdom launched the first social impact bond trial at Peterborough Prison in 2010, developed by [Social Finance UK](#) and [the Young Foundation](#) in conjunction with the Ministry of Justice (see Appendix 1). US President Obama has also made \$100 million provision in the United States 2012 Budget Plan for up to seven “Pay for Success Bonds”, and a number of US States have begun development work. In Australia, there has been discussion of the model at hearings of the current Commonwealth Senate Economics References Committee inquiry into finance for the not-for-profit sector.

## 2. NSW Government trial

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The NSW Government has decided to undertake a **SBB trial** consisting of up to **two pilot SBBs** in the areas of out-of-home care and recidivism. Pilot SBBs in other policy areas may be considered if it does not prove feasible to develop a functional SBB in one or both of the nominated areas. However, it is not guaranteed that a SBB will be undertaken in another policy area.

In February 2011 the Centre for Social Impact (CSI) completed a [report](#) for the NSW Government on the potential for a SBB trial. CSI examined a number of potential policy and program areas, developed selection criteria for assessing the capacity and programs of potential SBB hosts and designed a proposed SBB structure. CSI looked at key learnings from the [UK precedent in Peterborough](#), and considered the context of the Australian social investment landscape, the capacity and effectiveness of Australian NGOs and their programs, and the nature of relationships between government agencies and not-for-profit organisations in NSW.

CSI concluded that the SBB concept is feasible in the NSW context, and that NSW has the necessary market conditions for this new funding approach to be piloted.

Since the release of the CSI report, the NSW Government has conducted further development work on a potential SBB trial, including discussions with a range of potential providers, investors and intermediaries. It is clear from this work that, while there is a high degree of interest in the SBB model and the necessary market conditions may exist in NSW, significant uncertainty will remain until a sustainable data base is established on which to measure improvements in service delivery. This is an evolving market where significant collaborative work between proponents and the Government will be required to develop a viable SBB.

**The Government is therefore seeking to identify preferred proponents with whom to develop the two pilots through this Request for Proposals (RFP).**

### 3. Process of establishment of SBB trial

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The Government has decided on the following procurement and contracting process for the development and implementation of a SBB trial.

- (i) A Request for Proposal (RFP) in two priority areas: out-of-home care (OOHC) and recidivism (this document).
- (ii) A due diligence and joint development process to be undertaken between the Government and up to two preferred proponents identified through the RFP process, in respect of up to two potential pilot SBBs.
- (iii) Contract negotiations with preferred proponents for implementation of up to two pilot SBBs.

#### **(i) Request for Proposal (RFP) in two priority areas: out-of-home care and recidivism**

This RFP document seeks to:

- outline the background to the trial
- define terms, conditions and arrangements for the submission of an RFP
- inform proponents of the proposed process and timeframe for selecting the preferred proponents
- provide basic information to assist in the preparation of responses
- specify the information required from proponents, and the evaluation criteria which will be used to evaluate proposals.

A briefing will be held in Sydney on Tuesday 11 October 2011. Parties interested in attending the briefing are asked to register their interest by emailing [sbb@treasury.nsw.gov.au](mailto:sbb@treasury.nsw.gov.au). Attendance is limited to three people per organisation.

While the Government's preference is to develop the pilot SBBs in OOHC and reducing recidivism, proponents may also choose to develop proposals in other areas that satisfy the criteria. The Government may consider any alternative proposals received should it not prove feasible to establish SBBs in one or both of the identified areas.

There is no limit to the number of proposals a proponent may submit but it is Government's strong preference that, if there are two pilot SBBs, each will be implemented by a different proponent. Each proposal is required to focus on one pilot only.

Social Finance UK has produced several useful technical guides for prospective non-government proponents. There is one applicable to each of the priority areas, as well as a more general guide; these can be downloaded at the following locations.

*Vulnerable children:* [http://www.socialfinance.org.uk/resources/socialfinance/Technical\\_Guide\\_Vulnerable\\_Children](http://www.socialfinance.org.uk/resources/socialfinance/Technical_Guide_Vulnerable_Children)

*Criminal justice:* <http://www.socialfinance.org.uk/sib/guide/technical-guide-developing-social-impact-bond-criminal-justice>

*General guide:* [http://www.socialfinance.org.uk/resources/socialfinance/Technical\\_Guide\\_Overview.pdf](http://www.socialfinance.org.uk/resources/socialfinance/Technical_Guide_Overview.pdf)

**(ii) A joint development process of up to two pilot SBBs to be undertaken between the Government and up to two preferred proponents identified through the RFP process.**

A separate joint development process will be undertaken for each pilot. Each process will be led by the relevant line agency, with oversight from Treasury and the Department of Premier and Cabinet (DPC). The purpose of the joint development phase is to develop SBB pilots to a level of feasibility suitable for contracting.

Matters expected to be negotiated during this joint development phase in relation to the implementation of the SBB are set out under Section 6. A SBB Development Agreement will be negotiated between the preferred proponents and Government<sup>1</sup> as part of the evaluation of the proposal and entered into between the preferred

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<sup>1</sup> Government is still considering the appropriate legal entity on its part to enter into the SBB Development Agreement and SBB Implementation Agreement.

proponents and the Government prior to the commencement of the joint development phase.

The SBB Development Agreement will govern the terms of the relationship between the preferred proponents up to the point of execution of the SBB Implementation Agreement, and will address matters including:

- the dispute resolution process
- payments to the preferred proponents (if any)
- insurance
- the nature of any involvement by the NSW Government in negotiations with investors
- ownership of any intellectual property generated during the joint development phase
- the process for negotiating and reaching agreement on the SBB Implementation Agreement (see below)
- termination and the sharing of information between the preferred proponent and Government.

During the assessment of RFP proposals, the Government will discuss and agree the terms of the SBB Development Agreement with parties being considered for selection as preferred proponents.

The development phase is intended to commence as soon as the preferred proponent has been approved and advised in writing, and the SBB Development Agreement is returned signed by the preferred proponent to NSW Treasury. It is intended that the duration of the development phase will be approximately six months from commencement, unless the parties have agreed under the terms of the SBB Development Agreement to extend this period.

If a preferred proposal is subsequently shown to be unviable through the joint development work, another proposal from the RFP process may be brought forward and a further SBB Development Agreement negotiated with the relevant proponent. Note that selection as a preferred proponent through the RFP process, and entering

into a SBB Development Agreement with the Government, is not a guarantee of proceeding to a SBB Implementation Agreement and participating in a pilot.

The relative value for money and economic benefit of the proposed SBBs will be crucial in determining whether to proceed with the pilots. In other words, the pilots must represent an effective use of public funds, and value for money, relative to other non-SBB funding options available to Government for the same improvement in outcome.

**(iii) Contract negotiations with preferred proponents for up to two pilot SBBs.**

A SBB Implementation Agreement will be negotiated with each of the preferred proponents as part of the joint development phase, provided that viable SBBs can be developed. The SBB Implementation Agreement is envisaged to include:

- details of the target group, location, and referral and entry arrangements
- contract duration and any extension provisions
- ownership of intellectual property from the pilot
- details of baselines, comparison groups and other measurement arrangements
- payment triggers
- a payment schedule covering all performance scenarios (below baseline, baseline, good performance and over-performance)
- allocation of risk between parties to the SBB
- dispute resolution provisions including a mechanism for resolution of client issues
- break clauses for all parties
- any options for recontracting at the conclusion of the SBB term
- details of how the program would be evaluated.

## 4. Project Governance

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The RFP process will be overseen by a Steering Committee comprising senior officers from Treasury, DPC, and the relevant line agencies.

The Steering Committee will appoint an Evaluation Committee to assess all proposals received through the RFP process. The Evaluation Committee will assess proposals according to the selection criteria set out in Section 7, and then assess the ranked proponents in terms of overall value for money.

In the course of the assessment process, the Evaluation Committee may request clarification of any aspects of the proposals or the provision of additional information. The Evaluation Committee reserves to itself the right to make its own inquiries about the proponent in order to inform its assessment. The Evaluation Committee may also require proponents to present to the Evaluation Committee on aspects of their proposal(s) prior to a decision being made. If required, interviews will be held in early December 2011, or as otherwise advised by the Evaluation Committee, and will be taken into consideration in the assessment of proposals. Proponents should therefore ensure that key nominated personnel are present at interviews.

Following the assessment process, the Evaluation Committee will make a recommendation regarding the ranking of all proposals to the Steering Committee. A recommendation may then be made to the Treasurer and relevant Ministers to appoint the preferred proponents.

Proponents will be notified in writing of the outcome of their proposal(s). It is expected that the preferred proponents will be notified in early 2012.

## 5. Who may submit a proposal

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The Government's intention is to enter into contracts with the 'Social Benefit Partner' (SBP). The SBP must be a legal entity but can:

- be a single organisation or a consortium
- involve both not-for-profit and for-profit organisations, and
- may be responsible for direct service delivery or act as an intermediary with service delivery sub-contracted to other providers.

Regardless of the structure chosen, the SBP will be the debt issuer and will have ultimate responsibility for performance against the agreed outcomes. The SBP must be a party to the proposal, although proposals may also involve additional organisations.

Proposals from consortia are encouraged. Partnerships between entities with expertise in different fields may be an effective way to assemble the mix of capabilities required to participate in a SBB. Consortia might include, for example, a large NGO partnering with a number of smaller NGOs in particular locations, a partnership between a NGO and a corporate foundation, or between a NGO and a social finance intermediary. Membership of a consortium may be the same as that proposed for the SBP, or may include the proposed SBP organisation(s) plus additional members for the purposes of the proposal.

## 6. Basic parameters of pilots

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Proposals will be assessed against the selection criteria set out in Section 7. Other features of the SBB pilots not directly addressed in the selection criteria will be determined through direct negotiation with the preferred proponents during the joint development phase and in accordance with the SBB Development Agreement. However, the Government is assuming some basic parameters in relation to these. Features for later negotiation, and the Government's assumed parameters, are described below. These assumptions are open to negotiation except where indicated.

### **Contractual relationships and structure of SBBs**

The Government intends to sign a SBB Implementation Agreement with the SBP for each pilot. The Government will not have any contractual arrangements with investors or with the service providers (if different to the SBP) as part of the pilots. Such arrangements would need to be concluded separately between the SBP and its investors and providers (as relevant), although the Government may assist in the negotiation process as reasonably determined by all the parties and set out in the SBB Development Agreement.

An indicative SBB structure is attached at Appendix 2. Proponents may wish to use this structure or to suggest alternative structures in their proposals.

### **Payment structure**

Reward payments under a SBB should cover different levels of achievement against the agreed outcomes. The precise number and design of reward payment levels will be determined by negotiation, but the Government envisages at least four outcome scenarios: below-baseline, baseline, good performance and over-performance.

Baseline performance level will represent the minimum successful outcome. Providers should be confident that this can be achieved and it should represent a break-even point for NSW Government. Achievement of baseline performance is likely to entail repayment of investors' principal, but no (or minimal) reward payments. The break-even point would be the point where:

- a SBB funding arrangement is used for an existing program and achieves a similar outcome for a similar cost, or
- the cost to Government for the SBB is matched by the benefits of the corresponding outcome improvement.

Good performance level will represent the most likely effect size to be achieved through the SBB; for example, based on previous outcomes from a similar intervention. Performance at this level would represent an improvement on existing programs in NSW, and entail financial benefits for the NSW Government and/or broader economic benefits. Reward payments representing a reasonable market return would be payable.

Over-performance level will represent achievement of the upper estimate of possible effect sizes made by the SBP. Performance at this level would represent a significant improvement on existing programs in NSW, and entail significant financial benefits for the NSW Government and/or broader economic benefits. The highest level of reward payments would be payable.

A fourth scenario will be below-baseline performance; that is, outcomes below those achieved by the comparison. This raises the question of what proportion of investors' principal should be at risk in such a scenario. The CSI report canvassed a range of options in this regard. While the Government is open to negotiations on this question, the financial risk of non-performance should reside with investors and not with Government.

### **Term**

SBB terms must balance the time needed to demonstrate maintenance of statistically significant effect sizes with investors' interest in receiving a return within a reasonable timeframe. The Government envisages a term of five to eight years.

### **Risk allocation between SBP, investors and other third parties**

The Government is open to an arrangement whereby the SBP bears some financial risk and accordingly is able to share in the possible upside return. However, the bulk of the financial risk (and potential returns) should reside with investors.

## **Measurement**

Within a cohort, clients' needs will vary, with some clients requiring intensive levels of service and others requiring little or no assistance. Clients' willingness to engage with services will also vary. The Government is interested in developing measures that encourage providers to work with the most challenging clients, and avoid perverse incentives. One way this will be done is through measuring performance with regard to all clients who are *referred* to the intervention, not simply those who *engage* with the services offered. This removes the incentive for providers to work only with the most motivated clients and avoids measurement bias due to self-selection.

An independent auditor (or auditors) will be commissioned and will be responsible for verifying whether outcome targets are met during the life of the SBB.

The Government's preferred measurement methodology is randomised control trial (RCT), although other approaches may be considered if RCT is not feasible or appropriate for a particular intervention. The Government will provide support in constructing and implementing the measurement system, including through access to administrative data.

The expected effect must be a credible estimate in order to attract investors and give all parties, including NSW Government, the confidence that the intervention will be a success.

A measurement period of 24 months provides a high level of confidence for the sustained effectiveness of a social intervention. However, this will need to be balanced against investors' interest in receiving a return on their investment within a reasonable time period. One option would be to make interim payments after 12 months with a further bonus payment if results are sustained over 24 months. Proponents should suggest and justify the indicative measurement period they would like to use. This will be developed and finalised in the next stage.

## **Existing contracts**

SBBs are intended to attract new resources to the delivery of public services. While successful SBBs should reduce the need for future public spending on acute services, SBBs are not intended to replace existing upfront government expenditure.

This does not mean, however, that organisations with existing NSW Government service delivery contracts cannot submit proposals in relation to such contracted services. Some providers may consider it advantageous to convert their existing contracts to SBBs, or to use a SBB to expand their existing contracted service. This may allow increased flexibility around service delivery and may also help providers access higher levels of funding, while shifting financial risk to investors. In return providers would accept increased accountability for delivering outcomes (and a reputational risk of non-performance). Providers seeking to convert existing contracts would also need to agree to the cessation of the previous funding stream (although these funds could be redirected into the SBB).

The Government acknowledges that smaller service delivery contractors may not be able to submit a proposal and the Government is therefore open to a larger organisation or consortium submitting a proposal in relation to these contracts collectively. Any such proposal, however, would need to demonstrate that all affected service delivery contractors support the proposal and that there is no impact on overall service levels.

Any potential proponents considering converting existing contracts are invited to discuss the practical implications of this with Government as early as possible in the RFP period.

### **Audit**

Independent auditors will be commissioned to determine whether the performance thresholds have been met. The auditors will approve and monitor the outcome targets, measurement approach and payment triggers for the two pilots. During the life of each SBB, the auditors will determine whether the agreed targets have been met and therefore whether government payments should be released. Note that one auditor may be commissioned to cover both pilots, or separate auditors may be commissioned for each pilot.

It is also expected that there will be a broader evaluation of the pilots. The nature of, and the requirements in relation to, this broader evaluation will be negotiated as part of the joint development phase.

## 7. Response Requirements

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While proponents may submit more than one proposal, it is the Government's strong preference that, if there are two pilot SBBs, each will be implemented by a different proponent. Each proposal should focus on one pilot only.

### **Format**

Proposals should be no longer than 30 pages in length, including any appendices or additional documentation. Font size is to be a minimum of 11 point, and all pages are to be A4.

A suggested structure for proposals is as follows. This is only a guide; the structure and length of sections should be tailored to the content:

#### 1. Background information

- Details of proponents, including contact person
- Description of cohort group and proposed intervention
- Preferred structure and contractual relationships, including risk allocation

#### 2. Selection criteria

- Expected effect size and evidence base
- Cohort: identification, access and measurement
- Economic parameters
- SBP capacity

#### 3. Other information

- Including details of independent referees
- Appendices

## **Background information**

The information set out in this sub-section is mandatory, so that the Government can gain an overall picture of how each SBB proposal might operate in practice.

### *Who is involved in the proposal?*

Proposals must outline the organisation or organisations involved in the proposal, as well as key personnel. Contact details must include:

- Trading name and ABN for each organisation
- Type of legal entity
- Business address
- Details of nominated contact person
- Any advisors to the proposal.

The Evaluation Committee's nominated contact officer or delegate may contact proponents during the assessment process to clarify points raised in proposals and/or seek further information. The proponent's nominated person will be contacted in the first instance for all such communication.

### *What is the target group for the pilot?*

Proposals should be as specific as possible on the full range of defining characteristics of the target cohort, including age, location, and demographics (e.g. juvenile offenders, people with a disability, Aboriginal people). Proposals aligned with the OOHC or recidivism service areas detailed later in this document should indicate which subgroup of the cohorts is to be targeted (or proposals may target the entire cohort). Proposals in other areas should clearly define the target cohort and justify their selection.

### *How might the service model operate?*

This could include, for example, discussion of the model's interaction with other government or non-government programs, its scalability and adaptability over time, length and intensity of services, privacy considerations (e.g. for data collection) and any ancillary requirements such as the need to obtain ethics approval.

### *What structure is envisaged for the SBB?*

This would include contractual relationships, draw-down requirements for the principal, and repayment schedules and amounts for all possible performance scenarios: below-baseline, baseline, good performance and over-performance. Note that all of these features will be subject to negotiation for the two preferred proposals, but the financial risk in the case of below-baseline performance should reside with investors and not with Government. Proposals must describe the proposed allocation of risk between parties to the SBB.

### **Basic conditions for eligible proposals**

All proposals are required to meet the basic conditions set out below to be eligible for assessment.

1. Proposals must be submitted by a legal entity, or if a joint proposal, by legal entities with the capacity to contract.

Government will not enter into any agreement with a proponent that does not have an Australian Business Number and is not registered for GST. Proponents that do not have an ABN and/or are not registered for GST may be considered, at the Government's absolute discretion, if the proponent demonstrates that it will obtain an ABN and GST registration before entering into any agreement with the Government. Such proponents must state in their proposal how and when they intend to obtain an ABN and register for GST.

2. If selected as a preferred proponent through this RFP process, proponents must be willing to participate in the joint development phase in accordance with the terms of the SBB Development Agreement agreed between Government and the proponent prior to selection as a preferred proponent.

3. Proponents are required to provide contact details for at least two independent referees so that the information contained in proposals can be verified. If possible, these referees should have experience of previous government work done by the organisation(s) involved in the proposal. The Government may contact referees at its discretion.

4. Proponents are required to disclose any existing NSW Government contracts in areas that may be relevant to the SBB trial.

5. Most importantly, proposals are required to pass a broad 'economic test' in that expected benefits from the intervention under each success scenario should exceed total service costs and the return on investment.

The Government may, in its absolute discretion, exclude proposals that fail to meet these basic conditions from this procurement process without further consideration.

The relative value for money of the proposed SBBs will be crucial in determining whether to proceed with the pilots. The pilots must represent an effective use of public funds in comparison to other non-SBB funding options available to Government for a similar intervention.

### **Selection criteria**

The selection criteria and explanatory notes are set out below.

**Note:** *It is acknowledged that information gaps may exist, and further information may be required to develop proposals. The Government may be able to provide additional information in response to queries about specific proposals – any such queries should be directed to [sbb@treasury.nsw.gov.au](mailto:sbb@treasury.nsw.gov.au).*

*The additional information that may be available will be further discussed at the briefing and posted at [http://www.treasury.nsw.gov.au/site\\_plan/social\\_benefit\\_bonds](http://www.treasury.nsw.gov.au/site_plan/social_benefit_bonds). See Section 9 for more detail on submitting enquiries during the RFP phase.*

#### **1. Proposed SBB is likely to deliver a significant improvement in the selected outcome (weighting: 25%)**

Matters that could be addressed include:

- Indicate an outcome range (effect size) for the proposed intervention – the respondent's expected effect size (good performance), along with both a baseline estimate and an over-performance estimate.
- Show how the outcome range and expected effect size have been estimated.

- Demonstrate that the outcome range and expected effect size represent a credible estimate of performance, for example through:
  - evidence from similar programs in NSW
  - evidence from similar programs in another Australian or overseas jurisdiction
  - success by the respondent in delivering innovative services and improving outcomes for other clients with complex needs, or
  - other expert knowledge or experience.
- Identify risks associated with the proposed intervention and indicate how these can be addressed.

## **2. Identification of, access to and measurement of the cohort is feasible**

*(weighting: 25%)*

Matters that could be addressed include:

- Describe options for how the target cohort can be effectively and accurately identified and referred to the intervention.
- Describe how clients' eligibility for the intervention will be determined.
- Indicate any requirements of NSW Government agencies in the proposed identification, screening and referral process (note that the Government will need to consider the cost impact of any such requirements in the overall value-for-money assessment of the proposal).
- Demonstrate that it is practicable to provide the service in the chosen locations, given the size and geographic distribution of the cohort, and the capacity of the proposed service providers.
- Describe how clients' engagement will be maintained through the intervention. Include and justify the expected engagement rate.
- Indicate the proposed measure to be used as the payment trigger, and how this measure is an accurate indicator of changes in the target outcome.
- Demonstrate how any perverse incentives arising from the chosen payment trigger could be addressed.

- Indicate the proposed measurement period and how this would be linked to reward payments.
- Indicate what data source will be used, whether existing systems exist to capture the required information and, if not, whether they can be developed cost effectively.
- Describe how a suitable comparison group will be identified.
- Demonstrate that the treatment and comparison groups for each measurement period are of sufficient size to provide statistically significant results.

**Note:** Some of these elements (e.g. data source, payment trigger) have already been addressed in the examples at Appendix 1, for respondents choosing to base proposals on the examples.

### **3. Proposed SBB meets specified financial and economic parameters (weighting: 30%)**

Matters that could be addressed include:

- Provide a calculation of service costs and expected public sector benefits for baseline, good performance and over-performance scenarios (see Appendix 1 for two examples of calculations related to good performance scenarios).
- Indicate the extent to which expected savings are realisable (i.e. entail a direct reduction in NSW Government spending).
- Indicate the expected size of the SBB – that is, the value of investment to be sought from investors.
- Indicate possible reward payments for baseline, good performance and over-performance scenarios.

Describe how the risk could be allocated between the various parties to the SBB (including investors, Government and the SBP) for all performance scenarios.

- Indicate expected annual cash flows over the life of the SBB between parties for each performance scenario. These should not be adjusted for inflation. Cash

flow should also be limited to the context of the pilot (i.e. unrelated revenue and expenditure of the SBP should not be included).

Proposals focused on OOHC or recidivism should use the figures provided under 'Indicative Benefit' in the Service Area Information section below to calculate expected benefit. All assumptions used in calculations should be clearly stated.

Respondents may also include information on possible broader and non-financial benefits that may arise from the intervention.

#### **4. SBP has sufficient capacity to implement the SBB** (*weighting: 20%*)

Matters that could be addressed include:

- Provide information on the capability and relevant experience of the proposed SBP participant organisation(s) that demonstrates the skills and experience necessary to deliver a SBB pilot. This would include organisational and legal capacity to:
  - issue and manage a SBB
  - negotiate and liaise with Government, private investors and other third party providers
  - manage the delivery of high quality services (either directly or through sub-contracted providers) to achieve agreed outcomes
  - respond flexibly to differing levels of performance against the agreed outcomes over the life of the SBB.
- Describe a proposed investor engagement strategy, as well as any previous discussions with and initial commitments from investors.
- Where multiple parties intend to form an SBP, indicate the division of roles and responsibilities among the participant organisations, and any features of this relationship which may contribute to the success of the SBB.
- Describe the skills and experience of key personnel to be involved in the SBP and the extent of their proposed involvement.
- Describe other relevant experience that demonstrates the skills and experience necessary to deliver a SBB pilot.

**Note:** Respondents do not need to demonstrate investor commitments covering the full cost of the SBB as part of the RFP, but should make a credible case that sufficient investment could be attracted (with NSW Government assistance as reasonably determined by all the parties).

## **Details concerning lodgement of proposals**

### *Nomination of contact person*

All parties considering submitting a proposal should register their interest at <https://tenders.nsw.gov.au/> as early as possible, including the details of a contact person for the proposal. All correspondence and any additional information distributed during the RFP period will be sent to the contact person.

### *Extension of closing date and time*

The Government may, in its absolute discretion, extend the closing date and time set out in Section 12 of this RFP.

### *Late proposals*

Late proposals will not be considered by the Government except where the Government is satisfied that the integrity and competitiveness of the procurement process has not been compromised. The Government will not penalise any proponent whose proposal is received late if the delay is due solely to mishandling by the Government.

### *Electronic proposals*

All proposals must be submitted electronically on <https://tenders.nsw.gov.au/> and will be treated in accordance with the *Electronic Transactions Act 2000* (NSW).

A proponent, by electronically lodging its proposal, is taken to have accepted conditions shown in the conditions and rules on the NSW Department of Finance and Services (DFS) tenders website at <https://tenders.nsw.gov.au/commerce>, and to have accepted the conditions set out in this RFP document.

Signatures are not required but the proponent must ensure that a proposal is authorised by the person or persons who may do so on behalf of the proponent,

appropriately identify the person, and indicate the person's approval of the information communicated.

Electronically submitted proposals may be made corrupt or incomplete, for example by computer viruses. The Government may decline to consider for acceptance a proposal that cannot be effectively evaluated because it is incomplete or corrupt. Proponents must note that:

- To reduce the likelihood of viruses, proposals should not include any macros, applets, or executable code or files.
- Electronically submitted files should be free from viruses and should be checked using an up to date virus-checking program before submission.

The Government will not be responsible in any way for any loss, damage or corruption of electronically submitted proposals.

If a proponent experiences any persistent difficulty with the DFS tenders website in submitting a proposal or otherwise, it is encouraged to advise the Government promptly by email to [sbb@treasury.nsw.gov.au](mailto:sbb@treasury.nsw.gov.au).

If there is an extended defect or failure of the DFS tenders website or eTendering system and the Government is advised as indicated above, the closing date and time may be extended provided that, in the view of the Government, the RFP process will not be compromised by such an extension.

Full receipt of proposals is required by the closing date and closing time.

Proponents may break down the lodgement of large proposals into smaller packages if clearly identified (e.g. Package 1 of 3) and must provide clear directions as to whether the lodgement is:

- supporting information
- a further part of the proposal that has previously been lodged.

## 8. Service area information

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The SBB model lends itself particularly to those areas where acute care is very expensive, and prevention programs can be targeted at those most likely to require acute care in the short to medium term. A SBB model will also work best where there are measurable outcomes and an ability to identify and realise savings.

The Government has decided that its highest priority areas for the SBB trial are OOHC and recidivism. This section sets out information about these two service areas that can be used in the development of proposals. Examples of SBBs based on this information are provided at Appendix 1. The examples are purely illustrative and the potential financial benefits have not been tested against any specific interventions – this aspect is left entirely to proponents.

Note also that illustrative financial benefits have not been discounted over time in the examples. Further work on discounting will need to be done with the preferred proponents in developing the pilots.

Proponents are encouraged to think broadly in development of SBB pilots, drawing on the best available evidence from Australia and overseas. The likely effect sizes associated with proposed interventions will be a key consideration.

Proposals in areas other than those specified in the examples may be submitted, noting that there may be a higher level of further analysis required for any such alternative proposals. The Government will give priority to proposals in the nominated priority areas, but may look to alternative proposals if viable pilots cannot be developed in one or both of these areas.

### **8(a) Recidivism**

#### *Cohort*

The intervention group for a recidivism SBB could be chosen from a range of cohorts across adult and juvenile offender populations. In order to meet the selection criteria, some factors to consider in selecting a cohort include:

- medium to high risk of further offending, especially a high probability of multiple reoffending events
- medium to high risk of incarceration or reincarceration in the immediate future
- sufficient number of offenders to deliver statistically significant results, taking into account their geographic distribution (e.g. working with widely dispersed cohorts might require capacity to work across multiple geographic regions)
- little to no services currently available.

The three cohorts below have a high likelihood of further contact with the criminal justice system and currently receive minimal services from Government (other cohorts fitting the above criteria might also be selected).

- Juvenile group 1: under 18 at the point of caution, proven court appearance or youth justice conference, having previously had two of any combination of these, and not currently under a control order. There are an estimated 800 juveniles in this cohort per annum, averaging 53 days' incarceration per person over the four years following the point of eligibility.
- Juvenile group 2: under 16, having commenced community supervision, with a high risk of reoffending, and living in a stable environment in the Central West, Eastern Sydney and South-Western Sydney. There are an estimated 280 juvenile offenders in this cohort per annum, averaging 33 days' incarceration per person over the 12 months following commencement of community supervision.
- Adult: over 18, medium or high risk, following a proven court appearance resulting in a conviction that does not involve supervision, excluding those appearing in Tamworth and Burwood local courts (due to the CREDIT trial underway in those locations). These offenders may be expected to average around 110 incarceration days per person over the five years following the court appearance. In NSW there are approximately 128,000 proven court appearances per annum not resulting in a custodial order, relating to around 101,000 offenders. Between two and twelve percent of these could be estimated to be both eligible and willing to engage in further support services.

The Government has a particular interest in initiatives that respond to the needs of Aboriginal people, who are significantly overrepresented in the criminal justice system. According to 2010/11 figures:

- Aboriginal people represented 47 per cent of offenders admitted to a Juvenile Justice Centre
- Aboriginal people represented 26.9 per cent of all adult receptions and 28.3 per cent of all sentenced adult offenders admitted to a correctional centre.

All recidivism cohorts are likely to include a significant proportion of Aboriginal offenders. Programs for Aboriginal offenders would need to address challenges such as small and/or widely distributed cohort sizes and limited existing evidence of effective interventions. For example, to address geographic distribution, a lead agency with state-wide service capacity could partner with smaller, local service providers in target areas. In relation to evidence, successful interventions with indigenous groups in overseas jurisdictions may be relevant where Australian evidence is lacking.

Further information, including agencies' annual reports, Bureau of Crime Statistics and Research reports, links to justice cluster agency websites, and other material, can be accessed through the Department of Attorney General and Justice's online portal [www.lawlink.nsw.gov.au](http://www.lawlink.nsw.gov.au).

#### *Outcome and measurement*

Ideally, the indicator to measure success or failure will be the number of days in custody, with success being a reduction in the number of days in custody. This indicator is sensitive to both frequency and severity of reoffending. The data on the number of days spent in custody will be collected for the intervention group and a comparison group for the measurement period, following entry to the intervention. There may be multiple measurement periods as part of one SBB, which the Government envisages will run for five to eight years. The information can be derived from data currently collected by Juvenile Justice NSW.

The Government's preferred methodology is a randomised control trial (RCT) designed to estimate the difference in custody outcomes between the SBB intervention and a comparison group being managed under 'business as usual' arrangements (pre-SBB service levels). The comparison group would involve offenders meeting the referral

criteria in the same time period, but who are not referred to the intervention. Other approaches could be used if a RCT is not considered feasible or appropriate for the particular intervention (e.g. for ethical or practical reasons).

### *Indicative Benefit*

The precise government benefits to be used in calculating reward payments will be determined by negotiation with the proponents selected through the RFP process, as well as with prospective investors. This section describes an indicative benefit that might help to establish the economic test for the pilot.

Costs in the criminal justice system are largely related to the maintenance and staffing of facilities, rather than being linked directly to the individual offenders. Therefore the potential for significant cash savings will be limited unless sufficient numbers of offenders can be removed from the system to enable the closure of all or part of a facility. The Government estimates that approximately 300 to 500 potential prisoners would need to be removed from the adult system to enable the closure of an entire correctional centre, while removing 60 potential prisoners might enable the closure of a wing<sup>2</sup>. In the juvenile system, a reduction in the daily number of young people of at least 15 in custody is required for closure of an accommodation unit in a juvenile justice centre. Below this threshold the realisable saving from removing prisoners from the system is minimal, because the marginal cost per inmate is low. A robust benefits realisation plan would also be required to achieve financial savings approximate to average operating cost levels. These may be factored into the final calculation of benefits to Government from the SBB.

However, there are broader financial and economic benefits associated with reducing recidivism beyond the marginal cost of incarceration. These include offender services, court, legal aid and police time, avoided future capital expenditure, and non-government benefits such as reducing the cost of crime for the community. For

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<sup>2</sup> It is noted that closure of a wing or unit would result in only a small reduction in custodial staff positions and therefore only a small reduction in operational costs (for example, this might be only three positions for an adult correctional centre).

juveniles, it also includes the avoided cost of future incarceration episodes in the adult correctional system and reduced future involvement in the child protection system, as well as the benefits of increased engagement in education.

Based on total expenditure relative to the juvenile and adult offender populations, the average cost per offender is approximately:

- \$200 – for every day of adult custody
- \$650 – for every day of juvenile custody

While these average costs do not translate to direct financial benefits, there are broader economic benefits to reducing recidivism. For the purposes of comparing proposals submitted through the RFP process, and only for this purpose, these average costs can be used as a proxy for quantifying the broader economic benefits.

Final estimates of potential financial and economic benefits will be determined through collaborative work with the preferred proponents selected through the RFP process. A higher weighting will initially be given to potential realisable savings (including those that may be realisable once a certain scale is achieved) as against potential broader economic benefits.

Intangible benefits may include the value of the pilot for testing investor willingness and the practicalities of setting and measuring outcomes for reward payments, as well as the opportunity to test innovative service delivery approaches in this area.

## **8(b) Out-of-home care**

### *Cohort*

The intervention group for an OOHCB SBB can be chosen from a range of cohorts of children who are in or facing the prospect of being placed in general foster care. In order to meet the selection criteria, some factors to consider in selecting a cohort include:

- medium to high risk of requiring future foster care
- able to safely remain at or return home with provision of additional support
- number of children, support services available and their location.

There are currently almost 18,000 children and young people in OOHC in NSW and there were approximately 4,100 entries into care in 2009-10, a significant proportion of which entered foster care. Past trends indicate that approximately half leave foster care within 6 months of entry. For the children who remain in a foster care placement longer than six months, approximately 90 per cent have remained in care more than six years. These patterns can vary depending on the age, placement type and characteristics of children and young people and may change in the future.

Further information about the children and young people in care can be found in the Community Services Annual Statistical Reports at [http://www.community.nsw.gov.au/about\\_us/docs\\_data.html](http://www.community.nsw.gov.au/about_us/docs_data.html).

OOHC placements are currently managed either through the Department of Family and Community Services (Community Services) or NGOs. The sector is undergoing reform, with the Government committed to the transfer of OOHC services to NGOs and broader reforms to improve services for vulnerable children, young people and their families. Proponents can propose to work with families and children currently managed by themselves or other service providers, but should expect that current arrangements and processes for placing children in care will continue.

The Children's Court determines when it is safe for a child to be restored to their family. A successful outcome is therefore achieved when the Court approval for restoration has been granted.

#### *Outcome and measurement*

The indicator to measure success or failure is the number of days in care, with success being a reduction in the number of days in care. The data on the number of days spent in care will be collected for the intervention group and a comparison group for the measurement period, following entry to the intervention. There may be multiple measurement periods as part of one SBB, which the Government envisages will have a term of five to eight years.

The Government's preferred methodology is a randomised control trial (RCT) designed to estimate the difference in care outcomes between the SBB intervention and a comparison group being managed under 'business as usual' arrangement (pre-SBB service levels). The comparison group would involve children meeting the referral

criteria in the same time period who are not referred to the intervention. Other approaches could be used if a RCT is not considered feasible or appropriate for the particular intervention (e.g. for ethical or practical reasons).

All participants in the intervention will be included in the “Pathways of Care” study. The study will collect baseline information about the children and young people on entry to OOHC as well collect ongoing information on their life experiences and the various factors that influence their overall development. This will provide a more comprehensive assessment for the effectiveness of the services in terms of life outcomes for the children.

### *Indicative Benefit*

The government benefits to be used in calculating reward payments will be determined by negotiation with the proponents selected through the RFP process, as well as with prospective investors. This section relates to an indicative benefit that might help to establish the economic test for the pilot. At this stage, an indicative \$100 per child per day may be used to represent the average cost of OOHC placements.

There are other economic and social benefits associated with reducing time for children in OOHC. These may include benefits from reduced future involvement in the child protection system, increased educational engagement, reduction in offending, increased employment opportunities and establishment of a more secure home for younger siblings and future generations.

Final costs and benefits will be determined through collaborative work with the preferred proponents selected through the RFP process. Intangible benefits may include the value of the pilot for testing investor willingness and the practicalities of setting and measuring outcomes for reward payments, as well as the opportunity to test innovative service delivery approaches in this area.

## 9. Communications

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### **Submission of questions by proponent**

Subject to availability, the Government may be able to direct proponents to additional data that are specific to particular cohorts to help proponents test the viability of particular ideas before developing full proposals – requests should be forwarded to [sbb@treasury.nsw.gov.au](mailto:sbb@treasury.nsw.gov.au).

Areas where the Government may be able to provide further information include:

- size and geographic distribution of particular cohorts within the NSW service system
- existence and scope of NSW Government services in particular locations
- collection agency, frequency and content of existing NSW Government data collections (although specific data requests may not be possible during the RFP period).

Where possible, questions should be open and describe the situation for which data are sought.

Responses to questions of a specific proponent may be provided to all proponents via email to the nominated contact person for each proponent. If a question is not of a general nature, but relates to proprietary aspects of a proposal, the relevant proponent must identify the question(s) as such. If, in the opinion of the Evaluation Committee, the question is not proprietary in nature, the relevant proponent will be advised and will have the option to withdraw the question(s). If the proponent continues to request a response, the question(s) and the response may be circulated to all proponents.

Proponents may be required to agree to a deed of confidentiality, without material amendment, prior to receiving any information that is not publicly available.

Questions may be submitted up to 9.30am on 17 November 2011.

### **Additional information and clarifications sought by NSW Government**

Notwithstanding any other requirements of this RFP document, the Government may require proponents to submit additional information.

During the evaluation of any proposal, the Government may seek clarification or improvement of the RFP. Proponents are required to promptly respond to all such requests in writing.

The Government may perform such security, probity and financial investigations and procedures as it may determine are necessary in relation to any proponent, its employees, officers, partners, associates, subcontractors or related entities including consortium members and their officers, employees and subcontractors.

### **Feedback for unsuccessful proponents**

Unsuccessful proponents will be notified via their nominated contact person at the same time as preferred proponents are notified.

Proponents who are initially unsuccessful in being selected as preferred proponents may have a later opportunity to develop their proposal, if the Government decides not to proceed with one of the initial preferred proponents.

## 10. Probity

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NSW Treasury has engaged a probity auditor for the duration of the procurement process.

The probity auditor is not part of the Evaluation Committee, but is an independent observer of the evaluation process. The probity auditor will not be involved in the evaluation of any proposals.

Proponents who have any concerns about the conduct or probity of the procurement process should, notwithstanding any other restrictions contained in this document, promptly bring their concerns to the attention of the probity auditor.

The probity auditor's contact details are:

Rory O'Connor

O'Connor Marsden & Associates

Tel: 92522565

[roconnor@ocm.net.au](mailto:roconnor@ocm.net.au)

# 11. Other conditions applying to the procurement process

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## **No Legal Relationship**

This RFP document is not an offer.

No legal or other relationship, rights or obligations will arise between the proponent and the NSW Government, other than as expressly set out in the SBB Development Agreement and the SBB Implementation Agreements once they have been executed by all parties to them.

To the extent permitted by law, proponents will have no claim against the NSW Government, arising out of the exercise, or failure to exercise, by the NSW Government, of any powers or discretion in connection with this RFP, including but not limited to as a result of delays to the selection process.

## **Confidentiality**

By submitting a proposal, proponents recognise the commercial-in-confidence nature of the information, advice and other material held by the NSW Government, in relation to them and this project. The proponent undertakes not to disclose to any person, other than to persons engaged in the preparation of its proposal, any information in respect of its proposal or any information provided to it by the NSW Government, or any other person on behalf of the NSW Government in relation to this project, without the prior written consent of the NSW Government.

## **Conflict of interest**

Proponents are required to demonstrate the absence of, or the ability to satisfactorily manage, any existing or potential conflicts of interest.

## **Discussions with the NSW Government and other relevant parties**

Proponents are required to use the [sbb@treasury.nsw.gov.au](mailto:sbb@treasury.nsw.gov.au) email address for all queries in connection with information associated with this document. Proponents are otherwise prohibited from contacting any officer of the State (including State Government Ministers, Members of Parliament or their officers) to discuss any aspect of the project or the procurement process.

All Committee members and those NSW Government officers with any involvement in the project have undertaken to formally report all communications regarding the project to the Chair of the Steering Committee. Unauthorised communication in relation to the Project may lead to the disqualification of the proponent from any further participation in the procurement process.

## **Costs**

No payment will be made by the NSW Government to any proponent for any costs, losses or expenses incurred by the proponent in preparing and submitting its proposal(s), attending any meetings, providing any further information, or otherwise in connection with its participation in the selection process or with this RFP document (including any amendments to it).

## **Disclaimer**

The NSW Government makes no warranty or representation and does not assume any duty of care to proponents that the information in this or any other document or information provided by the NSW Government, or any other person on its behalf, is accurate, adequate, suitable or complete, and the NSW Government accepts no responsibility for interpretations placed on the information by proponents. Proponents should submit their proposal based on their own investigations and determinations and should not rely on the information contained in this or other such documents.

## **Amendments and Termination**

Without limiting any other rights, the NSW Government reserves the right in its absolute discretion to cancel, amend, vary, supplement or replace this RFP document by notice in writing to all proponents. The NSW Government will not be liable for any

consequential costs and expenses incurred by any proponent arising from any such cancellation, amendment, variation, supplement or replacement.

The NSW Government may in its absolute discretion modify or terminate the procurement process at any time. The NSW Government reserves the right to reject any and all proposals.

### **Meetings**

The NSW Government may, from time to time during the selection process, convene meetings with proponents, either individually or collectively, to discuss issues associated with the selection process, proponents' proposals or any other aspect of the project.

### **NSW may rely on information in proposal**

By submitting a proposal, the proponent:

- warrants to the NSW Government that the information contained in its proposal is accurate and complete as at the date on which it is submitted
- undertakes to promptly advise the NSW Government if it becomes aware of any change in circumstances which causes the information contained in its proposal to become inaccurate or incomplete in a material aspect
- acknowledges that the NSW Government will rely on the above warranty and undertaking when evaluating its proposal, and
- acknowledges that the NSW Government may suffer loss or damage if the proponent breaches the above warranty and undertaking.

### **Ownership of proposals and exchange of information between Government agencies**

All proposals become the property of the Government on submission and the Government may make copies of the proposals for any purpose related to the RFP.

In the evaluation of proposals the Government may take into account any information about the proponent that the Government receives from any source.

## **Intellectual property**

Many of the lessons from the SBB trial will form an important part of the public policy evidence base. The Government will seek to own or make free use of the relevant intellectual property that is generated from the SBB pilots.

The Government and the preferred proponent will negotiate appropriate intellectual property clauses as part of the SBB Development Agreement and SBB Implementation Agreement.

## **The proponent's team**

It is envisaged that key members of the proponent's team will not change from the time of submitting the proposal until the commencement of the implementation of the SBB pilot. Any change in key members during this period without the prior approval of the NSW Government may, in the Government's absolute discretion, lead to exclusion of the proponent from further consideration.

## **Code of Practice for Procurement**

In submitting its proposal, the proponent signifies agreement to comply with the NSW Government Code of Practice for Procurement as amended from time to time, together with any other codes of practice relating to procurement, including any amendments to such codes that may be applicable to this particular RFP. The Code can be viewed and downloaded from: [http://www.nswprocurement.com.au/Government-Procurement-Frameworks/Files/code\\_of\\_prac-curr.aspx](http://www.nswprocurement.com.au/Government-Procurement-Frameworks/Files/code_of_prac-curr.aspx).

## **Local Jobs First Plan**

The requirements of the Local Jobs First Plan (available at <http://www.nswprocurement.com.au/>) will be included in subsequent stages of the multi-staged procurement process, if applicable.

## 12. Submission and timeframe

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Proposals should be submitted on <https://tenders.nsw.gov.au/> by 9.30am AEST on the closing date, **Thursday 24 November 2011**.

### Timeframe

#### *(i) Request for Proposals*

- Information session for interested parties: 11 October 2011
- Closing date for proposals: 24 November 2011
- Preferred proponents advised: early 2012

#### *(ii) Joint development process*

- Early to mid-2012

#### *(iii) SBB Implementation Agreement negotiated and executed*

- Mid- to late 2012

## 13. Glossary

Break clause	Details the circumstances under which a party to the SBB can terminate their participation.
Comparison group	Individuals within a target cohort, sharing similar characteristics to the intervention group, but not receiving services as part of the intervention.
Confidence level	The proportion of trials that would be expected to show an effect that is not due to chance.
Counterfactual	The comparison group or predictive calculation against which the intervention group will be compared, with success being measured by the <i>relative change</i> in outcomes between the two groups.
Debt issuer	Entity that issues a debt instrument (an obligation to repay a fixed amount of money) such as a SBB. This entity must have the legal capability to issue the debt instrument.
Government	The Government of New South Wales.
Intervention group	Individuals within a target cohort who receive services as part of the intervention.
Joint development phase	See Section 3 (ii).
Payment trigger	A measured result linked to government payments under the SBB Implementation Agreement.
Preferred proponents	The two proponents selected to proceed to the development phase.

Principal	The initial value of the investment.
Probity auditor	The independent company appointed by to advise on probity issues.
Proponent/	Any person(s), company(ies) or other organisation(s) who respond to this Request for Proposals.
Proven court appearance	A court appearance where the matter is finalised and one or more offences were proven (i.e. not dismissed, withdrawn, or found not guilty).
Provider(s)	Any organisation providing services directly to the cohort identified for the pilot(s). This may or may not be the same organisation as the Social Benefit Partner.
Randomised controlled trial	A trial in which subjects, after assessment of eligibility and recruitment, but before the intervention to be studied begins, are randomly allocated to receive one or other of the alternative treatments/services.
Realisable savings	Where government expenditure is avoided and this can be directly reflected on the balance sheet.
SBB Development Agreement	A legal agreement negotiated and executed between the Government and a preferred proponent selected through this RFP process, governing the terms of the joint development phase with that proponent.
SBB Implementation Agreement	A legal agreement negotiated and executed between the Government and the proponents who will participate in a SBB pilot, governing the terms under which the pilot will be implemented.
Social Benefit Partner	The organisation that is responsible for the improvement of

	the outcome for the intervention cohort, holds an agreement with Government by which they are paid upon measurement of this improvement and issues social benefit bonds to investors.
State	The Government of New South Wales.
Statistical significance	Where results would not have occurred due to chance, according to some confidence level.

# Appendix 1: Example SBB calculations

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## **Social Benefit Bond for reducing juvenile recidivism**

This example illustrates how a Social Benefit Bond addressing juvenile recidivism could be approached. It combines periodic monitoring for those in the cohort with a low risk of reoffending with intensive wrap-around services for those in the cohort who have committed serious or repeat offences, or who exhibit severe anti-social behaviour which increases their risk of offending.

**This example, including the assumed improved service delivery outcome and associated costing, is illustrative only.** It is intended to assist proponents in developing an approach to a SBB. It does not necessarily reflect government preference for a SBB with these particular services or other characteristics.

### *1. Outcome*

The intended outcome of the service is to empower young people and their families to address the factors that contribute to their offending behaviour. It is expected that the effects of the intervention will be sustained after its completion through increased connections to community, support networks and local services.

### *2. Outcome measurement*

The achievement of the outcome will be measured by the reduction in the number of days spent in custody by the intervention group compared to the number of days spent in custody by the control group. The measurement period is one year following referral. The data are currently collected by Juvenile Justice NSW.

In this illustration, the SBB term is six years, meaning there will be five measurement periods.

### *3. Proposed Service*

The intervention is expected to provide a range of services that are tailored to the specific needs of the child and family being supported. In this illustrative example, the

distribution of service is concentrated on young, repeat offenders with complex needs who require intensive assistance to address their criminogenic needs. Others in the cohort are provided less intensive services, varying according to their needs.

#### 4. Service Effectiveness

The service is expected to reduce the likelihood of reoffending by the intervention group and, in doing so, reduce the number of future days in custody. The effectiveness of the intervention is measured through the difference between the total number of days in custody for the intervention group and the total number of days in custody for the control group<sup>3</sup>.

The nominal service improvement is a 20 per cent reduction in days in custody for the intervention group compared to the comparison group over the measurement period. This is based on the assumption that 30 per cent of offences are attributable to 6 per cent of the juvenile offender population<sup>4</sup> and reflects the results achieved by service providers in the current program. These assumptions require rigorous testing. A calculation of effectiveness is illustrated below.

**Table 1: Effectiveness measurement**

	<u>Intervention Group (IG)</u>	<u>Comparison Group (CG)</u>
Number of juvenile offenders	1250	1250
Days in custody for this cohort in the year (365 days) following referral	13,294	16,618
Measured intervention effectiveness - % reduction in days	20%	

See Section 8 for a basic economic test based on this example. This test reflects the good performance scenario. For reward payments to be made at the good performance

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<sup>3</sup> Rather than comparing total days in custody, much of the research in this area compares the average number of days in custody between intervention and comparison groups, divided by the standard deviation (Cohen's d). The most appropriate approach would be considered during the joint development phase of the SBB.

<sup>4</sup> Chen, S, Matruggio, T, Weatherburn, D & Hua, J (2005) 'The transition from juvenile to adult criminal careers', Crime and Justice Bulletin: Contemporary Issues in Crime and Justice, No. 86, NSW Bureau of Crime Statistics and Research, Sydney

level under this example, a reduction in custody days of greater than 20 per cent would be required.

The expected effect must be a credible estimate in order to attract investors and give all parties, including the NSW Government, the confidence that the intervention will be a success. The credibility for an assumed effect size might be demonstrated through:

- evidence from a similar program in NSW
- evidence from a similar program in another jurisdiction, either in Australia or overseas; or
- other expert knowledge or experience.

#### *5. Intervention Cohort*

The target cohort includes five consecutive annual intakes of 250 young people statewide. They will be offenders under 18 at the point of caution, proven court appearance or youth justice conference, having previously had two of any combination of these, and not currently under a control order. There are an estimated 800 juveniles in this cohort per annum, averaging 53 days' incarceration per person over the four years following referral.

Under this illustration, if days in custody are reduced by at least 20 per cent then the effect for each annual intake will be statistically significant. This will allow government payments to be made on an annual basis from the fourth year of the bond until final measurement is finalised in the eighth year.

#### *6. Comparison Cohort*

The comparison group will also include five consecutive annual intakes of 250 young people. This group will receive the 'business-as-usual' services currently available in their communities. All children and young people meeting the criteria set out in Section 5 will be randomly assigned between the intervention and comparison groups.

#### *7. Referral*

It is expected that the contact details of the offenders meeting eligibility criteria will be provided by Government. First contact with the offenders for an offer of service will be made by (or under the oversight of) the SBB provider.

## *8. Calculated benefit to NSW Government*

While results are measured over a period of one year, this calculation includes benefits over the four years after referral for juveniles, as well as the first episode of adult incarceration. The value of Government benefits is based on the average operating costs for custodial services and the difference in days in custody for the intervention and comparison groups.

The calculation uses average operating costs per person per day for custodial services, which were around \$650 and \$200 for juveniles and adults, respectively, in the 2010/11 financial year.

Costs in the criminal justice system are largely related to the maintenance and staffing of facilities, rather than being linked directly to the individual offenders. Therefore the potential for significant cash savings will be limited unless sufficient numbers of offenders can be removed from the system to enable the closure of all or part of a facility. The Government estimates that approximately 300 to 500 potential prisoners would need to be removed from the adult system to enable the closure of an entire correctional centre, while removing 60 potential prisoners might enable the closure of a wing<sup>5</sup>. In the juvenile system, a reduction in the daily number of young people of at least 15 in custody is required for closure of an accommodation unit in a juvenile justice centre. Below this threshold the realisable saving from removing prisoners from the system is minimal, because the marginal cost per inmate is low. A robust benefits realisation plan would also be required to achieve financial savings approximate to average operating cost levels. These may be factored into the final calculation of benefits to Government from the SBB.

It should also be noted that, while this illustrative example calculates benefit on the average cost of incarceration per offender, SBB proposals might also result in other benefits for Government.

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<sup>5</sup> It is noted that closure of a wing or unit would result in only a small reduction in custodial staff positions and therefore only a small reduction in operational costs (for example, this might be only three positions for an adult correctional centre).

Based on these assumptions a basic economic test can be performed<sup>6</sup>.

**Table 2: Benefit calculation (for good performance scenario)**

		<u>Intervention Group (IG)</u>	<u>Comparison Group (CG)</u>
Number of juvenile offenders in Cohort	A	1250	1250
%age reoffending	B	64%	80%
Number of juveniles reoffending	C = A x B	800	1000
Expected days in remand	D	4,096	5,120 **
Expected days on control order	E	49,081	61,352 **
Expected number of days in custody for cohort	F = D + E	53,178	66,472 **
Intervention effectiveness - % reduction in days	$(F_{CG} - F_{IG}) / F_{CG}$	20%	
Cost per day (including future adult incarceration costs)	G	\$780 *	\$780 *
Projected cost to NSW Government for cohort	H = F x G	\$41,482,521	\$51,853,151
Benefit to NSW Government from intervention	I = H <sub>CG</sub> - H <sub>IG</sub>	\$10,370,630	
Expected cost of intervention	J	\$6,250,000	
Expected net benefit to NSW Government from intervention	K = J - I	\$4,120,630	

\* \$780 per day is \$650 per person (average cost juvenile custody) + \$130 for one adult incarceration at an average of 411 days for 13 per cent of those who attend court as a juvenile<sup>7</sup>. This figure is an illustration of calculated benefit on the average cost of incarceration. SBB proposals might also look to other benefits for Government.

\*\* Indicative average days in custody for the cohort over the four years following referral are given in the **service area information** section. They include an average of 49 days on control order, 4 days on remand and 53 days in total. They have been calculated based on this specific cohort over the four years June 2006 - June 2010 and are highly sensitive to variation in eligibility criteria, age and time. They are not normally distributed. These figures may be used for the purpose of an expression of interest but will be accurately developed with proponents before the trial begins.

**Note:** *The above calculations are for illustrative purposes only and require rigorous testing.*

<sup>6</sup> Numbers in table may not add up due to rounding.

<sup>7</sup> Chen, S, Matruggio, T, Weatherburn, D & Hua, J (2005) 'The transition from juvenile to adult criminal careers', Crime and Justice Bulletin: Contemporary Issues in Crime and Justice, No. 86, NSW Bureau of Crime Statistics and Research, Sydney

## **Social Benefit Bond for restoration from out-of-home care**

This example illustrates how a Social Benefit Bond in OOHC could be approached. It uses as an illustration a service that addresses drivers of family dysfunction and in doing so enables a child to be safely restored to their family from OOHC.

**This example, including the assumed improved service delivery outcome and associated costing, is illustrative only.** It is intended to assist proponents in developing an approach to a SBB. It does not necessarily reflect NSW Government preference for a SBB with these particular services or other characteristics.

### *1. Outcome*

The intended outcome of the service is to restore children to their families, where they can grow up in a safe, stable, and nurturing environment. Restoration is achieved when the Children's Court is satisfied that the child will be safe if returned to its family.

### *2. Outcome measurement*

The outcome is measured by the number of days in OOHC. The data on the number of days spent in OOHC will be collected for the group that receives services (the "intervention group") and a comparison group for the year following entry to the intervention. The data are currently collected by the Department of Family and Community Services (Community Services) .

Measurement will commence six months after the date of referral to the service. (Six months is the expected average duration for the intervention.) Data on days in OOHC will be collected for 12 months following this date.

In this illustration, the SBB term is six years, meaning there will be five measurement periods.

### *3. Proposed Service*

In this illustration, the SBB funds a range of services that are tailored to the specific needs of the child and family being supported in order that a restoration can be achieved. The services provided might include: an assessment of family dynamics and strengths, development of family goals, counselling, guidance on how to manage

challenging behaviours in children, mediation and support towards family reconciliation and life-skills education.

In this illustration it is assumed that the intervention service lasts on average for 6 months, after which time the child is restored to its family or remains in OOHC.

#### 4. Service Effectiveness

The effectiveness of the intervention will be estimated by comparing the data for the intervention and comparison groups<sup>8</sup>. The number of days in OOHC should be lower for the intervention group. The degree to which it is lower will determine the measured effectiveness of the services, against which reward payments (and repayment of capital) will be determined. A calculation of effectiveness is illustrated below.

**Table 1: Effectiveness measurement**

	<u>Intervention Group (IG)</u>	<u>Comparison Group (CG)</u>
Number of children referred to the service (over 5 years)	400	400
Days in OOHC for this cohort in the year (365 days) of the measurement period	102,200	131,400
Measured intervention effectiveness - % reduction in days	<span style="border: 1px solid black; padding: 2px;">22%</span>	

In this example, the number of days in OOHC for the intervention group is 22 per cent less than for the comparison group. The intervention group receives the services funded by the SBB. The comparison group will receive the standard support provided to children in care and their carers.

See Section 8 for a basic economic test based on this example. This test reflects the good performance scenario.

The expected effect must be a credible estimate in order to attract investors and give all parties, including the NSW Government, the confidence that the intervention will be a success. The credibility for an assumed effect size might be demonstrated through:

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<sup>8</sup> Rather than comparing total days in care, much of the research in this area compares the average number of days or children in care for intervention and comparison groups, divided by the standard deviation (Cohen's d). The most appropriate approach would be considered during the development phase of the SBB.

- evidence from a similar program in NSW
- evidence from a similar program in another jurisdiction, either in Australia or overseas; or
- other expert knowledge or experience.

### *5. Intervention Cohort*

The target cohort includes children with all of the following characteristics:

- have been in OOHC in General Foster Care for (approximately) six months and have restoration as a goal in their case plan
- intensive family preservation supports are considered necessary to achieve a successful restoration
- the provider can successfully engage the family to participate in the intervention, and
- the family is located in Campbelltown (for illustration).

The intervention cohort family must also be willing to be involved in the Pathway to Care study.

### *6. Comparison Cohort*

The comparison group comprises children with characteristics (a) and (b) above, with similar ages and ideally from the same location or locations with similar socio-economic profiles. Suitable children and families will be identified by the Department of Family and Community Services (Community Services) for the comparison group. The comparison group would need to be verified as a reasonable comparison group for assessment purposes by an independent audit body appointed under the SBB.

To make a meaningful assessment of effectiveness, the size of the group must be sufficient to confirm a (statistically significant) 10 per cent difference in days in OOHC. The intervention group size needs to be sufficient to demonstrate the effect.

### *7. Referral*

The Community Services Manager Casework will refer children and families who satisfy the target cohort characteristics to the service provider.

Participation in the program is voluntary, but performance will be measured on all those who are referred, *not* those who engage with the service. This ensures services have an incentive to work with all families (avoiding any attempt or perceived attempt to “cherry-pick” the families who are likely to improve without assistance).

#### *8. Calculated benefit to NSW Government*

Calculations of Government benefits are based on the annual cost of OOHC provision and the expected time in OOHC for the cohort. The effectiveness measurement is based on a comparison of days in OOHC for the intervention group and the comparison group over the year following the intervention. For the calculation of benefits to NSW Government, it is assumed that the reduction in days in OOHC continues in later years.

Based on time in care data, the average length of time in OOHC for children who have already been in general foster care for 180 days is 6+ years. For the purpose of this calculation a 6 year period is used. If the intervention service lasts 6 months, the child will be in OOHC for one year before restoration. This suggests that for every child (permanently) restored there is a benefit of approximately five years’ OOHC expenditure to NSW Government.

It should be noted that while the example calculates benefit on the expected cost of OOHC, SBB proposals might also look to other benefits for Government. For example, an intensive family preservation service might consider benefits in the areas of reduced child protection reports, health, education and crime and justice<sup>9</sup>.

Based on these assumptions and using an example cost of general foster care placement of \$100 per day, a basic economic test can be performed.

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<sup>9</sup> Examples of the benefits that might be included can be found in the evaluation of Brighter Futures, which considers the potential savings to Government arising from this early intervention program – see “The Evaluation of Brighter Futures, NSW Community Services’ Early Intervention Program, Final Report”, Social Policy Research Centre, University of New South Wales, September 2010.

**Table 2: Benefit calculation (for good performance scenario)**

		<b>Intervention Group (IG)</b>	<b>Comparison Group (CG)</b>
Number of children in Cohort	A	400	400
%age restored	B	30%	10%
Number of children restored	$C = A \times B$	120	40
Number of children remaining in OOHC	$D = A - C$	280	360
Number of years in OOHC for those not restored		6	6
Years in OOHC before service intervention completed		1	1
Remaining expected years in OOHC (based on average)		5	5
Remaining expected days in OOHC (based on average)	E	1825	1825
Expected number of days in OOHC for cohort	$F = D \times E$	511,000	657,000
Intervention effectiveness - % reduction in days	$(F_{CG} - F_{IG}) / F_{CG}$	22%	
Cost per day	G	\$100	\$100
Projected cost to NSW Government for cohort	$H = F \times G$	\$51,100,000	\$65,700,000
Benefit to NSW Government from intervention	$I = H_{CG} - H_{IG}$	\$14,600,000	
Expected cost of intervention	J	\$8,000,000	
Expected net benefit to NSW Government from intervention	$K = J - I$	\$6,600,000	

## Appendix 2: Indicative SBB structure

