



## Social Benefit Bonds Trial in NSW

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### General

#### What is a social benefit bond?

A social benefit bond (SBB) is a financial instrument that pays a return based on the achievement of agreed social outcomes. Under a SBB, investors fund the delivery of services targeted at improving a particular social outcome. Achievement of this outcome should reduce the need for, and therefore government spending on, acute services. Part of the resultant public sector savings are then used to repay investors' principal and make additional reward payments (the return on investment), the level of which is dependent on the degree of outcome improvement achieved.

#### Are SBBs operating elsewhere?

The NSW SBB trial will be the first in Australia and one of the first anywhere in the world.

In the United Kingdom, where the model is referred to as a social impact bond, the first trial was launched at Peterborough Prison in 2010. It was developed by [Social Finance UK](#) in conjunction with the UK Ministry of Justice. There are now 14 bonds in development or operation in the UK.

In the United States, a Bond to reduce re-incarceration of adolescents in New York was launched in 2012. Goldman Sachs invested \$9.6 million in the Bond which is supported by a guarantee of \$7.2 million provided by Bloomberg Philanthropies.

President Obama has made \$100 million provision in the 2012 Budget Plan for up to seven "[Pay for Success Bonds](#)", and a number of US states have begun their own development work.

There has also been interest in SBB models elsewhere in Australia; including a discussion of the model at hearings of the [Senate Economics References Committee Inquiry into Finance for the Not-for-Profit Sector](#) as well as a research paper, Understanding Social Impact Partnerships, into their application in Western Australia.

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### Why is the NSW Government doing this?

The Government believes that SBBs offer numerous potential benefits, and this is why the model is being trialed. The benefits include:

**A focus on outcomes rather than outputs:** Under traditional purchaser-provider arrangements, Government payments typically attach to units or blocks of service rather than the outcome the Government is seeking to achieve. In contrast, SBBs provide a direct financial incentive to focus on and improve the outcome in question. This change benefits both the Government and providers: the Government gets better outcomes, while providers are relieved of burdensome reporting to Government about service inputs and outputs, and instead are free to focus on delivering the outcome in a way that best suits their own approach and preferences.

**Additional resources towards early intervention:** Releasing Government funds for prevention and early intervention can be difficult when resources are oriented towards acute and crisis services. SBBs allow an expansion of investment in early intervention through the use of upfront private funding. If successful, this reduces later demand for acute services and frees up Government funds, part of which can then be used to repay investors.

**Innovation:** Payment for results, rather than delivery of a prescribed service, frees service providers and investors to explore different ways of achieving better results. Providers have the flexibility to change service delivery approaches or experiment with a number of approaches at the same time. Investors have an incentive to work with providers to drive performance; for example, by encouraging providers to abandon approaches that are not achieving results and supporting them to find and implement new approaches.

**Improving the evidence base:** SBBs will be more attractive to investors if they are backed by evidence that indicates that the proposed interventions will be successful. Further, the link between payments and results necessitates the robust measurement of outcomes. These features increase locally relevant evidence and data for future policy makers. By improving measurement in these areas, the Government believes that other social policy areas will benefit as well.

**Accountability and transparency:** The focus on clear outcomes measurement in SBBs ensures that there is clarity about what NSW Government funding is achieving, and when.

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### If this is such a good idea why doesn't the Government just fund it directly? Isn't it more expensive to pay the private sector?

In comparing different funding options, the Government considers cost effectiveness, not just direct cost; that is, the comparative benefits that can be 'purchased' for any particular level of expenditure. SBBs have an advantage over current direct funding models in that public funds are only expended (in the form of principal repayments and reward payments) after the benefits have been achieved.

Another benefit of the SBB funding model is that, by accessing private capital, it facilitates upfront expenditure over and above what is available from public funds at the time the expenditure is needed. If the funded intervention is successful, additional public funds are then freed up to repay the upfront expenditure.

If the pilot SBBs are successful, the Government is hopeful an entirely new field of social finance will open up, and will provide a new source of funding for these much needed programs and outcomes.

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### Why is the Government supporting investors making a profit from social programs?

The Government is interested in the improved social outcomes and value for money that could be achieved through SBBs. The non-profit sector faces ever increasing demands for services. It is simply not possible for the NSW Government to fully fund every program. Social benefit bonds have an advantage over current direct funding models in that public funds, in the main, are only expended (in the form of principal repayments and reward payments) after the benefits have been achieved and are based on outcomes.

The traditional view that profit is for private gain is being challenged by the emerging field of social investment, which is based on the principle that profit can also be aligned with public gain. SBBs provide a way to direct private capital towards public benefit, and only provide private returns after that public benefit is achieved.

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## What are the potential benefits for the NSW Government?

The many benefits for the NSW Government are the same as those for NSW taxpayers. These include:

- Better outcomes by providing a direct financial incentive for a service provider to focus on and improve the outcome in question.
- The expansion of investment in early intervention through the use of upfront private funding, if successful this also reduces future demand for acute services and frees up Government funds, part of which can then be used to repay investors.
- Limiting the risk to Government of funding programs which are not successful.
- Increasing the evidence base and availability of robust data for future policy makers as a result of the need for robust measurement.

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## How does an SBB differ from government grants/contribution schemes?

Current government grants and contribution schemes generally provide funding based on the inputs and outputs of social programs. As a result, they are largely commissioned on the basis of cost rather than on the value that they provide. Grants and contribution schemes generally provide one-off or recurring cash payments to cover program costs.

A Social Benefit Bond is generally based on funding outcomes such as a reduction in reoffending or a reduction in children in out-of-home care. They generally leverage off private capital sources or cross-sector partnerships by aligning the interests of multiple stakeholders in achieving positive social outcomes. This encourages innovation and flexibility to provide services to better achieve outcomes. The need to measure outcomes increases accountability and adds to the evidence base which aids the delivery of other evidenced based policies.

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## How is an SBB different to a Waratah Bond?

An SBB is intended to create savings for the government while improving social outcomes. Part of these savings will provide repayments to investors commensurate with the outcomes achieved.

The NSW Waratah Bond Programme offers low risk, stable income to investors. Money raised through the issuance of Waratah Bonds is used to fund investment in NSW infrastructure and other public sector activities.

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## What happens to a SBB if the political party in power changes after an election?

The robust performance measures of a SBB provide a true mechanism for governments to pay only for results achieved and to save taxpayer money. They also increase the number of preventive interventions facilitated by the government and offer a mechanism to scale up proven preventive programs without requiring government agencies to take on the upfront funding. Additionally, SBBs provide incentives to make cost effective decisions to maximise outcomes. Given this, it is unlikely that a change in Government would result in the termination of any SBBs.

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## What is the status of the NSW SBB pilots?

On 27 March 2013, the NSW Treasurer, Mike Baird and the NSW Minister for Family and Community Services, Pru Goward announced the NSW Government had signed Australia's first Social Benefit Bond contract. The Newpin SBB will fund UnitingCare Burnside's New Parent and Infant Network (Newpin) program that works intensively with struggling families to keep them safely together. On 4 June 2013 Social Ventures Australia announced they had successfully raised the required \$7 million to finance the Bond, one month before the scheduled close.

On 13 June 2013, the NSW Government signed the contract for the second SBB pilot - for a Resilient Families Service (RFS) provided by The Benevolent Society. The aim of the RFS is to strengthen family functioning and relationships, and ensure children's safety and wellbeing in order to prevent children entering into out-of-home-care.

The Government is working on the development of a third SBB pilot to reduce adult reoffending in the criminal justice system. If a viable model can be designed for the benefit of the community, investors and Government, this pilot will also be implemented in 2013-14.

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## **How do the Newpin SBB and The Benevolent Society SBB fit with other Government services and programs?**

The Newpin SBB will focus on restoring children to families and preventing children from entering out-of-home care. The Benevolent Society SBB will also work with vulnerable families and their children to keep them safely together. Children in out-of-home care often have poorer outcomes than their peers. These SBBs are part of a broad range of reforms to improve services and lives for children and young people in out-of-home care.

Social Benefit Bonds are an exciting new way of building innovative partnerships with the non-government sector and investors to deliver measurable and outcomes-based services. They provide new, additional funding that helps raise money for important earlier intervention and intensive services that otherwise might not receive funding due to limited Government resources.

For further details on how Social Benefit Bonds differ from traditional government grants or contribution schemes and why the NSW Government is involved in these instruments please refer to the NSW Treasury website ([http://www.treasury.nsw.gov.au/site\\_plan/social\\_benefit\\_bonds](http://www.treasury.nsw.gov.au/site_plan/social_benefit_bonds)).

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## **Why did it take so long to develop the pilot SBBs?**

Social benefit bonds are a new financial model, with many interrelated components to be understood. The government's commitment to social benefit extends to learning, sharing knowledge and developing the capacity of all organisations involved in launching the bonds. The process has been thorough, and ensures that the Newpin SBB and The Benevolent Society SBB are robust, transparent and financially well structured.

The development of future SBBs will benefit from the knowledge built and care taken in developing these pilot SBBs.

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## **What are the details of the Newpin SBB?**

The \$7 million bond will initially fund four centres and pay for the expansion of UnitingCare Burnside's Newpin program which aims to break the destructive cycle of family relationships that lead to abuse and neglect.

By providing intensive support to improve parenting styles, behaviour and practices, the program helps parents to build positive parent-child relationships. Newpin safely restores children in care to their families and prevents entry into care.

When Newpin achieves agreed social outcomes, such as safely restoring children in care to their families or preventing entry into care, this generates significant social and economic benefits. These benefits mean the Government needs to spend less on acute services and is able to spend taxpayers money helping families in other ways.

The savings delivered by successful outcomes are used to pay back the investors' up-front funding as well as provide a return to investors.

Newpin has a solid evidence base and a track record of delivering successful family restoration.

The restoration rate of children who enter the program is the key performance indicator which produces the interest rate and the repayment obligations of the bond. The Newpin SBB targets a financial return of 10 to 12 percent per annum. This is dependent on the successful performance of the service and the outcomes it achieves.

All family restorations are independently decided by the NSW Children's Court. Neither UnitingCare Burnside nor investors make these decisions.

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## **Who is involved in the Newpin SBB?**

The NSW Government Department of Family and Community Services (FaCS) is working with UnitingCare Burnside (the Newpin program provider) and Social Ventures Australia (SVA) to implement the Social Benefit Bond.

UnitingCare Burnside will use the money raised through the bond to run and expand the Newpin program.

SVA is a financial advisor and marketed the bond to investors with the assistance of the Government and UnitingCare Burnside.

SVA and UnitingCare Burnside raised the \$7 million for the bond by June 2013. The bond will operate from 1 July 2013 for seven years.

**For further details on the Newpin SBB please refer to:**

Social Ventures Australia (investment information)

Ian Learmonth: [ilearmonth@sva.com.au](mailto:ilearmonth@sva.com.au)

02 8004 6729; 0407 673 759

[www.socialventures.com.au](http://www.socialventures.com.au)

UnitingCare Burnside and Newpin

Sally Cowling: [scowling@burnside.org.au](mailto:scowling@burnside.org.au)

02 9407 3228; 0402 853 885

[www.burnside.org.au](http://www.burnside.org.au)

[www.newpin.org.au](http://www.newpin.org.au)

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**What are the details of The Benevolent Society SBB?**

The \$10 million bond will operate over a five-year period and will fund intensive work with up to 400 families and their children in the Resilient Families Service (RFS).

The Benevolent Society will work with at-risk families for up to nine months, with an initial six week intensive period where staff build trusting relationships and address immediate crises in a family. Together, staff and families will deal with issues such as stable housing, debt problems, regular income, domestic violence, substance misuse and improved family functioning and relationships. Over the long-term they will work together so that changes will last and families are able to cope with future challenges and use other community services that will address any problems they have.

The Benevolent Society uses a Resilience Practice Framework, which incorporates professional practices and approaches that have been proven to be effective. In addition, the initial phase of the RFS has strong parallels with the successful US model, Homebuilders, which has a solid evidence base. Research into the program has shown that Homebuilders achieved significant improvements for families whose children had previously been in care or who had prior substantiated child protection reports.

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**Who is involved in The Benevolent Society SBB?**

The NSW Government Department of Family and Community Services (FaCS) is working with The Benevolent Society (the RFS program provider), the Commonwealth Bank of Australia and Westpac Institutional Bank to implement the Social Benefit Bond.

**For further details on The Benevolent Society SBB please refer to:**

For more information about The Benevolent Society, visit [www.benevolent.org.au](http://www.benevolent.org.au)

For information about investing, contact Craig Parker, Executive Director, Head of Structured and Asset Finance, Westpac Institutional Bank

02 8254 9116 or [cparker@westpac.com.au](mailto:cparker@westpac.com.au)

**About the NSW trial**

**Where can I get more information about the NSW trial?**

Further information on the SBB Trial in NSW will be published via the NSW Treasury website.

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**Managing risks**

**What financial/legal risk would our organisation face by participating in an SBB?**

It is envisaged that the financial risk associated with an SBB is borne primarily by investors. The SBB issuer (the organisation providing or overseeing provision of the SBB-funded services) may also choose to take on some financial risk and share in the financial return from a successful SBB. However, the precise structure of each SBB will be determined collaboratively during the development of the SBB.

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**How will outcomes be measured? How can you be sure measurement is accurate?**

Target outcomes and corresponding Government payments will be agreed in the Joint Development Phase and included in the agreements that will establish the SBB. Independent evaluators will be commissioned to measure performance against the agreed target outcomes. Dispute resolution arrangements will also be agreed before the start of each pilot.

A significant amount of work is needed to ensure the indicators used are an accurate reflection of the agreed outcome, that they cannot be gamed and do not create perverse incentives. Specific arrangements will depend on the SBB.

**I am interested in investing in Social Benefit Bonds. Where can I get more information?**

The NSW Government has signed contracts for the implementation of two of the pilot SBBs, the details of which are above.

The Government is still working with one of the preferred proponents on the details of a pilot in the Joint Development Phase. Information on how to invest in the third SBB may be posted on the NSW Treasury website once the terms of the Bond are agreed.

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**Can you recommend further background material on SBBs?**

Social Finance UK has published a number of useful guides and policy documents, including advice on how to develop an SBB:

- [Social Impact Bonds: Rethinking finance for social outcomes](#) (2009)
- [Towards A New Social Economy: Blended value creation through Social Impact Bonds](#) (2010)
- [Technical Guide: Criminal Justice](#) (2011)
- [Technical Guide: Vulnerable Children and Young People](#) (2011)
- [Social Impact Bonds: The One Service. One Year One](#) (2011)
- [A New Tool for Scaling Impact: How Social Impact Bonds Can Mobilize Private Capital to Advance Social Good](#) (2012)
- [A Technical Guide to Developing Social Impact Bonds](#) (2013)

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Today's Date: 14/7/2014