



Five years on - Learnings from the NSW experience

Social Impact Bond (SIB) Market Workshop

Melbourne

Wednesday 31 August 2016 10am



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Five years ago in NSW

Context for the NSW Trial

Policy shift



GOVERNMENT



NON GOVERNMENT

Increased service demand, funding is stretched, doing 'more with less'

Provision of services

NGOs and Investors



INVESTORS

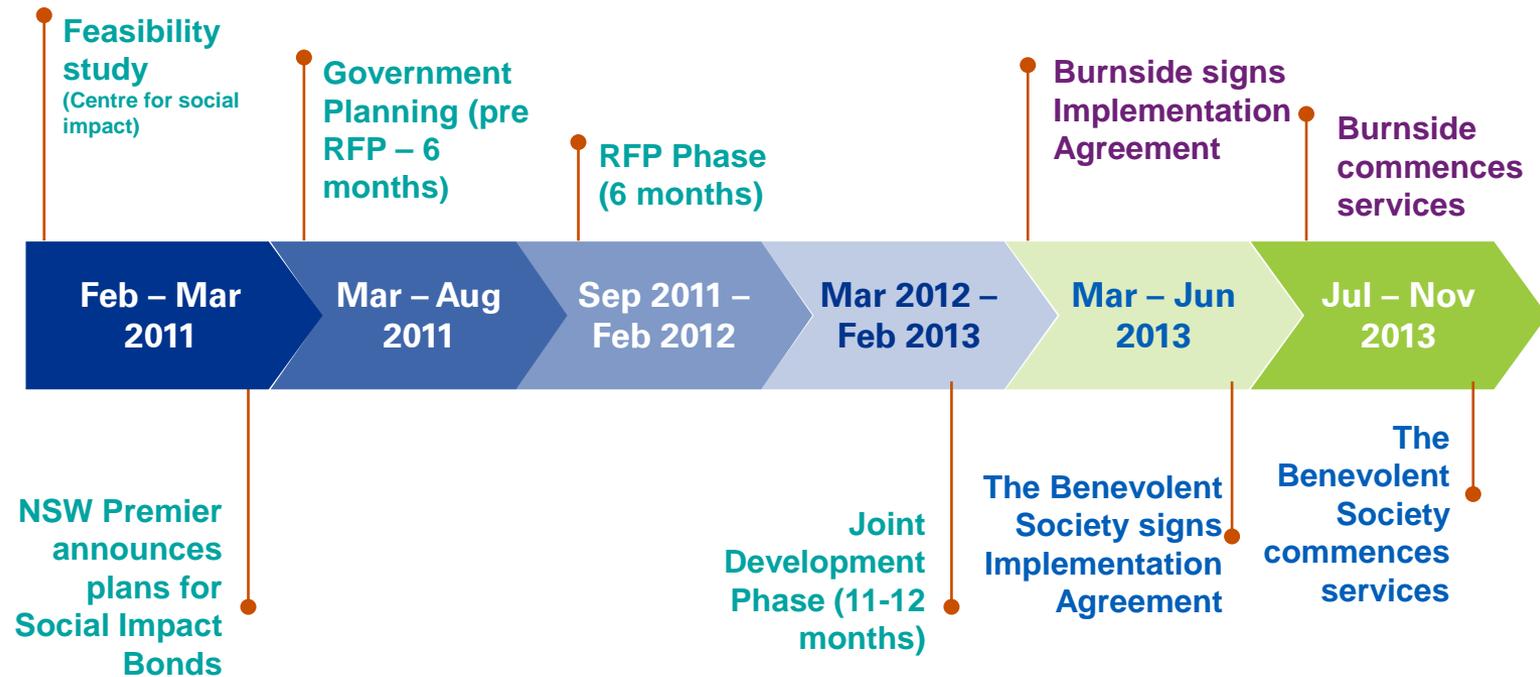
- Investors increasing interested in blended value (rather than philanthropy)
- NGOs recognised changed context; interested in predictable funding

Australian Government

- Social enterprise development and Investment fund (SEDIF): \$40.6 million (\$20million seed funding to be matched by social investment)
- National review of NGO sector (National Productivity Report- Review of the contribution of the NFP sector); review of market for social investment



Timeline for NSW beginnings



Source: 2014 KPMG Evaluation of the Joint development Phase of NSW Social Benefit Bonds

See <http://www.osii.nsw.gov.au/assets/office-of-social-impact-investment/files/Evaluation-of-the-Joint-Development-Phase.pdf>

NSW Current state



Earlier work

- Out of home care, Recidivism

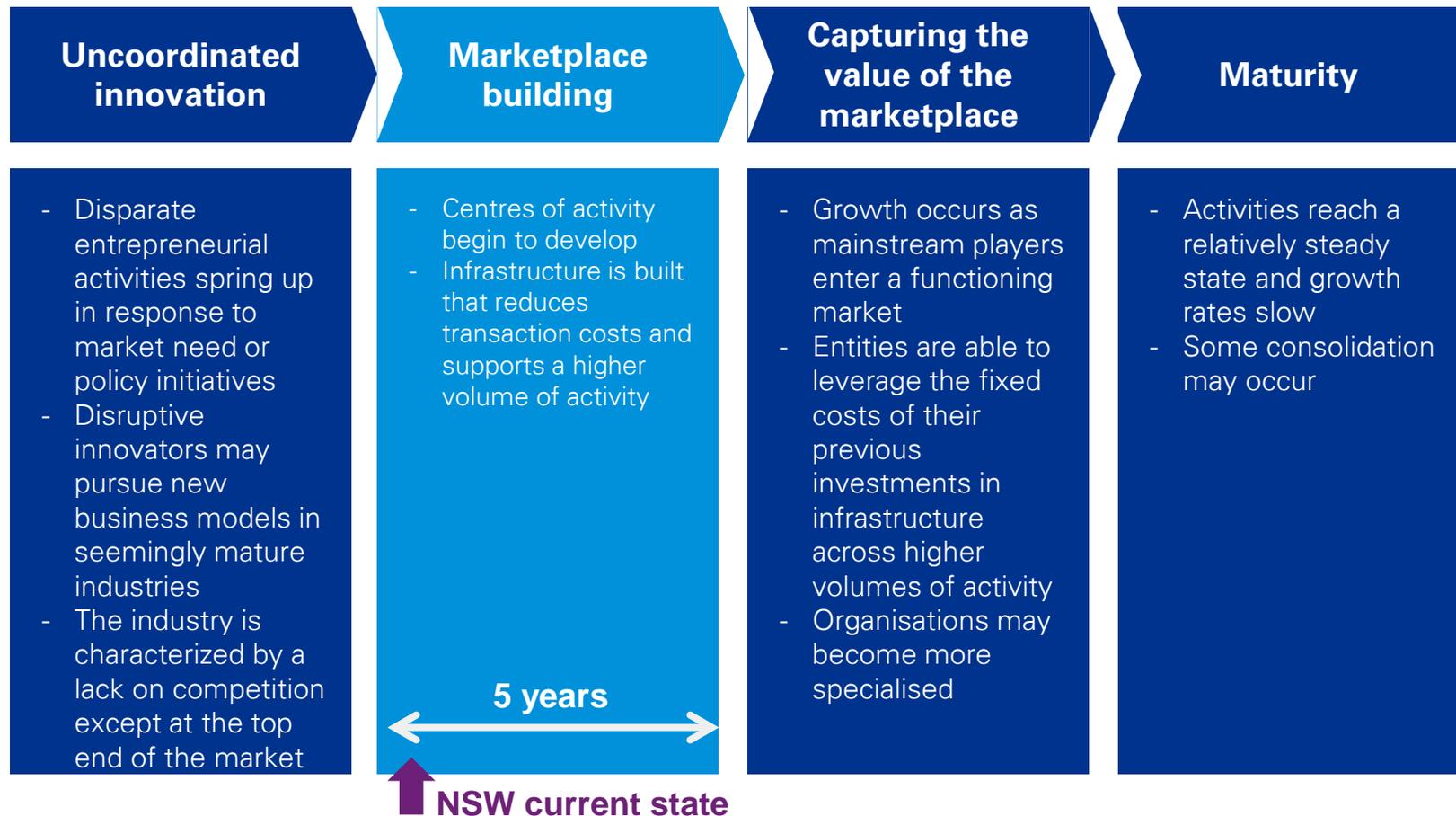
In development

- Chronic disease, Young people leaving care, homelessness and mental health

Agenda for 2016

- Increasing permanency through open adoption, Aboriginal Centre of Excellence, early childhood education, road safety, domestic and family violence, homelessness among veterans, and waste management

Key stages - market development



Source: J Freireich and K Fulton, *Investing for social and environmental impact: a design for catalysing an emerging industry*, Monitor Institute 2009 p 12, in *IMPACT-Australia, Investment for social and economic benefit*



Learnings

Capacity Building



- Myths, misunderstanding and misinformation about bonds
- Assumptions by all three parties
- As a 'first' – little experience
- Requires expertise across a number of areas (measurement, contracting, finance, human services)

- Capacity building (tools, workshops, information)
- Education
- Dedicated specialised positions
- Centralised project management
- Alignment of parties
- Governance
- Expert advisory group
- Clarity around parameters

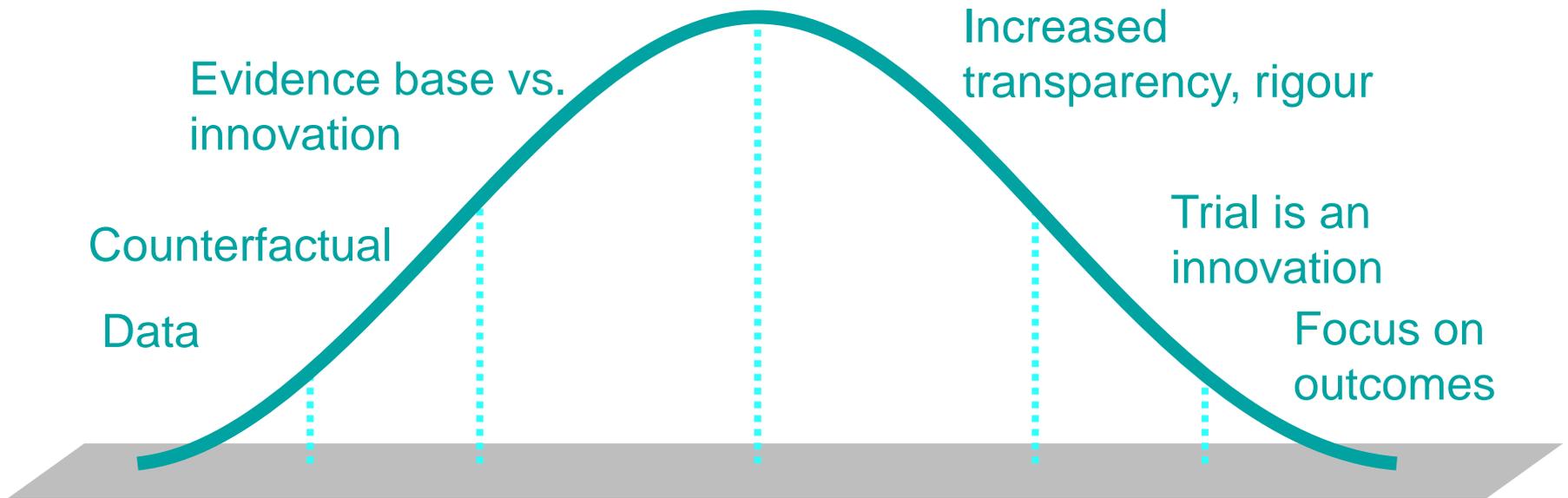
Collaboration - building alignment

Different interests and perspectives of the parties

- Lack of understanding of the other parties
- Different language & modes of operating

- Clarity of **goals** for the 3 parties in the transaction
- **Policy alignment** for Government (what is the policy agenda?)
- **Governance** to support collaboration and negotiation (Eg staged approach)
- **Neutral broker positions** (Treasury's project management)
- Possible role of financial intermediary or **advisory services**

Measurement, Measurement, Measurement



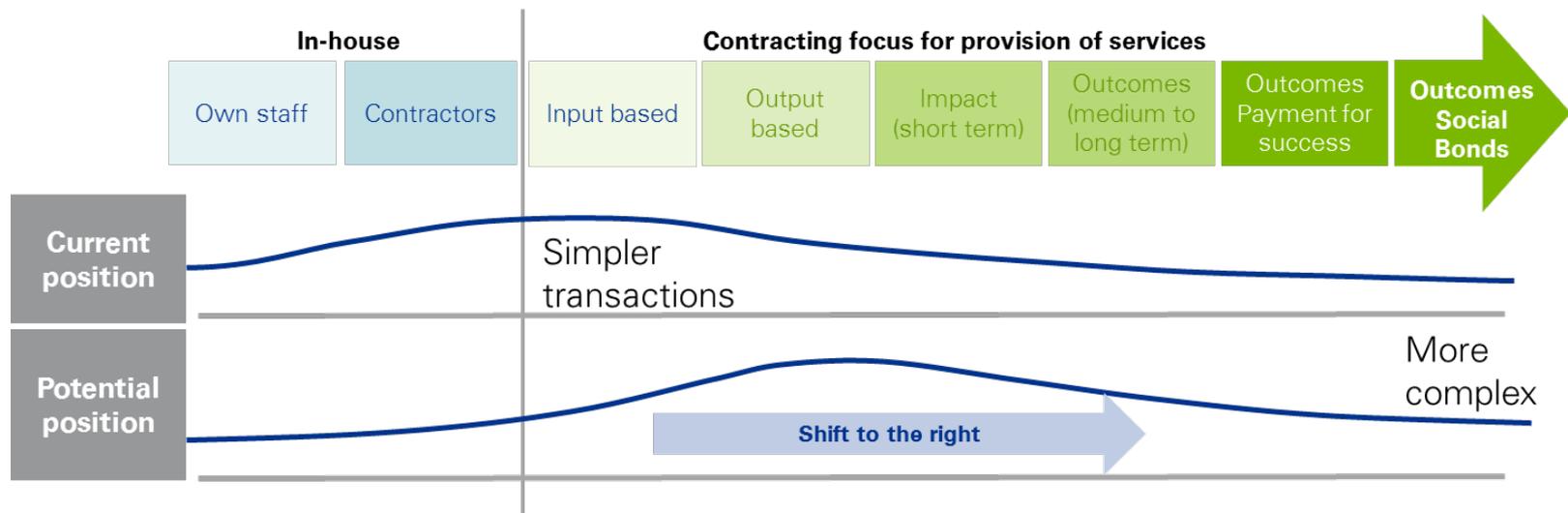
SIBs are complex end of transactions

Investment options in NSW



NSW Government (2015) Social Impact Investment Policy

Figure 1 - Different types of social investment transactions



Source: KPMG NZ

International learnings

1	Peterborough Trial → Redefining success	<ul style="list-style-type: none">• First bond worldwide - bond started with the market – investors and provider going to government with a ‘good idea’• Discontinued when UK government adopted post release services as part of broader justice policy reform agenda (April 2014). The SIB contract allowed for termination.
2	Riker’s Island → Program success rate	<ul style="list-style-type: none">• Program was assessed by Vera Institute to not produce outcomes• August 2015 program discontinued• How should success be defined?<ul style="list-style-type: none">– Funds were not spent on a program that was not achieving outcomes (transparency, accountability and value for money)– Social problems still persist beyond the timeline of the bond attempt (see Non-Profit Quarterly 7 Aug 2015)
3	Utah pre-schoolers → Measurement matters	<ul style="list-style-type: none">• 595 low income three and four year olds 2013-14 school year; 110 four year olds identified as needing special education; Only one child needed special education; \$281,550 savings for government in a year• Overstated success – most programs achieve 10-20% success; children were tested in English for the baseline thus overstating need for service (See NYT 3/11/15 Popper,N)
4	New Zealand bond → Engagement and alignment	<ul style="list-style-type: none">• World leading engagement with the sector; early business case to government• Discontinuation
5	Japan social impact bond → Tailor measurement to context	<ul style="list-style-type: none">• Japan is trialling a bond in Adoption sponsored by the Nippon Foundation• Measurement needs to be tailored to specific context of the bonds and development of social programs in that context

Key messages

1

Drivers for SIBs come from three different directions (Government, NGOs and Investors) – need to seek alignment of interests and develop partnerships

2

Social impact bonds are complex and only one form of social investment

3

Collaboration and cooperation is pre-requisite to successful implementation

4

Measurement is key to the transaction and requires good understanding of measurement in social programs

5

Victoria has its own unique context and opportunity to make history in developing the first Victorian bonds

Your contacts for social benefit bond advice



Liz Forsyth
KPMG Sector lead for
Health, Ageing and
Human Services
Social impact investment
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KPMG lead partner for social impact bonds; sector lead for Health, Ageing and Human Services

Liz is a senior partner of KPMG Australia's Management Consulting Business, and Partner in Charge Markets and Sectors (Management Consulting). Liz is also Deputy Chairperson of KPMG Australia, and until recently was on the Board of the Health Sciences faculty at Sydney University.

Liz's driving passion when working is health and social policy reform. Her work predominantly focuses on issues related to disadvantage, disability and vulnerability, covering the many and varied aspects of the health, human services and aged care portfolios at both state and national levels.



Scott Mesley
Partner
Deal Advisory
Tel +61 3 9288 6748

Partner and KPMG Deal Advisory lead for Health Ageing and Human Services.

Scott has 20 years corporate finance advisory experience, most recently specialising in providing advice in relation to capital management and funding. Scott has provided advice on the structuring and execution of a range of funding transactions for not-for-profits and social investment initiatives around Australia.

Scott has experience in quality assurance and review of the strategic modelling and execution of transactions in his role as subject matter expert.



Ruth Lawrence
Associate Director
Health, Ageing and
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Lead - social investment
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KPMG lead with Liz Forsyth for social investment

Extensive experience in development of social finance policy and working with government to implement social impact investment programs.

Dr Lawrence has over 15 year's experience in senior advisory roles in government including strategic policy and research roles in NSW Treasury, the Department of Justice and Attorney General, the NSW Bureau of Crime Statistics and Research, and the Commission for Children and Young People.



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