Frequently Asked Questions (FAQs)

SIXTH PARTNERSHIP ADDRESSING DISADVANTAGE (PAD)

General questions

Can proposals focus on target cohorts who are under-accessing AOD services despite harmful use?

- The aim of the PAD is to improve outcomes for vulnerable people, including those who may not be accessing services to the extent they should be. For the AOD cohort, if AOD is an emerging issue alongside co-occurring issues in the Client Pathways report, a program to intervene early is welcome.
- Programs may be focused to those who are already high service users, or those who are not yet high service users, with the aim of avoiding costs to government associated with acute service use over time.
- A feature of PADs is that they have measurable outcomes. A proposal supporting people who aren't featuring in the data may be less competitive against the bid assessment criteria compared to one well supported by data.

Is there a timeframe (number of years) that the $12M will be available over?

- The length of time that funding will be available will vary depending on the successful proposal, including the length of the program itself, and when outcome measures are available.
- The average length of program delivery funding for recent PADs has been around five years, with outcome payments being made up to three years after service delivery is complete.

Can proposals involve partnerships between service providers?

- Proposals can include multiple service providers tendering in partnership and are not limited to a single service provider. An arrangement of multiple service providers must have a lead member that government can form a contract with.
- We welcome proposals that focus on sub-cohorts, particularly where data supports higher levels of risky behaviour.

If our proposal includes a Randomised Controlled Trial, do we need to find an expert?

- Government will take the responsibility for funding the RCT component.
- An RCT is a desirable but not essential component of the forthcoming PAD.
- The Government is willing to test the sector comfort and learn about the RCT approach, should it be a feasible option for a proposal. We are keen to have an open discussion and hear any prior experience or thoughts of the approach.

Can agencies put in a couple of different proposals, or one proposal that aims to serve both cohorts in the same program?

- Yes, agencies are free to submit multiple proposals, relating to either or both cohorts.

Have you considered how outcomes might be affected by country of birth and manner of migration?

- **For example, skilled migrants from West Africa have very different employment outcomes from refugee communities coming from environments of civil war, like the South Sudan.**
- We understand that there are differences in outcomes based on place of birth and form of migration. We welcome proposals that aim to support sub-cohorts with different needs.
- This includes proposals targeting those who identify as part of the CALD community but were not themselves born in a non-English speaking country, e.g. parents born overseas, if data shows there are barriers to employment.

How many people should each PAD aim to serve?

- We are not being prescriptive and expect it will differ across proposals, however a few things to note from our prior experience:
  - Small cohorts raise difficulties for statistical significance and outliers with resulting volatility in performance payments.
  - It will partially depend on how vulnerable the cohort is, and the cost of service delivery per person, as well as the evidence on the effectiveness of the program.
  - To deliver avoided costs, the program could be delivered to more people who are less vulnerable, or less people who are more vulnerable.
  - The more vulnerable cohorts often use more services – if the program is effective, there is a larger opportunity for positive outcomes and reduced acute service use in future.
  - The same avoided costs could be achieved with a larger cohort and a smaller change.
- Previous PADs have supported at least 140 people.

How is the total avoided cost calculated?

- This will be an iterative process. For the response to the RFP, we suggest proponents use their knowledge of the cohort and the program and publicly available or internal data to estimate expected service use reduction. This can then be used with the unit cost data provided in the SOI Appendix C, which were derived from publicly available sources.
- During the Joint Development Phase with the selected proponent, DTF's avoided cost modelling expertise will be used to refine the expected avoided costs.

Is this service use based on some assumptions about the individual person's needs? Do we have any modelling?

- In the Client Pathways report, we used the Government's de-identified linked data to understand actual historic government service usage, not assumptions, of:
  - all the young people living in the 8 LGAs
  - the 3,172 young people who first sought AOD treatment and support in 2019.

- While this is not the 'individual' person's needs, it gives insight into common needs and service use for these cohorts.

Will there be one or two PADs?

- We will select one proposal through the RFP process. There is potential for unsuccessful proposals to reapply, or for a different cohort to be selected for a future PAD.

Is there any chance of partnership with Commonwealth Government on the CALD Youth Unemployment PAD given the shared outcomes?

- We are seeking a partnership between the Victorian Government, a service provider, and investors.
- In future, a partnership with the Commonwealth could be a good opportunity, given the expected shared benefits.

How should we consider avoided costs that accrue to the Commonwealth Government?

- Consider factors like changes to employment and/or welfare. If the person is moving to employment, they are likely to have a personal financial benefit, and the Commonwealth will pay less in welfare and receive more in income tax.
- The aim is to get a holistic understanding of the benefits of a program, however benefits to the Commonwealth will not count as avoided costs to the Victorian Government.

Have previous PADs focused on interventions in urban rather than regional, rural locations? Are particular LGAs considered a priority?

- More PAD program participants have been based in urban areas in line with where most Victorians live, though COMPASS and Side by Side delivered services in both urban and regional areas.
- We are not prescriptive on LGAs. The eight metro LGAs in the Client Pathways report were selected based on a combination of the number of young multicultural people living in those LGAs, socioeconomic disadvantage, and higher youth unemployment, indicating both a need and an adequate number of recipients.

Is the opportunity best suited to projects which have not been funded before or have been funded via another stream?

- Appendix B.3 contains information regarding evaluation criteria for the proposals, including the experience, capability, and capacity of the members of your team.
- The PAD aims to complement existing programs and services, for people who could benefit from the intervention.
- The PAD funding is not intended to be a substitute for funding provided by the Victorian Government, or other tiers of government. PADs could involve trialling a new innovative approach, which may have evidence from elsewhere, or could involve building on an existing program that is achieving positive results.

What outcomes have previous PADs achieved?

- The PADs are intended to provide innovative solutions to complex social issues. A core part of PADs is understanding what works and the transparency provided by PADs gives government good insight into this.
- Evidence of program impact has enabled previous PADs a pathway to continue beyond the life of the PAD contract, through additional funding as part of the State Government budget process. It is important to note that there is no guarantee this will be the case for future PADs.
- Even where this doesn't occur, there have been important program learnings to help inform government on best practice. Evaluations of past PADs can be found on the Current PADs page.
- Each of these PADs has also provided learning opportunities to improve the contractual arrangements of future PADs, including the variables which become outcome payments, the calculations used to measure success, who they are measured against (the counterfactual), and building triggers into the contract that provide a review mechanism that allow for contractual adjustments.
- The Joint Development Phase supports the creation of a program and payment model that delivers positive outcomes for program participants and works for the Government and investors.

FAQs from the Partnering with investors information session

Alongside DTF, Social Ventures Australia (SVA) presented at this session, providing practical insights from their prior experience working on PADs.

How should the problem be framed to resonate with government and investors?

- Government is responsible for defining the social problem and has shared some analysis on the potential cohorts for the PAD - see the Client Pathways reports. This shapes how it is communicated to investors. For example, with the Arc Social Impact Bond, the Department of Treasury and Finance sought proposals to support people who were exiting prison at risk of homelessness.

What types of investors have been most interested (institutional, philanthropic, high-net-worth individuals)?

- There is a growing interest from a range of different types of investors to explore investing in projects that deliver both financial and social returns.
- Interest from different investors can depend on the type of investment structure. For Living Learning, each investor provided a philanthropic grant plus investment capital. This type of blended finance approach can work, however some investor types are unable to make grants, so would be unable to invest in those types of structures. Knowledge of the investors is required.

Is there a typical size of organisation for this type of opportunity?

- Rather than being a particular size, there are capability requirements for being a part of a PAD. It is important to have the capability in the organisation to get across the financial and commercial arrangements involved in a PAD. It is important that the organisation can engage in and own this process. Larger organisations may have increased capacity and capacity to manage this on their own, whereas smaller organisations may prefer to procure capability externally. Some intermediaries can provide support to engage with potential investors.

How does this approach differ from public-private partnership (PPP)? How are risks distributed among the partners/investors?

- PPPs are often used to bring in private sector innovation, technology, expertise and capital to bring a project online more efficiently than government working alone. They are usually a two-way partnership to deliver an infrastructure project. PADs are different in that they are three-way partnerships between government, investors and service providers, who might be already providing services to similar cohorts, but funded on an activity or grant basis. PADs pay for outcomes, allowing service providers to innovate and requiring investors to partially fund service delivery until program results generate outcome payments from government.
- PADs allow the Victorian Government to share risk with investors and to ensure financial risk sits with the party best placed to mitigate it, which will vary depending on the issue. This is generally worked through in the Joint Development Phase.
- Investors are not expected to take on all financial risk of program failure. A transfer of financial risk to the Government may take the form of a standing charge of up to 50 per cent of program delivery costs, or a capital guarantee of up to 50 per cent of the program delivery costs.
- Proposals must clearly set out the financial risk return profile for each participant of the commercial arrangement.

Is there any further context of why these initiatives have been called PADs rather than SIBs?

- The first couple of investments that Victoria made were originally called social impact bonds, similar to other states. The change of the name to Partnerships Addressing Disadvantage reflects the emphasis on the partnership element of the initiatives, and that the financial and commercial arrangements can vary. This shows the flexibility of different types of instruments that could be considered.

How are returns generated?

- Government pays when agreed outcomes are achieved. The steps involved include defining
    1. The cohort receiving the program and the counterfactual - who they will be measured against - and how they will be found in datasets to be measured.
    2. The payable outcomes and the calculations for determining the difference in performance of those receiving the program and those who are not. Payable outcomes must be quantifiable with available data and supported by evidence to provide confidence that the targets are achievable.
    3. Performance tiers: There will be multiple performance tiers with varying returns. For example, there will be a return for meeting the target performance, and a higher return for exceeding performance. There is unlikely to be a return in an under-perform scenario.

FAQs from the Getting ready for a tender workshop

Where can I get help finding investors and structuring the PAD arrangements?

- We Intermediaries can provide expertise in this area. Government does not have a preferred intermediary; any are welcome, and a list of over 70 intermediaries can be found on Impact Investing Australia's website.

Is the purpose of the avoided cost to cover the cost of the program?

- PADs aim to deliver benefits to people's lives, broader social benefits, as well as benefits to government services.
- If expected positive outcomes are achieved, the person's use of acute government services will reduce, resulting in future avoided costs for Government.
- The value of future reduction in service usage by the client group attributable to the intervention will be modelled by DTF.
- Non-payable outcomes proposed by bidders will be used to complement the avoided costs in understanding broader program impacts, and both will be used in evaluating proposals.
- Government is seeking programs where avoided costs exceed Government investment. Areas with the most potential for high avoided costs are high-cost services including justice (police, courts and corrections), and any admitted health services.
- Positive outcomes, reduced acute service need and avoided costs can support a strong financial case for continued/scaled-up funding via the budget in the future (including via the Early Intervention Investment Framework).

Is technical support available during the Joint Development Phase and for defining the counterfactual or developing a Randomised Control Trial (RCT)?

- Counterfactuals support performance measurement, as understanding what would have happened in the absence of the program is important to understand the value-add of the PAD program. Agreeing and developing the counterfactual methodology is a complex process negotiated and co-developed during the JDP (not the RFP stage).
- If the bidder proposes to undertake an RCT, the Government will fund the RCT component within the existing funding envelope. If you already have an RCT partner, please include details in your proposal, including costing if available. Note that an RCT is a desirable but not essential component of the forthcoming PAD, and there is no requirement to already have an RCT partner.

Is financial support available during the Joint Development Phase?

- Government will contribute a payment to the successful bidder (referred to as the Invitee) upon entering into the Joint Development Phase.

What granularity of the outcome metrics are appropriate?

- The degree of granularity will depend on the metric. Outcome metrics should be quantifiable and measurable so that supported persons' outcomes and avoided costs can be calculated and the program's impact/effectiveness can be sufficiently evaluated. It should be clear that the outcomes can be attributed to the success of your program and are not too vague or volatile.

- Outcome metrics and outcome payment calculation rules are also key matters for negotiation during the JDP. Please refer to the example metrics once the Request For Proposal documents are released.
- The Arc PAD's outcome metrics were included as an example in the presentation:
  1. **Justice:** Awarded Sentences in respect of offences committed in the two-year period after an individual is released from prison.
  2. **Housing:** the number of periods presenting to homelessness services over the three-year period after an individual is released from prison.
  3. **Health:** the number of Emergency Department presentations over the two-year period after an individual is released from prison.
- Read more program details in the Arc Social Impact Bond Information Memorandum.

Do providers need to have investors secured at the time of submitting RFP?

- No, it is not required to have investors secured for the RFP. Capital raising begins after the Implementation Agreement is developed through the JDP, when the details of investment required to operate the PAD program are fully known and agreed between the parties.
- Understanding investor expectations/preferences and potential approaches to raising capital from investors can be useful at this stage.
- Although the terms and conditions of the investment are confidential until the Implementation Agreement is finalised and information for investors is released, the financial model can be designed with the preferences of investors in mind. The successful bidder is encouraged to start speaking to potential investors early to understand investor appetite and keep investors updated on timeframes.
- DTF's information session on Partnering with Investors includes more details, as well as the guidance papers written by DTF, Social Ventures Australia and Anglicare.

Does the Government pay back the investor return on top of performance payments or does the service provider pay back the return using the payment they received from the Government?

- The Government does not contract directly with investors. The service provider, either as a standalone partner to the PAD or consortium/Special Purpose Vehicle (SPV), will contract with investors and be responsible for making the payments to investors.
- While the exact model for each PAD to date has been different, they often involve some sort of payment to investors before participant outcomes can be measured, and performance payments once outcomes can be measured. 'Return on top of performance payments' are not necessarily separated, and if the program does not achieve the agreed outcomes, it is possible that investors will make a loss.
- For the performance payments, outcome calculations and expected payments are verified, then funds are released from the Government to the service provider/SPV to make payments to the investors.

Does DTF have a preferred referral pathway into the program?

- DTF does not have a preferred referral pathway, given that the exact cohort and what services they will have interacted with are unknown until supplied in tenders.
- Some programs may be well-suited to system or government referrals, such as DTF's last PAD Arc, where the participants were prison leavers well known to the Government. In other instances, participants may have interactions with services better suited to a network approach.
- The key factors are that the referral pathway can generate enough participants.