

Social Benefit Bonds Pilot Program Case Study

The Queensland Government has made available this case study as a general information resource, based on experience specific to the SBB Pilot Program. Any enquiries relating to current Queensland Government policy should be directed to the SBB Pilot Program team.



Contact

Social Benefit Bonds Pilot Program team
Email: socialbenefitbonds@treasury.qld.gov.au





Build a Social Benefit Bond

Social impact investments are those made with the intention to generate both social and financial outcomes over time. SBBs are multiparty contracts between governments and service providers seeking financial support for innovative programs and policies and investors with money to lend them. These contracts include incentives and safeguards to make it more likely that the parties will fulfil their obligations.

Approach

A principles-based approach was adopted to inform all aspects of the SBB, including the policy areas in focus for services, and how the government communicated with stakeholders, approached negotiations and drafted contracts.

The Program worked in partnership with government agencies to identify opportunities in the three announced policy areas. This work focused on identifying specific policy areas where the social issue was material and an outcome could be readily defined.

Through the procurement process, the Program tested the market to identify a service and provider that would address the social issue. The provider needed to demonstrate their capability to deliver a service with sufficient evidence to show a measurable difference.

To support this work, data was sourced from and interpreted in partnership with government agencies, so that all involved parties were informed as to the estimated number of clients, as well as the reasonable estimates for activity that could be avoided if the outcomes were delivered. Commercial acumen was then applied to interpret and apply this information to successfully negotiate a SBB.

Challenges

- Focus on prevention and early intervention service
- Capable service provider to deliver a service with a strong evidence base
- Sufficient number of potential clients that could be referred
- Outcomes that can be defined and measured to prove the impact
- Expected activity to be avoided is sufficiently material to deliver value for money for the State

Outcomes

Ensuring key elements were present throughout the procurement process facilitated the successful negotiation of the three SBB pilots with a considerably reduced timeframe.

Key Learnings

- Social Benefit Bonds (SBBs) need a service focused on intervening in an existing social issue, where the impact can be measured and the avoided activity for the State estimated.
- Adopting a principle-based approach informs all aspects of the SBB.
- Ensuring there is trusted and sufficient data that can be analysed to inform negotiations for a SBB.
- Working in partnership with government agencies and other stakeholders is fundamental to assessing appropriate policy areas as well as evaluation and negotiation of a SBB.



Assess Value for Money

Achieving the defined outcome is expected to avoid consumption of acute and crisis services. Bespoke benefits approaches were developed to reflect each SBB, including its cohort, outcomes and payment mechanism.

Approach

Value-for-money was assessed as part of the Request for Proposal evaluation and confirmed once commercial terms were finalised. Both assessments were based on the costing of the proposed financial transactions, as well as estimating the expected benefits.

The proponent provided a financial model estimating the costs of their proposal. The government team also developed a model to test the value for money proposition.

To assist this work, the benefits methodology was based on attributing the avoided activity to the outcome being achieved and including only avoided activities that could be identified, were material and reasonable. Linking what is to be paid for to what is being achieved is the objective.

Value of avoided costs was based on average costs published in the Report on Government Services. Checks were made to ensure scope of costs aligned with the expected avoided activity.

The benefits methodology was developed in consultation with partner agencies (where possible) and based on existing data, analysis or research relevant to the cohort and specific to Queensland.

Challenges

- Estimating and valuing related activity had not previously been done on an outcomes basis and required an innovative approach.
- Detailed modelling could only occur when commercial terms were nearing completion and within a constrained timeframe.

Outcomes

Value-for-money assessments (including benefits estimations) were completed within 10 working days of finalising the commercial terms, which allowed for the finalisation of the contract in a timely manner.

Key Learnings

- Confirming the value-for-money assessment maintained a clear vision on how the proposal and final commercial terms compared.
- The need for clear attribution between the outcome and avoided activity.
- Avoided activities included in the benefits methodology need to be readily identifiable, material and reasonable.
- Scope of activity and costs must be aligned to ensure that the more accurate value is being applied.



Share Data and Analytics

Data and analytics were identified as a significant impost for the program from the outset. Data and analytical work to build a web-based platform (*The Hub*) laid the foundations for increasingly detailed work throughout the remainder of the process. ke benefits approaches were developed to reflect each SBB, including its cohort, outcomes and payment mechanism.

Approach

The program worked with its partner agencies and expert advisers to design and build data analytics into *The Hub* platform which brought together relevant and reliable data that could be extracted from existing government data holdings.

This work was driven by strong working relationships across government to ensure data could be shared and used in a trusted manner.

Data was only collected as required. Investment questions, like research questions, guided the data collected and the visualisations created from the data sets. These questions were refreshed as the procurement progressed.

By working collaboratively with agency specialists, visual dashboards were created showing the flow of clients through government processes within existing policy settings.

Challenges

- Providing bespoke data sets to multiple proponents can be time and resource intensive.
- Limitations and caveats placed on data were sometimes lost in translation meaning that analytical results were often compromised by misinterpretation of raw data.

Outcomes

The Hub enabled external parties to explore the data available to identify and measure social impacts within a secure online environment where individual privacy and analytical integrity of data was maintained, and government data remained secured.

Proponents used the information in *The Hub* as the basis of its submissions and it became a single source of trust for data to underpin the transaction.

Effort by Partner Agencies was channelled and focussed through the program, rather than managing and responding to varied data requests from multiple external parties.

Key Learnings

- Build trust and develop positive working relationships throughout the process (from data collection to analysis).
- Be purposeful by only collecting data needed.
- Use investment questions to guide data collected and analysis provided.
- Be aware of how the need for data varies throughout the process of developing a SBB

Measure Outcomes

The value of SBBs as a mechanism to fund social services is premised on the identification of desirable outcomes of service delivery and ways to effectively measure these outcomes which can be reasonably attributed to the intervention. Clearly understood outcomes enhance the ability to communicate the purpose of the intervention and raise accountability for performance.

Approach

Desirable outcomes for each focus area were identified for consideration, but not prescribed as the specific outcome to be delivered. This provided flexibility to proponents in their bid proposals.

An Outcomes Framework, using the Theory of Change approach, was developed to inform decisions. Working with partner government agencies, the program identified the size of the potential cohort and likely referral pathways. This included developing an understanding of how the individuals were likely to interact with departmental services.

During negotiations, the program aimed to set performance assessment by developing well-defined outcomes metrics. This approach relied on the technical expertise of advisers and service delivery experience of government agencies to guide agendas and set clear accountabilities for proponents. This approach enabled the development of a baseline or counterfactual for measurement of outcomes.

Challenges

- Existing complexities in defining the cohort and how these individuals are expected to interact with various government services.
- Defining the cohort and agreeable outcome metric(s) to ensure there is a measurable positive impact for the community.

Outcomes

A deliberate focus on outcomes to be achieved by the service, rather than inputs or outputs, and persistence in negotiations led to the identification of reasonable and reliable outcome measures, and a thorough understanding of the cohort.

Key Learnings

- Outcomes must be reliable, repeatable and regularly measured.
- Clarity on outcomes and cohort definition is desirable early in the process to streamline data collections and enable adaptation of existing systems.
- Outcome metrics were unique to each SBB, and needed to reflect what is to be achieved.
- Outcomes are to be measured against a robust understanding of business-as-usual outcomes in the absence of an intervention.
- This is the basis of the counterfactual.



Engage with Partners

Government decided to pilot SBBs in the areas of homelessness, reoffending, and issues facing Aboriginal and Torres Strait Islander people. There was little expertise within government or the sector, particularly in regard to SBBs. There was scarce knowledge or understanding about social impact investment within stakeholder groups who would be required to participate in the program. It was necessary to build this knowledge and awareness from the ground up and bring government and the market along as the program progressed.

Approach

Stakeholder identification and analysis provided the foundation for effective engagement, communication and relationship management. A Client Relationship Management (CRM) platform was established to record stakeholder data, activity and to extract reports.

Education and awareness sessions were developed and tailored by audience – a systemic program developed to ensure all audiences were progressing their levels of knowledge in line with the activity of the program.

Program approach was built on:

- Philosophy and ethos to communicate well and build sound relationships
- Honest, transparent and open dialogue with program partners and allied agencies
- Active management of stakeholders via a CRM tool.

Challenges

- Stakeholder identification and analysis as part of a disciplined process was not highlighted as critical to success in available information of other SBB examples. There was limited access to information about stakeholder management.
- Levels of understanding of impact investment generally and SBBs as a transaction type were nil to very low.
- Being a pilot program, there was no policy framework to support engagement across government.
- Steering committee and governance needed to be representative and at an appropriate level to make decisions.

Outcomes

Communications and engagement efforts created positive impressions and facilitated access to a wide range of expertise. Positive regard for the program has also generated endorsements from third parties who are excited about the program and are making unsolicited offers of assistance.

Key Learnings

- Maintain strong focus on communication and engagement activities.
- Identify stakeholders and engage early. Make sure Small and Medium Enterprises (SMEs) are involved.
- Secure sufficient sponsorship across government to facilitate engagement.
- Essential to build a foundation of knowledge and awareness to ensure ongoing communication leads to active participation in the program.



Procure and Negotiate

The program's primary objective was to improve the long-term life trajectories of Queensland's most vulnerable young people. It resulted in the successful delivery of a world first – three SBBs completed in a single procurement process – and an Australian first – successful contracting of an SBB within 15 months of releasing expressions of interest. The program was award winning for its work.

Approach

A strong appetite to participate in an SBB was created by a sophisticated engagement campaign reaching more than 900 stakeholders and 1,700 interactions during the market-sounding phase.

Market feedback shaped the procurement approach and addressed service sector concerns around payments by outcomes, commercial procurement practices, and intellectual property.

Deeper innovation came in the form of *The Hub*, a web-based data analytics platform designed to bring together relevant and reliable data which could be extracted from government data repositories, with access provided to proponents during the Request for Proposal phase.

Challenges

- Concurrently developing three SBBs within a finite timeline
- Design of the core program through the strategic procurement approach
- Educating and engaging with stakeholders to design a novel transaction like a SBB

Outcomes

Leading the development of three SBBs generated significant benefits for Treasury, government agency partners and the social services sector.

New outcomes-based early intervention services were procured to improve the life trajectory of 1,300 Queensland's most disadvantaged young people over the next seven years.

Key Learnings

- Trusted data and measures as a foundation for SBB.
- Value of partnership approach delivered positive results.
- Program management discipline is a critical success factor.