

# Social Benefit Bonds

*Pilot Program*

## Market sounding report highlights

January 2016



# Treasurer's foreword

# Market sounding report highlights

Since announcing in the 2015-16 Budget the decision to pilot Social Benefit Bonds (SBBs), Queensland Treasury has moved quickly to establish the program which is leading the pilot of three social benefit bonds in Queensland.

I had the pleasure of making the opening address at the SBBs discussion forum in November 2015. This was a significant event in the market sounding process bringing together, for the first time, representatives from all stakeholder groups in an open forum. The aim was to gather collective input, gauge market interest and identify and connect those organisations with the appetite, experience, capability and capacity to participate in the SBBs Pilot Program.

This summary report is the culmination of the market sounding activities undertaken by the program which included 233 market engagement events between July and November 2015. Feedback was gathered from a total of 695 individual stakeholders from government agencies, non-government organisations, peak bodies, investors and intermediaries. This also includes the 85 attendees at the discussion forum who represented 43 different organisations across the program's stakeholder spectrum.

In order to maximise the benefits from the program, the government wishes to continue to promote the concept of social investment, and recognise that to establish the first three social benefit bonds in Queensland, we must bring together investment and expertise from the public, private and not-for-profit sectors. Together we will address the fundamental or root causes of social issues and deliver measurable outcomes in the three focus areas of re-offending, homelessness and reducing indigenous disadvantage.

I would like to confirm the government's commitment to pilot social benefit bonds and develop a social investment market in Queensland. Indications based on feedback from our engagement with the market are encouraging – the financial sector is already mobilising and the social service sector is demonstrating a willingness to explore the prospect of new sources of longer term funding to sustain services that, over time, will make a measurable difference for Queenslanders in need.



A handwritten signature in black ink that reads "C. Pitt". The signature is written in a cursive, slightly stylized font.

The Hon. Curtis Pitt MP  
Treasurer  
Minister for Aboriginal and Torres Strait Islander Partnerships  
Minister for Sport



# Social Benefit Bonds Pilot Program

The Queensland Government announced in the 2015-16 Budget it would explore the use of Social Benefit Bonds (SBBs) to address complex social issues affecting Queenslanders. Queensland Treasury is leading the pilot program in close collaboration with allied government agencies. The SBBs Pilot Program has been established to deliver three SBBs in the areas of re-offending, homelessness, and issues facing Aboriginal and Torres Strait Islander people.

The key objectives of the program are to:



- 1 Develop a transaction framework to enable piloting of three SBBs where there is value in the areas of re-offending, homelessness and Indigenous services.



- 2 Establish the conditions in Queensland for the success of the Social Benefit Bonds Pilot Program:
  - promote social investment capabilities
  - measurement of outcomes
  - collection and sharing of data.



- 3 Develop standard processes, practices and tools.

After the discussion forum **87%** of participants were more informed

**62%** of preliminary engagement was face-to-face meetings



To get the most from the program, the government has sought the expertise of the market through a number of market sounding activities. These range from preliminary face-to-face meetings with financial institutions, investors and peak bodies, to a discussion forum held in Brisbane on 4 November 2015 with 85 participants from a cross section of 43 organisations, including non-government organisations (NGOs).

These market sounding activities have helped the government to:

- provide the market with details on the program
- gauge the level of market interest and identify and connect those organisations which have the appetite, experience, capability and capacity to participate in the program
- gather inputs and ideas to develop, and test the identified focus areas, target population and outcomes sought

- foster positive working relationships between the government, private investors, intermediaries and service providers
- identify and address potential barriers to success.

Early feedback from preliminary engagement activity has informed the development of the SBB program, particularly around key activities such as: determining focus areas, target cohorts, data and modelling requirements, and the procurement process.

With the generous contribution from all participants in our market sounding activities, we have a solid base from which to draw insights. The feedback around program focus areas and potential cohorts has been analysed in conjunction with our agency partners against an evaluation framework, and tested for viability as a SBB prior to going to market.

## Market sounding process

Phase	Preliminary market engagement	Market sounding	Post market sounding engagement
Purpose	<ul style="list-style-type: none"> <li>• Gauge market interest</li> <li>• Provide information and education to the market</li> <li>• Identify lessons learned</li> <li>• Further develop program</li> </ul>	<ul style="list-style-type: none"> <li>• Gauge market interest</li> <li>• Gather market feedback on:                             <ul style="list-style-type: none"> <li>- Proposed focus areas</li> <li>- Commercial framework</li> <li>- Procurement process</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• Review and refine program after forum</li> <li>• Registration of market interest</li> </ul>
Participation	<p><b>Events: 164</b></p> <p><b>Stakeholders: 260</b></p> <ul style="list-style-type: none"> <li>- Meetings – 62%</li> <li>- Website – 16%</li> <li>- Other – 22%</li> </ul> <p><b>Organisation Type</b></p> <ul style="list-style-type: none"> <li>- Government – 45%</li> <li>- Professional services – 20%</li> <li>- NGO/Peak bodies – 15%</li> <li>- Business – 11%</li> <li>- Other – 9%</li> </ul>	<p><b>Events: Discussion forum</b> (4 November 2015)</p> <p><b>Stakeholders – 85</b></p> <p><b>Organisations – 43</b></p> <p><b>Organisation Type:</b></p> <ul style="list-style-type: none"> <li>- NGO/Peak bodies – 27%</li> <li>- Community/service group – 20%</li> <li>- Government – 18%</li> <li>- Business – 18%</li> <li>- Other – 17%</li> </ul>	<p><b>Events: 68</b></p> <ul style="list-style-type: none"> <li>- Website – 55%</li> <li>- Meeting – 26%</li> <li>- Other – 19%</li> </ul> <p><b>Stakeholders – 350</b></p> <p><b>Organisation Type:</b></p> <ul style="list-style-type: none"> <li>- Government – 28%</li> <li>- NGO/Peak Bodies – 21%</li> <li>- Professional services – 20%</li> <li>- Other – 31%</li> </ul>



## Engagement approach and activities

Between 1 June and 19 November 2015 the program delivered almost 233 market engagement activities, targeting 436 people from a cross section of organisations and industries. The main form of engagement has been face-to-face meetings (51%) with government agencies, NGOs, peak bodies, financial service providers and relevant contacts from other jurisdictions.

Engagement activities have been grouped as follows:

- Preliminary market engagement (from 1 June to 3 November 2015) – focused on providing information and education to government agencies, peak bodies and service providers; gauging the level of interest from potential investors and financial intermediaries; and seeking learnings from other jurisdictions.
- Market sounding discussion forum (4 November 2015) – focused on gauging market interest and gathering feedback from the market on the proposed focus areas, commercial framework and procurement process.
- Post-market sounding engagement (from 4 November to 19 November 2015) – focused on refining aspects of the program based on feedback from the market sounding.

### Preliminary engagement (1 June to 3 November 2015)

A total of 164 preliminary engagement events occurred (62% of which were meetings), with a total of 260 individual stakeholders from a cross section of organisations covering multiple industry sectors. Some of these stakeholders attended multiple engagement events, resulting in a total of 512 individual stakeholder engagements.

Preliminary market engagement was undertaken to understand:

- the current SBB environment, both in Australia and overseas
- market interest in participating in the SBBs Pilot Program
- key risks and issues that could arise and options for addressing these
- program activities required to successfully deliver the program
- significant lessons learnt from experience with SBB transactions.

#### Government agencies

Preliminary engagement with government agencies concentrated on providing information and education around the SBBs program and gaining support for the program.

#### Other jurisdictions/organisations

The SBBs Pilot Program also spent considerable time working with other governments, in Australia and overseas, which have live SBBs or are in the process of developing SBBs programs. This helped the team to capture lessons learned to improve the opportunity for success of the program, and to speed up the process for Queensland.

Social service sector peak bodies have been working closely with the program from the beginning, along with many social service providers who have participated in SBBs workshops and information sessions.

Discussions with financial advisory services organisations have been valuable to gather insights into various aspects of the program such as bond design, data and modelling requirements, the procurement process, and evaluation framework, including outcomes and measurement.

## FEEDBACK

“The focus group sessions went really well, we had a great diversity of views around the table. People from not for profit sector, legal sector, banking sector, intermediary space and so it was a really good cross section of people.”

Sonya Keep, CEO, Common Ground Queensland



**Market sounding (discussion forum – 4 November 2015)**

The discussion forum was designed to support government’s commitment to collaboration and transparency. Feedback was gathered on the proposed program areas and scope, commercial framework, procurement process, and market interest. Participants from each stakeholder group were allocated to a group discussion on their nominated focus area. This gave a diversity of views around the table from a cross section of participants.

**Discussion forum online survey results and feedback**

Following the discussion forum, a survey was issued to non-government participants, 33% of those completed the survey, with the majority from service providers. Of the respondents, 87% agreed that after the discussion forum they were more informed about SBBs and 83% agreed that they knew more about the proposed procurement process.

Key themes:

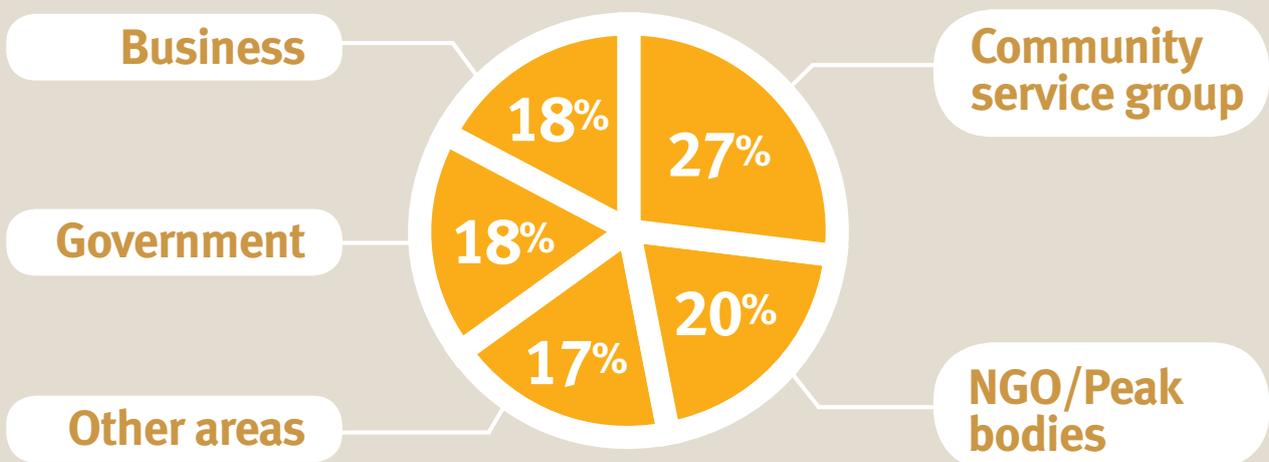
- measurement of outcomes and Payment by Outcomes (PbO) arrangements
- general commercial activity on contracting, procurement and tendering
- finance and business case development.

People who responded showed interest in participating in one of the bonds, with the strongest interest in the homelessness bond and equal interest in the remaining two bonds.

**Post-market sounding engagement**

Market engagement has continued after the discussion forum with 68 events occurring, targeting 350 stakeholders. Website activity including registrations of interest has more than doubled between the beginning of November and the end of December 2015. In addition, 20 internal meetings have occurred as work has continued with the relevant agencies to finalise the proposed focus areas.

**Discussion forum participation**





## Preliminary market engagement – key findings

Preliminary market sounding with potential investors, financial intermediaries, service providers, peak bodies and other jurisdictions commenced in July 2015.

Table 1: Summary of key preliminary market engagement findings

Program areas and scope	The areas of reoffending, homelessness and Indigenous disadvantage were affirmed as significant social problems in which SBBs could be successfully used.
Potential focus areas	Young people in all areas were identified as in need of assistance. Mental health issues were identified as a potential focus area. Out-of-home care was identified as an area in need of support.
Challenges	Financial and non-financial modelling was identified as an area in which all jurisdictions continue to work on how to best perform this task. The transaction can be quite expensive and time consuming which may limit some proponents from participating.
Data and outcome measures	There are different approaches to collecting and using data for the transaction which will have an impact on the project timeframe. Access to quality data was identified as a key factor to success. Issues associated with how modelling was conducted and used to interpret the data were identified. Limit outcome measures to only a few key measures where data is available, and keep them simple.
Key risks and issues	There is a risk that the use of complicated outcomes and measurement may lead to unintended adverse consequences for the recipients of the service. There is a risk that the quality of the data is poor and/or no data is available for measurement of outcomes. Government needs to articulate the outcomes for which it is willing to pay.
Procurement	The need for government to meet prescribed procurement timeframes was highlighted. A collaborative approach to procurement was desired. The possibility for simplified contracts and contract standardisation was considered.
Market interest	There is strong investor, service provider and financial intermediary interest in the program.
Other	The need to simplify all elements of the transaction process was highlighted.

### FEEDBACK

“There is so much social need, (SBBs) are very much needed, and we have been aware that the Qld Government has been building momentum in this space. We’ve started work, and can’t wait to engage and ...get some traction and start delivering services that make a difference.”

**Wendy Haigh, Executive Director-Social Investment, The Benevolent Society**

# Market sounding discussion forum key findings and responses

An overview of the key market sounding findings from the discussion forum (including written submissions) and responses from the SBBs Pilot Program is detailed below.

## Key findings

## SBBs Pilot Program responses

<b>Program areas and scope</b>	
Early intervention (3-12 years) was seen as critical across all focus areas so should be considered when finalising focus areas.	Potential focus areas, aimed at providing guidance to the market on the government's preferences, have been refined following forum feedback and will be confirmed prior to going to market.
Community engagement and participation in the design of the service is seen as critical to the success of the program, particularly in Indigenous communities.	Government is supportive of this approach and encourages service providers to note this in the design of their solution.
An integrated service approach that addresses a number of issues is required to achieve outcomes.	SBBs are predicated on evidence based services and government is supportive of an approach that demonstrates that the outcomes can be met.
<b>Data and measures</b>	
Data is critical to the transaction process. A lack of quality data will make it hard to establish an evidence base and will increase timing and transaction risk.	In recognition of the criticality of data, the program is developing a prototype data hub - a virtual data hub to support the process.  Participants in the transaction will have access to defined and verified data at various stages of the procurement process.
Outcome measures should consider both the change in behaviour of the recipients (hard measures) as well as the link to good life outcomes for an individual and/or family (soft measures).  Measures need to be simple and be ones we are currently using with confidence.	The importance of outcome measures, which include both hard and soft measures for recipients of the services, is recognised.  The final outcome measures will be negotiated and agreed between the parties as part of the joint development phase of the Request For Proposals (RFP).
<b>Commercial framework</b>	
There is no standardised approach to many aspects of SBBs which could result in high transaction costs. The approach taken will also impact on the data requirements and time required to complete the transaction.	Government has consulted widely with other jurisdictions and has developed a lessons learned log which has been used to inform program development.  The program has initiated a number of activities with a view to reducing transaction costs for participants.
The transaction structure may involve multiple parties to contracts creating complexity and increasing time to completion.	It is understood that by their very nature these transactions are complex and the SBBs Pilot Program is investigating opportunities to simplify the process. Every effort is being made to streamline processes.
The long procurement process was seen as a risk by many in regards to time, energy, resources and cost needed to participate.  Government must ensure timelines are met.	The SBBs Pilot Program has endeavoured to provide education and access to information to prepare the market in advance of the transaction.  The SBBs Pilot Program is working with professional and legal services in the development of a pro-bono advice service.  In recognition of the complexity and potential transaction costs, government is providing a Readiness Fund which will be made available to assist eligible service providers participating in the RFP.  Government endeavours to manage and meet expectations around the process timelines while ensuring that due process is adhered to.

**Key findings****SBBs Pilot Program responses**

Scale and risk sharing are critical issues. There must be an appropriate risk/reward balance in the transactions.	The nature of the SBB transaction includes risk sharing and scale which are critical to the transaction and will be subject to negotiation and agreement by the parties.
There was concern that smaller service providers will be disadvantaged or current services may be affected adversely.	SBBs are complex and expensive transactions, and not all service providers will be in a position to participate.  Market led proposals, for example, could provide the opportunity for alternate funding. There are also many instances where smaller providers are active participants in the service delivery framework for a SBB.
<b>Procurement</b>	
Managing expectations around participation in the process is crucial. Government needs to clearly articulate what will be provided to participants as part of Expression of Interest (EOI)/Request for Proposals (RFP) and what information requirements are expected.	EOI documentation will include information on what is required in response, high level evaluation criteria and a response template.  The data hub will provide participants with access to appropriate levels of data from the RFP stage of the procurement process.
Government needs to be upfront about the number of proponents moving forward at each stage of the procurement process to limit time and cost of responding.	Government will be clear and transparent about participation in the procurement process, including timeframes, so potential respondents are well informed about what is required.  Government has chosen a staged procurement process with gates to progression to limit the inconvenience to participants.  Communication and feedback will be provided to support the process.
Education and capability building is needed in the social services sector to enable some organisations to participate in the transaction.	As a pilot program and a new initiative globally the new opportunity for learnings for government and the social services sector as a result of this change in approach to procuring services, is recognised as being important.  In recognition of the challenge, peak bodies and professional service providers are already working with the sector to enhance capability of the sector to participate in this type of procurement services.  With respect to the pilot program some support has been developed to enhance the quality of submissions such as education sessions and a Readiness Fund.  The SBBs Pilot Program is working with professional and legal services in the development of pro-bono advice services.

If you would like more detail, please contact the SBBs Pilot Program by email [socialbenefitbonds@treasury.qld.gov.au](mailto:socialbenefitbonds@treasury.qld.gov.au) or [view the full report](#).

**FEEDBACK**

“What is starting to emerge, is ‘let’s get real clarity up front around what’s in, what’s out, how we’re going to work across agencies, what data we can make available, what costings are relevant and what aren’t’, those kind of things upfront, crisp and clear, put out to the market, that’s really going to enable us to move quickly.”

Sandy Blackburn-Wright, Social Outcomes



Karen Hale-Roberston from CheckUP and Treasurer, Curtis Pitt at the discussion forum



One of nine focus groups held concurrently





Session coordinators for the group summary (from left to right) Jonathan Leitch, Department of Housing and Public Works, Michael Stubbins, Department of Corrective Services and Ron Weatherall, Department of Aboriginal and Torres Strait Islander Partnerships





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