
NSW Treasury

Social Impact Investment Policy 2.0: Growing our impact

Office of Social Impact Investment

1 July 2022

Acknowledgement of Country

We acknowledge that Aboriginal and Torres Strait Islander peoples are the First Peoples and Traditional Custodians of Australia, and the oldest continuing culture in human history.

We pay respect to Elders past and present and commit to respecting the lands we walk on, and the communities we walk with.

We celebrate the deep and enduring connection of Aboriginal and Torres Strait Islander peoples to Country and acknowledge their continuing custodianship of the land, seas and sky.

We acknowledge the ongoing stewardship of Aboriginal and Torres Strait Islander peoples, and the important contribution they make to our communities and economies.

We reflect on the continuing impact of government policies and practices, and recognise our responsibility to work together with and for Aboriginal and Torres Strait Islander peoples, families and communities, towards improved economic, social and cultural outcomes

Artwork:
Regeneration by Josie Rose



Social Impact Investment Policy 2.0

Growing our impact

Since launching Australia's first social impact bonds in 2013, NSW has been at the forefront of social impact investment (SII) in Australia.

The NSW Government launched its first Social Impact Investment Policy in 2015, and the Office of Social Impact Investment (OSII) was established to implement it.

NSW's first SII Policy aimed to set the foundations of SII for the State and catalyse Australia's SII ecosystem.

Seven years and nine investments on, the principles of SII – outcomes, innovation, prevention, and partnerships – have demonstrated their potential to help address major social challenges and empower the people of NSW to live better lives (see Appendix for the achievements of the first SII Policy).

Indeed, the potential of these principles extend more broadly than individual investments.

However, more remains to be done to fully realise this potential. Three lessons, in particular, inform our focus looking forward:

Lesson 1. While individual investments have demonstrated the benefits of the SII model, they remain highly bespoke, and are not always suitable for programs at different stages of maturity

Lesson 2. Capability within government and the sector has progressed but needs to grow further

Lesson 3. There is untapped opportunity to grow our impact beyond individual SII transactions.

With these lessons in mind, NSW Government will work collaboratively across other jurisdictions and the social impact sector to strengthen what has been built by delivering three core priorities over the next three years:

Priorities of SII Policy 2.0



Priority 1. Strengthen and streamline our approach to deliver more social impact investments, by:

1.1. *Adapting and streamlining approaches to social impact investments for different stages of the innovation cycle*

1.2. *Establishing a sustainable funding model to support an invest-to-save approach in priority areas*



Priority 2. Enhance sector capability to embed principles of social impact investment



Priority 3. Build a broader and more diverse impact investing ecosystem, by:

3.1. *Fostering growth of the NSW Social Enterprise Sector*

3.2. *Growing the NSW Sustainability Bond Programme*

Principles of Social Impact Investment



Social impact investment brings together the public, for-purpose, and for-profit sectors to deliver social impact alongside financial returns. It is underpinned by four core principles:

Principle 1 – **Outcomes:** designing for, measuring, and rewarding delivery of outcomes

Principle 2 – **Innovation:** testing innovative services and building an evidence base to embed what works

Principle 3 – **Prevention:** shifting the focus from high-cost acute services to prevention

Principle 4 – **Partnerships:** leveraging the strengths of different sectors and sharing risks and rewards.

Together, these priorities will help to realise our vision to grow our impact, by embedding innovation, prevention, partnerships, and an outcomes-focus at the heart of how NSW delivers social impact for the people of NSW.

Our Vision:

Grow our impact, by embedding innovation, prevention, partnerships, and an outcomes-focus at the heart of how NSW delivers social impact for the people of NSW.

Learning from experience

In 2012, NSW began to explore SII as a way to improve outcomes for children in out-of-home care. This exploration led to the launch of Australia's first SII – Newpin – which harnessed the social innovation of the not-for-profit sector, while sharing financial risk with the private sector by linking payments to outcomes. Over the course of the seven-year pilot, almost 400 children returned to the care of their parents, a restoration rate of ~60%, with a financial return of 10% per annum for investors who backed the program. Newpin became a testament to collaboration between government and non-government sectors.

Building on this early promise, the NSW Government launched its SII Policy, the Office of Social Impact Investment and eight more investments. These outcomes-based contracts are aimed at increasing permanency for children in out-of-home care, reducing recidivism, improving community palliative and mental health care, and reducing youth unemployment and homelessness.

These contracts have demonstrated that principles of SII – outcomes, innovation, prevention, and partnerships – have potential to help address major social challenges and empower the people of NSW to live better lives. But they have not been without their challenges, and we have learned as much from those challenges as the successes.

Lesson 1. While individual investments have demonstrated the benefits of the SII model, they remain highly bespoke, and are not always suitable for programs at different stages of maturity.

Outcomes: Focus on outcome definition, measurement and verification has proven extraordinarily valuable in focusing attention and learning on what works, but these activities remain complex and challenging in practice.

Innovation: Rigorous payment-by-results models have worked well for programs at an intermediate stage of the innovation cycle but are less well-suited to seed stage and early-stage programs, and it has remained challenging to scale programs beyond their initial pilot periods.

Prevention: Measurement and attribution requirements of invest-to-save and payment-by-results models have tended to align better with more reactive or later stage preventative programs rather than the proactive early stage. Existing funding models also make invest-to-save approaches challenging to operationalise when a significant share of the financial benefits to government accrue across agencies and jurisdictions.

Partnerships: Effective cross-sector partnerships is one of the most prominent benefits of the SII approach, but there remains room to better understand the needs and benefits of different parties in different stages and models of SII.

Lesson 2. While capability within government and the sector has grown rapidly, more can be done. The attractiveness to take part in SII may have been hindered by the considerable resources SII has required in the past. Further work can be undertaken to simplify SII and thereby support capability within government, and across the impact economy more broadly.

Lesson 3. There is untapped potential to grow our impact beyond SIIs. When the first SII Policy was launched in 2015, piloting SIIs was prioritised as the cornerstone of the NSW impact investing market. There is now opportunity to apply NSW's expertise to a broader impact investment ecosystem and to heighten the impact of SII beyond individual transactions.

The path forward

The focus for the next three years will be on adapting and streamlining approaches to investments, enhancing our knowledge-base and knowledge-sharing practices, and building a broader and more diverse impact investment ecosystem.

Underpinning these activities will be principles to improve diversity, inclusion and equity across all SII.

SII Policy 2.0: Growing our Impact sets out three priorities.



Priority 1. Strengthen and streamline our approach to deliver more social impact investments

1.1. Adapt and streamline approaches to social impact investments for different stages of the innovation cycle

The NSW Government will continue to invest in mechanisms to help streamline the process of developing SII, tailored to the different stages of innovation. Recognising that the rigour of outcome payments and complexity of some SII models cater for more established programs over others at an earlier phases of growth, NSW will work towards providing the right supports, tools and methods to investments at different stages of the innovation lifecycle.

Based on the learnings from the performance trajectory of current investments, different levels of flexibility and supports are needed for programs at:

Seed stage – promising ideas with limited evidence

Early stage – programs with some evidence that the core idea will achieve target outcomes

Mainstream stage – programs with solid contextual evidence and clear scale potential.

Developing tailored approaches will create an enabling environment for different sizes and structures of SII. Mechanisms that can be trialled include:

Earlier pipeline of active SII

Developing an active pipeline of smaller investments could support the transition of successful seed stage innovations towards a payment-by-results contract, allowing for greater diversity of innovations and early evidence providing a firmer foundation for success.

Greater collaboration across the government and with the philanthropic sector to embed outcomes measurement frameworks in early-stage investments will support this activity, as well as providing the organisations appropriate support to be able to participate fully in the process.

Improve outcome measurement frameworks

NSW will review its approach to outcome measurement and investment frameworks, including adapting evidence requirements to different investment stages and different purposes (e.g. outcomes payment vs. program evaluation). Impact measurement tools and standards will be developed, aligning where appropriate to global best practice in the measurement, reporting and transparent disclosure of outcomes.

NSW will also look to simplify outcome metrics through greater use of the government datasets as well as better and more timely sharing of aggregate-level data with market participants. To speed up the development of investments and reduce the burden on proponents NSW Government will continue to complete more of these analyses prior to issuing tenders to market.

Rate cards

For early stage innovations, a rate card approach can be used – specifying a Government’s willingness to pay for the achievement of a specific outcome. Developing rate cards before issuing tenders frontloads analytical work and reduces complexity, uncertainty and lengthy negotiation around outcome definition and measurement.

The transparency and certainty around pricing, and relative simplicity of the rate card in structuring investments could enable a broader range of service providers and investors to participate in SII.



A ‘rate card’ approach was piloted as part of the 2018 Request for Social Impact Investment Proposals to tackle homelessness. This was in response to market feedback on the need to streamline the transaction process, provide more data upfront, and reduce the complexity of measurement frameworks.

The Homelessness Rate Card indicated the government’s willingness to pay for achievement of housing, employment, and training outcomes.

In 2019, the Home and Healthy Social Impact Investment became Australia’s first SII piloted that utilised a rate card.

Better financing partnerships

Mapping investor needs and expectations will allow clearer principles around when and how different types of investors (e.g. philanthropic, private, or institutional) would be suitable for different investments at different innovation stages, including greater understanding of willingness to take on risk.

Adaptability strategies

Due to the innovative nature of seed and early stage programs, funding through an SII will require greater flexibility to adapt during the delivery phase.

Adaptability strategies will be built into both the SII development process, by scenario planning short- and long-term impacts, and through review stages within the contract to ensure forecasted outcomes can still be achieved.

Investment resources and contractual frameworks

To assist with the development of SIIs, several templates have been released to aid proponents, including financial models, legal documents, and a technical guide for impact measurement and cost benefit analysis. This will continue for all stages, from ideation to mainstreaming, with new resources developed and shared to accelerate the SII development process.

1.2. Establish a sustainable funding model to support an invest-to-save approach in priority areas

The NSW Government acknowledges the importance of a sustainable central funding model to better facilitate invest-to-save approaches. Sustainable funding, such as an Outcomes Fund, encourages a coordinated, cross-agency and cross-jurisdictional approach to outcomes-based funding and stimulate the pipeline of social investment opportunities across a broader range of priority social issues.



Priority 2. Enhance sector capability to embed principles of social impact investment

An integral component of building an outcomes-focused culture is strengthening partnerships across government, the for-purpose and for-profit sectors to embed SII principles and the learnings from SII pilots.

One of the ways to achieve this is deepening the impact of government's role in supporting and growing the culture and capabilities required to embed SII principles in business-as-usual. Work so far has included training in topics from outcomes measurement and program logic to financial modelling. More recently, new initiatives have sought to enable diverse participation in SII, including a co-development phase which saw government working collaboratively with stakeholders to develop their proposals.

This next phase of the SII Policy will build on these initiatives, strengthening existing efforts and exploring new ways to support small and medium size NGOs, social enterprises and other impact-driven organisations. This may include workshops and online tools with broader applicability. Further, working more closely with different parties throughout the SII-development process is one of the most effective ways to learn from one another. This can include co-designing SII pilot programs, bringing in the expertise of other parts of government such as human centred design and data analytics, or collaborating with non-government incubators and research organisations to trial new, collaborative ways of developing SII.

NSW Government's capacity will also continue to be built upon. Key initiatives to embed SII principles across government align with Priority 1 as strengthening and streamlining the process will enable greater participation in SII by reducing the resource burden, which can lead to the principles, practices, and policy learnings from pilots to be incorporated more broadly into government contracting.



3.2. Grow the NSW Sustainability Bond Programme

The impact investment market in Australia has grown significantly over the past 3 years, with the market dominated by green, social and sustainability bonds. NSW Government has made a mark in this market through the [NSW Sustainability Bond Programme](#), a close collaboration between TCorp and NSW Treasury, including the Office of Social Impact Investment and the Office of Energy and Climate Change. Established in 2018, it was the first programme of this type among semi-government issuers in Australia, with \$7.0 billion in green and sustainability bonds on issue to date.

The Programme provides investors with the opportunity to be part of a more sustainable future by helping to finance or refinance projects that support positive and transparent economic, social, and environmental outcomes for the community. Further, it supports Australia's ongoing commitment to meeting the United Nations Sustainable Development Goals (UN SDGs).

Over the next three years, OSII will continue to support the Programme through asset selection and impact reporting. The Programme is also an opportunity to make progress on Priority 2 – working with agencies to raise the bar in impact reporting on government's green and social programs.

3.1. Foster growth of the NSW Social Enterprise Sector

Social enterprises – businesses trading for a social and/or environmental purpose – are a growing business model both locally and globally. Utilising the power of the market to address social and/or environmental problems, these businesses are making a significant contribution to their communities and economy.

Supporting social enterprise is a natural continuation of the NSW Government's work programme to support the social economy. The social outcomes that social enterprises produce are well-aligned with government priorities, including breaking the cycle of disadvantage, creating training and employment opportunities for people facing disadvantage, and promoting well-connected communities and inclusive economy growth.

Therefore, there is a role for government to recognise and build on the work the sector has already done. Government can support these for-purpose businesses to realise their full potential, deliver better outcomes for the community, and drive a diverse economy. Job-focused social enterprises will be of a particular focus, which operate with the mission to create employment or employment pathways for people with barriers to mainstream employment.

NSW will implement targeted initiatives that address key challenges currently faced by social enterprises, enabling them to flourish by:

- growing the scale and diversity of impact investment across the State
- supporting the integration of NSW's fragmented social enterprise ecosystem and building networks of expertise and capital
- activating government levers to generate improved social and economic outcomes for the State
- sharing knowledge on what works best for different priority cohorts based on the comparison of different service delivery models.

Appendix

NSW's Inaugural Social Impact Investment Policy Achievements

NSW's first SII Policy launched, with target outcomes of:



Deliver more social impact investment transactions



Grow the market and remove barriers



Build the capability of market participants

2015

- Held market sounding sessions
- Published Social Impact Investment Principles
- Established the Social Impact Investment Interjurisdictional Network
- Facilitated non-government sector preparedness: Expert Advice Exchange Round 1

2016

- Held market sounding sessions
- Published benchmark cost and outcomes data: Technical Guide published
- Promoted understanding of the social impact investment market: Co-hosted Investing for Good Conference
- Facilitated non-government sector preparedness: Expert Advice Exchange Round 2

2017

- Held market sounding sessions
- Facilitated non-government sector preparedness: Expert Advice Exchange Round 3-4
- Promoted understanding of the social impact investment market: Co-hosted Investing for Good Conference
- Delivered SII to market: **On TRACC** (recidivism) SII began
- Delivered SII to market: **Foyer Central** (youth homelessness) SII announced
- Delivered SII to market: **Silver Chain** (palliative care) SII began
- Delivered SII to market: **Resolve** (mental health) social impact bond began

2018

- Published benchmark cost and outcomes data: Australia's first Rate Card released
- Promoted understanding of the social impact investment market: Online modules released
- Held market sounding sessions, including regional sessions
- Delivered SII to market: **Resilient Families** social impact bond matured; continues as payment by results contract
- Delivered SII to market: **Aboriginal economic development SII** and **SII Evolve** (open policy area) opportunities opened

2019

- Promoted understanding of the social impact investment market: Co-hosted Investing for Good Conference
- Delivered SII to market: **Sticking Together Project** (youth unemployment) social impact bond began
- Delivered SII to market: **Home and Healthy** (homelessness) SII began
- Delivered SII to market: piloted co-development phase
- Led annual impact reporting under the NSW Sustainability Bond Programme
- Published Statement of Outcomes

2020

- Delivered SII to market: **Newpin** social impact bond matured; continues as payment by results contract
- Promoted understanding of the social impact investment market: inaugural sponsor of SECNA
- Led asset identification and annual impact reporting under the NSW Sustainability Bond Programme

2021

- Delivered SII to market: Launched the **Youth Employment Social Impact Program**
- Delivered SII to market: Official opening of **Foyer Central**
- Promoted understanding of social impact investment market: continues sponsorship of SECNA
- Delivered SII to market: **NSW Social Impact Outcomes Fund** announced
- Led asset identification and annual impact reporting under the NSW Sustainability Bond Programme

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