

# A risk compass for social outcome-based contracts: reflections from NSW impact investments

NSW Treasury, Office of Social Impact Investment



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# Acknowledgement of Country

NSW Government acknowledges 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.

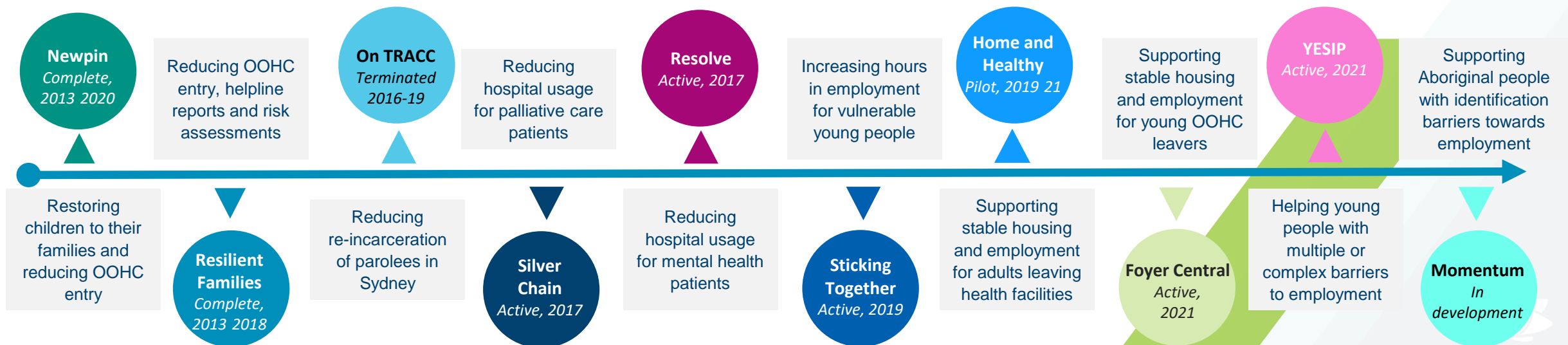
We reflect on the continuing impact of government policies and practices, and recognise our responsibility to work together with and for Aboriginal and Torres Strait Islander peoples, families and communities, towards improved economic, social and cultural outcomes.

Artwork: 'Regeneration' by Josie Rose 2020

# NSW SII Portfolio

Social impact investments (SIIs) have been used in NSW to test early intervention programs to address social challenges

- OSII was established in 2015 to catalyse the social impact market
- OSII has delivered 9 social impact investments to the market, with one currently in development
  - Across multiple policy areas, including family restoration, recidivism, palliative care, mental health, homelessness, youth unemployment and Aboriginal economic development
  - 5 Social Impact Bonds and 4 Payment-by-Result contracts
  - On average, contract value in the range of \$10m to \$30m and contract length of ~6 years
  - Combination of Advance Payments (fixed payments as % of operating costs) and Outcome Payments



# Key SII Risks

Risk type		Description... <i>risk that...</i>
Program Risk	Intervention risk	Chosen intervention does not produce the expected results for the target cohort
	Operational and Stakeholder risk	Program is not implemented as planned due to people, process and/or systems
	Referral risk	There are less referrals than expected, and therefore a smaller intervention group; or The referred cohort is more complex or does not align with whom the intervention was designed to support
	Program costs	Program costs will be higher than planned
Measurement Risk	Outcome selection risk	Outcomes selected to be measured and paid on do not accurately capture the full value of the program
	Measurement risk	Program performance is not accurately measured, due to measurement quality and/or measurement capability
	Baseline risk	The baseline does not accurately represent the target cohort
	Verification risk	There is difficulty in the collection of outcomes data and verification of outcomes
Other	Regulatory or policy risk	New legislation and/or policy changes will change the landscape of delivery
	Government operational risk	Government fails to meet its obligation under a SII structure e.g. delays in contract signing, making payments or changing personnel in government
	Reputational risk	Negative perception and publicity (and follow on impacts) should the SII transaction not succeed
	Economic and uncontrolled risk	External factors such as changes in economic conditions or unexpected events outside the control of the parties that prevent the program from operating at normal parameters
	Intermediary risk	Intermediary or third party fails to perform its obligations e.g. in the structuring, financing or set-up of the SII model
	Liquidity risk	Government payments occur infrequently, or parties cannot exit SIB easily
	Credit risk	Service provider defaulting on its obligation as a result of its financial condition/insolvency

# What drives risk higher?



## Description

Risk that the **intervention does not produce the expected results** for the target cohort



## Risk is higher if...

- There is **no well-documented evidence** for the intervention
- The program has **not operated in the jurisdiction** or at the **same scale** previously
- The program has **not targeted the specific cohort** previously



Risk that there are **less referrals than expected**, or that the referred **cohort is more complex** than was designed to support



- **Cohort is not well defined**, or challenging to define or identify
- There is **uncertainty in demand** for the service and/or **unclear referral pathways**
- The program is **centre or location based**
- Service provider **does not have existing relationships** with referral partners



Risk that program **performance is not accurately or timely measured** due to:

- Data quality and availability
- Measurement capability
- Type of outcomes selected
- Quality of baseline
- Difficulty in verifying outcomes



- Outcomes **cannot be measured directly**
- **Low quality data sources** or delay in obtaining information
- Measurement of longer-term outcomes occurs after extended period of time
- Provider has **limited experience** in collecting and measuring outcomes
- **Baseline is too complex** or not refreshed as required
- **Evidence is reliant on clients or third party** discretionary provision of data

# What we would like to talk about today



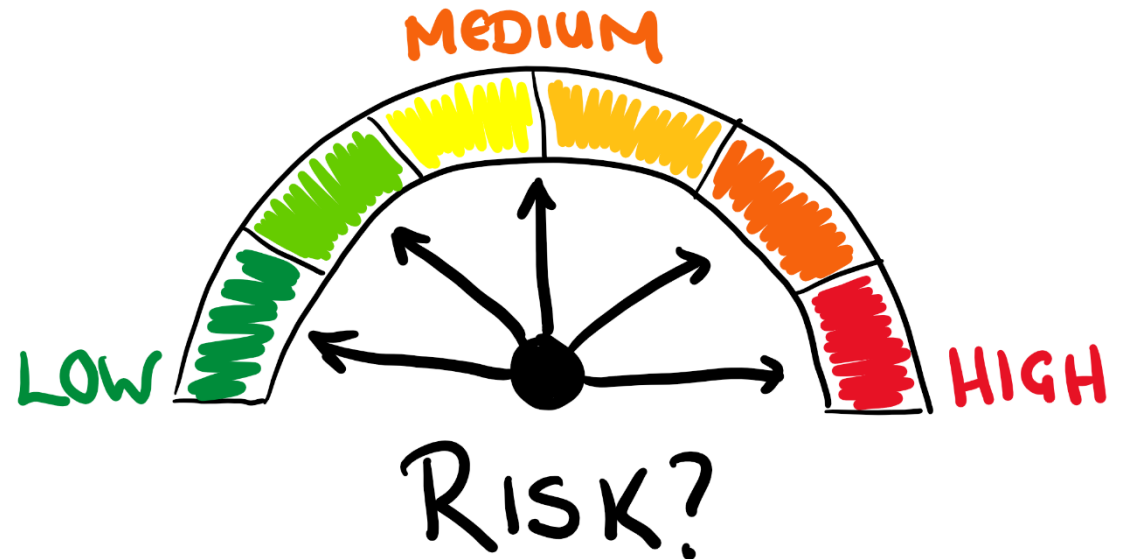
Risks that are usually encountered when structuring social impact investments



Key learnings from a NSW perspective and strategies to mitigate risks



The intended application of the framework to simplify the contracting process





# Thank you!

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