NSW Government Submission to the Commonwealth Government’s Social Impact Investing Discussion Paper

## Introduction

The NSW Government welcomes the Commonwealth Government’s interest in developing social impact investment (SII). We would welcome the opportunity to partner in the development of these investments, particularly through data sharing and co-funding arrangements. A partnership approach would allow us to achieve significantly greater scale in SII; deliver better social outcomes for larger cohorts of people in need; improve the measurement and evaluation of what works in service delivery; and deliver greater economic benefits to both the State and Commonwealth Governments.

The NSW Government has been at the forefront of delivering SII in Australia. The following submission is based on our experience implementing world-leading SII models since 2013, which has revealed areas where collaboration between the Commonwealth and States would deliver the most gain. As such, the submission focuses on:

* Collaborating on data access, sharing, and linkage
* Co-funding for investments that benefit both levels of government.

## Social impact investment – a national approach

Social impact investment provides a unique opportunity to:

* Deliver better outcomes for the community, including:
  + piloting new innovations to deliver improved outcomes

improving transparency and accountability for achieving outcomes (through a focus on results over process)

* + facilitating robust measurement of outcomes
* Deliver investment approaches, through:
  + generating economic benefits for government, especially through the delivery of preventative services, and a step down in required service delivery (translating into better value for taxpayers)
* Foster partnerships, including:
  + accessing capital and expertise from the private and not-for-profit sectors
  + sharing risk with the non-government sector (both service providers and investors)
  + empower non-government organisations to do what they do best – provide essential services to those in need in NSW.

Through working together, the Commonwealth and NSW Governments could amplify the benefits outlined above. Suggested collaboration opportunities are outlined in the following section.

## The role of the Commonwealth Government

### Data sharing and linkage

The primary goal of SII is to deliver better social outcomes. Designing, measuring, and funding effective outcomes-focused programs is critically dependent on high-quality data.

In the NSW Government’s experience, limited access to, and linkage of, data has been an impediment to assessing which cohorts have the greatest demand for social services; robustly measuring service usage of cohorts; and analysing any changes in service demand resulting from interventions. These factors limit the ability to design payment arrangements based on outcomes.

Improved access to data for both State and Commonwealth Governments would allow both entities to better predict service usage and design investment approaches to high-needs cohorts based on this evidence. For instance, one tested area of SII is in reducing recidivism. Potentially, successful rehabilitation programs targeting recidivism may reduce incarceration and utilisation of health and homelessness systems, which would primarily benefit the State. However, such programs may also reduce claims to unemployment benefits, which primarily benefit the Commonwealth. Linking data across each of these areas would enable both levels of government to better understand the evidence base and facilitate investments that can deliver better outcomes at lower costs.

The NSW Government has identified a number of challenges to data sharing:

* **Culture:** Some organisations have a culture of ‘silo-ing’ their data. This often results from a combination of limited awareness about the utility of sharing data, limited technical capacity over data sharing processes, and a misinterpretation of governance requirements.
* **Technical:** In the event that data sharing is fully supported, there may be operational challenges in linking and analysing data, given variations in collection mechanisms, definitions and timeframes. In addition, data collected by governments is largely administrative and often requires data linkage to draw meaningful insights from various data points.
* **Capacity:** Traditionally data has been seen as a basic reporting or compliance requirement. As a result, data capture software has sometimes been developed at a minimal cost, with limited ability to store, link and analyse data.
* **Governance:** Legislative barriers can impact on the ability of governments to share data, such as complexities over the intersection of Commonwealth and states’ privacy legislation. In some cases this complexity can also promote a risk-averse culture within government agencies that discourages disclosure.

These issues are covered in more detail in the NSW Government’s responses to the Productivity Commission’s Inquiry into Data Availability and Use. We encourage that responses to this Discussion Paper are also informed by responses, findings, and recommendations to the Productivity Commission’s Inquiry.

### Co-funding arrangements

NSW was the first government in Australia to implement Social Benefit Bonds (SBB) (also known as Social Impact Bonds), which are among the best known models of SII. These are the Newpin SBB and Benevolent Society SBB. The results of these bonds have been promising. They have proven to:

* Deliver improved outcomes for clients
* Shift expenditure to preventative rather than acute services
* Developed capabilities in contracting and an investment approach more broadly.

The NSW Government launched its [*Social Impact Investment Policy*](http://www.osii.nsw.gov.au/assets/office-of-social-impact-investment/files/Social-Impact-Investment-Policy.pdf) in February 2015. A key action in the policy is to target bringing two investments to market each year. In 2016, the NSW Government launched the On TRACC investment to reduce reoffending. A further three investments are currently in joint development phase and are expected to be announced shortly.

In addition to data sharing identified above, a key mechanism to catalyse more activity in SII is co-funding arrangements between Commonwealth and State governments.

As discussed above, complex social challenges rarely operate in isolation and are generally overlapping in nature and cost. Effective programs will therefore often seek to achieve multiple social outcomes. Incentivising the social services sector to deliver comprehensive interventions that address multiple social challenges could be encouraged through co-funding arrangements. Currently, some service delivery partners focus on programs and outcomes that reduce costs to State governments because the State is their funder. State government modelling is likewise incentivised to focus on the economic benefits that accrue to specific State agencies, given the programs are funded by specific agencies.

In addition to co-funding, other forms of support could be sharing risk, in-kind contributions including land, or debt and equity positions.

Co-funding can enable programs with higher returns on investment to both State and Commonwealth Governments, than instances where one level Government works in independently, and returns are more marginal.

There are several areas where co-funding arrangements could be explored, such as social and affordable housing and early childhood education. In these cases, improved social outcomes and associated economic benefits accrue to both levels of government.

## Principles for social impact investing

The NSW Government endorses the Commonwealth Government’s proposed principles for SII outlined in the discussion paper, which are in line with those of the NSW Government’s[Principles for social impact investment proposals](http://www.osii.nsw.gov.au/assets/office-of-social-impact-investment/files/Principles-for-Social-Impact-Investment-Proposals.pdf).

## The future of social impact investment in NSW

February 2017 marks two years since the release of our [*Social Impact Investment Policy*](http://www.osii.nsw.gov.au/assets/office-of-social-impact-investment/files/Social-Impact-Investment-Policy.pdf) and the launch of the NSW Office of Social Impact Investment (OSII), a joint initiative of NSW Treasury and the NSW Department of Premier and Cabinet. The Government is now taking stock of our achievements to date and exploring how we can scale SII, and further catalyse the market in NSW.

We have four key goals that will drive our forward work program: 1) pursuing greater scale of investments (both in terms of outcomes achieved and capital committed); 2) mainstreaming successful models and principles of SII; 3) building the pipeline for investments and; 4) streamlining and speeding up the delivery of investments. A partnership with the Commonwealth Government would be instrumental to achieving these goals.

The NSW Government would welcome the opportunity to partner with the Commonwealth Government as we pursue the implementation of these goals.