



June 2013

**The Benevolent Society's  
Intensive Family Support Service**

# **NSW SOCIAL BENEFIT BONDS TRIAL**

**benevolent** SOCIETY



**Westpac**  
**Institutional  
Bank**

# AGENDA

**3**

**Summary**

**4**

**Social Impact  
Finance**

**9**

**Social Benefit  
Bonds**

**19**

**Selection  
Process**

**23**

**Performance  
Measurement**

**27**

**Timeline  
Execution**

**29**

**Benevolent  
Society**

**32**

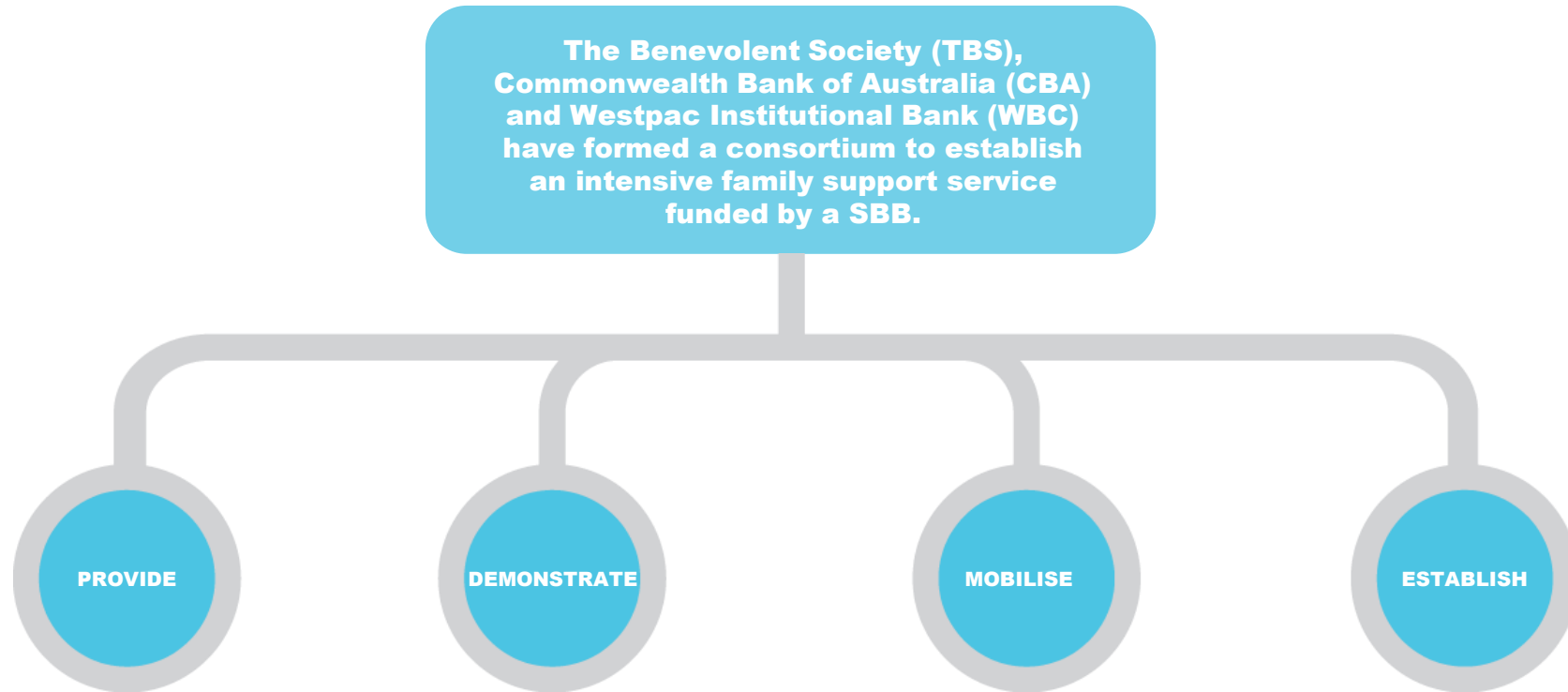
**Appendices**

**37**

**Contacts**

# Executive summary

## We are seeking investor participation in the Social Benefit Bond (SBB) trial



### The objectives of the program are:

- To **provide** intensive family support services to families where children are at high risk of being placed into Out-Of-Home Care (OOHC) i.e. foster care by the State
- To **demonstrate** that the NSW Government, community and investors can all benefit from SBBs
- To **mobilise** new sources of mainstream capital to tackle social problems
- To **establish** an investment model with potential for scaling investment into other social impact services



# Social Impact Finance

## An Overview

benevolent  
SOCIETY

CommonwealthBank



Westpac  
Institutional  
Bank

# Introduction

---

## Funding social investment needs<sup>1</sup>

**There is a growing realisation that government, philanthropic and private investor resources can come together to create efficient and effective social programs**



**The fundamental issue is how private sector capital can best be employed to fund social programs**

**SBBs are the bridge between providing a more effective approach to the provision of social services by government and delivering monetary and social returns for investors**

**CBA and WBC have embraced these ideas and have partnered with TBS in developing the SBB structure in Australia**

<sup>1</sup> Refer Appendix 1: Social Investment Financing References for additional information on social impact financing.



# What is a Social Benefit Bond?

---

## **SBBs are financial investments that pay a return based on the performance of a social service provider in addressing a social problem**

- Under a SBB structure, the government engages the private sector to identify how savings can be made with respect to a particular program being provided
- The SBB is structured such that the private sector develops and funds (up-front) a social program to deliver government savings that:
  - Covers the cost of the social service provider
  - Enables payment of a success dividend to investors
  - Delivers net savings to the government after the above payments

## **The return to investors varies relative to the degree of success that the social program has in reducing costs to government**

- The success of the SBB is measured by comparing the performance of the social service program against targets agreed upfront with government
- SBBs provide a unique funding alternative:
  - The government's payment is correlated to the benefits that have been achieved
  - The program spend capacity is far greater than what would otherwise be possible within the constraints of the government's annual budget



# Investment/Grant Continuum

## Where does the SBB sit?

←
**Investment**
→
**Grant**

	<b>General Investments</b>	<b>Ethical Investments</b>	<b>Social Finance Investments/ Enterprise</b>	<b>Specific Grant</b>	<b>General Grant</b>
<b>Type</b>	Equities, Bonds & Deposits	Ethical Equity & Bonds	Bonds & Equity in Social Ventures	Specific Donation	General Donation
<b>Invest in</b>	ASX 200 Equities, Bank/Corporate Bonds etc.	Investments in ethical Companies, Projects & Funds	Funding for specific social ventures with return potential	One-off grant to charity for specific project	Donation to charities for general day to day use
<b>\$ returns</b>	Yes, market return	Yes, generally lower than market	Yes, financial & social returns subject to performance	No	No
<b>Example</b>	Conventional Equity and Bond Instruments	Australian Ethical Investment/ Ethical Super	NSW Social Benefit Bonds	Contribution to The Benevolent Society's Cluey Kids' Program	Donations via phone, mail or door-knocking



# Social Benefit Bonds

The NSW Government Trial



**Commonwealth**Bank



**Westpac**  
Institutional  
Bank



# NSW Government Social Benefit Bond Trial

---

## What does the NSW Government expect to achieve?



**The Centre for Social Impact report (February 2011) recommended the NSW Government considered procuring expressions of interest from the private sector for the implementation of social programs funded by SBBs**

- The NSW Government identified key benefits of the SBB structure as follows:
  - A focus on outcomes rather than outputs
  - Additional resources for early intervention
  - Innovation to address pressing social issues
  - Improving the evidence base for social programs
  - Improving accountability and transparency for social programs
- The NSW Government was interested in piloting SBBs to provide an efficient way of reducing OOHC costs and sought tenders from the private sector
- TBS, CBA and WBC were selected as one of two consortia for an OOHC trial
- The cost of the program will be A\$10 million to be funded from the proceeds of an SBB



# The scope of our child protection problem

---

## Key role of the SBB Funded Service

**The number of children in OOHC in NSW rose from 12,700 in 2007 to 18,000 in 2012 equating to 1.13% of all NSW children living in OOHC placements with 35% of the total number made up of Aboriginal and/ or Torres Strait Islander children**

- OOHC costs up to A\$66,000 per annum per child for family-based foster care or A\$303,000 per annum per young person in residential care<sup>1</sup>
- Approximately 3% of the highest-risk families are offered an intensive support service like the SBB service, leaving most families without enough support to enable them to improve the safety and wellbeing of their children
- As a result, in excess of 3,000 NSW children per annum are removed from their families and placed in OOHC, a removal rate driving the rapid growth of total numbers in care and leaving many children disconnected from their family and culture
- The SBB funded service will support up to 400 families who would not otherwise benefit from intensive family support services

<sup>1</sup> Source: Boston Consulting Group 2009.

# Overview of the Proposed Family Support Service

---

## What are the services being provided?

**The aim of TBS' program will be to minimise the frequency of children in these families being removed by child protection staff and placed in OOHC, and to reduce the number of calls to the Government's child protection Helpline**

- TBS will deliver family preservation services over a period of five years to selected families based on specified referral criteria
- TBS will work with up to 400 families that have resident children aged five or younger that are at risk of significant harm, as determined by the NSW Department of Family and Community Services (FACS)
- TBS will utilise a mix of existing and new infrastructure, programs and professional staff to deliver the intensive family support services.
- The aim of TBS' services is to minimise the incidence of treated children receiving child protection notifications and entering OOHC
- The SBB service will utilise performance information supplied by the NSW Government to identify service strengths and areas for improvement
- Information about re-emergence of risk among families who have exited the program will trigger the addition of supplementary support to families as required



# How Intensive Family Support Services (IFSS) work

---

## **Intensive intervention for up to six weeks**

To address crises and build client trust, TBS case workers will initially stabilise the family environment

- Address housing and debt problems (including use of discretionary funding)
- Secure income support
- Provide safety planning where domestic violence is an issue

## **Once the crisis period has passed**

- Develop a plan with the family to improve its functioning and give the children the specialist support they need

## **Ongoing support for up to nine months in order to:**

- Embed sustained changes in behaviour
- Build family capacity to cope with future challenges
- Connect the family with the wider community services network



# Social Benefit Bonds

## Proposed Structure



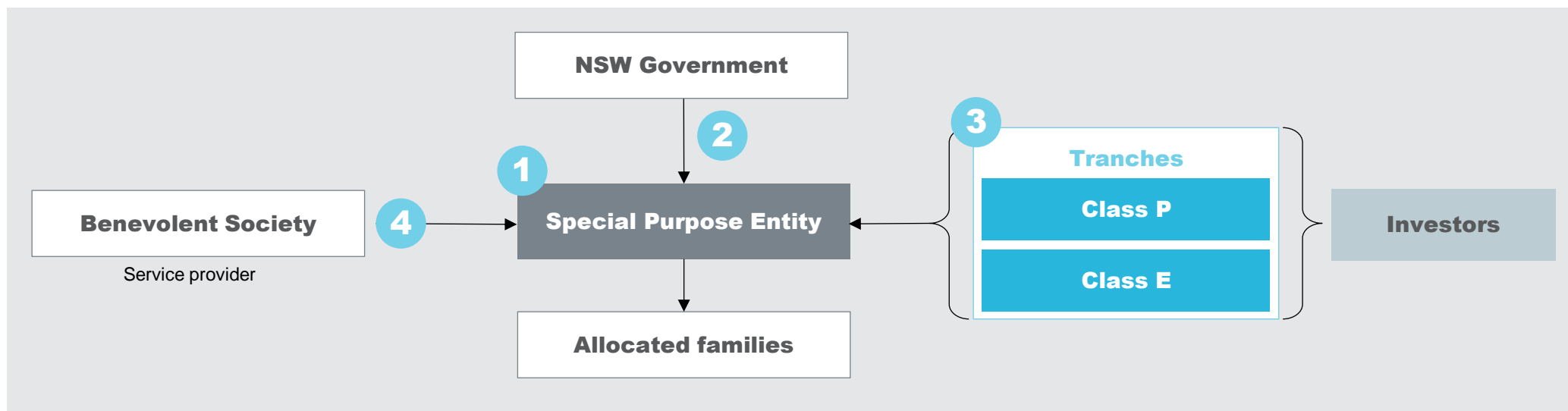
**Commonwealth**Bank



**Westpac**  
Institutional  
Bank

# Proposed funding structure

## Overview



- 1. A bankruptcy-remote Special Purpose Entity (SPE) will be established to issue the SBB**
  - 2. The NSW Government will provide an upfront standing charge of A\$5.75 million to facilitate the establishment of the program**
  - 3. Investors will subscribe for Class P (A\$7.5 million) and Class E (A\$2.5 million) of the SBB notes for a total issue of A\$10 million**
  - 4. TBS will provide the services to the selected families over 5 years, drawing the investor funds (subject to drawdown limits and in accordance with predefined criteria) to pay for the services**
- The proceeds of the standing charge (A\$5.75 million) will be held in cash as a deposit with WBC until maturity. The SBB raising (A\$10 million) will be held in cash as a deposit with WBC with first drawdown to occur once the service commences
  - At the end of the five year tenor, the NSW Government will pay the SPE a share of the savings arising as a result of outcomes achieved. The payment amount will be based on the performance of the program in achieving outcomes
  - Investors are paid principal and interest as applicable at the end of year five tenor by the SPE

# Indicative SBB terms

## Snapshot

Issuer	Special Purpose Entity
<b>Proposed Program Size</b>	A\$10 million
<b>Service Provider</b>	The Benevolent Society
<b>SBB Tranches</b>	Class P Tranche – Principal Protected Bond Class E Tranche – Performance Based Security
<b>Use of Funds</b>	To provide intensive family support services over 5 years
<b>Bond Maturity</b>	Five years
<b>Interest Payments</b>	Class P and E – Payable on Maturity Date dependent on performance
<b>Principal Repayments</b>	Class P principal – guaranteed repayment on Maturity Date Class E principal – at risk with repayment dependent on performance of the program on Maturity Date



# Investor risk and reward

## Overview

	Amount	Risk Level	Risk vs Rewards
<b>Class P</b>	A\$7.5 million	Moderate	Principal not at risk. Interest payable at Bond maturity.
<b>Class E</b>	A\$2.5 million	High	100% Principal at risk. Interest payable at Bond maturity.

- The Class P Tranche will be principal protected
- The Class E Tranche will have principal at risk
- The interest yield for Class P and E Tranches will be dependent on the performance of the social program - the better the performance, the higher the yield to be earned
- Investors can earn up to 10% and 30% interest (annual compounding) for the Class P and Class E Tranches respectively





# Benefits for Participants and to Society

## SBB trial

**Provided with the opportunity to participate in an exciting initiative that aims to reform protection practice and child safety outcomes in Australia**



- The mobilisation of private sector capital enables additional resources to be deployed for prevention**
- Private sector participation drives best practice in the social services sector and improves accountability and transparency**
- SBBs represent a new approach to tackling entrenched and expensive social problems**
- Performance measurement will ensure a stronger evidence base for social programs**
- The increased focus on outcomes measurement via the SBB has the potential to significantly enhance Government funding of preventative programs**





# Selection Process



# IFSS Regions

Families for both Intervention and Control Groups will be across Metropolitan Sydney



**REGION  
1  
CSCS**

**Eastern  
Sydney  
Central  
Sydney  
Burwood  
Lakemba**



**REGION  
2  
CSCS**

**Bankstown  
Campbelltown  
Fairfield  
Liverpool  
Ingleburn**



**REGION  
3  
CSCS**

**Auburn  
Blacktown  
Hawkesbury  
Parramatta  
Penrith  
Mt Druiitt  
St Marys  
St George**

# Participant selection process

---

**FaCS will refer eligible children to TBS on notification of a vacancy in one of two IFSS Regions. The Intervention Group Family will be treated, however the youngest child only will be measured for the performance of the service**

**The children measured for performance in the Intervention Group will be selected based on the following criteria:**

- A family in Region 1 or Region 2
- Parental responsibility for resident child lies with the resident parent/ carer
- Age five years and younger (including unborn children)
- Youngest child in the household
- Subject of an open Safety and Risk Assessment (SARA)<sup>1</sup> with “Safe with Plan” assessment
- There are no criminal proceedings relating to abuse or neglect of a child in respect of anyone resident in the home of the family

<sup>1</sup> FaCS have visited the family as a result of claims of potential or actual harm to the child and the case has not been closed

# Control Group selection process

---

**The most closely matched child is identified and tracked to measure performance**

**The Matched Child will be the child that is the best available match in Region 1 or Region 2 in accordance with the following criteria:**

1. Child's family has the same history of OOHC
2. Child's family has the same history of SARAs
3. Same aged youngest child as the IG family

## **Contingent Matching Process**

If these criteria cannot be found in Region 1 or Region 2, a matched child will be selected from **Region 3**



# Performance Measurement

benevolent SOCIETY

CommonwealthBank



Westpac Institutional Bank

# Measurement of performance

**The amount paid by the NSW Government at the end of the five year tenor is dependent on the performance of the program**

- Performance metrics agreed with the NSW government will be based on a sliding scale of improvement measured against the Control Group
- At the end of the five year tenor, the program will be rated in accordance with the following table

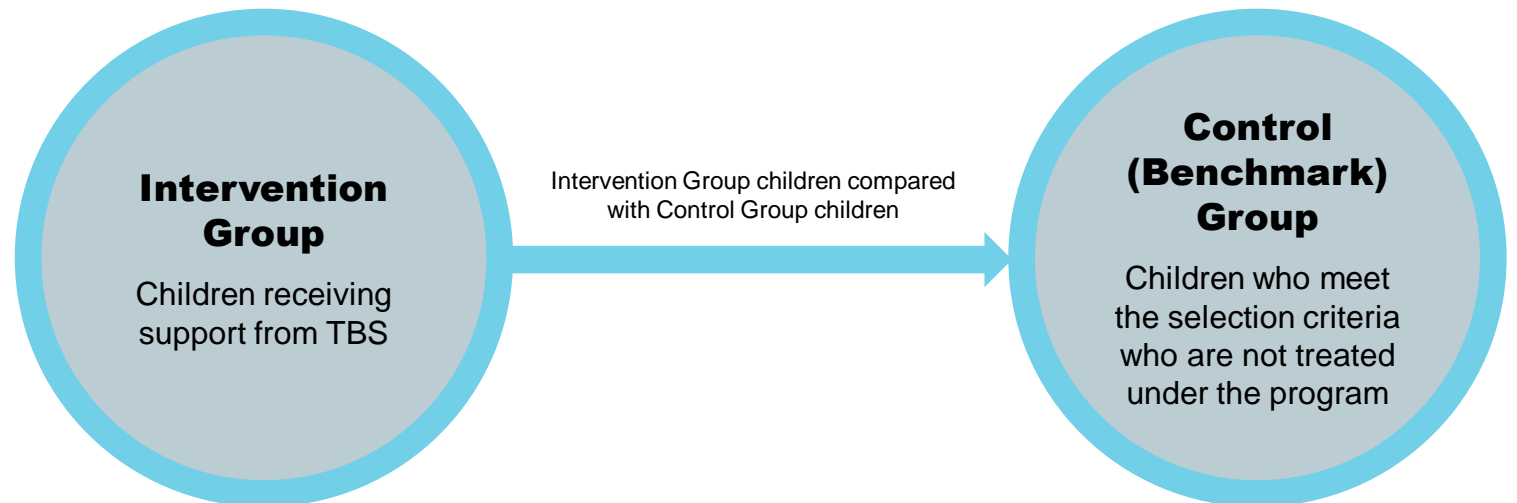
Performance Tier	Performance Improvement	Interest Return Tier 1	Interest Return Tier 2
<b>Fail</b>	< 5%	0%	0%
<b>Baseline</b>	>=5% <15%	5%	8%
<b>Good 1</b>	>=15% <20%	6%	10.5%
<b>Good 2</b>	>=20% <25%	7%	15%
<b>Good 3</b>	>=25% <35%	8%	20%
<b>Good 4</b>	>=35% <40%	9%	25%
<b>Outperform</b>	>40%	10%	30%

# Measurement of performance

---

**Performance in the Intervention Group will be measured relative to a Control Group of matched children who do not receive intensive support**

- The key performance measures for this SBB are the average numbers of:
  - Entries into OOHC per child (66% Measurement Weighting)
  - Helpline Reports per family (17% Measurement Weighting)
  - SARAs per family (17% Measurement Weighting)
- The measurement process will rely on NSW Government administrative data
- The data and measurement process will be independently audited
- The Intervention Group will be measured against the Control Group until the bond maturity





# Measurement approach

## Investors will be rewarded based on the performance percentage

**The performance percentage will be calculated on the Measurement Date – four years and nine months after commencement of the SBB**

- The performance percentage is determined as a simple average of the Improvement Percentage calculated for each Cohort
- There will be four Cohorts, one for each year of referrals and their respective matches
- Measurement for each child in the Intervention group will commence from the point they are referred until the Measurement Date

**Improvement Percentage for a Cohort is calculated as:**

$$((66\% \times \text{OOHC}) + (17\% \times \text{Helpline}) + (17\% \times \text{SARA}))$$

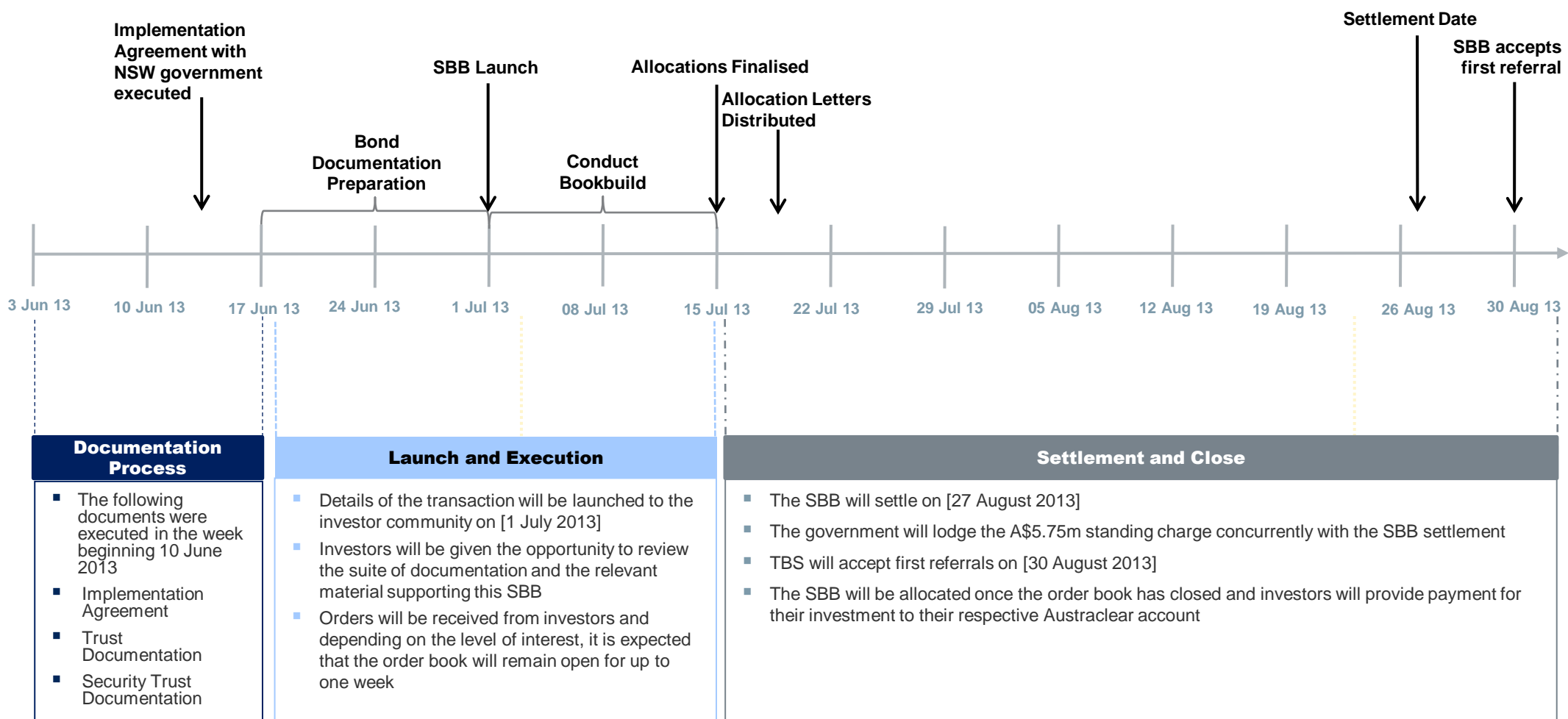


# Timeline to Execution



# SBB execution process

## Nine week lead time between the SBB launch and the acceptance of the first referral





# Benevolent Society

benevolent  
SOCIETY

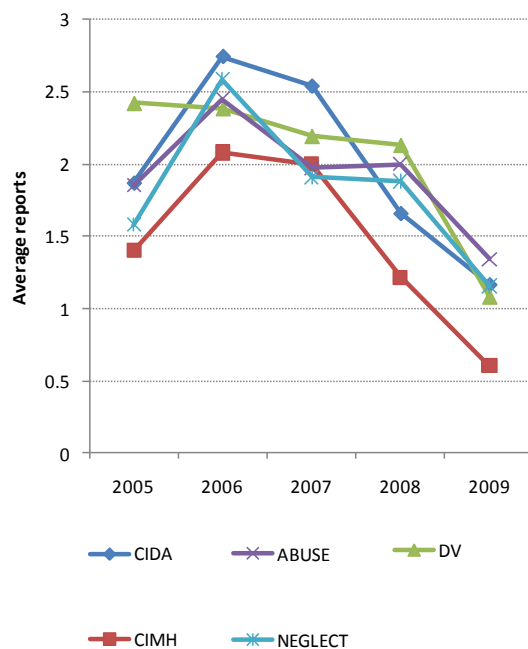
CommonwealthBank



Westpac  
Institutional  
Bank

# TBS – a proven track record

**The graph below shows the reduction in helpline reports per family from TBS Brighter Futures intake 2006-07, including reports from two years prior to entry**



- TBS has over 30 years experience in delivering family support services to high risk families
- In 2012, TBS delivered A\$50 million family support services, including approximately A\$6 million in intensive family support to over 200 families
- A key driver of the SBB was TBS' recognition of the potential of IFSS to significantly reduce OOHC

## **The proposed IFSS builds on evidence developed by TBS from its existing government funded preventative programs:**

### **Brighter Futures Early Intervention Program**

- TBS has procured data from the Government evidencing a reduction in child protection reports by approximately 40% over three years under TBS' Brighter Futures Program

### **Scarba Intensive Family Support Service**

- An internal evaluation of TBS' Scarba Intensive Family Support Service found that 43% of families who completed in the assessment stage exited the program because the children were no longer at risk of harm or entry into OOHC

Source: Mullan et al. 2011, page 81

# The Homebuilders® model

---

## A proven intensive Family Support Service

**The first six weeks of TBS's Intensive Family Support Service has strong parallels with the Homebuilders service, however TBS has added a longer step-down period to ensure sustained behaviour change**

- While there is limited evidence data in Australia, TBS' program will be based on the US Homebuilder's model which saw significant improvement in OOHC placement – both programs target high risk child protection clients
- The Homebuilders® model, a program based in the US, is the Intensive Family Support model with the best evidence base
- Homebuilders® involves four to six weeks of intensive family support
- Homebuilders® achieves the largest improvements with the highest-risk families, those being families with children who have previously been placed in care or who have a history of prior substantiations of child protection risk
- Reductions in OOHC placement of 21% for families with prior substantiations of child protection risk and reductions of 56% for families with prior OOHC placements were still evident at 12 months post Homebuilders® treatment
- Those families in the highest risk category who responded most positively to Homebuilders are also well represented in the target group that will be supported by the SBB service



# Appendices



# Appendix 1: Social Investment financing references

---

## **Investing for good: The development of a capital market for the not-for-profit sector in Australia**

Senate Economics Reference Committee Inquiry into Finance for the Not-For-Profit Sector, Australian Parliament, November 2011

[http://www.apf.gov.au/Parliamentary\\_Business/Committees/Senate\\_Committees?url=economics\\_ctte/capital\\_market\\_2011/report/index.htm](http://www.apf.gov.au/Parliamentary_Business/Committees/Senate_Committees?url=economics_ctte/capital_market_2011/report/index.htm)

## **Report on the NSW Government Social Impact Bonds Pilot**

Centre for Social Impact, February 2011

[http://www.csi.edu.au/assets/assetdoc/0b6ef737d2bd75b9/Report\\_on\\_the\\_NSW\\_Social\\_Impact\\_Bond\\_Pilot.pdf](http://www.csi.edu.au/assets/assetdoc/0b6ef737d2bd75b9/Report_on_the_NSW_Social_Impact_Bond_Pilot.pdf)

**Investing's Most Important Evolution** Euromoney, June 2012

**Social Impact Bonds** NSW Parliamentary Library Research Service. Dec 2011

**The Promise of Social Impact Bonds** New York Times, 20 June 2012

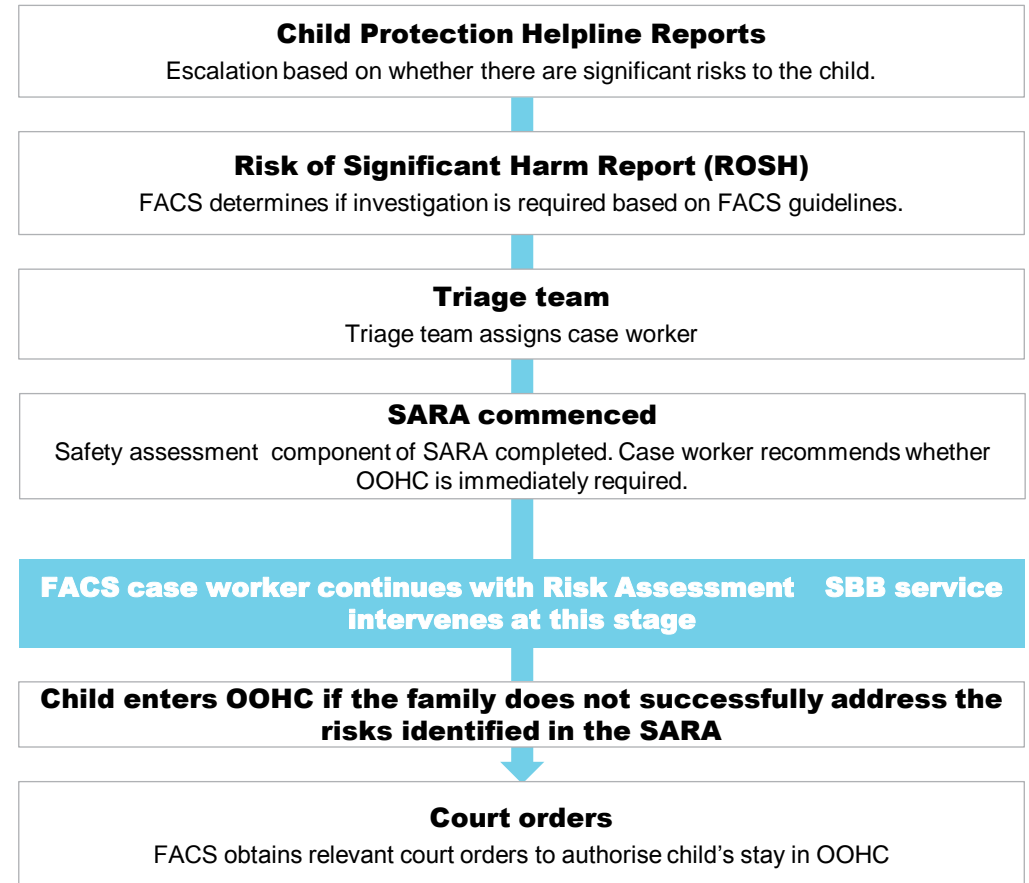
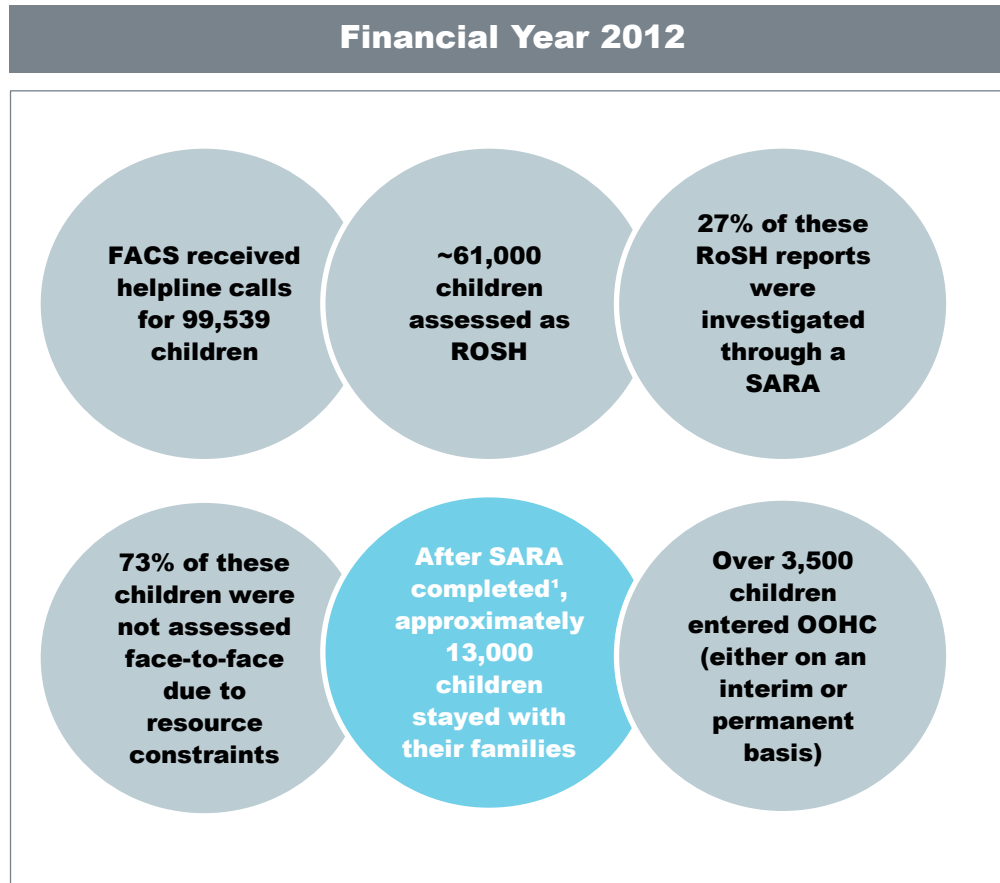
## **From Potential to Action: Bringing Social Impact Bonds to the US**

McKinsey & Co, May 2012

[http://mckinseysociety.com/downloads/reports/SocialInnovation/McKinsey\\_Social\\_Impact\\_Bonds\\_Report.pdf](http://mckinseysociety.com/downloads/reports/SocialInnovation/McKinsey_Social_Impact_Bonds_Report.pdf)



# Appendix 2: How a child enters Out-of-Home care



# Appendix 3: Termination scenarios

Termination Event	Investor Payment
<b>Default by SPE/ TBS<sup>1</sup></b>	<ul style="list-style-type: none"> <li>• Capital protection for all classes</li> <li>• Class E investors rely on TBS for capital return to meet any shortfall in remaining principal in the trust</li> <li>• Interest return for all classes based on observed performance to date</li> <li>• Interest paid for days accrued to date of payment</li> </ul>
<b>Default by Government<sup>2</sup></b>	<ul style="list-style-type: none"> <li>• Capital Protection for all classes</li> <li>• Interest return for all classes based on observed performance to date, subject to no worse than "Good 2"<sup>5</sup></li> <li>• Interest paid for days accrued to date of termination.</li> </ul>
<b>Convenience by Government<sup>3</sup></b>	<ul style="list-style-type: none"> <li>• Capital Protection for all classes</li> <li>• Interest return based on observed performance to date, subject to no worse than "Baseline"<sup>5</sup></li> <li>• Interest due is that which would accrue over 5 years at the assumed performance level irrespective of date of termination, and undiscounted</li> </ul>
<b>Force Majeure- Termination by either SPE/TBS or Government<sup>4</sup></b>	<ul style="list-style-type: none"> <li>• Capital Protection for all classes.</li> <li>• Interest return based on observed performance to date, subject to no worse than "Baseline"<sup>5</sup> if termination occurs in the first 18 months.</li> <li>• Interest paid for days accrued to date of termination.</li> </ul>

<sup>1</sup> Class P investors will have recourse to monies received from the government for payment. Class E investors will have recourse to TBS for payment.

<sup>2</sup> Investors in Class P and Class E will have recourse to monies received from the government for payment

<sup>3</sup> Investors in Class P and Class E will have recourse to monies received from the government for payment

<sup>4</sup> Investors in Class P and Class E will have recourse to monies received from the government for payment

<sup>5</sup> Please refer to Slide 22, "Measurement of Performance" for performance returns

# Appendix 4: TBS historical financials

- TBS had net assets at 30 June 2012, of \$91.05 million
- TBS has seen significant revenue growth over the past 5 years. As a general rule, income is slightly positive/negative each year – as a not for profit organisation, TBS' aim is to expend revenue on delivering services
- The TBS endowment totals approximately \$57 million and has strict governance rules
- The TBS endowment provides several million a year in cash earnings – this is used for discretionary TBS social impact programs

	2012	2011	2010	2009	2008
<b>Income</b>	A\$'000	A\$'000	A\$'000	A\$'000	A\$'000
<b>Total revenue</b>	81,748	76,610	60,205	50,436	47,292
<b>Operating expenses</b>	80,431	(74,850)	(56,549)	(48,117)	(45,167)
<b>Operating surplus/(deficit)*</b>	3,105	2,042	3,656	2,319	2,125
<b>Asset impairment</b>	0	0	0	(4,485)	(3,070)
<b>Asset revaluation</b>	(754)	(464)	2,844	(2,042)	0
<b>Total comprehensive income</b>	2,351	1,578	6,500	(4,208)	(945)

	2012	2011	2010	2009	2008
<b>Assets</b>	\$'000	A\$'000	A\$'000	A\$'000	A\$'000
<b>Financial assets</b>	65,545	68,785	63,035	56,799	57,251
<b>Trade and other receivables</b>	8,908	7,610	7,332	1,679	4,063
<b>Property plant and equipment</b>	35,753	36,172	38,292	34,893	35,278
<b>Other</b>	0	3,589	2,984	4,941	12,171
<b>Total assets</b>	110,206	116,156	111,643	98,312	108,763
<b>Total liabilities</b>	(19,155)	(27,456)	(24,521)	(17,690)	(23,933)
<b>Net assets</b>	91,051	88,700	87,122	80,622	84,830

\* Operating surplus includes surpluses from discontinued operations

# Contacts



**Steven Hawkins**

**General Manager Business Development  
The Benevolent Society**

P: +61 (0)2 8262 3560  
M: +61 (0) 466 737 389  
E: [steve.hawkins@benevolent.org.au](mailto:steve.hawkins@benevolent.org.au)



**William Hopkins**

**Executive Business Development  
The Benevolent Society**

P: +61 (0)2 8262 3569  
M: +61 (0) 417 988 858  
E: [william.hopkins@benevolent.org.au](mailto:william.hopkins@benevolent.org.au)



**Jocelyn Bell**

**Project Manager Business Development  
The Benevolent Society**

P: +61 (0)2 8262 3568  
E: [jocelyn.bell@benevolent.org.au](mailto:jocelyn.bell@benevolent.org.au)



**Craig Parker**

**Executive Director  
Westpac Institutional Bank**

P: +61 (0) 2 8254 9116  
M: +61 (0) 419 268 691  
E: [cparker@westpac.com.au](mailto:cparker@westpac.com.au)



**Peter Taplin**

**Director  
Westpac Institutional Bank**

P: +61 (0) 2 8254 8349  
M: +61 (0) 438 495 078  
E: [ptaplin@westpac.com.au](mailto:ptaplin@westpac.com.au)



**Simon Ling**

**Global Head of Debt Markets  
Commonwealth Bank of Australia**

P: +61 (0) 2 9118 6463  
M: +61 (0) 457 524 423  
E: [simon.ling@cba.com.au](mailto:simon.ling@cba.com.au)



**Wendy Butler**

**Associate  
Commonwealth Bank of Australia**

P: +61 (0)2 9118 7385  
M: +61 (0) 477 346 499  
E: [wendy.butler@cba.com.au](mailto:wendy.butler@cba.com.au)

# Investor Enquiry Contacts



## **Paul O'Brien**

**General Manager Business Development  
The Benevolent Society**

P: +61 (0)2 8262 3560

M: +61 (0) 466 737 389

E: [steve.hawkins@benevolent.org.au](mailto:steve.hawkins@benevolent.org.au)

## **Peter Daltin**

**Executive Business Development  
The Benevolent Society**

P: +61 (0)2 8262 3569

M: +61 (0) 417 988 858

E: [william.hopkins@benevolent.org.au](mailto:william.hopkins@benevolent.org.au)

## **Patrick Moore**

**Director  
Westpac Institutional Bank**

P: +61 (0) 2 8254 8349

M: +61 (0) 438 495 078

E: [ptaplin@westpac.com.au](mailto:ptaplin@westpac.com.au)

## **Jake Woods**

**Global Head of Debt Markets  
Commonwealth Bank of Australia**

P: +61 (0) 2 9118 6463

M: +61 (0) 457 524 423

E: [simon.ling@cba.com.au](mailto:simon.ling@cba.com.au)

## Important information

This document and its content are confidential and should not be reproduced or disclosed to any other person without prior consent. It is intended for use only within Australia by recipients whose ordinary business includes the buying or selling of securities in circumstances where disclosure is not required under Parts 6D.2 or 7.9 of the Corporations Act 2001 and in such other circumstances as may be permitted by applicable law.

This document does not constitute an offer to provide any finance or service, sell, or the solicitation of an offer to buy, any security nor does it represent a commitment to underwrite the sale or the issue of any security. It is provided as the basis for further discussion on the issues contained herein and remains subject to amendment or modification at any time. It is not binding. Nothing in this document constitutes tax, accounting, legal, financial product or investment advice or a recommendation. The Information does not take into account the investment objectives, financial situation or particular needs of any recipient.

Before taking any action on the basis of the information contained in this document, you should seek your own independent professional advice, including taxation and legal advice.



CommonwealthBank



**Westpac**  
**Institutional**  
**Bank**