



**Social Impact Investing**

**Australian Government Treasury Discussion Paper**

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## 1 Overview

The Australian Healthcare and Hospitals Association (AHHA) is pleased to provide this submission to the Australian Government Treasury discussion paper on *Social Impact Investing*.

The AHHA is Australia's national peak body for public hospitals and health care providers. Our membership includes state health departments, Local Hospital Networks (LHNs) and public hospitals, community health services, Primary Health Networks (PHNs) and primary healthcare providers, aged care providers, universities, individual health professionals and academics. As such, we are uniquely placed to be an independent, national voice for universal high quality healthcare to benefit the whole community.

Using social impact investing to drive positive health outcomes for specific conditions or populations is in its infancy in Australia, but governments are beginning to look at the international evidence and considering how social impact investing could be used in Australia to drive outcome-focused improvements.

Social impact investing involves private investors funding outcome-focused interventions and governments paying back the principal as well as a return on the investment only once the program meets its agreed outcomes. The attractiveness of social impact investing lies in risk mitigation to governments, cash flow management for government departments and the potential to promote innovation and increase accountability in service delivery through public-private partnerships.

Impact investing in health would require a change in mindset away from discussions of whether private or public interests are responsible for treating ill-health. The focus shifts to the mitigation of ill-health by adjusting tastes and behaviours and the achievement of positive health outcomes.

Essential ingredients for success in pursuing impact investing in the health sector include access to quality data from public and private health service providers, the development of measurable and robust outcomes, niche investors seeking a return on a public good, the development of effective and innovative interventions, and consensus among the parties throughout the journey.

Working together, PHNs and LHNs, or their equivalent, are well placed to be agents of positive change in realising better population health outcomes while being prudent fiscal stewards of public funds.

PHNs and LHNs have an opportunity to engage in impact investments in order to respond more directly to local needs. A funding emphasis on better health outcomes, rather than simply focusing on payments based on activity, is consistent with the commissioning role envisaged for the PHNs.

More work is needed to determine the applicability of social impact investing to the Australian primary and acute healthcare environment. As steward of the Australian health system, the Australian Government should work with state and territory governments to pilot small scale social impact investing initiatives tied with research components to establish an Australian evidence base on the effectiveness of this novel financing model.

Over the longer term, the Australian Government should work with the states and territories to design a system of financing that is not one-size-fits-all but a system founded on principles of equity, a focus on quality outcomes, transparency and subsidiarity. These principles would enable a new system of health financing to emerge and would empower service providers at regional and catchment levels to share services and facilitate outcome-based funding strategies. Social impact investing could be part of the health sector financing mix.

## 2 Barriers to social impact investing in health

### 2.1 Data

As noted in the Treasury discussion paper, ‘data sharing is integral to social impact investing as high quality data is needed to determine whether a social impact has been achieved. Sharing data and evaluations is also a key aspect of building the evidence and knowledge base for social impact investing.’<sup>1</sup>

While the discussion paper notes the Australian Government has taken a proactive role to improving access to public data, work needs to begin urgently on a primary healthcare national minimum data set, performance measurements that focus on health outcomes should be developed, and should align with acute sector data sets. Gordon *et al* (2016) also discuss the need for consistency in the collection of primary healthcare data.<sup>2</sup>

The Primary Health Networks (PHNs) must be central to this work. Fragmented efforts including data collections from general practices and private health providers by other Australian government-funded bodies are unhelpful and burdensome.

### 2.2 Outcomes measurements

Impact financing has a focus on outcomes. Measuring quality outcomes however is not a simple activity in primary and acute healthcare. Two issues emerge in the use of social impact investing in the Australian health system. Firstly, how does it work in populations of people who are not coerced to participate in the intervention? Secondly, how do these interventions attribute causality in multi-agency and multi-level interventions? In simple terms should an intervention be rewarded when it is not known which intervention has worked to impact health behavioural change?

Associate Professor John Fitzgerald’s 2015 issues brief on options for finance in primary care in Australia<sup>3</sup> note two possible options:

1. Selectively target social impact investing only to those programs where causal relations can be asserted and only in specific circumstances; and
2. Explicitly apply social impact investing at a meso-level of health governance, such as at a catchment/regional level where the idiosyncrasies of health and wellbeing needs can be serviced locally and yet the catchment is large enough such that outcomes can be measured at a population level.

### 2.3 Fee-for-service and activity-based mentality

Fee-for-service and activity-based funding arrangements are the basis for health service payments in Australia. While the Australian Government is currently looking at a number of reform options in

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<sup>1</sup> Australian Government Treasury 2017 *Social Impact Investing Discussion Paper*: [http://www.treasury.gov.au/~/media/Treasury/Consultations%20and%20Reviews/Consultations/2017/Social%20Impact%20Investing/Key%20Documents/PDF/Social\\_Impact\\_Investing\\_DP.ashx](http://www.treasury.gov.au/~/media/Treasury/Consultations%20and%20Reviews/Consultations/2017/Social%20Impact%20Investing/Key%20Documents/PDF/Social_Impact_Investing_DP.ashx)

<sup>2</sup> Gordon J, Miller G and Britt H. 2016. Reality check - reliable national data from general practice electronic health records. Deeble Institute Issues Brief No. 18: <https://ahha.asn.au/publication/issue-briefs/deeble-institute-issues-brief-no-11-options-finance-primary-care-australia>.

<sup>3</sup> Fitzgerald J 2015 ‘Options for finance in primary care in Australia’ Deeble Institute Issues Brief no. 11: [http://ahha.asn.au/system/files/docs/publications/deeble\\_institute\\_issues\\_brief\\_no.\\_11\\_fitzgerald.pdf](http://ahha.asn.au/system/files/docs/publications/deeble_institute_issues_brief_no._11_fitzgerald.pdf)

both primary<sup>4,5</sup> and acute care<sup>6</sup>, federal stewardship is needed to enable a new system of health financing to emerge. A funded emphasis on better health outcomes rather than simply focusing on payments based on activity is consistent with the commissioning role envisaged for the PHNs.

#### **2.4 Realised benefit and return on investment**

Because design and delivering health services across Australia is a shared responsibility between the Australian Government, state and territory governments and private providers, and because the funding mix for service provision comes from the Australian Government, state and territory governments, local governments, private health insurers and consumer out-of-pocket costs, any realised benefit and return on investment from social impact investment in health will need to be spread across this complex mix of contributors. Any impact investment will require consensus among the parties throughout the journey and transparency of outcomes monitoring to financing.

#### **2.5 Investors**

An essential ingredient for success in pursuing impact investing in the health sector includes niche investors seeking a return on a public good. Impact Investing Australia's 2016 Investor Report<sup>7</sup>, which surveyed 123 Australian investors accounting for more than \$333 billion of Australia's \$2 trillion funds under management, revealed that active impact investors would like to triple their allocation to impact investments over the coming five years. The report found that there is investor interest in health, including medical research and mental health.

#### **2.6 Lack of evidence**

While a 2016 report prepared for the Prime Minister's Community Business Partnership<sup>8</sup> found that there are no Australian examples of social impact investing with documented results in health, health service schemes in the United Kingdom and the United States funded on a payment by results basis suggest that the application of social impact investing to Australian health services could be investigated in more detail.

### **3 Role of Australian Government and other jurisdictions**

Strong and strategic leadership is needed from the Australian Government as the steward of Australia's health system, which requires effective partnership with state and territory governments. It also requires listening and working collaboratively with all health stakeholders, including public and

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<sup>4</sup> Health Care Homes: reform of the primary health care system:

<http://www.health.gov.au/internet/main/publishing.nsf/Content/health-care-homes>

<sup>5</sup> AHHA submission to the Department of Health consultation paper on *Redesigning the Practice Incentives Program*: [http://ahha.asn.au/system/files/docs/publications/practice\\_incentive\\_program\\_-\\_ahha\\_submission.pdf](http://ahha.asn.au/system/files/docs/publications/practice_incentive_program_-_ahha_submission.pdf)

<sup>6</sup> AHHA submission to the Independent Hospital Pricing Authority consultation paper on the *Pricing Framework for Australian Public Hospital Services 2017–18*: [http://ahha.asn.au/system/files/docs/publications/ihpa\\_pricing\\_framework\\_for\\_public\\_hospital\\_services\\_-\\_ahha\\_submission.pdf](http://ahha.asn.au/system/files/docs/publications/ihpa_pricing_framework_for_public_hospital_services_-_ahha_submission.pdf)

<sup>7</sup> Dembek K, Madhavan D, Michaux F & Potter B, *Impact Investing Australia 2016 Investor Report*: <http://impactinvestingaustralia.com/wp-content/uploads/Impact-Investing-Australia-2016-Investor-Report.pdf>

<sup>8</sup> *Social impact investing research*, final report 23 March 2016, Department of Social Services for the Prime Minister's Community Business Partnership: [http://www.communitybusinesspartnership.gov.au/wp-content/uploads/2016/11/social\\_impact\\_investing\\_research\\_report.pdf](http://www.communitybusinesspartnership.gov.au/wp-content/uploads/2016/11/social_impact_investing_research_report.pdf)

private health service providers and consumers. This will ensure Australia's world-class health system is able to provide care for all Australians, regardless of where they live or their capacity to pay.

The AHHA agrees with the Treasury's discussion paper in that the Australian Government should:

1. Play a stewardship role by ensuring an appropriate regulatory environment for the growth of the impact investment market; and
2. Fund or co-fund with state and territory governments social impact investments that would likely achieve savings to fund the intervention.

Working together, Primary Health Networks (PHNs) and Local Hospital Networks (LHNs), or their equivalent, are well placed to be agents of positive change in realising better population health outcomes while being prudent fiscal stewards of public funds.

PHNs and LHNs have an opportunity to engage in impact investments in order to respond more directly to local needs. A funded emphasis on better health outcomes rather than simply focusing on payments based on activity is consistent with the commissioning role of the PHNs.

## 4 The Treasury's four proposed principles for social impact investing

The AHHA agrees with the Treasury's discussion paper in that any involvement by the Australian Government in social impact investment will continue to recognise that:

- Social impact investing will not replace the core role of the Australian Government in service delivery and the commissioning and funding of services;
- Social impact investing is not an appropriate or effective vehicle for all interventions; and
- Many social impact investments do not involve the government as a participant. Instead, investors solely fund the service provider to deliver a social service and the investor receives an agreed financial return for the outcomes achieved. Investors and service providers should not consider government involvement a prerequisite for a successful social impact investment.

With regards to the four principles for social impact investing proposed in the Treasury discussion paper, AHHA agrees that the Australian Government should be involved only if there is: value for money; a robust approach to outcomes-based measurement to monitor progress, risk and returns of the investment and a robust and transparent evaluation method to determine the investment's impact and efficacy; a fair sharing of risk and return between the Australian Government, investors and service providers; and a focus on a deliverable and relevant social outcome that align with the policy priorities of the Australian Government.

AHHA calls for the inclusion of principles of equity, based on a universal healthcare principle, and subsidiarity, utilising meso-level structures such as Primary Health Networks and Local Hospital Networks to be commissioners in and responsible for realising better population health outcomes while being prudent fiscal stewards of public funds.

## 5 Areas which lend themselves to social impact investing

Impact financing has a focus on outcomes. Measuring outcomes is often not a simple activity in health care, as some outcomes have long temporal lags and some outcomes are logically distal to

the intervention or initiating activity.<sup>9</sup> This is not the case with certain primary healthcare interventions focused on targeted population groups localised at regional and catchment level where an intervention may be provided by specified service providers, which share service provision and facilitate outcome-based funding strategies. Possible examples include:

- In oral health care, impact financing could provide the appropriate incentive to improve awareness and outreach among at risk children and youth and their caregivers as well as encourage the use of pre-existing and free dental services. The near-term impacts would be good overall oral health and self-esteem that can lead to avoiding lifelong disadvantage.
- In sexually transmitted infections screening, taking the case of chlamydia screening in pharmacies, impact financing could provide the appropriate incentive to improve rates of chlamydia testing and coverage in priority populations and age groups. A recent study showed that while 86% of women and 64% of men in the 16–29 year old age group had at least one consultation with their GP in the 12-month period, only 8.9% of them were tested for chlamydia.<sup>10</sup> These screening rates can be increased, with population-based interventions shown to achieve rates of 38% and 63.9%, while opportunistic screening interventions can achieve rates between 12% and 28%.<sup>11</sup>
- In type 2 diabetes screening, impact financing could provide the appropriate incentive to improve rates of diabetes screening leading to the detection of undiagnosed diabetes and the successful ongoing management of the disease that would delay the onset of associated and costly complications.

Another area that may hold potential for social impact investing is in medicines financing to provide equitable access to innovative, high cost medicines, a challenge that is facing Australia's health system and highlighted in the Senate report *Availability of new, innovative and specialist cancer drugs in Australia*.<sup>12</sup>

The Pharmaceutical Benefits Advisory Committee (PBAC) is an independent expert body appointed by Government that reviews new medicines for clinical effectiveness, safety and cost-effectiveness, and makes recommendations for their listing on the Pharmaceutical Benefits Scheme (PBS). The PBAC are seeing a shift in applications from traditional medicines for large patient populations to targeted biologic therapies for smaller patient sub-groups. Due to the nature of these therapies, data on effectiveness from trials remain immature, costs are high and benefits need to be extrapolated in applications to the PBAC. This makes decision making on cost-effectiveness challenging, while consumer expectations for access to the therapies is high.

In exploring the potential for social impact investing for the funding of innovative medicines, experience in establishing ‘pay for performance’ contracts for medicines should be drawn upon. One example involves models of procurement and pricing agreements being negotiated with pharmaceutical companies, with strict criteria for use of the medicine and which may also involve a

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<sup>9</sup> Fitzgerald, J 2015, *Deeble Institute Issues Brief: Options for finance in primary care in Australia*, Australian Healthcare and Hospitals Association:

[https://ahha.asn.au/system/files/docs/publications/deeble\\_institute\\_issues\\_brief\\_no.\\_11\\_fitzgerald.pdf](https://ahha.asn.au/system/files/docs/publications/deeble_institute_issues_brief_no._11_fitzgerald.pdf).

<sup>10</sup> Kong F, Guy R, Hocking J, Merritt T, Pirotta M, Heal C, et al. Australian general practitioner chlamydia testing rates among young people. *Med J Aust* 2011; 194: 249–52.

<sup>11</sup> Gudka S, et al. Chlamydia screening interventions from community pharmacies: a systematic review. *Sex Health* 2013;10(3):229-39.

<sup>12</sup> Senate of Australia 2015 report Availability of new, innovative and specialist cancer drugs in Australia: [http://www.aph.gov.au/Parliamentary\\_Business/Committees/Senate/Community\\_Affairs/Cancer\\_Drugs/Report](http://www.aph.gov.au/Parliamentary_Business/Committees/Senate/Community_Affairs/Cancer_Drugs/Report).

risk-sharing arrangement. The pharmaceutical company reimburses the full cost of expenses if patients do not respond to the treatment within an agreed trial period.

The complexities surrounding the issue of sustainable medicines funding were discussed at a special policy roundtable convened by the George Institute for Global Health, and participated in by AHHA, on 10 February 2017. A report is forthcoming, and while social impact investing was not specifically discussed, the challenges faced in this area demonstrate there is a potential role for social impact investing to be explored in funding innovative medicines from the time at which they are Therapeutic Goods Administration-registered until a time at which there is sufficient evidence to consider their suitability for listing on the PBS.

## 6 Conclusion

More work is needed to determine the applicability of social impact investing to the Australian primary and acute healthcare environment. As steward of the Australian health system, the Australian Government should work with state and territory health departments to pilot small scale social impact investing initiatives tied with research components to establish an Australian evidence base on the effectiveness of this novel financing model.

In order for social impact investing in health to succeed attention and effort must: focus on the development of robust and quality data in order to inform outcomes measurements (for example the establishment of a national minimum data set in primary care); overcome a fee-for service and activity-based mentality; have a consensus among parties on who realises benefits and return on investment; identify willing investors; and surmount the dearth of evidence on social impact investing by establishing an Australian evidence base.

Over the longer term, the Australian Government should work with the states and territories to design a system of financing that is not one-size-fits-all but a system founded on principles of equity, a focus on quality outcomes, transparency and subsidiarity. These principles would enable a new system of health financing to emerge and would empower service providers at regional and catchment levels to share services and facilitate outcome-based funding strategies, which could include social impact investing as part of the health sector financing mix.





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