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Submission to Treasury on Social Impact Investing

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1. Introduction

The Benevolent Society welcomes the opportunity to comment on Treasury's Social Impact Investment Discussion Paper. The Benevolent Society is pleased to be one of the first organisations in Australia to pilot a social benefit bond. The Benevolent Society's Social Benefit Bond has been in operation since 2013 and over that time we have learnt a lot about establishing, managing and measuring this new form of social impact investment. Some of our experiences are reflected in this submission.

Generally, The Benevolent Society supports the governments continued interest in social impact investment as we welcome fresh and innovative approaches to tackle some of the complex and entrenched social problems that affect many of Australia's most disadvantaged people.

However, we believe that in some cases new financing models may not necessarily be needed, but a more flexible, out-comes focussed approach to contracting for social services delivery may be just as effective. In any event, more effort is needed to define the outcomes which are being sought; estimate the current costs and projected savings, and to capture and understand the data held by government and others to support initiatives whether they are funded by new or standard financing models.

We also encourage all levels of government to explore ways to work together when developing new social impact investment models.

2. About The Benevolent Society

The Benevolent Society is Australia's first charity. We're a not-for-profit and non-religious organisation and we've helped individuals, families and communities achieve positive change since 1813. We help families, older people and people with a disability live their best life, and we speak out for a just society.

Snapshot

- The Benevolent Society is a secular non-profit organisation with 943 staff and 573 volunteers who, in 2015/16, reached 46,956 people through our services, community programs and events.
- We deliver services from 63 locations with support from local, state and federal governments, businesses, community partners, trusts and foundations.
- We support people across the lifespan, delivering services for children and families, older people, women and people with mental illness, and through community development and social leadership programs.
- Our revenue in 2015/16 was $111.7 million.

3. The Benevolent Society's Social Benefit Bond

Overview

The Benevolent Society, in conjunction with the Commonwealth Bank and Westpac and in partnership with the New South Wales Government, launched The Benevolent Society's Social Benefit Bond in October 2013. The Bond funds an intensive family support service, the Resilient Families program, which is designed to ensure children remain with their families where it is safe for them to do so.

The Bond will operate over a five year period and funds intensive work with up to 400 families who are expecting a child, or have at least one child under six who are at risk of significant harm. Under the Resilient Families program, The Benevolent Society strives to provide intensive, in-home practical and therapeutic support to families for up to 12 months, with an initial 12 week intensive period that includes support to families 24 hours a day, 7 days a week. Under Resilient Families, a senior child and family worker develops a support plan in collaboration with the family. The goals in the support plan are achieved through a mix of practical and therapeutic support, in addition to skills training, to:

- manage stress and conflict
- encourage positive child behaviour
- understand their children's developmental needs, and
- tackle problems early before they become entrenched and harder to address.

Financial Model

To establish the bond, $10 million was raised from sophisticated and institutional investors. The bonds were issued by Perpetual Corporate Trust Limited, in its capacity as trustee of The Benevolent Society Social Benefit Trust No 1 (the Trust) in two classes:

- $7.5 million in Capital Protected Class (Class P) bonds: senior, performance-based secured bonds
- $2.5 million in Capital Exposed Class (Class E) bonds: subordinated, principal 'at-risk', performance secured bonds. Principal only repaid if bond performance is greater than 5%.

The New South Wales (NSW) Government has also provided a $5.75 million standing charge upfront which facilitated the establishment of the Resilient Families Program. The Standing Charge is a payment from the NSW Government to improve the risk profile for investors in the bond. The standing charge is not a government guarantee to investors but an early payment that is deducted from the amount due from the NSW Government when outcomes are known. It enables an appropriate risk-return profile for investors in the bond.

Results So Far

The overall performance percentage of the bond for 2016 is 19 per cent, which would result in theoretical returns to investors of 6 per cent for the Capital Protected Class (Class P Bond) and 10.5 per cent for the Capital Exposed Class (Class E Bond).

The Benevolent Society is particularly pleased that in 2016 under the Resilient Families Program, based on the current performance measures, we have been able to reduce the number of children that enter into out-of-home care by 21 per cent when compared to the control group of matched families receiving a standard response from the Department of Family and Community Services (FACS).

On a relatively small scale, the results of the Resilient Families program are defying the nation-wide trend of increasing numbers of children entering out-of-home care. Whilst we are providing similar services under other programs, the rigorous performance measurement system established under the bond provides the evidence to support our results.

4. Response to the discussion paper

The Treasury Discussion Paper raises a number of important issues in relation to expanding social impact investments in Australia. In response to the paper, The Benevolent Society raises the following issues:

a) Social sector capacity

The Benevolent Society is proud of our achievements under our Social Benefit Bond, however establishing and managing a bond is an expensive and resource intensive exercise.

Establishing a bond is a highly complex transaction and required input from a range of experts with diverse skills, some of which are not normally found in-house for many non-government organisations, such as economic and financial modelling, lawyers, insurance experts, tax advisors, evaluation experts and statisticians. Non-government organisations may need to contract specialist expertise in one or more of these disciplines or partner with a range of organisations with specialist financial and technical expertise to assist with the establishment phase, adding to the cost of establishing the bond.

Our experience suggests that it is also critical to include the senior practitioners who will be managing and implementing the services alongside the technical experts drawn together to establish the bond. Senior practitioners will provide relevant practical expertise to the bond design. Their knowledge will assist in identifying any gaps between theory and assumptions underpinning the bond and the reality of practice and service delivery with complex and entrenched problems. Including practitioners from both the government and non-government sectors from the outset will also help to ensure that the bond and its performance measures accurately reflect what happens at the point of service delivery.

The Benevolent Society, as Australia’s oldest charity, is a large organisation with a well-established reputation. We were able to dedicate the time and resources necessary to set-up and manage the bond, which given the funding mechanism, is more resource intensive than our other similar programs. We are also large enough and brave enough to pilot a new funding mechanism which was not guaranteed to succeed. However, we are concerned that smaller NGOs may not have the time, resources or capacity to establish and manage the risks associated with this type of investment vehicles.

b) The importance of cooperation and collaboration between parties

Just as The Benevolent Society had to accept the risks of piloting a new investment approach, so did our partners in the NSW government and Westpac and the Commonwealth Bank. However, one of the real positives from our Social Benefit Bond has been working closely and collaboratively with our government and banking sector partners. Each of the parties came to the transaction with its own perspective and different operating models, but we have all learned a lot about each other and learnt to work together effectively. Establishing, managing and monitoring the bond requires extensive collaboration and consultation between all parties.

The Benevolent Society recommends that parties to a bond, or other social investment vehicle, dedicate time, effort and resources, particularly at the outset, but also throughout the life of the investment as issues arise, to collaboration to ensure each party understands the objectives, contributions and importance of the other parties to the venture.

The Benevolent Society also recommends that the Social Impact Investment Principles included in the Treasury Discussion Paper include an additional principle which states that social impact investments should be designed in collaboration with a broad range of stakeholders including commissioning government and other interested and affected government bodies; practitioners; service delivery organisations and consumers.

c) Measuring outcomes: performance frameworks and data

The very nature of the bond – which is established on the premise that a return is paid on the achievement of a specified outcome - means that our Bond has a sophisticated performance measurement framework, which is based on access to, and understanding of, data held by government.

Because of the bond performance measurement system, The Benevolent Society and our government partners are able to demonstrate the results of Resilient Families. However, the services delivered under Resilient Families are similar to those under our other programs which work in this space- we are just able to better articulate the results of Resilient Families and have the data to support them.

Therefore, in terms of achieving results to intractable social problems, such as reducing children entering into out of home care – it is not clear that the program financed under the bond is different to those financed by other means. In fact, more flexible contracting arrangements, including greater emphasis on outcome based contracting may lead to better results in a range of areas. Governments could expend more effort to establish better performance frameworks and more flexible contracting arrangements, potentially for the same results.

The Benevolent Society encourages governments at all levels to look at more flexible and innovative contracting arrangements, and establishing better performance measurement and reporting systems alongside further investigation and expansion of social impact investing.

In any case, outcomes based contracting and social benefit bonds rely a number of factors:

- That governments can quantify the actual present-day and long term costs of the problem/issue they are trying to address;
- This relies on access to, and understanding of the data held by government in relation to its services.

To be effective, governments need to be able to clearly define the outcomes which are sought, and to quantify the actual costs of the current system and project the future costs of the system if there is no change. This would form the baseline against which innovative funding or service delivery models can be judged. However, this is not yet happening.

We acknowledge that the issue of identifying and projecting long terms costs is improving and, at least in the area of unemployment and welfare is being tackled by the 'investment approach' at the federal government level. This approach has also been recently introduced in the child and family sector in New South Wales. However, this is not being done across the board and the government is not yet able to provide an accurate estimate of current costs, lifetime costs and potential savings from a range of service delivery options in the social services sector. We see this as a potential barrier to the expansion of social impact investing.

Outcome based contracting and social benefit bonds both rely on reliable government data across all levels of government. At the moment, governments at all levels are collecting data in large volumes but it is not yet clear whether governments have the capacity to understand, manage and utilise that data in meaningful ways. Also, data is not readily shared within, and between jurisdictions. In the social services sector, non-government organisations, including not for profits (NFPs) are responsible for a large proportion of service delivery and also hold a large amount of data. Whether NGOs have the capacity to manage this data and share it with government also remains to be seen.

One of our key learnings from establishing and managing a bond is ensuring that all parties understand the data that is being relied upon for the bond. The performance measures for our bond were amended in year three after independent assessments of the data and bond performance measures.

The Benevolent Society believes that greater skills and capacity in the area of data collection, storage, use and sharing is needed across the sector if a social investment market is to be established.

d) Cross-government involvement

The Treasury Discussion Paper raises issues about engagement across different levels of government. The Benevolent Society encourages the federal and state governments to explore ways to work together on social impact investments. We believe this may improve the way that current and future costs are estimated, thus potentially making bonds more attractive for investors and expanding the market for social impact investments.

For example, The Benevolent Society's Social Benefit Bond pays returns to investors based on the success of our program keeping children with their families and away from out of home care. The returns are based on estimates of the savings to the NSW Department of Family and Community Services if children do not enter the out of home care system (which currently costs the NSW government over $1 billion annually). However, research shows that once children enter into the out of home care system they are more likely than those who do not to have problems later in life relating to unemployment, health and the criminal justice system. Our bond does not capture the potential savings to the federal government, or even other NSW government departments, from the avoidance of these down-stream costs. If all of the potential savings to all levels of government were included in the bond, the total potential savings generated from our successful intervention would be greater, which may lead to anticipated higher rates of return, which is likely to attract more interest from people wanting to invest in the bond.

5. Conclusion

The Benevolent Society welcomes the opportunity to contribute to Treasury's study of social impact investment. We are always willing to share our experiences establishing, managing and measuring a social benefit bond with our counterparts in federal, state and local government and with other NGOs or NFPs in the social services sector or other interested parties and encourage anyone interested to contact us for further information.