The Australian Government

Social Impact Investing

Discussion Paper

January 2017

AUSTRALIAN SOCIALVALUE BANK

HOUSINGALLIANCE
Operating Locally & Collaborating Regionally

Submission by the Housing Alliance of NSW - Community Housing Providers covering the New England North West, Central West and North Coast regions

Housing Unit Manager
Social Policy Division
The Treasury
Langton Crescent
PARKES ACT 2600

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Submission in response to "Social Impact Investing Discussion Paper"

The Housing Alliance is pleased to provide a submission to the discussion paper. We are a unique collaboration between three medium-sized community housing providers; Homes North, Housing Plus and North Coast Community Housing, that supply high quality services to people and communities in regional NSW. Together, we manage almost 3000 homes, making us one of the largest providers of community housing in Australia.

By collaborating as the Housing Alliance we are able to pool our resources towards research and innovation initiatives. Resulting from this research and innovation is the creation of the Australian Social Value Bank which has been developed in partnership with Simetrica under the Alliance's not for profit joint venture company, Alliance Social Enterprises.

The Australian Social Value Bank is based on a similar model adopted in the UK which was developed by Daniel Fujiwara, Director of Simetrica. Daniel is an economist specialising in policy evaluation and social impact measurement and has previously held senior economist positions at the Department for Work and Pensions (UK), the Cabinet Office (UK), the Ministry of Defence (UK) and the Ministry of Finance (Tanzania) and research positions at the United Nations. He was senior adviser on non-market goods valuation to the UK Government and was lead author on the latest version of the HM Treasury Green Book guidance on non-market valuation techniques (2011). Daniel has overseen evaluations on project and policy investments totalling over $10 billion. In 2012 Daniel was awarded the John Hoy Memorial Prize in Economics for his contribution to policy evaluation in the UK Government.

It is based on the strength of Daniel's extensive expertise in this area that we are confident that the Australian Social Value Bank can assist Government to address some of the issues outlined in the Social Impact Investing Discussion Paper. It is from within this context that we have provided the following responses to four questions posed within the discussion paper.

We hope that you find the information provided of benefit, and would welcome the opportunity to discuss the matter with you in further detail.

Yours sincerely

Maree McKenzie
CEO, Homes North
Armidale

John McKenna
CEO, NCCH
Lismore

David Fisher
CEO, Housing Plus
Orange

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Submitted by the Housing Alliance with input from Daniel Fujiwara (Simetrica) :

Contact: Maree McKenzie
c/o Homes North
17/93 Faulkner Street, Armidale NSW 2350
6360 3300
mareem@homesnorth.org.au

1. ***What do you see as the main barriers to the growth of social impact investing market in Australia? How do these barriers differ from the perspective of investors, service providers and intermediaries?***

One key barrier is the financial sustainability of a social impact investment market. The current mechanism to fund such markets is through the cost savings to government and public services. There are two key issues here:

(i) Whether such cost savings are enough to cover public sector administrative costs as well as to provide a financial incentive for service providers and for organisations to invest (will this generate profit over costs for service providers?). This is reliant on non-public sector providers being able to deliver services more efficiently than the public sector and for a non-cumbersome and efficient market mechanism (e.g. minimisation of red tape and delays in payment).

(ii) Whether, even if the market could in theory work, it will be possible for organisations to prove (and for government to verify) that their actions have led to cost savings. Service providers will need to show that they have **causally** improved outcomes and that those outcomes have led to tangible financial benefits such as cost savings to government. This is no mean feat. Whilst methods exist that will allow organisations to show their causal effect in a rigorous way, for example through randomised controlled trial experiments, such evaluations can be costly and time-consuming and may not be suitable in all policy areas. There will be a key question about how much evidence is sufficient if organisations can't prove their impact using the gold standard experimental approach each time. In sum, a tricky balancing act exists: more rigorous evaluations of service providers will ensure that we are investing in areas when there are genuine positive impacts on society and genuine reductions in public sector costs, but at the same time a highly technical and burdensome evaluation framework potentially jeopardises the financial sustainability of a social impact investment market as the costs of running evaluations could end up outweighing any potential financial benefit of delivering services.

Many governments are now using evidence hierarchies (such as the Maryland Evidence Scale) to rank and determine what level of evidence suffices in understanding a particular policy issue. The perceived wisdom would suggest that if a randomised experiment cannot be conducted, the next best acceptable alternative is to control for confounding factors using quasi-experimental methods and most evidence hierarchies and policy analysis units within governments across the OECD now require use of quasi-experiments as the threshold bare-minimum. Other forms of evaluation which do not randomise or control for confounding factors, such as before-and-after studies and naïve estimators, rank at the lowest level on evidence hierarchies and are being increasingly rejected from government policy analysis in countries like the UK and USA. This would also need to be considered in Australia. Daniel Fujiwara (Simetrica) created the evaluation guidelines for social investing for the UK Cabinet Office based on these evidence hierarchies. There is also the potential to minimise the costs of evaluation through well-designed social impact tools, such as the Australian Social Value Bank, which can be used to estimate the level of public sector cost savings in Australia due to social or environmental policies and programmes.

A second important barrier is that current social impact investment markets are funded by public sector cost savings, but there are other impacts that society cares about, namely the direct impact of a policy on individuals. For example, a social impact investment market in the labour market can survive by paying service providers to assist people back into work from the savings made by government from reductions in unemployment benefit payments and increased tax revenue (from increased income tax). The problem with this approach is that the value of social outcomes is measured only in terms of their cashable or financial implications for society (e.g. cashable savings; future costs avoided; productivity gains). These are known as **secondary benefits**. In nearly every policy area, however, there are **primary benefits** as well. Primary benefits are benefits for individuals in society in addition to any benefit for the public purse. For example, whilst an intervention that leads to health improvements will have secondary benefits in the form of reduced medical service expenditure, the main impact here is the primary benefit which is the value that people place on experiences like pain reduction, mobility, improved self-esteem etc., which are highly valued by individuals and society but which are not cashable or financial in nature. Since primary benefits by their very nature are often not cashable it means that they cannot be picked up in a social impact investment market structure that relies on payment via secondary benefits only. This has led to the rejection of social impact investment market mechanisms such as social impact bonds in the UK by certain organisations in certain policy areas since it is claimed that it leads to a narrowing and over-simplification of how social policies are judged. For example, a social impact investment market in educational outcomes would need to pay for results based on how educational outcomes impact on the public purse which is mainly through the mechanism of getting people into jobs. However, the impact of a university degree on job outcomes is only one aspect of what makes a good education valuable for people in society. A good education is valuable also because it bestows knowledge on us and provides opportunities for creating life-long friends and seeing the world in a different way. All of these outcomes are highly valuable to people in society but not immediately cashable and hence would be ignored in social impact investment markets. And this is the key difference between policy delivery in a social impact investment market and policy delivery directly by the state under cost-benefit analysis (CBA) - which is the internationally endorsed best-practice method for social impact measurement - because CBA incorporates and accounts for both secondary and primary benefits. Whilst in a CBA world, it would be likely that education in the arts and humanities would receive similar levels of funding as education in the sciences because CBA takes a holistic view of social impact, in a social impact investment market funding would naturally be pushed more towards the sciences where overall economic impact tends to be greater (when taking a narrow financial view).

A key challenge is, therefore, whether and how social impact investment markets can incorporate primary *as well as* secondary benefits into the overall payment structure. The Australian Social Value Bank is the only social value model in Australia that captures both the primary and secondary benefits of policy interventions and therefore can be used in this respect. In the UK, Simetrica has developed a model using the same underlying framework as the Australian Social Value Bank to allow local authority government departments to pay local businesses and charities for creating social impact in a way that accounts for both primary and secondary benefits and the Australian Social Value Bank can be employed in a similar way in Australia.

2. ***What do you see as the future for social impact investing in Australia: for example, can you foresee the development of new structures for social impact investing?***

We believe that the key to good social impact investing in Australia is to have in place the framework and structure that will allow organisations to accurately estimate the social impact of their interventions. This is essential so that service providers and investors can demonstrate their impact to government and it is also key to allow organisations to predict upfront the likely impact that they will have and from that the level of funding they may be able to access. In a more standard market analogy it allows organisations to predict their 'sales' going forward and whether it is worth investing now.

A big and important aspect for the future for social impact investing in Australia is, therefore, the creation of **evaluation guidelines**, **toolkits** and **structures** to help organisations and to ensure that everyone is using the same consistent approach to evaluation, making results comparable across organisations. These guidelines must pick up how organisations can demonstrate impact (what data they need to collect and what statistical methods are optimal), and how outcomes should be valued for the purposes of building a social impact investment market.

The Australian Social Value Bank is the only social value model in Australia that estimates the value of social outcomes in the same consistent way using internationally-endorsed best-practice methods and which provides guidelines and toolkits for measuring the impact that organisations have on outcomes. The developers of the Australian Social Value Bank (Daniel Fujiwara at Simetrica) produced the technical guidelines for the Cabinet Office on evaluation of social impact investment and payment by results policies.

6. ***Are there areas where funding through a social impact investment framework may generate more effective and efficient policy outcomes than direct grant funding?***

The key perceived benefit of a social impact investment framework is that a competitive open market mechanism will nurture innovation in the delivery of social policies by providing financial incentives to organisations and by involving organisations who may traditionally or ordinarily not work in the area of social policy delivery (e.g. IT firms). This may make the delivery of social programmes more effective in terms of delivering social outcomes. It is likely that greatest efficiency gains will come from more locally-connected organisations, who better understand the need of local people and residents and who work in areas where there are factors or barriers that are inherently unique to the local areas, such as employment barriers in the local labour market and local area issues with crime. And so, labour market interventions and crime related programmes would be two areas where a social impact investment framework could work more efficiently than direct grant funding.

However, caution must be applied as this question depends on how we define effectiveness and efficiency in policy outcomes. As discussed in response to question 1, a social impact investment market usually only operates on the basis of payment through cashable savings to the public sector (known as secondary benefits). But policy success also depends on the value that people in society place on the policy outcomes (not just their implications for cost savings), known as the primary benefits. It would be possible to require the generation and measurement of primary benefits in criteria for the provision of direct grant funding and hence direct grant funding may have an advantage over social impact investment in terms of also considering and generating primary benefits as well as secondary benefits for society, which is a more extensive view of social impact measurement.

7. ***What Australian Government policy or service delivery areas hold the most potential for social impact investing? Are there any specific opportunities you are aware of?***

Australian Government policy and service delivery areas that hold the most potential for social impact investing are (i) those areas where there are clear efficiency gains from non-public sector organisations using their knowledge and know-how such as in local employment programmes that seek to tackle unique issues in the local labour market (see response to question 6); and (ii) those areas which permit robust estimation of outcomes and the value created to society in a quantitative way. As discussed the Australian Social Value Bank provides a robust set of values for a wide range of social outcomes. Areas where we feel that the evidence is stronger and where statistical methods can be applied robustly to estimate impact are:

- Physical and Mental health
- Housing
- Employment and labour market
- Education
- Sport and exercise
- Arts and cultural participation
- Crime
- Drugs/ addictive behaviours
- Social support services

These policy areas would provide potential areas where a social impact investment market could be piloted in Australia.