Social Impact Investment Discussion Paper

Professor George Earl

Table of Contents

List of tables

List of figures

1. Executive Summary

Introduction

The invitation by the Australian Government for various community and not for profit sectors organisations to submit commentary on growing the "Social Impact Investment" movement and its impact upon large scale investment in socially oriented low return ventures is none sector specific in nature. As the central focus of The National Affordable Housing Consortium (NAHC), the Sustainable Living Infrastructure Consortium (SLIC) and their partners is to facilitate the delivery of affordable and sustainable living choices across the home ownership, private rental and social housing sectors, our submission focuses on the housing career continuum.

For two or three decades, Australia has been failing to meet the housing needs of its lowest income residents, and the situation is getting steadily worse. Most recent research show that 240,000 households across the country are on waiting lists for public and community housing, with an increasing number of alternative housing career participants, both private rental and home ownership facing the same dilemma. By definition, sustainable housing means that everyone should have the opportunity to live in a decent home at a price they can afford, in a place in which they want to live and work.

To address this acute shortage of affordable housing in Australia, whether is be by social rental, affordable private rental or home ownership, there is a need to boost housing supply and recent studies have estimated that this would require more than A$7 billion of investment annually for the foreseeable future. However, government subsidies for housing across the housing career spectrum are declining, hence, the housing finance market in Australia is a clear case example of a missing or an incomplete market.

A long-standing challenge in enabling affordable housing is to establish a sufficiently large and continuous stream of funding; which would ideally be predictable, sustainable and responsive in catering for the rising demand. It is well understood that government alone cannot cope up with the increasing demand for social housing financing. Hence, there is an urgent need to look at innovative ways to fund this need with the collaboration of private institutional investors, hopefully via social investment strategies.

The Australian Scene

In the Australian housing investment scene, the attraction of large-scale funds into the social impact investment initiative has the same characteristics and barriers as those, which have been broadly discussed for some time in relationship to institutional investment into affordable housing.

These issues are scale, investment return, liquidity, longitudinal investor awareness, stable long term government policy settings and transparency and project pipeline capacity as outlined below (Source: AHURI March 2013, 'Financing rental housing through institutional investment' cited in Affordable Housing Working Group: Issues Paper by Council on Federal Financial Relations)

Governments at all three levels can take a proactive role in address in the above issues by identifying which are the issues that fall into their jurisdiction, regarding long term policy setting, transparency and risk.

The "risk issue" is a major component in restricting large scale investment and has a significant impact on the various investment hurdle rates, but under the right conditions risk is an imputed cost/rate which may never be realised, therefore if these risks were removed the required investment rate would be substantially reduced and potentially the costs of various housing careers and their externalities reduced.

As indicated in this paper/submission, we are focused on housing/living choice, therefore we have provided a few examples of projects or initiatives which would have a broad economic, social and living sustainability impact, while at the same time addressing the AHURI barriers and issues of delivery scale, replicability and if successful in the housing career sector would meet all the likely criterion of a "Social Impact Investment" strategy.

Headwork/Infrastructure Charges

One of the major factors in supply costs of housing both low and high density are those associated headwork or infrastructure charges in some cases accounting for up to 20% of housing delivery costs or equal to amount required for a purchase deposit. If these costs were to be funded via a "Social Impact Investment" initiative with an appropriate tax consideration plus government guarantees, and amortised back to the owner as a recurrent cost via the rates mechanism there could be substantial affordability benefits.

Some of the additional benefits could be the acceleration of infrastructure role out and increasing housing supply, this together with the removal of upfront costs constraints may have triple bottom line social benefits by the provision of higher quality and sustainable infrastructure.

Capital Costs Associated with Body Corporate Charge

A major planning initiative associated with housing on a worldwide basis is associated with zoning and planning changes to encourage higher housing densities. One of the implications of this is, significantly higher productions costs compare to low-density housing. Some of the flow on impacts of higher density delivery costs is that associated with long-term body corporate charges, which unlike these charges to a rental investor are not a tax claim. In some cases, these costs well exceed $100 per week. As with the headwork example if these costs were to be funded via a "Social Impact Investment" initiative with an appropriate tax consideration plus government guarantees, and amortised back to the owner as a recurrent cost via the rates mechanism there could be substantial affordability benefits.

Smart Utility Metering

Utility cost are one of the highest recurrent costs to housing occupation be it as an owner or renter, additionally these costs have some of the highest example of price escalation on an annual basis. Recent advances in the "smart metering" now allows for not only the aggregation of purchasing power of householders with purchase price savings but national and international research has shown that consumer behaviour changes exceed the cost benefits of purchase price aggregation. A recent *study on power only benefits associated with smart metering equated to the equivalent saving of 0.5% in mortgage costs. Although not widely used in Australian smart metering can equally apply to other utilities such as water and gas. A "Social Impact Investment" initiative with an appropriate tax consideration plus government guarantees could be the supply to all households free with the investment return being via lower peak demand infrastructure investment by government (there would be substantial sustainability benefits).*

To add positively to the current discussion and debate on the opportunities for growing the "Social Impact Investment" sector any recommendation needs to recognise factors inhibiting conventional investment and by doing so can focus on methods and process for the encouragement for "Social Impact Investment" sector growth.

Social Impact Investment Generator

Table 1: Attributes of a social impact investment generator

Investment Opportunity	Investment Growth
Scale & Project pipelines	*Identify issues, which potentially have an impact across the whole housing career spectrum and are repeatable, these would include but not restricted to Supply Costs and on-going living expenditures. If possible the impacts should be not only on new dwellings but the aggregated existing residential dwelling supply*
Return, Investor Awareness, Long-Term Consistent Policy Settings & Governance	*Create an environment of trust and transparency in government and the supply and provision of longitudinal income data*
Liquidity & Capacity	*Create the allowance for ownership entities associated with project initiatives to be either sold or held in part by organization which fit a potential "Social Impact Investment" set of legislated rules*

2. The need for change

Impact investing is emerging globally as a means of expanding the types and amount of capital available for tackling social issues. It is proving to be a powerful tool to bring different combinations of people, ideas, and resources to tackle difficult social issues and enable successful solutions to achieve scale. Impact investment solutions are already being used to finance initiatives in aged care, health, social housing, education, clean water and sanitation, financial inclusion, and sustainable agriculture and development.

The Australian Strategy set forth here builds on the leadership, innovation, and diversity that are already demonstrated locally. It is, by definition, living and dynamic, adaptive and opportunistic in response to developments. It is designed to amplify the tremendous work already underway, and open up opportunities for many more contributions. Australia is on its way to developing a vigorous and responsive impact investing sector.

The invitation by the Australian Government for various sectors to submit commentary on growing the “Social Impact Investment” sector is none sector specific nature. As the central focus of The National Affordability Housing Consortium (NAHC), the Sustainable Living Infrastructure Consortium (SLIC) and their partners is to facilitate the delivery of affordable and sustainable living choices across the home ownership and rental sectors, therefore our submission will reference the housing careers continuum. There are several characteristics of affordable housing that make it a strong candidate for Social impact investment[1]:

- Stable, long term cash flow
- Solid assets to secure loans
- Capacity to scale and replicate
- Evidence-based links to demonstrate positive social impacts and government benefits

[1] National Affordable Housing Providers Ltd, submission to the Council on Federal Financial Relations, Affordable Housing Working Group issues paper, March 2016.

While not wanting to interrogate the well-documented papers on Australian housing supply and affordability it is worth focusing on several critical factors before addressing the Australian Government invitation.

Australian Housing Market

Home Ownership: Growing levels of housing stress by these who live in their own home due to mortgage payments and living cost externalities, or growing inability for those want to engage in a home ownership housing career being excluded by financially orientated factors.

Private Rental Market: High level of financial housing stress by this housing career sector due to levels of supply and associated costs both direct (rental payments) and general living externality costs.

Social Housing: This housing career cohort is the group who cannot access the retail housing market both ownership and rental. This sector is having an increasing stress point due to restricted government investment, a mismatch between existing social housing supply and demand and an ageing social housing stock with constraints of maintenance due to the level of government funding.

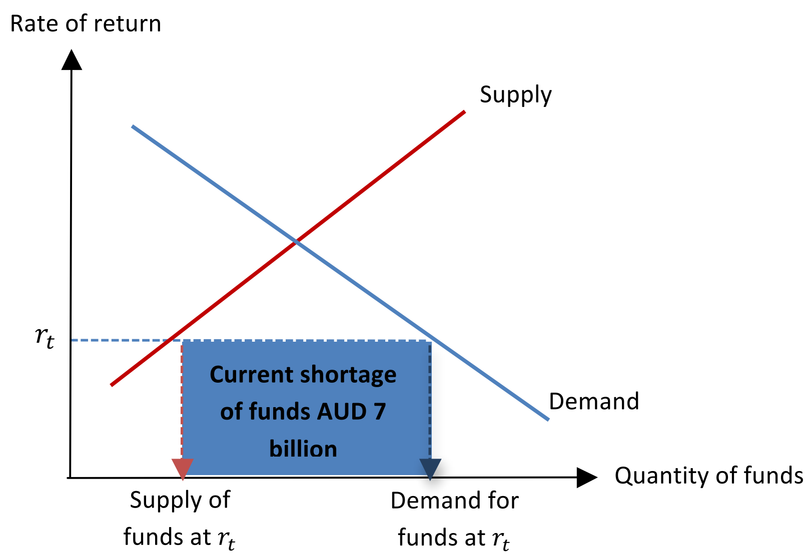
For two or three decades, Australia has been failing to meet the housing needs of its lowest income residents, and the situation is getting steadily worse most recent research show that 240,000 households across the country are on waiting lists for public and community housing, with an increasing number of alternative housing career participants, both private rental and home ownership facing the same dilemma. By definition, sustainable housing means that everyone should have the opportunity to live in a decent home at a price they can afford, in a place in which they want to live and work.

To address this acute shortage of affordable housing in Australia, whether is be by social rental, affordable private rental or home ownership, there is a need to boost housing supply and recent studies have estimated that this would require more than A$7 billion of investment annually for the foreseeable future. However, government subsidies for housing across the housing career spectrum are declining, hence, the housing finance market in Australia is a clear case example of a missing or an incomplete market.

There is an unarguable urgent need for innovative financing mechanisms to be created to address this missing or incomplete market phenomenon in affordable focused housing finance, thus an increasing focus and attention on “Social Impact Investment” by Australian governments (Federal and State) and other Western Governments is both timely and a welcome intervention. Therefore, the proposition that housing finance being a missing or incomplete market, potentially being satisfied by social impact investment strategies reviewed

As raised earlier in the paper, it is estimated that more than 7 billion dollars (Australian) of investment is needed annually for the foreseeable future to address the housing shortage. National and State Governments, given their budgetary challenges, will not be able to meet this funding need by themselves. Hence, there is an urgent need for private sector institutional investment, potentially via social impact investment strategies currently being investigated. As previously highlighted, at this stage, Australia has one of the lowest institutional investor sector rates compared to that internationally. Therefore, the Australian housing finance market itself is a missing or incomplete. There is a huge imbalance between the supply of and demand for housing funds, which can be represented by the diagram below (Figure 1). However, the estimated amount of AUD 7 billion could be low if we account for the social demand. It is unclear whether the models and funding solutions account for both private and social demand (accounting for possible externalities) or just for private demand only.

Figure 1: Supply of and demand for funds at a given required rate r_t



A long-standing challenge in enabling affordable housing is to establish a sufficiently large and continuous stream of funding; which would ideally be predictable, sustainable and responsive in catering for the rising demand. It is well understood that government alone cannot cope up with the increasing demand for social housing financing. Hence, there is an urgent need to look at innovative ways to fund this need with the collaboration of private institutional investors, hopefully via social investment strategies.

Australia has a growing domestic Social Impact Investment market, primarily focused around debt financing. The market comprise of, involvement from funds, initiatives offering sectors early stage seed funding, micro-and crowd funded investments, banks and private corporations, community finance institutions and government support –for example the launch of two 'social benefit bonds' in 2013, the AUS $7 New pin Bond and the AUS $10m Benevolent Society Bond, both focused towards improving family relationships. There is also potential for this market to grow, with B Corp Australia launching in 2014 and Australia being in the top ten countries for absolute numbers of High Net worth Individuals (HNWIs) (Addis et al., 2014). They estimate that Australia's Social Impact Investment market could reach AUS $32bn in a decade.

Impact investment is emerging from existing institutional contexts including established capital markets and philanthropic traditions. However, there are factors that limit what can be achieved by these established sectors without a more focused effort that develops the conditions for impact investment to thrive. The private market alone does not fully promote investments with societal benefits. Public procurement and commissioning often does not deliver effective outcomes, encourage contestability of ideas and services, or promote prevention. The social sector is rarely financed for capacity and scale. A growing spectrum of ways in which private organisations can deliver public goods, are challenging established systems for delivering, funding, and financing social purpose (Eggers and Macmillan 2013).

Those different stakeholders benefit in a range of ways from impact investment: socially motivated entrepreneurs and organisations gain access to appropriate finance and support in ways similar to that available to commercially focused entrepreneurs; mainstream financial markets benefit from access to appropriate finance for initiatives and services that create positive impact in the community; communities benefit when they can finance new opportunities to develop services and infrastructure, and generate jobs – increasing the flow of capital into communities towards more positive cycles of employment and economic activity; small to medium sized enterprises gain access to appropriate investment capital and business support that helps them grow their businesses, create jobs, and ride out difficult times; philanthropists benefit with options to generate greater impact and leverage through their activities; investors have greater choice and new opportunities to put their money to use in ways that make a financial return and also benefit society; institutional investors have more options for fulfilling their duties as fiduciaries and diversifying their portfolios; governments achieve better outcomes and greater flexibility to target spending and encourage more private capital into areas where there is a need for new solutions. The ideas and practices behind impact investing are not all new. What is unique now is the rapid ascendance of financial innovations for social impact. There is enough capital and talent to make a significant difference to social issues; they need to be deployed differently to achieve a better result. We can use the best of our resources and resourcefulness to find new ways of working and increase the focus on improving quality and efficacy of services, encourage innovation to break cycles of need and dependence, and create capability and new opportunities.

Impact investing matters because it increases the options we have for approaching societal issues, increases the capital available to encourage and finance new and existing approaches that work, and improves the impact and outcomes achieved.

Finally, before addressing issues and opportunities associated with attracting "Social Impact Investment funds into the affordable housing sector and identifying projects which may have delivery scale, replicability and measurable success criterion we have in this paper briefly summarised the current key issues in each of the various housing careers, home ownership, private rental market and social housing.

There is no one solution to the above outlined housing career problems but there are several underlining supply issues that may have be addressed by an appropriate growth approaches in Social Impact Investment and they will be explored in our submission.

3. What would make social impact investment easier?

The current opportunity, globally and locally, is to catalyse a step change in the market. Australia's political, economic and social landscape provides a backdrop to this Australian Strategy, showcasing the particular opportunities for leadership and scale.

Before discussing how social impact investment may be made easier, we have provided a retrospective summary review on a Social Impact Investment project from the UK.

A Retrospective Summary Review on an Example Impact Investing Models Including Social Impact Bonds

Impact investing has recently gained prominence as a tool for governments and service providers to creatively explore improving both social outcomes and the economic efficiency of the investment. Impact investing models allow investors to pursue opportunities that provide both social and financing returns through either direct investment in not-for-profit or social enterprises, or through alternative intermediaries and social impact bonds.

Social impact investment offers an opportunity to bring together capital and expertise from the public, private and not-for-profit sectors to deliver better outcomes for the community. It is an investment with the expectation of a social and financing return by attaching a value to defined outcomes and measuring both the outcomes and financing returns achieved.

The key features for a viable social impact investment include robust measurement, value for money, a service likely to achieve social outcomes and appropriate sharing of risk and returns.

Social impact bonds involve the public sector issuing a contract with non-government providers, in which a commitment is made to pay for improved social outcomes that result in public sector savings. The homelessness social impact bond project was launched in London in November 2012. It was designed to improve outcomes for persistent rough sleepers, a sample population of 830. This social impact bond helps the cohort access appropriate services via personalised recovery pathways to sustainable outcomes. Two participating organizations each target half of the cohort, both utilizing a different financing structure. The first organization established a special purpose vehicle which holds the risk, while the second organization funds interventions through social investors' unsecured loans, whereby the risk is shared across parties. Both participating organizations invested their own funds. There are five outcomes for the two organizations to achieve, which include reducing rough sleeping, stable accommodation, reconnection, employment and health. Each of the five outcomes is allocated a different proportion of the overall funding available, and evidence must be provided before payment can occur across the individual outcomes.

The UK has introduced a tax incentive to directly stimulate social impact investments in social enterprises. This incentive, the Social Investment Tax Relief (SITR) effectively reduces the cost of capital to social enterprises (with some size and eligibility limitations), both for debt financing and equity. Investors receive a 30% reduction of tax on that investment and this generous tax relief is expected to increase the number of investors in social enterprises. In an Australian context, the introduction of a tax credit similar to the US Low Income Housing Tax Credit would achieve similar objectives to the SITR. It would provide a mechanism for investors to participate in social impact investments that would deliver secure affordable housing and provide a significant and stable return on their investment. The area of tax credits and incentives should be examined by Treasury as a means to stimulate social impact investments in the social and affordable housing arena (Social impact investing research: Final report, conducted by Ernst & Young for the Australian Department of Social Services and the Prime Minister's Community Business Partnership, March 2016).

The Australian Scene

In the Australian housing investment scene, the attraction of large-scale funds into the social impact investment initiative has the same characteristics and barriers as those which have been broadly discussed for some time in relationship to institutional investment into affordable housing.

These issues are scale, investment return, liquidity, longitudinal investor awareness, stable long term government policy settings and transparency and project pipeline capacity as outlined below (Source: AHURI March 2013, 'Financing rental housing through institutional investment' cited in Affordable Housing Working Group: Issues Paper by Council on Federal Financial Relations)

Table 2: Key barriers to entry for the private institutional investors

Scale	Institutional investors require scale to justify the costs associated with new investment, as well as their need to diversify the portfolio risk.
Return	Investors require secure and predictable returns corresponding with

	similar investment classes and risk profiles.
Liquidity	While both retail investors and institutional investors are likely to hold investments for a long-time span, regulation of many of these funds requires that only a certain proportion of the total portfolio be invested in assets that are illiquid, as institutional investors require the ability to disinvest quickly.
Investor awareness	As property exposure can be gained through other investment assets such as bank shares, investors should be convinced of and alerted to opportunities in affordable housing investment.
Long-term consistent policy settings	Stable, robust and consistent government commitment to manage and assess risks and returns.
Project pipelines	It may be necessary for affordable housing investment to be pre-planned and long-term, to ensure that it is worthwhile for the private sector to invest in expertise and capability in this asset class.
Governance	Institutional investors may be keen to see independent governance structures and improved transparency and reporting, to ensure decisions are made in the interests of maximizing the value of the property portfolio and the associated income streams.
Capacity	While the community-housing sector has expanded significantly, it remains only one quarter the size of the public housing system.

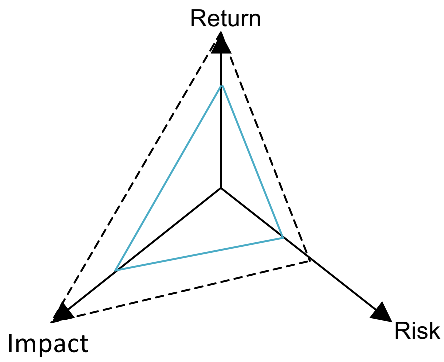
Source: AHURI March 2013, 'Financing rental housing through institutional investment' cited in Affordable Housing Working Group: Issues Paper by Council on Federal Financial Relations

Governments at all three levels can take a proactive role in address in the above issues by identifying which are the issues that fall into their jurisdiction, regarding long term policy setting, transparency and risk.

The "risk issue" is a major component in restricting large scale investment and has a significant impact on the various investment hurdle rates, but under the right conditions risk is an imputed cost/rate which may never be realised, therefore if these risks were removed the required investment rate would be substantially reduced and potentially the costs of various housing careers and their externalities reduced.

A simple risk reduction strategy could be in the form of a government guarantee on this issues of policy and transparency, a simple example may be:

> *"in an investment hurdle rate, there may be 30 to 40 percent risk allocation, of which there may 50 percent of the risk attributed to government policy*



and transparency, therefore is government took a guarantee on this risk the overall hurdle rate may be reduced by up to 20%".

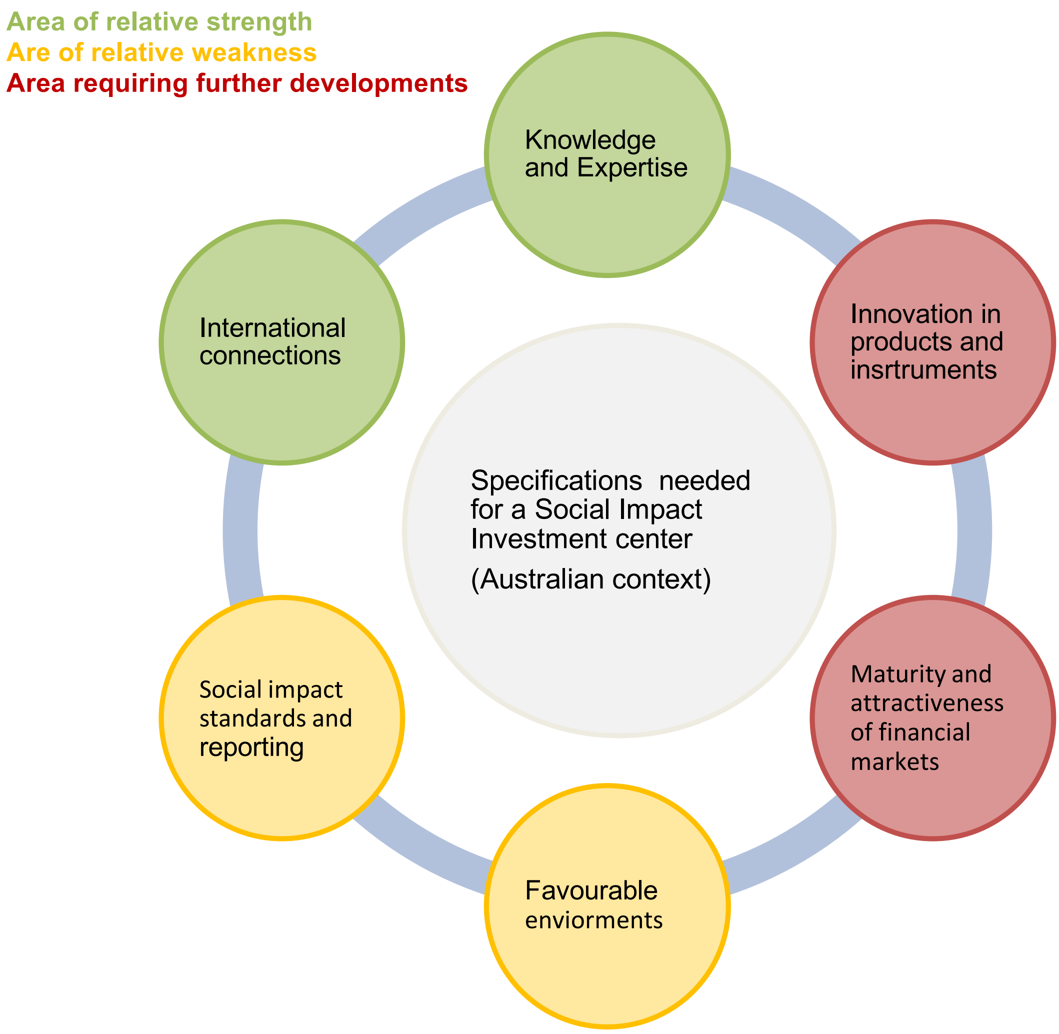
The attraction of large-scale investment into the social impact investment has the same characteristics as those which have been broadly discussed for some time in relationship to institutional investment into affordability housing. These issues are scale, investment return, liquidity, longitudinal investor awareness, stable long term government policy settings and transparency and project pipeline capacity.

Governments' at all three levels can take a proactive role in addressing the above issues by identifying which are the issues that fail into their jurisdiction, regarding long term policy setting, transparency and risk.

The "risk issue" is a major component in restricting large scale investment and has significant impact on the various investment hurdle rates, but under the right conditions is an imputed cost/rate which may never be realized, therefore if there risks were removed the required investment rate would be substantially reduced and potentially leading to a reduction in the cost of various housing careers and their externalities.

A simple risk reduction strategy could be in the form of a government guarantee on these issues of policy and transparency.

Figure 2: Specifications needed for a Social Impact Investment centre, Australian context



Source: Adopted from the PwC analysis- Developing a Global Financial Centre for Social Impact Investment, Research report city of London Corporation *and customised for the Australian context by the Author*

Since December 2012, 45 Australian companies have achieved certification as Benefit Corporations (B-Corporation 2014)[2]. Moreover, Australia also contributes to unique geographic and financial links with the Asia-Pacific region, and a renewed focus on the contribution to the region and its importance for its economic future, for example, Leapfrog Investments, Barefoot Power, GoodStart Early Learning, and the NSW Social Benefit Bonds. These initiatives are gaining recognition globally. The pool of skilled professionals attracted to the sector continues to grow. Importantly,

[2] B-Corporation website 2014, available at http://www.bcorporation.net.

interest and action is growing across sectors, from philanthropy, to government, institutional investors, banks, and fund managers. Initiatives by governments at the state and federal level have generated interest and stimulated the market, creating confidence and bringing new combinations of actors together. The A$1 billion National Rental Affordability Scheme (NRAS), for example, stimulated significant new investment in affordable homes through tax incentives available between 2008 and 2014 (NRAS Australia 2014)[3].

There are clear strengths to build on as we develop impact investing for Australia. There are also challenges that remain. We should not shy away from difficult questions such as 'How do we build robust investment propositions with real social impact?' These challenges reflect the work ahead. The next wave of impact investment will be driven by quality ideas, enterprise and innovation, and availability of capital. Growth will be a function of both need and opportunity, matched by changing circumstances; an application of lessons learned and practices developing. We can accelerate development by: taking examples from other countries of what has worked and contextualise it for Australian conditions; intentionally seeking opportunities in the changing landscapes of the social and public sectors with increasing focus on efficiency and innovation; and stimulating a diverse and dynamic social purpose sector.

Most economists agree that it is virtually impossible for a socially motivated investor to increase the beneficial outputs of a publicly traded corporation by purchasing its stock. Especially if—as is generally the case—stock is purchased from existing shareholders, any benefit to the company is highly attenuated if it exists at all. Impact investing typically does not take place in large cap public markets, however, but rather in domains subject to market frictions. While some of these frictions impose barriers to socially neutral investors, socially motivated impact investors may exploit them to win both social benefits and market-rate financial returns. These frictions include:

- ***Imperfect information.*** Investors at large may not know about particular opportunities—especially enterprises in developing nations or in low-income areas in

[3] National Rental Affordability Scheme (NRAS) Australia website, available at http://www.nrasaustralia. com. au.

developed nations—let alone have reliable information about their risks and expected returns.

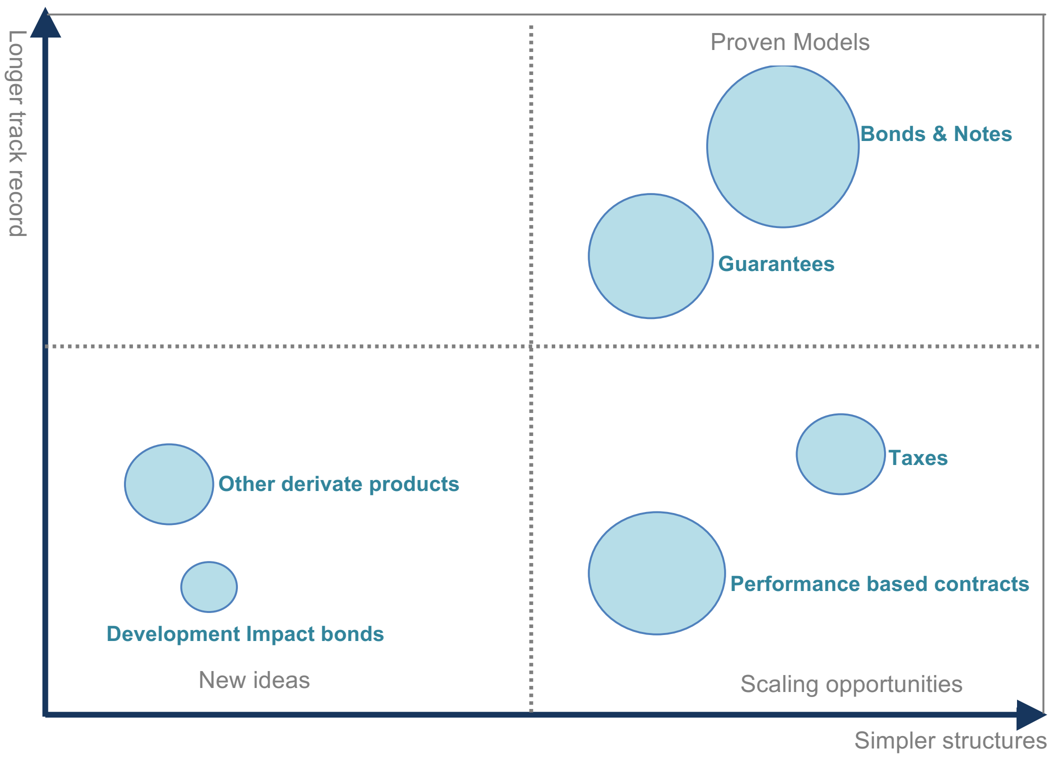
- ***Skepticism about achieving both financial returns and social impact.*** Investors at large may be unjustifiably skeptical that enterprises that are promoted as producing social or environmental value are likely to yield market-rate returns.
- ***Inflexible institutional practices***. Institutional investors may use heuristics that simplify decision making but that exclude potential impact investments, which, for example, may require more flexibility than the fund's practices permit.
- ***Small deal size.*** The typical impact investment is often smaller than similar private equity or venture capital investments, but the minimum threshold of due diligence and other transaction costs can render the investment financially unattractive regardless of its social merits.
- ***Limited exit strategies.*** In many developing economies, markets are insufficiently developed to provide reliable options for investors to exit their investment in a reasonable time.
- ***Governance problems.*** Developing nations may have inadequate governance and legal regimes, creating uncertainties about property rights, contract enforcement, and bribery. Navigating such regimes may require on-the-ground expertise or personal connections that are not readily available to investors at large.

4. What would deliver scale, responsibility, success and value?

As has been highlighted in the AHURI work, risk and project pipeline are major issues or barriers associated with large-scale institutional investment into affordable housing, and the same issues would potentially exist for institutional investment into any social impact investment strategy.

As indicated earlier in this paper/submission, we are focused on housing/living choice, therefore we have provided a few examples of projects or initiatives which would have a broad economic, social and living sustainability impact, while at the same time addressing the AHURI barriers and issues of delivery scale, replicability and if successful in the housing career sector would meet all the likely criterion of a "Social Impact Investment" strategy.

Figure 3: Relative positioning of social impact investments in affordable living in Australian context



Note: Bubble size is equal to the total $Bn mobilised, Source: Adopted from the PwC analysis- Developing a Global Financial Centre for Social Impact Investment, Research report city of London Corporation *and customised for the Australian context by the Author*

Headwork/Infrastructure charges

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Capacity costs associated with body corporate charges

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Smart utility metering

Utility cost are one of the highest recurrent costs to housing occupation be it as an owner or renter, additionally these costs have some of the highest example of price escalation on an annual basis. Recurrent advances in the "smart metering" now allows for not only the aggregation of purchasing power of householders with purchase price savings but national and international research has shown that consumer behaviours changes exceed the cost benefit of purchase price aggregation. A recent study on power only benefits associated with smart metering equated to the equivalent saving of 0.5% in mortgage costs. Although not widely used in Australian smart metering can equally apply to other utilities such as water and gas. A "Social Impact Investment" initiative with an appropriate tax consideration plus government guarantees could be the supply to all households free with the investment return being via lower peak demand infrastructure investment by government (there would be substantial benefits).

5. Recommendations

To add positively to the current discussion and debate on the opportunities for growing the "Social Impact Investment" sector any recommendation needs to recognise factors inhibiting conventional investment and by doing so can focus on methods and process for the encouragement for "Social Impact Investment" sector growth.

To simplify our recommendations going forward we have summarised our observations in the following table which;

- Identifies investment opportunity drivers that provide scale and replicability
- Identifies investment barriers
- Identifies possible methods to implement and grow social impact investment

Table 3: Social Impact Investment Generator

Investment Opportunity	Investment Barriers	Investment Growth
Scale	Institutional investors require scale to justify the costs associated with new investment, as well as their need to diversify the portfolio risk.	***Identify issues, which potentially have an impact across the whole housing career spectrum and are repeatable, these would include but not restricted to Supply Costs and on-going living expenditures. If possible the impacts should be not only on new dwellings but the aggregated existing residential dwelling supply***
Return	Investors require secure and predictable returns corresponding with similar investment classes and risk profiles.	***Create an environment of trust and transparency in government and the supply and provision of longitudinal income data***

Liquidity	While both retail investors and institutional investors are likely to hold investments for a long-time span, regulation of many of these funds requires that only a certain proportion of the total portfolio be invested in assets that are illiquid, as institutional investors require the ability to disinvest quickly.	***Create the allowance for ownership entities associated with project initiatives to be either sold or held in part by organization which fit a potential "Social Impact Investment" set of legislated rules***
Investor awareness	As property exposure can be gained through other investment assets such as bank shares, investors should be convinced of and alerted to opportunities in affordable housing investment.	***Issues raised in the "Return" barriers above should help address the issues of "Investor Awareness" barriers***
Long-term consistent policy settings	Stable, robust and consistent government commitment to manage and assess risks and returns.	***Create an environment of trust and transparency in government and the supply and provision of longitudinal income data***
Project pipelines	It may be necessary for affordable housing investment to be pre-planned and long-term, to ensure that it is worthwhile for the private sector to invest in expertise and capability in this asset class	***Identify issues which potentially have an impact across the whole housing career spectrum and are repeatable, these would include but not restricted to Supply Costs and on-going living expenditures. If possible the impacts should be not only on new dwellings but the aggregated existing residential dwelling supply***
Governance	Institutional investors may be keen to see independent governance structures and improved transparency and reporting, to	***Create an environment of trust and transparency in government, potentially by arrangements which***

	ensure decisions are made in the interests of maximizing the value of the property portfolio and the associated income streams.	***transcend the life cycle of governments***
Capacity	While the community-housing sector has expanded significantly, it remains only one quarter the size of the public housing system.	***Create the allowance for ownership entities associated with project initiatives to be either sold or held in part by organization which fit a potential "Social Impact Investment" set of legislated rules***

This report assesses the potential for impact investment to drive improvements in housing sector in Australia. The central message is that impact investment is an emerging market waiting to be tapped by way of introducing innovative approaches to balance the associated risk component. In achieving this goal, the reports unfold few examples-managing headwork/infrastructure charges, managing capacity costs associated with body corporate charges and introducing smart utility metering.

Moreover, in light of these innovations, Australia need a global financial centre to support and enable such market growth is a positive development. There are a number of areas of challenge, from a lack of information and track record; tension between different definitions and use of terminology; to a lack of products and investment opportunities. There are also market competition challenges, due to high transaction costs and a lack of qualified key actors and market mechanisms. We define a global financial centre for Social Impact Investments as a specialist geographical centre that:

1. Brings together supply and demand in the social impact investment market;

2. Draws together expertise –industry, educational and governmental –to support the development of the market;

3. Provides the specialist infrastructure to enable the placement of Social Impact Investments; and,

4. Promotes the channelling of funds into projects and other organisational activities that yield social and environmental, as well as financial returns.

Furthermore, to supply of impact investment funds and demand from social enterprises, Australia currently do not have the social and market infrastructure to connect the two more easily and efficiently. There is no doubt that more capacity building is needed on the demand side, and education is needed on the supply side of the market. An exchange might also provide the opportunity to better mobilise private capital in addressing foreign aid objectives around poverty alleviation in our region, if impact investment deals are not restricted to Australia. Increasing numbers of Australian companies taking on B Corporation certification also demonstrate progress in (voluntarily) adopting impact measurement tools and impact disclosure.

The World Economic Forum suggests that social stock exchanges have the potential to offer value to retail and institutional investors by providing access to liquid securities of impact enterprises.

Yet we also need to recognise criticisms of such exchange platforms, as well as unintended consequences - for instance, limitations to calculating social returns on investments, “crowding-out” effects and mission drift in the not-for-profit and social enterprise sector (the social economy) .

We also need to ensure that mobilising private capital does not lead governments to shirk their responsibilities in dealing with those social and environmental problems that will not be addressed through market mechanisms.

The social stock exchanges established so far are building gradually. Yet incremental change can be transformative in providing one mechanism to mobilise more capital for organisations that seek to address many of the current social and environmental problems in our society.

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