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NSW Council of Social Service

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of Social Service

Joint Submission

Social Impact Investing Discussion Paper

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1. INTRODUCTION

ABOUT THE COUNCILS OF SOCIAL SERVICE

The NSW and Queensland Councils of Social Service (collectively termed COSS for the remainder of this submission) are the peak bodies representing health and community services organisations in their respective States. The Councils of Social Service (COSS) support the sector to deliver innovative services in response to community need; and work with and for people experiencing poverty and disadvantage to **advocate, collaborate and mobilise for change** to end poverty and inequality. COSS are uniquely placed to bring together civil society to work with government and business to ensure communities are strong for everyone.

SNAPSHOT OF COUNCILS OF SOCIAL SERVICE

- COSS are membership-based non-profit organisations with an independent board
- COSS supports over 600 member organisations across NSW and over 550 members in Queensland
- The COSS membership is diverse - including peak bodies, community and health services, as well as universities, energy providers, unions, private companies, developers and more.
- Key policy and advocacy focus areas include:
 - Housing and Homelessness
 - Disability
 - Children, Young People and Families
 - Health and Mental Health
 - Energy
 - Justice
 - Employment
 - Transport
- NCOSS worked with the NSW Government and Infrastructure Partnerships Australia to develop an agreement to establish a \$1.1billion Social and Affordable Housing Fund in 2015. This Fund was established a legislated for in 2016.

NCOSS'S PARTICIPATION IN SII TO DATE

As the peak body for the social services sector in NSW, NCOSS is keen to support the growth of the impact investing market in Australia. We have started work in this area with the following initiatives:

- NCOSS recently held Investing for Good Conference and Marketplace to encourage better take up of social impact projects, link people, organisations, investors and funders with each other and encourage new partnerships that create social change and investment returns.
- NCOSS is the Co-Chair of the Social Innovation Council, a partnership between the NSW Government and the Forum of Non-Government Agencies (FONGA) to help foster innovation in the way human services are developed, delivered and measured.
- The NCOSS CEO sits on the NSW Social Impact Investment Expert Advisory Group convened by the Office of Social Impact Investment.

QCOSS'S PARTICIPATION IN SII TO DATE

- In 2015, QCOSS participated in Queensland Treasury's launch of the Social Impact Bond Pilot Program and market soundings
- In 2016, the program announced 3 program focus areas - homelessness, reoffending and issues facing Aboriginal and Torres Strait Islander people. The program will move forward into the joint development phase with 3 shortlisted proponents
- QCOSS is engaged in developing models for improving social impact, focussed on better directing investment and attention to issues that matter most in each community.

WHY SOCIAL IMPACT INVESTING IS IMPORTANT FOR SOCIAL SERVICE ORGANISATIONS

As a representative of the interests of social service organisations and vulnerable people living with disadvantage, we are keenly aware of the current challenges the human services sector is experiencing in finding and securing funding to deliver important services to people and communities in need. However, we are also aware of the importance of our sector being increasingly accountable and transparent in delivering services that work effectively and efficiently. Whilst this is primarily due to the nature of our work, it is also because of our reliance on government funding or fundraising.

We recognise that in order to tackle our most pressing social issues, government and social services cannot solve them alone. Rather, a collaborative approach between government, philanthropy, business, non-profits, social enterprises and communities is needed to co-design, fund, implement and evaluate evolving approaches to social change. This involves exploring and developing different funding approaches, which will grow the funding available to support efforts to achieve social change as well as increase the effectiveness of this funding.

Social Impact Investing (SII) represents an innovative opportunity to work with government and the private sector to deliver better outcomes for people and communities whilst also addressing government budgetary challenges and social service funding pressures. We also recognise that using a market-based approach is not suitable for funding every service, so determining where these opportunities apply will be a key step in directing resources to develop the market.

COUNCILS OF SOCIAL SERVICE RESPONSE TO THE DISCUSSION PAPER

COSS therefore welcome the release of the Social Impact Investing Discussion Paper (Discussion Paper), as it provides an opportunity to discuss concrete and tangible steps which the Australian Government can take to support the growth of impact investing in Australia.

In particular, COSS welcomes the Australian Government's recognition that it has a role to play supporting impact investing in Australia.

2. THE ROLE OF THE AUSTRALIAN GOVERNMENT

The Australian Government has a vital role to play in growing the impact investing market and supporting social enterprises, non-profits and social service organisations to develop the capacity to participate in the market. Without government engagement, coordination and leadership, Australia will miss the opportunity to work towards generating more sustainable solutions to complex social problems.

Impact Investing Australia has outlined several areas where the Commonwealth government can play a role in the development of the social impact investing market:¹

- Market builder
- Market participant
- Market steward

The Discussion Paper proposes that the Australian Government primarily support impact investing in two main ways:

- Market Steward - creating an enabling environment by ensuring an appropriate regulatory environment
- Market Participant - funding (or co-funding with State and Territory Governments) investments which would likely achieve savings to fund the intervention (including paying for returns to investors, where required) and deliver better outcomes for Australians.

Whilst COSS supports Australian Government involvement in these two areas, we support and encourage it to view its role more broadly - inclusive of taking a role as a leader and market builder, as outlined by Impact Investing Australia.

COSS also recognises that improved social outcomes are goals of both State and Federal governments. Both governments benefit from a stronger civil society - either through reduced welfare spending or reduced cost and/or demand for services at the State level. As such, it will be critical for all levels of government to agree on a consistent approach to SII, identify investment opportunities with shared benefits, and address practical barriers to successful transactions - including data sharing, taxation treatment, investment rules, legal and regulatory barriers.

THE GOVERNMENT'S ROLE AS A MARKET BUILDER

Several recent reports and Government initiated reviews have identified action areas and recommendations for government's role as a market builder. Broadly these include:²

- Increase flow of resources and support to projects to strengthen their operations and capacity for growth
- Increase flow of talent to the sector to build and grow the market

¹ Social Impact Investment Taskforce Report, The Invisible Heart of Markets, 2014, p.43

² These actions have been summarised from the Social Impact Investment Taskforce Report (2014), Financial Systems Inquiry (2015), Senate Economics References Committee Report—Investing for good (2011) and McClure Welfare Review, Social Impact Investing Research - Department of Social Services (2016)

- Support the maturation of an innovation and impact investing culture through a range of intermediaries that provide advice and services to the sector
- Help raise the profile of social impact investment and highlight best practice
- Provide appropriate guidance and contribute to a common language and understanding
- Remove barriers for all stakeholders
- Encourage the use of social impact investment mechanisms when commissioning services, especially where they offer innovation and value for money
- Provide leadership that signals interest and legitimacy, inspiring confidence for actors to participate;
- Contributing to early infrastructure and de-risking to encourage market development
- Incentivise and support innovation and efficacy

One of the main barriers to the growth in the SII market that is noted in the Discussion paper is the “limited capacity in the community sector to deliver projects” to a stage where they are ‘investment ready’.³ Many organisations (both social enterprises and non-profits) remain grant-focused and lack the resources and expertise for complex contract negotiation and robust outcomes-measurement. Based on feedback from various stakeholders, including Social Impact Funds and philanthropic foundations, the lack of ‘investment ready’ projects is one of the biggest barriers to the growth in the market.

Similar challenges have been experienced in other global markets. The UK Cabinet Office addressed this by funding the establishment of the ‘Investment and Contract Readiness Fund’ (ICRF). The fund provided £13.2M in capacity building grants to equip ‘social ventures’ to become ‘investment ready’ and compete for public service contracts. ICRF provided grants to social ventures seeking to raise a minimum of £500k in repayable investment or secure a public service contract of £1m or more. The ventures received grants of between £50k and £150k, which could be used to purchase specialised investment advisory services and/or contract readiness support. The fund has now closed, with an evaluation reporting that over £233M in investments and contracts was unlocked - representing an 18-fold return on UK Government’s expenditure.⁴

COSS believes that government can play a vital role as a ‘market builder’. Consideration could be given to the creation of a similar fund to provide capacity building grants to projects to become investment ready and/or compete for public service contracts. The fund would need to be of significant enough size and scale to facilitate the supply of investable projects to meet the demand for investment opportunities in the sector.

Government grants to support these activities will remain an important and powerful tool to fuel the development of the SII market and to encourage private investment into particular areas of social need. Grant funding can be used to achieve both market building and government participation objectives by:⁵

³ Social Impact Investing Discussion Paper, 2017, p.12

⁴ For more information, see: <http://www.sibgroup.org.uk/sites/default/files/files/ICRF%20Evaluation.pdf>

⁵ Impact Investment Australia, Key Message, January 2017, p.4

- De-risking investments
- Creating incentives for new solutions
- Developing and scaling enterprises
- Enabling new intermediaries
- Building market and sector infrastructure at national, state and local levels.
- Alternatively, the option of providing additional funding for existing intermediaries which provide capacity building support could also be explored.

Benefits to government that can result from providing grants to social ventures, if successful in securing investment or winning tenders, can:

- Lead to the creation of new employment opportunities in Australia
- Directly and/or indirectly assist the Australian Government in other policy areas (see Table 1 in next section)
- Align with and support the Australian Government's 'National Innovation and Science Agenda', which seeks to 'harness new sources of growth to deliver the next age of economic prosperity in Australia'⁶

Recommendation 1:

That options be examined for better supporting the capacity building of organisations seeking to become investment ready and/or compete for public service contracts, with the objective of developing the pipeline of organisations capable of attracting investment and/or winning government contracts.

THE GOVERNMENT'S ROLE AS A MARKET PARTICIPANT

The draft Social Impact Investment Principles (the Principles) position government's primary role as a market participant through the purchase of outcomes, with several aspects focused on social impact bonds. This narrow focus on social impact bonds risks limiting growth in the market rather than promoting it. For example, payment only when outcomes are achieved is an approach applicable only in some instances of commissioning for outcomes. However this approach will not work for other types of investment, for example, development of an impact fund or bonds for affordable housing.

The Social Impact Investment Taskforce Report outlines a broader role for government as a market participant.⁷ Recommended activities include:

- Creation of domestic outcomes funds for government departments that are unable to recognise the full value of social outcomes they achieve
- Provision of matching finance to prime the pump for the impact investing market
- Provision of first loss capital and/or guarantees
- Capitalise a social investment wholesaler or impact investment funds

⁶ For more information, see: <http://www.innovation.gov.au/page/agenda>

⁷ Social Impact Investment Taskforce Report, The Invisible Heart of Markets, 2015, p.45

COSS believes that government can take on a broader role as a market participant. Consideration could be given to the inclusion of the recommendations from Social Impact Investing Taskforce report.

Recommendation 2:

That government's role as a 'market participant' be broadened to include the the objectives and action areas outlined in the Social Impact Investment Taskforce report.

WORKING WITH STATE AND TERRITORY GOVERNMENTS

The Discussion Paper identifies several opportunities aligned with areas of Australian Government responsibility, where social impact investment mechanisms could be developed and implemented across the key policy areas:⁸

- to address unmet need in early education and childcare, particularly for vulnerable and disadvantaged children
- to fund innovation program delivery in employment, education and further training,
- to provide infrastructure capital to social and affordable housing
- to address unmet need in rural and regional aged care , and to fund innovative program delivery for consumer aged care.
- to address unmet need for Australians experiencing financial exclusion who are unable to access mainstream financial services;
- to address unmet need for health services, including future service shortages and the lower health outcomes for disadvantaged groups; and
- innovative service delivery in disability services to complement the introduction of the National Disability Insurance Scheme.

There are opportunities for the Australian Government to partner with State and Territory Governments to develop and implement co-funded impact investments and share data for new or existing investments. Social and affordable housing is an example where the Commonwealth Government could achieve broader social benefits with the State Government acting as the main service providers.

The proposed federally funded Social and Affordable Housing Fund (SAHF) is an example of an innovative investment mechanism, involving a partnership between Federal and State Governments, to address the current housing crisis in Australia.⁹ It is proposed that the government invest \$10 billion into the fund to provide low interest loans to community housing developers to develop 40,000 new dwellings to meet the immediate need of the 100,000 homeless persons in Australia. The Federal Government will provide the capital and develop a national strategic framework to ensure safety and consistent building standards. State and Territory governments will create an enabling environment for housing development by expediting major development programs and managing jurisdictional planning.

⁸ Social Impact Investing Discussion Paper, January 2017, p.15

⁹ For more information, see: https://www.vinnies.org.au/icms_docs/238828_The_Ache_for_Home_Paper_2016.pdf

Other opportunities for SII in affordable housing are discussed in Ernst & Young’s Social Impact Investment Research paper and the Affordable Housing Working Group Paper.

COSS believes that social and affordable housing and early childhood care and education are key policy areas where State and Federal Government can partner to design and implement SII opportunities that deliver important benefits to community as well as savings across both levels of government.

POLICY AREA	SOCIAL IMPACT INVESTMENTS ACROSS AUSTRALIAN GOVERNMENT POLICY AREAS
Early education and childcare	<p>Good Start Early Learning <i>Purpose:</i> to provide long day-care and early learning services for Australian children <i>Type:</i> For-profit social enterprise <i>Investment:</i> \$95 million from bank debt, government loans, subordinated notes & private investment <i>Investors:</i> National Australia Bank, Australian Government, Private investors, Non-Profit consortia</p> <p>International Examples</p> <ul style="list-style-type: none"> • USA - Utah High Quality Preschool Program SIB for low income cohorts • UK & GERMANY - UK Children’s Centres and Germany's Kinderzentren Kunterbunt are examples of payment by results schemes and SII fund investments which expand the scale of providers servicing disadvantaged communities
Employment, education and further training	<p>SVA Social Impact Fund’s investment in STREAT <i>Purpose:</i> to support Australian social enterprises across various industries, including employment, education and further training. <i>Size of Fund:</i> \$9 million fund <i>Investors:</i> Australian Government’s Social Enterprise Development Funds (SEDIF) and private investors <i>Case Study:</i> STREAT received a \$1.25 million loan to fund the construction of the new flagship café, bakery, coffee roaster and offices in Collingwood, Victoria. This will provide training and employment opportunities for people experiencing disadvantage and long-term unemployment.</p> <p>International Examples</p> <ul style="list-style-type: none"> • USA - New Profit Inc Fund, US National Fund for Workplace Solutions, US REDF • UK - UK Department of Work and Programmes Innovation Fund and underlying SIBs, UK Impact Ventures K10, UK Key Fund - Paperworks
Social and affordable housing	<p>Social Enterprise Finance Australia (SEFA) Fund’s investment in Three Sista’s <i>Purpose:</i> To provide tailored financing solutions that encourage social enterprises to develop and grow, and aims to stimulate the social impact investment market in Australia. <i>Size of Fund:</i> \$20 million <i>Investors:</i> Australian Government’s Social Enterprise Development Funds (SEDIF) and private investors <i>Case Study, Three Sista’s:</i> Received a \$450 000 loan to provide support to the displaced and homeless via a private model of social housing accommodation in Cairns, Queensland.</p>

	<p>International Examples</p> <ul style="list-style-type: none"> • UK - UK Real Lettings Property Fund, UK Homes for Good, UK Holden Lane Housing, UK Derwentside Homes • CANADA - Toronto Community Housing Corporation Bond • USA - New York City Acquisition Fund
Aged Care	<p>There are limited examples of Australian impact investments in the aged care sector</p> <p>International Examples</p> <ul style="list-style-type: none"> • UK - Newquay Pathfinder for Integrated Care
Financial Inclusion	<p>Department of Social Services (DOSS) DOSS is currently exploring the opportunities for Community Development Finance Institutions(CDFIs) in Australia</p> <p>International Examples</p> <ul style="list-style-type: none"> • UK, USA and CANADA have developed and implemented CDFIs with evaluations demonstrating their success in addressing the market failure and meeting unmet need
Health	<p>SVA Social Impact Fund’s investment in Co-Health <i>Purpose:</i> to set up a private GP clinic and subsidise services provided by community health care centre to vulnerable members of the community <i>Size of Fund:</i> \$450 000 loan <i>Investors:</i> SVA Social Impact Fund</p> <p>International Examples</p> <ul style="list-style-type: none"> • UK - Big Society Capital’s Shared Pathfinder Fund
Disability	<p>Hire Up <i>Purpose:</i> Enabling people with disabilities to leverage an online platform to find, hire and manage their own support workers <i>Type:</i> For-profit social enterprise <i>Investment:</i> \$2.5 million <i>Investors:</i> Direct investment from private investors and Philanthropic Trusts and Foundations</p> <p>International Examples</p> <ul style="list-style-type: none"> • UK - Big Society Capital’s Shared Shared Lives Incubator

Table 1. The table highlights Australian and international examples of social impact investments that can be implemented across government policy areas.

3. AUSTRALIA’S SOCIAL IMPACT INVESTING PRINCIPLES

COSS are pleased to see the development the four draft Social Impact Investing Principles (the Principles) set out in the Discussion Paper.

COSS are broadly supportive of the content and focus of the Principles, though we believe there is scope to develop a fifth principle that addresses the need for an inclusive and collaborative approach to guide the design and implementation of any impact investing initiative. As discussed on page 18 of the Discussion Paper, the principles “aim to encourage involvement of *the community* and private sector”. Whilst this is stated as an aim, there is no principle to reflect the importance of collaboration and co-design with a broad range of stakeholders in the development and implementation of these projects. It is important to ensure that any impact investing initiatives progressed by the Australian Government are not designed in a manner which excludes community input.

As such, it is important that impact investing projects are ‘co-designed’ with extensive and meaningful engagement with various segments of the community, including the beneficiaries. This may include subject matter experts employed by organisations to deliver particular services in the community, peak body representatives and academics with specific content knowledge on the issues that impact investing initiatives are seeking to address.

This will ensure that any impact investing initiatives are well informed by a broad base of stakeholders with relevant expertise and experience, to improve their efficacy. It is also important to engage the intended end beneficiaries of impact investing initiatives. It is too often the case that policy interventions are designed without including the perspectives of end beneficiaries, meaning that they are not provided an opportunity to share their views on what is proposed, and leading to questions around the legitimacy of these policy interventions.

Co-design involving all relevant stakeholders will lead to better-informed decisions about the design of impact investing initiatives and also help ensure that there is broader buy-in and support for the initiatives.

Recommendation 3:

The inclusion of a fifth Social Impact Principle, to read as follows:

[Co-design with stakeholders

Social impact investments should be designed in collaboration with a broad range of stakeholders including subject matter experts, practitioners in the areas which are may be funded, and the intended end beneficiaries]

4. BARRIERS TO GROWTH IN THE SII MARKET & STRATEGIES TO UNLOCK CAPITAL & DELIVER BETTER SOCIAL SERVICES AND OUTCOMES

SOCIAL PROCUREMENT

With the current support for innovation and growth of the social enterprise sector in Australia, there are increasing opportunities for government and the private sector to use their purchasing power to deliver social outcomes and support social policy objectives.

Much of the discussion on impact investing in Australia to date has focussed on impact ‘investment readiness’ and developing a pipeline of investable opportunities. However, COSS believes it is of equal importance to support social service organisations and enterprises to become ‘contract ready’ and compete with commercial ventures for service delivery contracts to government and corporate entities.

HYBRID LEGAL STRUCTURES

COSS notes BLab Australia and New Zealand and the Legal Models Working Group’s submissions regarding changes to the Corporations Act 2001 to better meet the needs of a broad range of social change organisations seeking to deliver social impact as well as achieve a financial return. COSS believes that a whole systems approach is required for social change and creation of a hybrid legal structure in Australia will serve to advance this objective. Specifically, creation of a hybrid legal structure will:

- Enable growth in market-based mechanisms of delivering social change and social services
- Encourage impact investment by providing a legal framework that provides certainty the company will remain accountable to its mission in the future.
- Enable a company’s social mission to be embedded into its constitution, thereby providing certainty for shareholders, directors, officers and the market as to the company’s corporate governance obligations. This creates an enabling framework for directors to stay mission-driven through corporate succession, capital raising, and changes in ownership.
- Provide legal protection for directors who wish to make decisions consistent with the company’s expanded purpose of creating value for all stakeholders.

Broadening the opportunities to drive social change and deliver services through creation of, and investment in purpose driven for-profit entities makes intuitive sense. Whilst COSS do not propose to discuss this matter in detail, we support the view that the current range of legal structures in Australia are not sufficient to meet the needs of the broad range organisations seeking to achieve social change and deliver innovative social services.

Therefore, reform in this area should be considered, and we refer Treasury to the submissions made by The Prime Minister’s Community Business Partnership, BLab Australia, and the Legal Models Working Group for more detailed discussion of these matters.

PHILANTHROPIC FOUNDATIONS

COSS notes Philanthropy Australia’s submissions to the Financial Systems Inquiry and Treasury with several recommendations to facilitate philanthropic foundations to play a greater role in funding and catalysing social change through active participation in the social impact investment market.¹⁰ COSS supports the view that there are several opportunities to expanding the pool of available capital through regulatory reform. Philanthropy Australia has outlined 2 key areas of reform:

¹⁰ For more information, see: http://fsi.gov.au/files/2014/09/Philanthropy_Australia.pdf

- the provision of guidance in relation to the treatment and/or recognition of Private Ancillary Funds (PAFs) as ‘sophisticated investors.’¹¹
- the implementation of amendments to the Private Ancillary Fund Guidelines 2009 and Public Ancillary Fund Guidelines 2011 to allow for an enhanced Program Related Investment (PRI) framework to provide greater flexibility to ancillary funds and the organisations they support.¹²

In line with COSS’ position on facilitating a whole systems approach to social change, we believe these reforms will enable and incentivise the direction of a greater pool of capital towards social change; and facilitate greater participation in the SII market by social service organisations.

We refer Treasury to the submissions made by Philanthropy Australia and The Prime Minister’s Community Business Partnership for more detailed discussion of these matters and support further reform in this area.

OPPORTUNITIES FOR IMPROVED DATA USAGE & SHARING

COSS welcomes the government's commitment to improving access to public data. Access to high quality and meaningful data is crucial to help government and social service organisations determine whether a social impact has been achieved, inform policy design and to support a culture of continuous improvement.

Whilst the Australian Government’s Public Data Policy Statement provides an excellent mandate for government entities to optimise the use and reuse of public data there is little evidence that this is actually occurring. COSS acknowledges that there are several barriers to data sharing, including privacy and the multiple levels of government that need to coordinate to enable access to meaningful data. In addition, the benefits or costs savings from SII will often cut across various government levels.

We therefore support the development of guiding principles for data sharing and welcome the opportunity to participate in the discussion and formation of these principles. Government leadership will be crucial to support the sector to move towards an active culture of data sharing, data analysis and data-driven decision making.

¹¹ For more information, see: http://www.philanthropy.org.au/images/site/publications/Philanthropy_Australia_Submission_-_Draft_Amendments_to_AF_Guidelines.pdf

¹² For more information, see: http://www.communitybusinesspartnership.gov.au/wp-content/uploads/2016/01/program_related_investments_report.pdf