The potential role of social enterprises, philanthropy and social bonds to increase supply of affordable housing and provision of housing services

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Executive summary

Social enterprises, contemporary philanthropy, and social impact bonds are all manifestations of a burgeoning social impact investment market in Australia and overseas. The market is at an immature stage where there is more motivated capital than there are investable mechanisms to fund. However, this should rapidly reach equilibrium as all participants update practices to converge: governments adopt unit costing, social service providers embrace robust data tracking of outputs, and investors acknowledge social as well as financial returns.

The areas of housing-related and homelessness services have seen some innovation around design of social impact investment mechanisms. The documented shortfall in affordable housing supply however, as damaging as it is to Australian social wellbeing and economic competitiveness, is less conducive to address by instruments such as social impact bonds due to complexity and sheer scale of bricks-and-mortar solutions required.

Hope can nevertheless be found in the overlap between the investigated areas of social enterprise, philanthropy and payment-for-outcomes instruments like social benefit bonds. There are emerging examples whereby a philanthropic foundation or corporate places a cornerstone investment in a social enterprise, which might then expand program scope through mechanisms like a social impact bond. In the field of affordable-rental housing, these roles might be filled by community housing providers, or other nonprofit agencies engaged in housing services for disadvantaged households and individuals in New South Wales.

1. Background and methodology

This issues paper investigates three models of social services funding innovation: social enterprises, philanthropic funding, and social impact bonds. It then evaluates the applicability of these mechanisms to the social and affordable housing sector, and discusses their potential to address housing supply, housing-related social services, and homelessness. Finally, the issues paper analyses further models beyond these three key areas, and offers conclusions about the positioning of the nonprofit affordable housing sector in the current policy and investment environment.[1]

The methodology behind this paper started with a literature review on the three areas of interest. Recent industry interest in impact investing has spawned many studies on the sector, funded by prominent sponsors such as the Rockefeller Foundation and JP Morgan. Specialist private companies and intermediaries focusing on impact investment have also been founded both in Australia and overseas which have provided many valuable background publications. For example, Social Finance in the UK and USA has published

[1] For more background to this project, see C Johnston, 'Social investment and the future of affordable and secure housing', *Around the House*, 96, March 2014, pp. 21-23.

extensively on social impact bonds, and the Centre for Social Impact, Social Ventures Australia and Social Investment Australia domestically have collated further resources.[2]

Several key stakeholders were subsequently interviewed and their observations collated in this paper. Specifically, peak organisations in the community housing and homelessness areas were consulted as well as a social service and community housing provider active in one state's social investment advisory committee. NSW state government officials also participated, including executives from Treasury, Premier and Cabinet, and from the Service System Delivery and Housing Policy and Homeless Directorates within the Department of Family and Community Services (FACS). Finally, representatives from the Australian impact investment sector were consulted, including a social investment intermediary, a superannuation fund investor in a social impact bond, and those instrumental in the initial policy and research papers on the NSW social impact bond pilot program.

Definitions

Social investment is an investment strategy by businesses that considers social issues as well as financial returns.[3]

Socially responsible investment is social investment where financially-motivated investors employ a 'negative screen' against certain sorts of investments to avoid social or environmental harm.[4]

Social impact investment is social investment that actively seeks to have a positive social or environmental impact.[5] An impact investor might have a primary intent of optimizing financial returns, with a floor for social or environmental impact. Freireich and Fulton categorize impact investors as either 'financial first investors' or 'impact first investors' according to their primary intent: financial first investors seek to optimize financial returns with a floor for social or environmental impact, whereas impact first investors seek to optimize social or environmental impact with a floor for financial returns. These impact investors differ both from commercial profit-maximizing investors and from philanthropists seeking social and environmental impact.[6]

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2 See as an example <www.impactinvestingaustralia.com/resources/>.

3 J Freireich and K Fulton, 'Investing for social and environmental impact: a design for catalyzing an emerging industry', Monitor Institute, 2009, p.14.

4 World Economic Forum Investors Industries with Deloitte Touche Tohmatsu, 'From the margins to the mainstream: assessment of the impact investment sector and opportunities to engage mainstream investors', Geneva, 2013.

5 Centre for Social Impact, 'Report on the NSW Government social impact bond pilot', University of NSW, 2011.

6 Freireich and Fulton, pp.1-32.

2. Introduction

For several years, business and academic media have discussed concepts of investing both for gain and for social or environmental good, based on the evolution in thought that the two are not mutually exclusive.[7] Now this discussion has crystalised into several actual transactions that have settled and enterprises that have now been established based on both financial and social principles. Australia has been well represented amongst these early examples of social investment operationalized into practice, and successes to date naturally encourage stakeholders in other areas of social need, such as housing, to explore options. An investigation into new sources of funds for the social sector indeed suits an austerity point in the economic cycle, when preventative policies are often seen as a luxury and where key commentators argue that future cost reduction is imperative.[8] Also, a faith in both the commercial practices of the private market combined with the betterment aspirations of social concerns can sit well with both conservative and progressive governments in a time of political shift.[9]

Social impact investing has been applied to issues as disparate as third-world agricultural efficiency, community development microlending, and youth training endeavours. What, specifically, might be the potential for social investment mechanisms in promoting and enhancing housing wellbeing for disadvantaged households and individuals here in New South Wales?

Private finance is obviously indispensable to meet Australia's documented market failure in adequate housing supply. No government, regardless of the current political Commonwealth vs. State debate[10], would be able to fully address the shortfall of 539,000 rental dwellings that are affordable and available to the lower income Australians.[11] And as luck would have it, into this breach of both housing adequacy and political responsibility, emerges an extremely sophisticated new suite of impact investing concepts, and an estimated nearly $1 trillion globally in eager capital chasing creditworthy investments with socially positive impact.[12]

First, this investigation focuses on **social entrepreneurship**, where commercial trading models are applied to social betterment activities, and asks whether the existing

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[7] See for example M Porter and M Kramer, 'Creating shared value', *Harvard Business Review*, January-February 2011.
[8] See, for example, J Daley and C McGannon, 'Budget pressures on Australian governments: 2014 edition', Grattan Institute, 2014.
[9] HM Government, 'Growing the social investment market: a vision and strategy', Cabinet Office, London, 2011; B Howe and R Howe, 'The influence of faith-based organisations on Australian social policy', *Australian Journal of Social Issues*, vol.47, no.3, pp.319-333.
[10] This refers to debates between the Commonwealth government (particularly the Australian Treasurer, Joe Hockey) and the first ministers of the states and territories about the implications of the federal Budget for 2014-15 (delivered 13 May 2014) for the ongoing responsibility for state/territory services and federal fiscal relations in the future.
[11] National Housing Supply Council, *Housing supply and affordability: key indicators*, 2012. This report indicated there was a 89,000 shortfall in New South Wales alone.
[12] R Addis, J McLeod and A Raine, 'IMPACT–Australia: Investment for social and economic benefit, JBWere and Australian Government DEEWR, 2013. See Appendix 4: Estimation of Market Dimensions. 'Included in this [ESG] total is Impact/Community Investing in a combined category which totalled US$89 billion. While it is a large number and growing rapidly, it is currently only a small percentage of global investments, representing only 0.14 per cent of funds under management.'

community housing provider (CHP) sector in NSW fits within this model. If so, are there opportunities for the some CHPs to embrace social enterprise in order to project better definition to private funders, in service of better outcomes for tenants and applicants?

Next, we look at **philanthropic funding**, seemingly outmoded but with new potential in financing housing-related services or social enterprises. While philanthropic funding is not typically recurrent enough to support significant housing supply expansion, some specific place-based investments have funded several projects.

The flavour of the moment, **Social Impact Bonds** (SIBs)[13], likewise deserve a close look, and are perhaps the closest to practical application for social housing. There has been quite a bit more literature around SIBs than actual transactions however, though government's natural interest in shifting risk should lead to further applications.

Finally, **other impact investing mechanisms** and related concepts crossing housing and finance at the moment are considered, such as Shelter NSW's and NCOSS' suggestion on Waratah bonds being applied to affordable housing, or the more general contracting practice whereby government pays for results in arrears rather than contracts inputs.

Social Impact Bonds have received the most attention in that space, as they do in this issues paper, because they have come into the sharpest focus through two actual settled and operating transactions over the past year (UnitingCare's Newpin program and the Benevolent Society's Resilient Families program).[14] In contrast, social enterprise and philanthropic efforts are more diffuse. But the level of shortfall and housing inequality are so dire that any action must be on an open-minded basis of pursuing every avenue in search of traction, rather than pinning hopes on a single glorified silver bullet.

Initial observations

- It can be easy to dismiss impact investment's application to housing wellbeing because housing need is vast in NSW while social investment motivations are changeable; funding is not likely to be recurrent. Transactions are highly specialized and unique. It can seem inefficient to build upon learnings when every transaction is a one-off. The scale of the affordable rental housing supply backlog is so large that highly customised financing arrangements, no matter how clever, alone could never be up to the task. Much more structural intervention is needed, and is detailed well in other reports (taxation reform, a new residential investment asset class, overall review of social housing arrangements between the Commonwealth and States, etc.).[15]

- Indeed, there are parallel moves afoot in affordable housing finance at the moment – the social investment models such as those detailed here, and broader

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[13] Social Impact Bonds and Social Benefit Bonds are used interchangeably in literature and practice; SIB has been used here. SIBs are not actually 'bonds' in the traditional sense but rather structured debt agreements. See section 5.

[14] These two programs are the current social impact bond programs in New South Wales See page 10 of this paper.

[15] See, for example, J-F Kelly, J Hunter, C Harrison, and P Donegan, 'Renovating housing policy', Grattan Institute, 2013.

standardized models such as housing supply bonds. The former is specific, focused and granular, the other much more scalable and pooled. They are not mutually exclusive: this is a *both/and* situation rather than a case of backing one or the other. The premise that anything worth doing in housing must be replicable and recurrent, given our tremendous NSW housing shortfall, is in fact not necessarily correct. Intervention to improve housing or other service provisions are individualized at a community level, if not personal level. Every new dwelling is a potential life-changer, so affordable housing finance innovation at both scales must proceed.

- The insularity of the social housing sector relative to the broader social services sector and private development sector is dissipating, due in part to cross-sector partnerships brought by recent innovations such as Nation-Building Economic Stimulus Plan leverage relationships with banks and National Rental Affordability Scheme (NRAS) relationships with developers/aggregators/investors. Many from outside the community housing sector have entered the field, which may itself bring social investment innovation. Witness the melding of traditional community housing and private real estate agent roles by HomeGround Services, profiled below in section 3.

- Social investment mechanisms at the more granular, customised scale will be set up to fail if expectations are too high about their delivery of housing supply. Of the NSW examples, The Resilient Families Social Impact Bond is a modest $10 million. Newpin is $7 million. Putting this in perspective, the cost of meeting a 89,000 dwelling shortfall in NSW at a conservative construction assumption of $300,000 per dwelling, is $26.7 billion. (Even this blunt illustration shows how housing need is so vast that it ironically escapes policy attention despite impacting so many.) Nevertheless, the innovative and sophisticated nature of social investment transactions could give the social housing sector profile to unlock further opportunities, and therefore should be pursued.

Nothing is going to address the pervasive inequality of the housing market and its externalities (long commutes, overcrowding, difficulty in economic engagement etc.) other than supply. It's human nature to seek a silver bulletin a time of policy upheaval and staggering unaffordability. We will see for example that SIBs are likely to be too intricate for wide housing application, but they and other models can focus a lot of diffuse desire for impact investment – and potentially capital – onto a specific sector that is too often under the radar.

3. Social enterprises/entrepreneurship

The first emergent trend investigated is the phenomenon of social entrepreneurs or 'Social enterprise.' A social enterprise is a commercial or nonprofit business that trades in a product or service that provides a social good, or which seeks profit/surplus only for the purpose of its reinvestment toward a social mission. A social enterprise can raise funding either through traditional commercial debt/equity means or via philanthropic or government support.

The social enterprise sector in Australia came into focus over the last decade through a research project at the Queensland University of Technology called 'FASES – Finding Australia's Social Enterprise Sector'.[16] Published in 2010, the FASES report estimated 20,000 operating social enterprises in Australia, contributing approximately 2–3% to GDP. Importantly, the study suggested guidelines whereby social enterprises generate a 'substantial portion' of revenue from trade, growing from benchmarks of 25% for enterprises within three to five years of start-up growing to 50% for those ventures operating for over five years. Social enterprise continues to grow in Australia, and has crystalised into a specialist sector with conferences, awards, and many nonprofit intermediaries.

The community housing sector in Australia is certainly an example of social enterprise, though perhaps this could be an area for greater self-recognition and collective promotion. The past five years has seen explosion in many CHPs' assets under management, balance sheets, and expertise. This was spurred by external opportunities such as the NRAS, stock transfer of public housing assets (both newly-built under the Nation-Building Economic Stimulus Plan and historic), and other policy initiatives to grow the sector. Growth has also come from internally-developed practice enhancement.

For example, some large CHPs have pursued cross-subsidy models whereby commercial trading activity such as fee-for-service management of privately-owned NRAS dwellings or sale of units is invested in affordable rental housing. Some have incorporated new separate entities in their structures to reflect an entrepreneurial activity, such as expansion into a new geographic market, or development of a new service offering.

However, the extent of contractual control by governments over CHPs as well as recent introductions of national regulation of financial, governance, and practical operations may have occupied some of the mental space that would otherwise be devoted to more maverick independence often described of 'social entrepreneurs.' True independence might at times feel distant in a sector where, in South Australia for example, the government's contractual conditions over transferred assets come so close to 'control' that accountants have considered consolidating CHPs into the state government's accounting group. CHPs in NSW are only regulated for the government's contractual arrangements over the Land and Housing Corporation dwellings they operate, and a broad proportion of CHPs may not seek to diversify activities or funding sources.

One CHP, Urban Communities in Melbourne, actually encapsulated a policy in its constitution to try to maintain government revenue below 50% of total turnover, in an effort to retain a diversity of entrepreneurial trading inputs.[17]

So: can the community housing sector act as true social enterprises within the context of existing regulation and contractual settings?

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[16] J Barraket, N Collyer, M O'Connor, and H Anderson, 'Finding Australia's social enterprise sector: final report', Social Traders & Australian Centre for Philanthropy and Nonprofit Studies Queensland University of Technology, 2010; information on the FASES project is online at <www.socialtraders.com.au/finding-australias-social-enterprise-sector-fases>.

[17] Social Traders, 'Social enterprise – case study: Urban Communities', August 2009, online at <www.socialtraders.com.au/_uploads/rsfil/000279_abde.pdf>.

A recent public forum discussing the development of the community housing sector suggested there is a labeling problem that could contribute to a lack of profile of that sector's entrepreneurial activities.[18] Perhaps conscious re-branding as 'social enterprises' may help pull CHPs from a perception of operating under the government mantle. At least in terminology, enterprise language may help showcase the sector for potential partnerships with organisations/local governments with land or resources but no housing development or management expertise. At the moment, labels like 'non-profit' or 'not for distribution' may have limiting connotations for groups who have nevertheless demonstrated commercial innovation drive in pursuit of their social mission.

In fact, descriptors involving 'community housing' vs 'affordable housing' vs 'social housing' have repeatedly confused stakeholders and too narrowly defined those who pursue mixed-tenure projects. 'Profit-for-purpose' or 'more-than-profit' have been proposed as well, however, 'social enterprise' could well reflect the stage that a current AHURI longitudinal study identifies that CHPs may be entering.[19] The study identifies establishment, rapid growth, and consolidation stages, which may now be followed by an entrepreneurial stage. Having mastered NRAS/leverage/stock transfer/regulation, some larger CHPs are reportedly pursuing social enterprise-like community engagement, tenant training programs, microbusiness, place-making initiatives. Could this be ultimately accompanied by a maturation from government control? Again, the problem is the scale of the need: Vivienne Milligan cautions that 'It's dangerous to project that social enterprise alone will be any solution [to housing supply] without fundamental funding from government.'[20]

Nevertheless, many new relationships are being formed with the disabilities sector, private NRAS participants and other stakeholders, so that government is no longer the only counterparty. In fact, so much activity is occurring at the intersection between the nonprofit and private sectors that 'the government may not necessarily be the primary stakeholder here' to paraphrase a community housing industry representative interviewed for this project, in discussing growth toward social enterprise.

Charitable status may be the ultimate limit to entrepreneurial expansion and activities. The Australian Charities and Non-Profit Commission and ATO scrutiny has been a concern to CHPs who have expanded into new trading activities. Surplus-making activities intended to be reinvested into affordable housing expansion may still put charitable status at risk. The Community Housing Federation of Australia (CHFA) continues to advocate that social enterprise activities undertaken by CHPs are inextricably tied to their missions of targeting housing services to the poor.

However, the benefits of being seen as social enterprises may be one of perception, and exposure to new partners with capital to invest. One investment executive, recently asked whether he saw the community housing sector as 'social enterprises,' initially

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18 AHURI forum 13 May 2014, Sydney: 'The community housing industry: maximising opportunities'.
19 V Milligan, 'Understanding leadership, strategy and organisational dynamics in the not-for-profit housing sector: longitudinal and comparative elements,' AHURI project 71006; information about this study is online at <www.ahuri.edu.au/publications/projects/p71006>.
20 V Milligan, comments at AHURI forum, 13 May 2014; Milligan's presentation is online at <www.ahuri.edu.au/event/event_20140513>.

demurred then paused to reconsider. Despite being engaged in the social impact investing sector, the hesitation reflected the Australian understanding of 'social enterprise' as engaged in commercial activity that *trades* to fulfill a social mission.[21] Upon reflection, the executive acknowledged that certainly provision of tenancy and property management are services, and can be performed in commercial sense while still committed to mission values.

Being classified as a social enterprise may expose the community housing sector to some new sources of funding without losing sight of why they were set up. Social Ventures Australia (SVA) is a Sydney-based nonprofit financial intermediary who was selected by the Commonwealth as one of three entities to administer $20 million in social enterprise development and investment funds. This initiative was designed to address the social enterprise's sector's difficulties in accessing capital market funding. SVA leveraged $5 million in private investment to match government funding, and has to date allocated one third of its Social Impact Fund in mostly debt but some equity program investments. They range from $100k disability employment enterprise loans to business start-up capital to an equity position in an e-waste recycling business with a social employment mandate. While SVA and others contracted to administer the Commonwealth funds report difficulty in 'getting the money out the door' to appropriately-scaled social enterprises, the enterprise fund provides an option for new business activities. Why not those engaged in housing wellbeing for disadvantaged households and individuals in New South Wales?

ISSUES – application of a social enterprise model to:

Housing supply: Possibilities are two-fold: first, large CHPs already engaged in diversified business practice around expanding social and affordable rental housing supply could possibly access additional funding sources by identifying as 'social enterprises.' While this is unlikely to build new supply beyond isolated site-specific examples that probably will not be replicable, every new dwelling relies on marrying sources of land, capital, and development/management expertise. CHPs with the latter could utilise social enterprise networks to develop profile and attract new partners with the former. A modest level of housing supply activity here could bridge the larger CHPs' pipeline while policy settings around land and capital support with government are re-negotiated.

Secondly, CHPs or others not registered as CHPs can develop or expand social enterprise trading activities whose surplus can be directed toward a mission of housing expansion. Examples of larger CHPs who are already engaged in forms of trading as social enterprises can continue to promulgate these innovations to others in that sector.

Housing services: Many CHPs are undertaking social enterprise activities in new tenant services, for example Evolve Housing is partnering with a training provider to offer accredited aged care training at a cut rate to tenants. This is broadly a service in the sense that it would help the tenants who participate to

[21] J Barraket and others, 'FASES: final report', p.16.

maintain/enhance their housing wellbeing through economic participation. But an expansion into social enterprise might be a CHP that establishes a handyman service as a business unit, trades with external customers, and ultimately trains and employs tenants in it. Careful structuring of social enterprise and integrated risk management is important. Resources published by one social enterprise intermediary state that 'Initially, the social enterprise should be shielded from the rest of the organization. But once it finds a viable business model and proves it can succeed, it can be gradually integrated into an established business.' [22]

Homelessness services: 'Going Home, Staying Home' reforms currently being implemented by the NSW government may clarify some social enterprise opportunities within the specialist homelessness services realm. Moving to a new contracting approach and emphasizing data collection around impact, etc., would gel quite well with social investment/social enterprise culture. However, given the customer base of many specialist homelessness service providers, it may be difficult to develop business models with a minimum 50% of revenue generated by trading, using the FASES definition of social enterprise.

Social enterprise case study — HomeGround Real Estate, Victoria

Many community housing providers already have commercial real estate licenses. HomeGround Services, a registered Victorian CHP, has gone a step further to establish a subsidiary to enter the traditional industry of Real Estate agencies. That new social enterprise, HomeGround Real Estate's model has two streams. In the first, it acts as a traditional real estate agency, though a not-for-profit one, managing rental dwellings on behalf of owners for a standard fee. The difference between HomeGround Real Estate and LJ Hooker, however, is that this standard agent commission is then re-directed to HomeGround Service's charitable activities to fund affordable housing. In the first two months, 48 property owners offered their rental dwellings to HomeGround Real Estate to manage commercially. Market rents are charged, and HomeGround Real Estate earns a 7.7% management fee. In the second stream of activity, HomeGround Real Estate manages properties for owners who are willing to let their rental units at below-market rents to benefit lower-income Victorians. Launched in March 2014, HomeGround Real Estate has already secured several of these opportunities off the back of media coverage of its enterprise. Ultimately, HomeGround Real Estate hopes to accumulate a portfolio of philanthropically donated properties as well.

[22] M Pfitzter, V Bockstette and M Stamp, 'Innovating for shared value: companies that deliver both social benefit and business value rely on five mutually reinforcing elements', *Harvard Business Review*, September 2013, p.7.

4. Philanthropy

Philanthropy was the theme of the opening session of the International Housing Partnership's October 2013 conference in Sydney hosting international affordable housing delegates from the UK, USA and Canada.[23] At first glance, that choice of focus seemed atypical for a group brought together by common goals of housing development through increasingly sophisticated financial mechanisms. Looking to philanthropy, with its varying lead times for securing support and changeable issue focus, seems an odd foundation on which to build a stable development pipeline. However, there are indeed some recent examples of philanthropic and foundation support being applied to affordable housing.

Australia does not enjoy the same levels of individual philanthropic and foundation activity as the USA, for example. The ATO counted $2.1 billion in total deductible gifts in 2008-09, down almost 11% from prior year. [24] The San Francisco Reserve Bank estimates philanthropic support to the social sector alone in the USA to be $300 billion per year. [25] Philanthropic funding, whether from individuals, a nonprofit foundation or trust, or a for profit company often identifies specific, highly-targeted sub-populations such as survivors of domestic violence or formerly homeless individuals. Further, the scale of the affordable housing supply shortfall in Australia may work against philanthropic activity in this area of need, because real impact on a gap of 539,000 affordable rental dwellings would be hard to perceive. The size and pervasiveness of housing's asset base may cause donors to assume government will provide, and the scale of unmet need is too large for any 'third sector' initiative to address.

Several of the large, established charitable service organisations that depend on philanthropic giving by individuals have incorporated their own community housing providers. The Salvation Army (both Australian Territories), Saint Vincent DePaul, Wesley Mission, and Mission Australia all have registered CHP subsidiaries who further the parent organisation's charitable missions through provision of housing services. (Others, such as the Benevolent Society, do not have a housing arm.) These philanthropically-supported housing activities range from crisis accommodation through to temporary housing and increasingly to long-term affordable housing as well. Mission Australia Housing in particular has been extremely active in not only NRAS but also in public housing stock transfer and community renewal in two states. However, MA Housing acknowledges the limits of philanthropy in addressing the documented housing shortfalls in Australia: previous CEO Toby Hall publishing several newspaper opinion pieces promoting government equity investment or guarantees for a housing supply bond to build new homes.[26]

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[23] See <www.internationalhousingpartnership.com/IHP-reports>: 'Forum on Social Housing Philanthropy, Capital, and Policy Housing Philanthropy and Social Investment', 1 October 2013.

[24] M Steffens, 'Philanthropy is big business – except in corporate Australia', *Sydney Morning Herald*, 4 June 2011.

[25] L Ragin and T Palandjian, 'Social impact bonds: Using impact investment to expand effective social programs,' Federal Reserve Bank of San Francisco, *Community Development Investment Review*, vol.9, Issue 1, April 2013.

[26] T Hall, 'We know how to help the needy, but who's listening?' *Sydney Morning Herald*, 11 November 2013.

To directly address New South Wales's shortfall of affordable housing supply by funding bricks and mortar, philanthropic support would need to be more sizeable and *recurrent* in order to support a regular pipeline of development activity by either these in-house charity CHPs or by the larger CHP community. By nature it is not. Tony Gilmour notes that the most common form of philanthropy to support nonprofit housing activity is in the form of land donations to seed-fund community housing development projects. Direct donations to CHPs to support general low-income housing are rare; instead philanthropic contributions are more typically given to other sorts of welfare organizations and earmarked for particular client populations such as homeless, those with a disability, or older people.[27] Alternately, philanthropic activity that involves housing may be part of a larger, place-based strategy for urban renewal or development of other new forms of social infrastructure with available residual land.[28]

There is significant overlap between philanthropy and social enterprise because a dominant theme in foundation and corporate philanthropic activity has been investing in start-up enterprises to leverage a large recurrent impact. This is called 'venture philanthropy,' akin to venture capital investment in a start-up company. This is an example of many philanthropic foundations' 'hybrid' approach to giving, meaning a blend of traditional no-strings-attached grants combined with financial investment terms and conditions. These 'program investments' relate to where philanthropic funding is invested in an organisation as a loan (often at zero or below-market rates of interest) in order to encourage commerciality and recycle charitable funding to further investment once repaid.

Therefore, foundation and corporate philanthropy can fund actual services or accommodation for people in need or can be targeted to organisational development to have a multiplier impact. In many cases, this philanthropic or foundation investment is crucial to get the ball rolling: to test a service idea, to fund a new data collection ability, to establish a new intermediary, to credit enhance a new financial instrument in order to get first investors over the line. For example, HomeGround Real Estate, profiled as a social enterprise in section 3 is relevant here too — $144,000 in grants from foundations gave them start-up funding to launch earlier this year. The Bloomberg Foundation in New York provided the first investment into the Riker's Island prison social impact bond as 'first loss' capital which then reduced the investment risk for subsequent investors.

In Social Ventures Australia's Goodstart transaction, which created a nonprofit investment vehicle for the failed ABC Learning childcare centre portfolio, SVA arranged $30 million in social investment funds that could be described as venture philanthropy — active participation rather than passive lump sums. This venture-capital style equity investment is typically subordinated to conventional debt. It is therefore riskier since it is repaid last. This blended approach engaged over 150 foundations and philanthropic-minded individuals to 'invest' in financial securities with a 12% return based on possible residual cash flow. Co-investment by the Commonwealth government and conventional

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[27] T Gilmour, 'Innovative capital sources', report for Power Housing Australia, 2013.
[28] I Burkett, Australian Government Department of Education, Employment and Workplace Relations, NAB Australia, Mission Australia & JBWere, 'Place-based impact investing in Australia: building blocks for action,' 2012.

debt financing from NAB may have enhanced the philanthropic investors' confidence in the fund's financial structure and underlying social enterprise. This new class of philanthropist is willing to accept higher than market risk of repayment in return to a clear link to positive social impact. If the program investment fails, then the funds convert to a more traditional donation that nevertheless had positive outcome by funding services for the period of testing an operation model.

Could a defined category of affordable housing supply or services be structured similarly to Goodstart's child care centre portfolio?

For community housing providers to be attractive as recipients of corporate or foundation philanthropy, they may need to demonstrate the general performance criteria typically required by large private-sector corporations:

- Good governance in their organizational and board/executive management structure.
- Risk management systems akin to corporate-style practice.
- Service models with tangible outcomes.
- A chance for the donor to have involvement through the whole value chain, such as through skilled volunteering, core business expertise contribution, i.e. construction contracting etc., rather than just writing a cheque.
- Other private investors ready to invest. Those institutions may be uncomfortable with the perceived risk fundamentals of new asset class and require a cornerstone equity or first-loss investment to underpin their participation. The philanthropic investor would then enjoy the immediate impact of unlocking further funds in order to put an idea into practice.

Many of these conditions are increasingly being met by existing CHPs and others working in housing-related services through national regulation and newer contracting processes.

Case study — Common Ground

In Melbourne, Brisbane and Sydney, the Common Ground 'housing first' model of permanent supported accommodation has unlocked corporate philanthropic support. Common Ground Melbourne was completed in 2010 with 161 mixed tenure dwellings and Common Ground Sydney in 2011 with 104 dwellings. The focus is self-contained studio dwellings for chronically homeless single tenants, along with 24-hour onsite support staff/security and common facilities on the first two floors including a computer room, a counselling room, and social enterprise space for small business that may employ residents. Commercial builder Grocon constructed the buildings at a discount of their typical development margin for corporate social responsibility reasons. In Common Ground Melbourne for example, the Victorian government's funding model for affordable housing at the time provided a flat 75% of costs, with the CHP expected to raise the remaining 25% through bank borrowing or other source. In this project, the difference between the end project value and Grocon's contract figure — the $11 million 'savings', was deemed to be the contribution. Therefore, the Victorian government in effect funded 100% of the $48 million project costs (which includes land and design costs).

ISSUES – application of a foundation/corporate philanthropy model to:

Housing supply: Without the stability of recurrent funding, philanthropic finance can provide only isolated examples of new housing supply. Common Ground, at least, has been replicated in two cities with the same corporate builder partnership (and there are further Common Ground projects in Adelaide and Hobart). Social investment intermediaries interviewed for this paper suggest that specific sub-populations rather than general housing shortfall are the most likely to attract philanthropic funding. Like Common Ground's formerly homeless single people population, the Youth Foyer housing model might also appeal to foundation/corporate or even individual donors. Youth Foyers are a European initiative that house highly disadvantaged young people either emerging from foster care or at risk of homelessness. Transitional in nature, Youth Foyer dwellings are purpose-built and feature self-contained studios and 24-hour staffing where residents engage in 18-month programs involving study, work, training in life skills and increasing responsibility. The model has a tangible evidence base from successful projects in England, where independent evaluations showed that 75% of Foyer participants exited the program engaged in education, training, or employment. The Victorian Government has funded the development of three Youth Foyer pilots as part of its Victorian Homelessness Action Plan. One, at Holmsglen, is located on a TAFE campus. According to social investment financiers, the Youth Foyer model's combination of transitional service provision, clustered built form and economic participation outcomes could appeal greatly to philanthropic donors.

Housing services: Similarly, social finance stakeholders interviewed for this work recommend focus on a target population that is easier to define or that is 'attractive' to donors or investors, for example rough sleepers or domestic violence survivors with housing needs. Because all socially-motivated donors seek as much 'impact' as possible from intelligent deployment of their funds, youth training and life skills programs are thought to be extremely cost effective in setting participants on a path to a stable housing tenure and economic participation.

Homelessness services: An example here is the Mission Australia Michael Project, which ran from 2007-2010 based on private donor funding, and was found successful in a later evaluation, demonstrating that 97% of participants in the program's intensive support services were able to maintain a tenancy for twelve months.[29] The Michael Project no longer operates; the Mission Australia is operating Michael's Intensive Supported Housing Accord Service (MISHA), an integrated program for homeless men in Sydney's west that builds on the experience of the Michael Project. MISHA is also philanthropically funded, by a different donor than the earlier initiative. This demonstrates that track record as well as sound evaluation of results can continue to compel donors. It is also

[29] Mission Australia, 'The Michael Project, 2007-2010: new perspectives and possibilities for homeless men', Mission Australia, 2012.

relevant to note that the earlier philanthropic donation included funding for the post-implementation review of the Michael Project, on the evolving understanding that maximum impact can be achieved through robust data collection to prove up and promulgate practice innovation.

5. Social impact bonds

Robust collection of data on program performance is in fact one of the key features of social impact bonds. SIBs are the social impact investing model with the most political momentum at the moment, both in Australia and overseas. There are 26 operating SIBS world-wide, and we are indeed lucky to be in a state that has gone so far as to trial and implement this social investment model. Much of the literature about SIBs warns of 'overblown expectations' for the mechanism, but with the right settings and appropriately calibrated social project, this type of risk transfer from government can unlock considerable innovation not only in social service provision but in roles of the government, private finance and nonprofit sectors.

At its core, the SIB model is a specific example of a government paying for success at the end instead of paying up-front for inputs, which shifts risk to a private social investor. SIBs are not actually bonds (which are traded and have a fixed rate of return); rather, they are a *structured debt agreement* between an investor and a social services organisation, where return is contingent on satisfying the performance terms of a side agreement between a government agency and the service organisation. By investing in a SIB, private investors provide up-front funding for a social service program that represents an innovation or alternative to conventional government service delivery and which has a successful track record. SIBs are designed to be preventative – to avoid future costs to government for social problems. The laudable idea is intended to break the cycle and to get ahead of reactive crisis spending. The financing mechanism importantly protects public officials from the risks of changing tactics from status quo input contracting to alternative prevention social service delivery approaches. That risk is shifted onto the private sector investor. It is an ideal mechanism for a post-GFC era of austerity, as the costs saved by early intervention programs are not incurred until later, and only upon success.

A typical SIB model requires:

- A social service innovation that has some track record in addressing a defined social problem and that is suitable for scaling,
- A strong, creditworthy service organization/s to partner with government/investors in delivering the service,
- A defined, adequately sized population to expand the service to in a sector where prevention exists (i.e. where there are government costs to avoid),
- A clear binary measure of program success (i.e. in or out of care within 12 months, in or out of prison within 12 months after participation in service program),
- A control group or 'counterfactual' against which the program's performance is measured, to solve for background macroeconomic influences (i.e. should there

be a financial downturn or policy shift in welfare that negatively affects a population and thus weakens program success through no fault of its own),
- A measurable impact of cost savings to government for costs avoided by the social program's success. This future savings is then partly pledged to investors in the SIB. It is important to note that the unit costing of 'saved' government expenditure is not necessarily related to the investor's interest payment.[30]

The first SIB was raised in England in 2010. The Cameron UK government there has embraced the concept so fully that the Cabinet website has published the researched unit costs of 650 social issues plus a toolkit for intermediaries and service providers to design SIB mechanisms around them.[31] The NSW government launched a SIB pilot in 2011 with a report by the Centre for Social Impact,[32] and subsequent competitive tender that was awarded to three consortia. Two SIBs have been issued. Both relate to out-of-home (foster) care for children. One, the $7 million Newpin SIB, was settled in June 2013 and is being carried out by UnitingCare. The other, called Resilient Families, is an initiative of the Benevolent Society that settled in 2013 having raised $10 million through participation of Westpac and to a lesser extent the Commonwealth Bank. Though these transactions are small, all parties report an exorbitant amount of time invested in their negotiation and fine-tuning. That they achieved financial close is a true testament to innovation for a mechanism that has so few precursor deals in the world. (Many more have been initiated but only some have come to fruition, often with exceptional credit enhancement.)

What lessons are there in the NSW trial, and what innovations around the housing sector can be tailored to the SIB emphasis on unit costing of avoided costs for government?

KPMG has released an evaluation of the trial,[33] and is now continuing to perform evaluations of the two service providers. In the KPMG evaluation of the SIB trial in NSW and in discussions for this paper, there are positive reports of cultural change across both the Family and Community Services department as well as nongovernment stakeholders who work together under the Newpin structure. Both have transitioned to a data-focused practice model.

Learnings to date from the first two NSW trials indicate that a feasible SIB model requires:

- A big enough social problem for the scale of both social impact and savings to justify the establishment costs.

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30 For example, in the case of the Benevolent Society's Resilient Families SIB project in New South Wales, if NSW Treasury calculates an out-of-home care cost per night unit of $x, that exact amount does not directly get paid to the Benevolent Society for every night a participant child remains with their family. The Government keeps some proportion of the imputed 'savings', and the payments that do flow to the service provider and ultimately through to the investor are instead based on the negotiated program cost and risk-weighted return, respectively.

31 The Unit Cost Database: <neweconomymanchester.com/stories/832-unit_cost_database>; Cabinet Office Centre for Social Impact Bonds Toolkit: <data.gov.uk/sib_knowledge_box/toolkit>.

32 Centre for Social Impact, 'Report on the NSW Government social impact bond pilot', University of NSW, 2011.

33 KPMG, 'Evaluation of the joint development phase of the NSW social benefit bonds trial', Sydney, 2014.

- An independent data source that tracks performance of a binary measure that determines payment, i.e. the child is with/is not with its family 12 months after participation in the program, or a former offender has/has not re-offended within 12 months of release and program participation. Because both government and the service provider could have a bias in collating data, investors need an independent certifier to confirm results – a role which NSW participants are confident adds value to the structure.
- A sophisticated financial intermediary to negotiate the transaction and perform the Trustee role (Social Ventures Australia in Newpin, Westpac in Resilient Families).
- A proven large service organisation who can provide robust data tracking, afford the extensive negotiation time for senior executives, and importantly, scale up operations quickly to make use of the SIB funding to open new service centres or expand caseworker staff.
- In addition, the service organization must be big enough to also co-invest in the SIB in order to attract private investors to the mechanism. This is because the SIB structure initially seems misaligned – why would an investor take risk on a non-profit's performance, over which they have little control and where their return is determined by a side agreement with government (to which they are not a party)? So, financial input from the nonprofit agency itself signals to the private investor that the nonprofit 'means business'. Both UnitingCare and the Benevolent Society committed up to $1 million to their respective SIBs. The performance incentive of this co-investment is important to investors. Otherwise, the only things that incentivise a service organisation's performance is preservation of their reputation and fulfillment of their organizational mission, which are difficult for an investor to quantify.

All stakeholders in the SIB trials to date confirm the highly specific design of each transaction. Each is crafted from scratch; there are no standard models that can be pulled off the shelf. In fact, said one stakeholder, the more efficient way to expand SIBs in the out-of-home-care sector would be to expand the Newpin or Resilient Families programs rather than to start from scratch. However, replicability may not be the goal with SIBs, as it is in common investment banking practice.[34] SIBs rather are about mainstreaming innovation into core government practice and addressing niche populations.

Christian Super is a relatively modest-sized superannuation fund who invested in Newpin. They confirmed what many have said in appraisals of the mechanism: they needed a large-scale service provider who could co-invest in the SIB – 'put skin in the game' – to calm counterparty risk concerns. Without the aligned interest of the service provider mitigating performance risk by investing significantly, the institutional investor could not feel adequately compensated by the offered returns. Further, the structure of

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[34] Replicability is about investing resources in fine-tuning the risk profile and roles of a structure once, and then taking the documents off the shelf thereafter to quickly establish further transactions and achieve scale.

the SIB needed to incorporate a floor return, thresholds of capital repayment, and termination protection to satisfy fiduciary duty.[35]

The Christian Super experience demonstrates that social investment models, particularly SIBs, aren't based on socially-motivated investors being willing to sacrifice market returns or take disproportionate risk merely because of a social cause. Their social motivation specifically gets them to the table, and incentivises them to invest the time to consider the non-traditional offering. Thereafter, the investment fundamentals need to be commercially robust to achieve actual financial close, and need to compensate an investor for factors such as illiquidity, new market risk, policy risk as well as the more conventional metrics. Christian Super performed a traditional underwriting of the opportunity and counterparties, even going so far as to consider retaining expert advice in child care practice to provide an opinion on the Newpin model's family counseling philosophy against best practice.

Because of its carefully calibrated commercial terms, Newpin is listed in the 'Defensive Alternative' rather than the more aggressive 'Growth Alternative' category in Christian Super's investment funds allocations.[36] Another of their impact investments – in a fund that is distributing some of the Commonwealth's $20 million grants to seed a nonprofit sector capital market – isn't even denoted as 'Alternative' at all, but rather as 'Fixed Income'. This may suggest the beginnings of a normalisation of impact investing, when it can be structured so precisely that it is allocated to the category that also houses low-risk Commonwealth Treasury bonds. Social investing models designed around stable affordable rental housing cash flows might also fit best in Fixed Income.

Christian Super did not seem troubled by policy risk.[37] However, events in England around the social issue of recidivism, on which two SIBs have already been launched, provide a scenario for consideration. In April 2014, the UK government announced it would be impossible to populate the third wave of its Peterborough SIB trial, which provides exit services from prisons to short-term offenders in an effort to prevent re-offending. The trial has been a success showing an 11% reduction in re-offenses within a 12-month period, while the background rate has in fact increased. However, with the government launching a large-scale redesign of its entire ex-offender service regime, the crucial counterfactual data set of those not receiving the SIB services is no longer available. It's similar to a clinical drugs trial where the treatment under test is so

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35 NSW Treasury has clarified in conversations for this project that there is no government 'guarantee' per se on either SIB's investment returns. Instead, the agreed cashflow profile between the government and the service provider provides for minimum 5% in Newpin for example. In Resilient Families, an upfront standing charge payment sits in a trust account.

36 Superannuation funds use standard investment categories to help consumers compare relative risk/return weightings between investment options. The standard categories are shares, fixed income, property and cash. 'Alternatives' means anything outside those, such as infrastructure, private equity, hedge funds, currency funds, commodities, managed futures, options and derivatives. Social impact investment therefore falls within 'alternatives,' though there are further distinctions of 'growth alternatives' (riskier with higher potential returns) and 'defensive alternatives' (less risky, perhaps with capital protection or other risk reduction).

37 Policy risk in this context means the risk that the government counterparty will change policy mid-stream either during negotiation or after settling an investment, threatening the cash flow returns of the first investment or meaning that there will be no further transactions, after investing so much time in understanding a structure.

successful that it's untenable to withhold it from the control group: negating the integrity of the study, but responding to a moral imperative to act. It is evidence of a successful program intervention. But where does that leave the investors in the Peterborough SIB?

From an institutional investor's point of view, funds that have been allocated to an investment, but are ultimately not called upon and released from obligation, constitute a notional loss and an upset of carefully balanced investment strategy. Superannuation and other fund managers devote considerable resources to planning the timing of their funds' investment and eventual return, and to expend the analysis and approvals time for an investment that only partly goes ahead is nearly as problematic as an actual loss. (Funds that are not out the door earning returns will need to be offset by even higher returns elsewhere.) The investors to Peterborough were largely charitable foundations and trusts. But SIBs — and certainly housing proponents — have always eyed the traditional big end of town who could get cold feet about the next SIB from this recent experience.

There have been lengthy negotiation processes on several proposed SIBs, and some that were previously tendered to great fanfare overseas have yet to achieve financial close nearly 2 years since tender. This does not impugn the model; instead it highlights its complexity and importance of 'getting it right'. Though SIBs have been embraced in several cities in the USA, a notable example in Massachusetts addressing homelessness has not yet come to fruition after a 2012 partnership announcement. In Australia, NSW's third SIB in the trial may require more time in definition of the cohort of juvenile offenders to secure an adequate pipeline of participants (and counterfactual 'participants') to attract investment. The definition of a clear binary measure of re-offending within twelve months is also important given gray areas relating to alternative sentencing policies where a person might technically re-offend but without going to prison, thereby not costing the state.

Experience shows that the NSW government must also be comfortable with the clear nexus between program success and future savings that are adequate enough not only to compensate the service provider for performing the service and fund the return to investors, but also to providing overall savings to NSW Treasury.

The other jurisdiction in Australia to seriously consider SIBs is South Australia, who recently published a discussion paper on social impact investment, 'Building a Stronger Society'.[38] The paper proposes four areas for SIB development in that state: 1. Out-of-home care, 2. Recidivism, 3. Preventing and reducing hospital transfers from residential care facilities, and importantly, 4. Homelessness. The possible interventions that may be financed with the SIB model include a transition program for young people out of care, intensive outreach for rough sleepers, independent living for disabled people, and supporting homeless young people into employment. One member of the Social Impact Investment Product Advisory Committee who provided advice to the government noted that of the four proposed SIB initiatives, homelessness was unlikely to go first, as homelessness metrics are hard to quantify. It is nevertheless encouraging that the South Australian government nominated a housing issue as one of the possible early SIB pilots.

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[38] Government of South Australia, 'Building a stronger society: a discussion paper on social impact investment', Department of Premier and Cabinet, Adelaide, 2014.

Social impact bond case study — St. Mungo's Street Impact SIB, England
The only actively operating housing-related SIB to date involves a small but exciting initiative in London to intensively engage 415 homeless men with the assistance that their individual situation requires to maintain stable accommodation, health care, and even employment. London charity St. Mungo's has executed a 3-year contract with the Greater London Authority (GLA) to engage and track the outcomes of the 415 individuals. The GLA will pay £2.4 million on success of the initiative. On the back of that future cash flow, St. Mungo's has raised £650,000 in impact investment, arranged by Triodos Bank. St. Mungo's has co-invested £250,000 in first-loss equity of its own funds to align its interests with investors and secure their involvement. Annual returns are projected at 6.5%. On successful milestones, St. Mungo's will use the £2.4 million payment from the GLA to both recoup project costs and repay investors with interest. Should there be any surplus, it would be reinvested into homeless service activities. St. Mungo's won the GLA contract in late 2012 and the SIB 'closed' in 2013. It is currently operating.

ISSUES – application of social impact bonds to:

Housing supply: SIBs' application to affordable housing supply would be dependent on data that links housing availability to other health/education/economic participation results and that could be measured by the NSW government as savings. Housing availability's impact on a person is perhaps so all-encompassing that this data could not be reliably isolated. However we are all aware of the negative 'externalities' of inadequate housing supply: experience of housing cost stress, overcrowding, pressure on inadequate transport networks from long commutes, food insecurity when rent cost crowds out other expenses, homelessness. How could any of those be isolated then unit-costed? There are many other attractive social goals that likewise may not lend themselves to the SIB model. For example, if a program boosts school attendance, what is the direct government savings? Unit-costed outcomes occurring far out in the future become harder to link and calculate to a specific provided service. In fact it is housing's centrality and impact on so many other service areas (i.e. employment engagement, health outcomes, justice outcomes, etc.) that makes it perhaps impossible to address with a focused, narrowed, binary structure like a SIB.

As highlighted earlier, the community housing provider sector's rapid adoption of data collection under the National Regulatory System for Community Housing and through engagement with lenders prepares it for participation in a measurable evidence-based mechanism like SIBs. It should also be noted that the practice of a service provider co-investing in a SIB with its own funds could seem daunting when the transaction sizes increase from $7-$10 million in the existing trials to an amount that would fund significant housing construction ($50-$100 million). But it is important to clarify that it is the co-investment relative to the service provider's balance sheet, not relative to the size of the investment instrument that is relevant to prove 'skin in the game' and convince other investors of alignment of interests.

Housing services: A potential scenario might include applying a SIB to the Temporary Accommodation spend of Housing NSW ($10.6 million annually). At the moment, Housing NSW bulk leases motel rooms for short-term emergency accommodation, as part of its Private Rental Assistance programs. Consider this: proceeds from a SIB could fund up front purchase of appropriate dwellings that are then made available for short term emergency accommodation or the Rapid Rehousing Project. The agency is currently evaluating options for bridging this crisis short-term accommodation with a medium-term option, helping give families stability for a bridging term of say 18 months so that they can access services and other assistance to then re-enter the private rental market. The SIB metric would be whether a family re-enters crisis accommodation within a twelve-month period, and its avoided costs related to the Temporary Accommodation/ motel spend. By owning the housing asset, Housing NSW would be paying itself for each crisis bed night rather than an outside operator, and providing greater dignity to the client. Financial modelling would be necessary to evaluate whether the furnishing and daily cleaning service that would need to be incorporated into the cost of the owned accommodation would still result in savings for government.

Homelessness services: Numerous examples exist of existing or recent service models that address homelessness and could be applied to a SIB. Programs such as Youth Off the Streets, Stepping Out Starting Off, the Michael Project previously mentioned, Platform 70, and a Delancey Street-type model from the USA for those exiting prison might all be appropriate for expanding through the SIB model.[39] Homelessness services experts caution that the many sub-populations within those affected by homelessness could make it difficult to identify a clear binary measure that is collated by an independent authority. (Indeed, homelessness levels and background causes are hard to count even now.) However, a SIB could be carefully targeted toward niche populations such as youth at risk of homelessness, current rough sleepers, adults transitioning from institutional care or incarceration who may be at risk of homelessness, etc. Any of those sub-populations should, regrettably, be big enough to qualify for the critical mass scale of SIB target and counterfactual population.

Homeless people's use of state-funded services is estimated to cost nearly $30,000 per year across health, justice, other departments.[40] A SIB around homelessness would then be complicated by having multiple government departments (Health, FACS, Justice) each calculating savings and participating in the negotiation, where FACS alone reported 3 senior staff, plus staff in the field,

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[39] Information on the Delaney Street Foundation's services can be found at <www.delaneystreetfoundation.org.>.

[40] P Flatau, K Zaretzky, M Brady, Y Haigh and R Martin, 'The cost of homelessness and the net benefit of homelessness programs: a national study', Australian Housing and Urban Research Institute, 2013.

investing time for a year alone on the Newpin and Resilient Families SIBs. One homelessness services provider cautioned that negotiation across avoided costs might also spread across layers of government to the Commonwealth. However, the precedent of NSW Treasury acting as project leader of those SIBs is fortuitous if multiple line agencies are involved, since all their budgets report into the agency's same Resource Allocation Directorate. A proposal for a SIB would need to be promoted by Housing NSW, perhaps in its Housing Affordability Working Group which is a recurrent forum it holds with NSW Treasury.

Jewish House, a homelessness service group based in Bondi, has proposed a SIB to assist 2,500 homeless individuals, saving the NSW government between $74 and $243 million. The project was launched in March 2014 in an effort to raise $6.2 million (of which it has secured $925k to date) to fund a 'Homebase' program along the lines of the concept from New York. Homebase involves shelter diversion, through services-matching, family mediation, financial counseling and brokerage. Jewish House commissioned a report by PriceWaterhouse Coopers that outlines the preventative concept proposal.

6. Other social investment models

There are as many potential social impact investing models as there are local communities with needs and even development sites appropriate for housing. Peter Shergold, chair of the NSW Social Investment Expert Advisory Group, has advised in a public forum that governments and service providers all shift practice to include counterfactual evaluations and outcomes rather than inputs for *all* services, regardless of whether they relate to SIBs or not. What if foundations also measured costs per successful outcome, as well as governments and service providers, and leveraged that information into new passive investment opportunities for motivated social investors?[41]

Shergold has also noted that each country involved in social investment to date has a different ecosystem that gives specific advantages in the formulation of a social investment market. In the UK it is the institutional investment base. In the US it is the enabling regulation of the Community Reinvestment Act through the banking system that incentivises private companies to invest in socially positive outcomes without sacrificing return. Australia's advantage, indeed, is its superannuation system based on compulsory contribution. Outside very small investments in the NSW SIB trials, this hasn't even been tapped yet.

Other models of social investment may be possible under pay-for-success contracting methods; SIBs are just the most progressed. All are based on private capital preceding public investment in order to shift the risk of applying new and innovative service delivery models onto the private sector. The challenges of a new asset class: scale, adequate performance data for analysis, liquidity, allocation fit, risk – each need to be resolved for any new model. These concerns relate to an institutional investor, though

[41] Speaker at Social Impact Investment Forum, 30 May 2014, sponsored by NSW Treasury and NSW Premier and Cabinet in collaboration with Impact Investing Australia.

perhaps the discussion of impact investing may extend to retail 'mum and dad' investors as well in order to give the impact investing sector maximum audience for raising funds.

This investigation has highlighted examples where an existing or expired services innovation was either expanded or resurrected through social investment. Newpin family centres were rapidly scaled up; the Michael Project was re-started through new investment based on a successful evaluation of its concluded three-year operation. What about supply programs: can the NRAS, whose Round 5 was recently cancelled, be classed as social investment?

A research paper by George Earl of Bond University in 2014 circulated a questionnaire to the retail ('mum and dad') investors in NRAS and compiled the responses to a series of questions about motivation for investment.[42] NRAS was launched in 2008 by the Commonwealth government with goals of expansion of rental housing supply, improvement in rental affordability for eligible tenants, and engagement of the institutional investment sector in supporting a rental housing asset class. Through the global financial downturn and government administrative difficulties, the program slowly gained momentum and stimulated partnerships between the private and nonprofit sectors. Its last funding round was oversubscribed seven-fold before being cancelled by a change in Commonwealth government. While it had been just on the cusp of attracting meaningful institutional investment, retail take-up (meaning purchase by individual mum-and-dad property investors) of the newly-built dwellings with NRAS incentives was always strong. The NRAS incentive requires that the dwelling be rented at 20% below market rents in exchange for ten years of a roughly $10,000 annual payment. Does this qualify as social investment?

900 investors in the NRAS program participated in the Bond University study in March 2014, representing a response rate of about 10%. The report analyzing their responses found that half were new property investors, signifying that the NRAS program attracted new investment to rental property. Further, investors were asked if they would have invested in the same locations without NRAS, and responses revealed that investment was indeed steered to government priority areas by NRAS, where government had targeted development to help alleviate rental stress. Importantly, investors were asked about their motivations for investing in NRAS rental properties. 84% of investors cited the tax incentive on NRAS as the major reason behind the decision to purchase an NRAS property, but approximately 52% of respondents also cited 'to contribute to affordable housing in Australia' or 'to contribute to job creation in the Australian Economy'. In some quotations included in the study, some investors even cited their attraction to a 'socially responsible investment opportunity.'[43] NRAS, therefore tapped a market for socially-motivated retail investors, and will continue to do so until 2016 when the previously-allocated rounds of incentives will be built and sold. Institutional investors also invested considerable time in structuring NRAS investment vehicles, including Westpac and

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[42] G Earl and I Khanjanasthiti, 'National Rental Affordability Scheme Economic Study Phase 2: investor profile,' Bond University School of Sustainable Development, commissioned by NRAS Providers Ltd, April 2014.
[43] Earl and Khanjanasthiti, p.16.

Macquarie Bank. Clearly, future social investment models focusing on housing could harness this proven interest.

The emphasis on data in social investment structures is spot-on with evolutions in housing practice at the moment. National Regulation of community housing cemented rigorous data set reporting on both financial and more qualitative governance metrics. Further, there is a current funded AHURI project on 'Cost effectiveness and tenant outcomes in social housing' analysing new metrics for measurement and evidence-basing of community housing performance.[44] This could also help move housing more to the centre of social investment-ready borrowers.

Even though SIBs have pioneered and legitimised innovative social investing models in NSW, it has also proven exhausting, and participants in the NSW SIB trials consulted for this study emphasise that SIBs should *not* be the default position for all social service contexts. Other models are simpler for government: in many cases, more straightforward outcomes-based contracting is appropriate and still represents an evolution from payment-for-inputs (though it may not have the prevention flavour). Line departments should analyse their subject social issues fully and elect models that carry less risk for the service provider than SIBs. However, despite the immense staff burden reported by Treasury, FACS, SVA, and the service providers in getting the two existing SIBs up and running, all participants value the flexibility and niche customization of the Newpin and Resilient Families SIBs.

No financing innovation can ever compete with the cost efficiency of government simply borrowing funds at their low sovereign debt rates, without the same return requirements as private investors.[45] *It will always be cheaper for government to act directly, using its own money to invest in whichever innovative program being targeted to private investors*. However the leadership to actually do this is conspicuously absent. Further, the inexpensive government cost-of-funds comparator has been used to deflate countless innovative proposals (why would we guarantee/equity fund that, when we could do it ourselves so much more cheaply?), providing an excuse to knock back the government role still needed in these models.

Culturally, Australian governments are loathe to use their balance sheet. And they don't take direct risk on social innovation, especially in a current climate of austerity. In the end, we are extremely lucky to have gotten as far as we have in NSW on the back of government's enormous contribution of Treasury and departmental staff time, though this was in service of transferring risk to another sector.

Homelessness NSW cautions that there are several diverse populations of client need to consider in relation to social investment mechanisms, and therefore the answers have to be diverse.[46] Those who are homeless are a very different cohort to those at risk of

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[44] Information on this project is online at <www.ahuri.edu.au/publications/projects/p71025>.
[45] It's important to understand interest rate returns not as investor greed, but as market rate compensation proportionate to risk taken. Government controls a lot of the risk of a project, therefore has fewer unknowns. Plus, government exists to resolve market failure and ensure wellbeing of its citizens, not compete for profit.
[46] Interview with the Executive Officer of Homelessness NSW, Gary Moore, for this study.

homelessness, for whom the prevention and cost savings aspect of a SIB might be more appropriate. The point was also made about the circularity between some cohorts of homelessness and the housing supply issue. While some experiences of homelessness are due to personal situations, others are a direct result of the documented structural shortfall in private rental accommodation that is both affordable and accessible in NSW. Boutique structures of social investment, as above, do not address supply in scale or replicability.

In NSW, a Social Investment Framework is being developed by the Community Services Policy Programs & Strategy division of FACS. This will hopefully describe broader models of engagement between government, the nonprofit sector, and the investment sector beyond SIBs. Regardless of the social investment model, experience with SIBs, NRAS, the Nation-building Economic Stimulus Plan housing program, and others show that any government investment can be leveraged to greater effect. However the breadth of innovation researched suggests that government will not always be the only counterparty for housing social investment structures.

7. Conclusions

Executives throughout the social investment industry and NSW government have been excited to discuss possible application of social investment mechanisms to housing, and commercial banks at least have taken on board the promotion of the community housing sector as a creditworthy borrower, heretofore untapped. Where to from here?

As anticipated at the beginning of the investigation, niche impact investing mechanisms just aren't calibrated to have significant impact on housing supply, other than an extremely localised impact. For that, a more structural macroeconomic solution is needed. However, this inquiry into the social investment sector has highlighted the importance of *intermediaries*, which is a link to wider initiatives in the affordable housing sector. Social Ventures Australia (SVA) and others, for example are independent, disinterested intermediaries seeking to enhance communities through sophisticated impact investment. It is not dissimilar to the concept of the Housing Finance Corporation proposed in an AHURI report, 'Enhancing affordable housing investment via a social housing guarantee'.[47]

Based on precedents researched in the UK and Austria, that work proposed a sophisticated financial intermediary to pool debt demand by CHPs who seek to expand social and affordable housing supply in Australia but are currently experiencing inadequate debt terms by the country's commercial banks. The Housing Finance Corporation's proposed role involves setting standard competitive tender processes and loan structures to provide pipeline certainty to CHP developers and geographically diversified pools of aggregated loans to institutional investors. The loans are secured by the cashflows of affordable rental dwellings, managed efficiently by the CHP sector, and

[47] J Lawson, M Berry, C Hamilton and H Pawson, 'Enhancing affordable rental housing investment via an intermediary and guarantee', Australian Housing and Urban Research Institute, 2014.

backed by a partial guarantee of government in order to establish the new asset class and mitigate investors' liquidity and new markets concerns.

That role, designed and costed to address supply shortfall, is directly analogous to SVA's role in the impact investing market. It applies its financial and risk expertise to scrutinise potential social service borrowers in order to de-risk pooled exposure for passive institutional investors. SVA provides focus to the otherwise diffuse interest in impact investing. It has created robust vehicles, such as with the Goodstart childcare (former collapsed ABC Learning) portfolio capital raising, and with the Newpin SIB. In pooling this finance demand, an intermediary also helps to sharpen the service providers' capacities, data collection abilities, and overall creditworthiness.

Ultimately, both approaches should be pursued: the small-scale but high-impact customised social impact investments, and the large-scale vanilla supply expansion measure. Again, it's not a choice of an 'either/or' approach for the housing sector, but 'both/and' inclusion of both types of mechanism. Certainly, one has the capacity to capture the imagination in a way the other does not.

The community housing sector may have a role to play in translating the several compelling social investment strategies to housing wellbeing in NSW. This is the ultimate crux: to increase its exposure to new funding sources and serve its mission, community housing should be linked to innovation and up-to-the-minute thinking. Therefore, while current impact investing trends are not materially effective in addressing lack of affordable housing supply in Australia, they should be pursued to keep affordable housing activity in the public mind. Inspiring impact investing transactions can 'highlight the nimbleness and entrepreneurial spirit of this sector, within its prudently risk-managed, investment-ready framework.'[48] But beyond that, social investment financing models provide the enthusiasm practitioners need to stay incentivized in sectors like social housing during an uncertain policy time.

Investigation has also found engaging thinking and examples of housing services and homelessness prevention in the social enterprise, philanthropic and impact investing space. Next steps might involve coalescing interest around a couple of proven models, say the Michael Project and Youth Foyer, and embarking on coordinated outreach meetings with philanthropic foundations and corporates who may not be as aware of the housing services and community housing sector's breadth. These targeted impact investing initiatives, widely showcased and promoted, may help revive effort to address the more quotidian structural market failures in the Australian context that have led to lack of housing choice. The community housing sector cannot afford to continue to be siloed from wider social service funding trends, as this investigation has demonstrated that the entrepreneurs and impact investors are indeed circling eager to commit capital to well-structured impact opportunities.

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[48] Mike Allen, comment at an AHURI forum, 'The community housing industry: maximising opportunities', Sydney, 13 May 2014; Allen's presentation is online at <www.ahuri.edu.au/downloads/2014_Events/MAllen_Sydney_May.pdf>.

Social investment models are therefore highly relevant to housing. Timely, compelling social investment strategies can boost the awareness of housing inadequacy and injustice, if not its practitioners' or services' effectiveness in addressing economic disengagement and equity. Popular awareness of housing's centrality to Australian society perhaps suffers because its asset base is so ubiquitous, taken for granted, and scale so impenetrable. Compelling innovations in social investment, when pursued together with more workaday solutions addressing affordable housing supply, can focus attention and funding where it is so clearly needed.