Impact Investing Taskforce Expert Panel

Update and Review of Final Report

December 2022

Dear Prime Minister,

The need for the public, private and social sectors to work together to address entrenched disadvantage has never been more pressing than in the wake of COVID-19 and rising cost of living pressures. A thriving impact investment market will unlock additional capital and resources and harness the innovative power of markets to help address the widespread economic and social vulnerability facing so many Australians.

A modest investment by your Government will leverage significant private capital, providing much needed investment in social enterprises, charities, and for-purpose organisations that exist to improve the lives and wellbeing of people and communities across Australia.

Around Australia, there are intractable pockets of disadvantage – and the situation is getting worse:

- There are now 3.3 million people (13.4%) living below the poverty line of 50% of median income, including 761,000 children (16.6%)[1].
- One in eight adults and one in six children are living in poverty.

Australia's social problems far exceed the resources available to government to address them, especially in the current challenging fiscal circumstances. This underlines the critical importance of attracting private capital to boost public investment, drive innovation and increase our economic, social and environmental resilience.

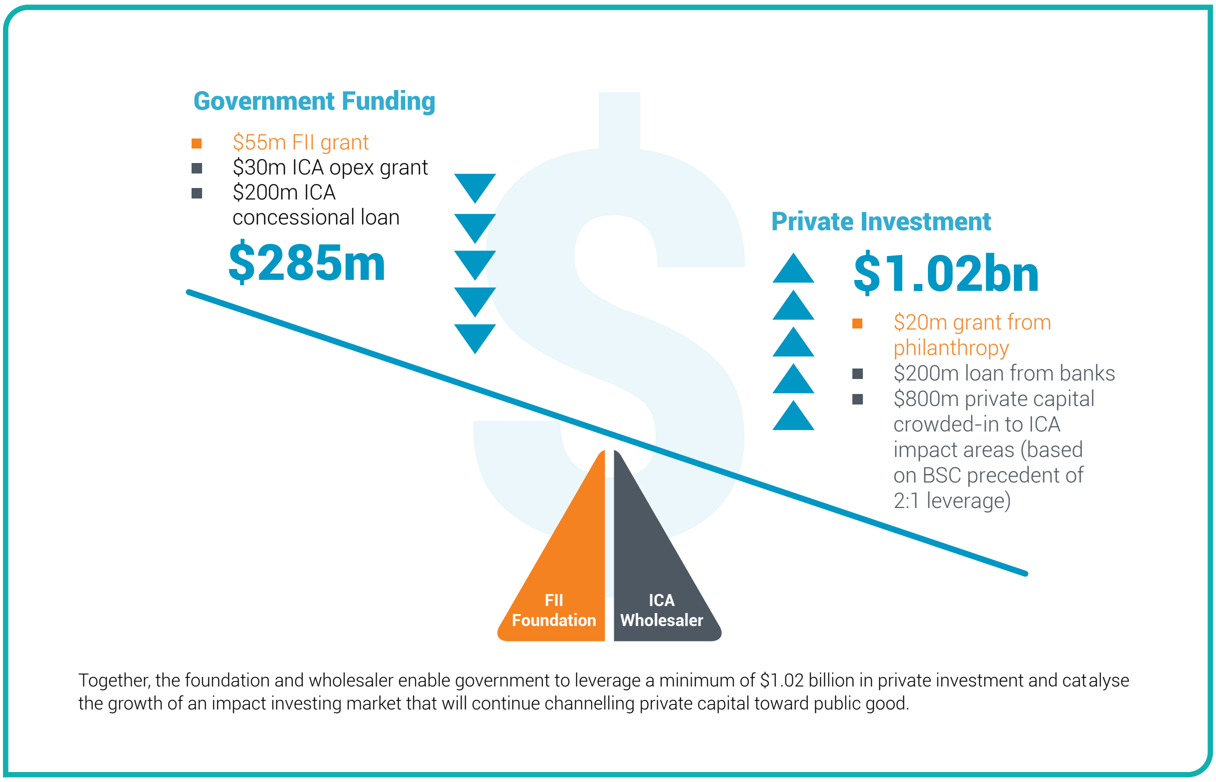

Figure 1: Leveraging private capital to improve outcomes for Australians.

1 Davidson, P; Bradbury, B; and Wong, M (2022) Poverty in Australia 2022: A Snapshot Australian Council of Social Service (ACOSS) and UNSW Sydney.

Building a thriving impact investing market will enable more businesses and investors to deliver measurable social outcomes alongside financial returns. This both complements and leverages the impact of existing government investment to create pathways out of entrenched disadvantage.

To capture this opportunity, it is imperative that Australia finally invests to develop a mature and self-sustaining impact investment market. The transformation of market potential will only happen with the catalytic power of government.

Based on the UK experience, at market maturity every dollar government spends on impact investing is expected to attract, at minimum, double the contribution from the private sector. Targeted investment and support from the government can unlock hundreds of millions of dollars in private investment to drive solutions to Australia's most intractable social problems, while stimulating job creation and strong, inclusive economic growth. Please see the attached case studies and a summary snapshot of how government, philanthropy and business could work together to build a self-sustaining impact investment market that changes the lives of Australians for the better.

We remain deeply committed to the advice in our enclosed report. A thriving impact investment market will enable purpose driven organisations and entrepreneurs to get the capital they need and unlock their potential impact across a range of policy priorities. Our recommendations, if implemented collectively, will measurably improve outcomes for Australia's most vulnerable and contribute to ensuring no one is left behind, including by:

Reducing homelessness and improving housing access, affordability, climate safety and energy efficiency through the development of new social and affordable housing bond products and direct impact property loans[2];

Closing the Gap for First Nations peoples through the support of social enterprises and financial intermediaries led by and supporting Indigenous Australians;

Generating employment opportunities for vulnerable groups through for-purpose business and not-for-profit social enterprises, employing disengaged youth, refugees, women at risk of violence and those experiencing mental ill health and homelessness;

Contributing to the effectiveness of the National Disability Insurance Scheme by delivering specialist disability accommodation, innovative models of providing support services and care, and commercially sustainable employment;

Addressing education inequity and improving early childhood development through social enterprise driven solutions, cross-sector place-based initiatives and innovative investment in AI and educational technology; and

Supporting urban, regional and rural communities to address social and economic disadvantage as part of our climate transition plans by harnessing the innovation of local entrepreneurs and place-based approaches to revitalising economic development.

2 See page 81 of our Report for detail on how the wholesaler would complement the work of the National Housing Finance and Investment Corporation (NHFIC) in increasing social and affordable housing.

Additionally, our recommendations will:

Reduce government expenditure in the medium to long-term by focusing investment on what really works to achieve better outcomes and alleviate disadvantage;

Scale rigorous approaches to commissioning and evaluating measurable social impact and help inform your Government's approach to measuring what matters in future wellbeing budget statements; and

Offer a collaborative, innovative and evidence-based method to testing new approaches to improve outcomes and value for taxpayers by combining the innovation and purpose of social entrepreneurs with the capital and commercial acumen of investors.

We urge the government to adopt the recommendations of our Final Report as the optimal steps to fast-track the capacity of impact investment to work alongside government to address these priorities.

While the domestic impact investing market has grown slightly since our report was completed in 2020, it is still nascent and far behind our international peers – underscoring the urgent need for a strong partnership with government. Our recommendations are carefully designed to catalyse and build the impact investing ecosystem to make it a key part of the Australian financial system by creating essential infrastructure to attract the necessary capital and talent to supercharge its growth and add another source of finance to encourage social innovation and impact.

For institutional investors, this action will address the current lack of scale in the impact investing market, the lack of institutional quality in investment opportunities, and the absence of a proven domestic track record. The proposals we outline below are designed to overcome these barriers. Importantly, they will attract young entrepreneurs wishing to bring their intelligence, skills, energy and commitment into the for-purpose sector.

The Impact in Impact Investment

Impact investing is focused on solving economic, social and environmental problems traditionally seen as the remit of government. By harnessing the dynamics of the market, and bringing in private capital, impact investments are able to complement and bolster government efforts. These dynamics allow large numbers of social enterprises to innovate at the local level, providing granular, place-based responses which live or die on their results. Successful approaches can be scaled through institutional investment as well as tailored to new environments.

Impact investment creates life-changing outcomes for individuals and communities at low or zero cost to government, and can be scaled to spread this impact across diverse groups.

- ✔ Crowd in private capital to tackle social problems
- ✔ Wholesaler capital investment returned to taxpayers with up to 4-6% interest
- ✔ Leverage philanthropy to support social innovation and build a pipeline of social enterprises and innovative charities ready for investment or commercial contracts

Update on impact investment market 2021-22

Australian market

Australia is home to a pool of over $3 trillion in investment capital, with investors increasingly asking that funds are deployed to generate social, environmental and cultural impact alongside financial returns. The role of government here is to crowd in private capital to solve the social challenges before us. We need government action to ensure that this large pool of investment capital can be unlocked for impact over time.

Since we delivered our Final Report in late 2020, the impact investing market in Australia has effectively stalled, thanks to the impact of COVID-19 on social enterprises and lower risk appetites for alternative investment classes in capital markets. In many respects, the impact investing market in Australia remains a cottage industry in need of support to scale up.

Reliable data on the social investment market in Australia is intermittent. In 2020, we assessed the size of the Australian social investment market to be $1.283 billion (excluding NHFIC bonds) and anecdotal evidence suggests it has not grown considerably beyond that.

The impact investment ecosystem has developed somewhat, including with the establishment of peak body Social Enterprise Australia. Philanthropy has done much of the heavy lifting to grow our social enterprise market with over 206,000 people already employed in the sector including many outside mainstream employment. There is scope to grow this much further, however there is still a significant shortage of specialised intermediaries to meet the advisory and financing needs of social enterprises at various stages of their growth. Private capital has been slow to enter the market, and the growth of social enterprises and impact investment funds have been hindered as a result. While some impact funds have mobilised pools of capital to deploy, these are still being drawn from philanthropic foundations and high net worth individuals.

The reluctance of institutional capital and sophisticated investors (for example superannuation funds and other organisations able to invest >$10+ million) to embrace such funds reinforces the need for the catalyst of early government funding.

$1.164 trillion

in global impact investment funds under management

Global market

In contrast, the global market for impact investing shows solid growth despite the adverse conditions of the past two years. In 2022, the Global Impact Investing Network (GIIN) estimated the worldwide impact investment market to hold US$1.164 trillion in assets under management[3]. In its most recent Annual Impact Investor Survey (2020), the GIIN reported that 69% of respondents felt that the impact investment market was "growing steadily", while a further 21% believed it was "about to take off".[4]

Australia remains half a decade behind peer countries in its adoption of impact investment. In those countries, government has played a critical role in catalysing impact investing development through seed investment in partnership with private and philanthropic capital. We strongly believe similar action here would supercharge Australia's response to the challenges of entrenched disadvantage while alleviating pressure on public finances. The sooner we act, the more quickly we can change the lives of people in our communities who need it most.

3 Hand, D; Ringel, B; and Danel, A (2022) GIINsight: Sizing the Impact Investing Market 2022 Global Impact Investing Network, October 12.
4 Hand, D; Dithrich, H; Sunderji, S; and Nova, N (2020) 2020 Annual Impact Investor Survey Global Impact Investing Network, 11 June.

Recommendations

Drawing particularly on the UK's experience in pioneering impact investing over the last decade and extensive consultation with stakeholders in the Australian market, the highest-priority actions to maximise the impact of government action are to establish:

1. **A Foundation for Impact Investment**
2. **An Impact Investing Wholesaler**
3. **An Outcomes Fund**
4. **A Commonwealth Office of Impact Investment**

Recommendation 1: Foundation for Impact Investment

There is growing recognition that social enterprises and charities have played a valuable role in addressing challenges such as affordable energy-efficient housing, employment of marginalised groups, and support for Indigenous Australians and people living with disabilities. This role complements government initiatives to address social and environmental challenges and has the potential to draw in new sources of funding to scale up effective programs and help solve these problems.

There are over 12,000 social enterprises in Australia which contribute $21.3 billion per year to the national economy, equivalent to around 1% of GDP.[5] They employ over 206,000 people – or one in 60 Australian workers – a similar number to those employed by the arts and recreation services or mining industries.[6] Importantly in the context of our tighter labour market, social enterprises are more effective at reaching, upskilling and bringing in those who are traditionally underrepresented in, or excluded from, the labour market. Over 30% of social enterprise workers are from marginalised groups that face particular challenges in gaining mainstream employment, such as people with a disability or those experiencing long-term unemployment.[7]

Structural barriers have stunted the growth of Australian social enterprise. There is a critical gap, known as the 'valley of death', between start-up social enterprises raising early seed capital from family, friends, and perhaps philanthropy, and being able to secure mainstream investment to scale an idea beyond a minimum viable product. While the 'valley of death' also exists in the wider start-up landscape, it is doubly hard for social enterprises to navigate this gap as they must simultaneously demonstrate a viable commercial model and measurable social or environmental impact. What's more, most social enterprises have a limited track record and/or asset backing with which to attract investors and are not connected into a network of values-aligned investors. A similar dynamic occurs with charities that are developing innovative programs to address social disadvantage.

In order to address these structural barriers and challenges, we recommend that the Commonwealth partner with the philanthropic sector to co-design and establish a Foundation for Impact Investment (FII). The FII would provide:

1. Access to finance, via intermediaries, to social enterprises and charities that can be tailored to the specific needs of each recipient; and
2. Grants to social enterprises and charities to enable them to engage advisory intermediaries to help them prepare to raise capital and become investment or contract ready.

The evidence suggests this approach enables an efficient recycling of capital, with an estimated 80% of investment returned based on Access Foundation modelling.

In line with the Government's priorities, the FII would channel finances to social enterprises and charities addressing issues such as regional employment, disability employment, the care sector workforce, energy efficient climate safe housing for vulnerable groups, First Nations-led community enterprises and gender equality.

5 Gales, B; and Khalil, J. (2022) Business for Good: The Size and Economic Contribution of Social Enterprise in Australia Social Enterprise Australia.
6 Ibid.
7 Castellas, E; Barraket, J; Hiruy, K; and Suchowerska, R. (2017) Map for Impact: The Victorian Social Enterprise Mapping Project. Centre for Social Impact, Swinburne.

We also recommend support of place-based and themed funds addressing particular areas of disadvantage or deep challenges such as housing, as have been supported by the Access Foundation in the UK. Through support of new intermediaries (building capacity of local or specialist charities to manage loans), a blended finance approach combining loan and grants can be offered in a very targeted way.

Based on recent feedback received from the Access Foundation, and the slow growth in the intermediary market in Australia since our Final Report was submitted, we have slightly revised the previous foundation design and are requesting an additional $10m from government. This funding would ideally be provided over 5 years rather than 10, because the demand for access to finance and advisory services has increased, and upfront funding will enable the Foundation to deploy capital faster and, with philanthropic support, become sustainable more quickly. The primary design change we recommend is to shift focus towards funding social enterprises and charities primarily via financial intermediaries.

This change builds on the intent in our original report to avoid duplicating or displacing existing capacity building activity in the sector by involving intermediaries, and will specifically:

1. Support development of specialised intermediaries which are critical to market growth, which will provide advice and finance to social enterprises and charities across focus areas, drawing from examples such as the place-based Greater Manchester Fund and the themed-based Homeless Link Fund established via the Access Foundation in the UK.
2. Ensure government funding has exponential impact by supporting social enterprises, as well as intermediaries to create significant investment portfolios in social enterprises, rather than relying on the Foundation to hold and manage all investments directly.
3. Improve risk diversification and sustainability by spreading the risk among financing intermediaries and increase flexibility in the Foundation's use of funding that means blended finance solutions (i.e., a grant and a loan) can be more appropriately constructed to meet the needs for the social enterprises the financial intermediaries will serve.

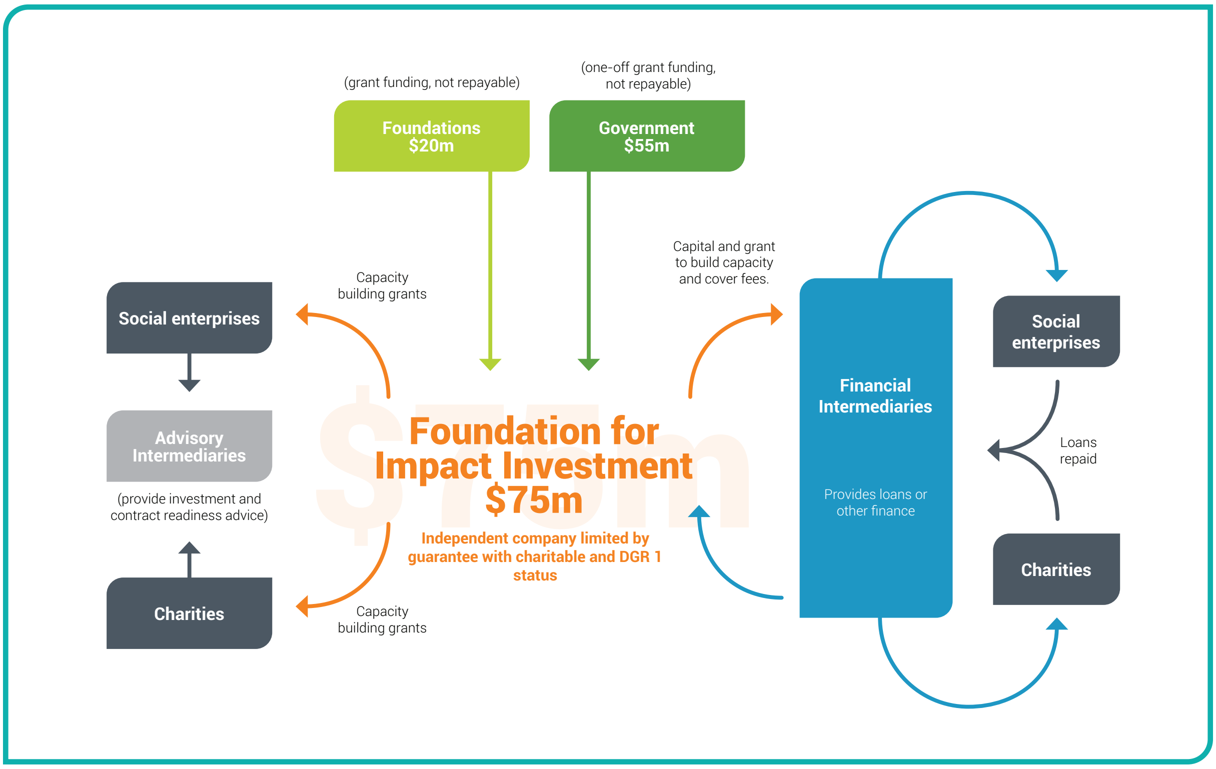

Figure 2: Financial flows for a Foundation for Impact Investment.

The FII would be established with grant funding of $75 million over five years, including $1.5m per annum for operating costs. Of this, the Commonwealth would provide 75% (~$55 million) with the balance ($20 million) being provided by a number of leading Australian trusts and foundations. With the government's one-off seed funding crowding in philanthropic contributions and the capital eventually recycled, we envisage the FII would become, with further philanthropic support, sustainable over a ten-year period.

The Commonwealth's Sector Readiness Fund (SRF) which closed in June 2022 shows the catalytic role of government investment in scaling viable social enterprises. The SRF provided capacity-building grants to social enterprises and charities to develop their investment or contract readiness. Grantees engaged advisory intermediaries to work towards agreed capital raising targets. Across the life of the program, recipients were able to leverage grants to raise capital at a multiple of 19.9 times the SRF funds received. The FII would build upon this critical role by expanding support across the different development stages of growing social enterprises. In addition to providing capacity building support through advisory intermediaries (see Chapter 5 of our Final Report), the FII would also provide capital to social enterprises through existing and new financial intermediaries.

Case Study: Jigsaw

Jigsaw is a social enterprise that trains and transitions people with disability into mainstream employment. Based on a "prepare for work, through work" model designed explicitly to address the barriers to employment faced by people with disability, Jigsaw uses an innovative training program, tailored to each individual's needs and abilities, and also provides support services to employers hiring people with disability.

After successfully operating hubs in Sydney and Brisbane, Jigsaw sought to raise capital to fund its national expansion, with the aim of creating 1000 traineeships and 600 award-wage jobs for people with disability, and transitioning 300 people with disability into mainstream employment each year.

Jigsaw undertook a capital raise during 2020/2021, assisted by an impact investing advisory intermediary, with the support of an Impact Investment Ready Growth Grant. These grants are no longer available, which leaves a significant gap for enterprises like Jigsaw who need support to raise capital and scale. The Foundation for Impact Investment would fill this gap by providing a similar type of grant.

The capital raise was structured as a loan, together with grant funding. Jigsaw raised a total of $3m from philanthropic trusts and foundations and individual impact investors, comprising a loan of $2.1m (to be repaid over five years with a coupon rate of 3.75%) together with grant funding of $900,000. The impact investment is to enable people with disability in Melbourne, Adelaide, Canberra and Perth to access training and support to transition into mainstream employment. Jigsaw has provided 915 traineeships, created 146 award wage jobs for people with disability, of which 91% are still in employment and 42% have surpassed 24 months. It has also transitioned 74 people with disability into mainstream employment. Jigsaw itself employs 157 permanent and 128 casual staff members.

Jigsaw's success in securing a $3m impact investment for its national expansion is proof that the impact investment approach can work in a not-for-profit context. In particular, it demonstrates that capital can be accessible to not-for-profits when the business case and financial modelling are compelling and when funding to enable advisory intermediary support is provided, as it would be by the Foundation for Impact Investment.

Australian trusts and foundations hold around $50 billion in funds under management and are rapidly awakening to their capacity to invest for impact and to use their corpuses, as well as their grant-making, to solve significant social and environmental challenges. We have undertaken extensive consultation with a range of philanthropic organisations. In recent weeks, the English Family Foundation, Hand Heart Pocket Foundation, Lord Mayor's Charitable Foundation, Macquarie Group Foundation, Minderoo Foundation, Paul Ramsay Foundation, Snow Foundation, Trawalla Foundation, UBS Optimus Foundation Australia, Westpac Foundation and Wyatt Trust have indicated in-principle support to participate in the design and funding of the Foundation for Impact Investment. We are in active discussions with other foundations who are also interested in contributing to the Foundation for Impact Investment.

"Philanthropic Foundations have indicated in-principle support to participate in the design and funding of the Foundation for Impact Investment."

Should the Commonwealth proceed with the FII, the Panel anticipates a co-design process between key philanthropic organisations, peak sector bodies and relevant Commonwealth agencies.

It is also notable that the Federal Government partnered with philanthropy, specifically the Sidney Myer Fund, in establishing the Foundation for Rural and Regional Renewal (FRRR). FRRR now has a positive 20-year track record in building the social and economic wellbeing of rural and regional Australian communities. In our model, the Foundation is an independent company limited by guarantee with charitable and DGR 1 status (special listing under ITAA), which provides a strong base for its work. The Federal Government appoints one director to the Board.

Learning from impact investing overseas: the UK

The United Kingdom is one of the more mature impact investing markets globally, with the latest quadrennial review update from Big Society Capital estimating the UK impact investment market at £7.9 billion, representing an almost tenfold growth in a decade. This places the impact investing market in the UK (an economy twice as large as Australia's) at around 11 times the size of Australia's.

Access: The Foundation for Social Investment in the UK and its Growth Fund illustrate the potential for a similar foundation in the Australian market. Seeded with capital of £45 million from Big Society Capital and the National Lottery, the Growth Fund makes grants and loans to smaller social enterprises and charities via intermediaries. In its first three years of operation (2015-18), it made almost 250 loans, with an average investment size of £64,000. Over half of recipients had a turnover less than £250,000. By the end of 2018, the Fund was fully committed, investing in 16 different social impact funds across 15 social investors in areas including homelessness and place-based approaches.

One measure the Growth Fund used to track effectiveness was the number of social enterprises reporting access to finance as a limiting factor for growth. Since its inception, this barrier has fallen from #1 to #8 on the list of growth limitations by reporting social enterprises. We see the Growth Fund as a successful template in scoping the FII, subject to the recommendation that the FII be seeded with a smaller capital pool recognising the different size and maturity of the Australian market. In a similar initiative, the Canadian government has established a Social Finance Fund with C$50 million to enable for-purpose organisations to build their capacity to access social finance.

Recommendation 2: Impact Investing Wholesaler

The establishment of an Impact Investing Wholesaler is critical to the future development of an institutional market for impact investing in Australia. Akin to the role that the Clean Energy Finance Corporation plays in climate finance, the impact investing market requires an expert cornerstone investor to catalyse the entry of new fund managers and attract other impact investors.

A wholesaler will help impact investing fund managers build a track record both in delivering strong returns and mitigating actual or perceived risks. In this way, the wholesaler will enable the ‘crowding in’ of institutional capital, including from philanthropic foundations with large balance sheets.

The wholesaler, provisionally named Impact Capital Australia (ICA), would be established with a $200m investment from the Commonwealth, matched by a $200m investment from major financial institutions. ICA would predominantly provide cornerstone investments for impacting investing funds. As outlined in our 2020 report, these funds may use different types of capital such as loans and equity to support investments in areas of social need including Indigenous economic development, social and affordable energy efficient housing, disability housing and services, regional economic development, and employment for disadvantaged Australians.

ICA would be an independent institution governed and operated by experienced professionals drawn from the business, for-purpose and philanthropic sectors.

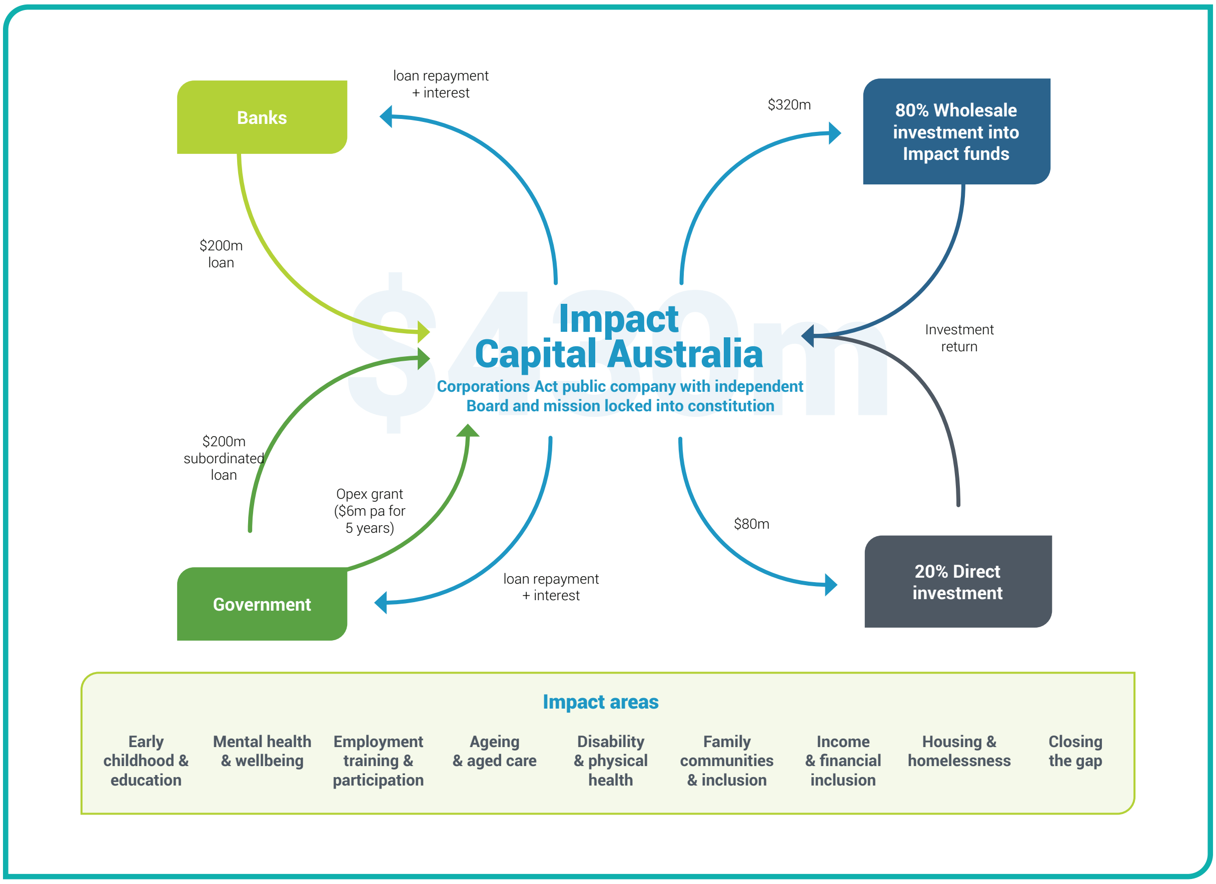

Figure 3: Financial flows for Impact Capital Australia (ICA).

Our research and consultations – including with the Minister responsible for establishing the world's first social investment bank, Big Society Capital (BSC), the Right Honourable Nick Hurd – shows there are clear lessons from the UK's experience since 2012:

- The wholesaler must be established concurrently with a foundation to support earlier stage enterprises, or else the market lacks a pathway along which early-stage enterprises can scale sufficiently to access institutional capital, and the wholesaler will lack a pipeline of funds who invest in these investment-ready social enterprises.
- Independent governance arrangements and high-calibre commercial investment expertise are critical to success.
- To underwrite its returns a successful wholesaler should begin with investments in funds that target lower risk early wins with a yield component. Overall, its impact investing approach should deliver net returns up to 4-6% p.a.

We believe such returns would be realistic to expect from an Australian wholesaler and would in turn fund interest payments to government at the 10 year bond rate (currently 3.3%) on its $200m subordinated loan from the Commonwealth's capital account. BSC indicative returns demonstrate 5% is achievable for social & affordable housing-based investments and slightly higher on their venture portfolio. Over time, we would expect ICA's investment portfolio returns to reflect both the yield and capital returns of its underlying impact fund investments. These would also include impact funds that invest in more challenging, higher impact social enterprise investments with returns that are more capital in nature.

We recommend that the Commonwealth provides an annual grant of $6m for the first five years to cover ICA's operating costs (in addition to the $200m capital investment). We believe the administration costs of the wholesaler, including the operational cost of the organisation, will be in the region of 10% of funds distributed. This equates to a Management Expense ratio on Committed capital of 1.5% which is consistent with industry averages. After accounting for the operating grant, this means that over 90% of ICA's funding will flow to impact investments, 80% of this through impact funds (intermediaries) with the balance direct into social enterprises or impact assets (e.g., social housing).

In recent weeks, members of the Expert Panel have held discussions with the 'Big Four' Australian banks at CEO level. All four banks are constructively engaged in how they might participate in ICA. While there are issues to be resolved, we are reasonably confident of significant bank funding support for ICA. We expect these discussions to progress positively as the design details of a prospective new wholesaler are refined with the Commonwealth.

The experience of the Emerging Markets Impact Investment Fund managed by Sarona Asset Management shows that impact investment funds are highly effective in leveraging an initial injection of funds to 'crowd in' further private capital. This, together with the success of the Clean Energy Finance Corporation and the National Housing Finance and Investment Corporation, provide compelling precedent for the catalytic role government can play as a cornerstone investor and market champion.

Drawing from these examples and the UK precedent, we recommend the following design elements for Impact Capital Australia:

- $200m subordinated investment loan from government to ICA
- Commonwealth investment to be recognised on the capital account
- Co-design led by private sector in close collaboration with government
- Corporations Act company, with independent Board and Executive to ensure commercial expertise and
- Matching loan funds from major Australian financial institutions

Case Study: SEFA

In 2011 the last Labor administration provided $20 million of seed capital to three impact investment organisations through the Social Enterprise Development and Investment Fund (SEDIF). SEDIF invested $10 million into SEFA (Social Enterprise Finance Australia Ltd) which was matched with $10m in private equity and debt). Since then, SEFA has provided over $40 million in loans and unlocked an additional $80 million in impact capital from partners. It is now a sustainable impact investment organisation where for-purpose organisations across Australia can receive capability building support and access to financial solutions, including childcare centres, employment opportunities for Indigenous Australians, affordable housing models, homes for people living with disabilities, and drug and alcohol residential facilities.

This small-scale pilot provides an illustration of the potential capital and impact that might be unlocked through establishing a wholesaler.

Examples of SEFA Investments

MiHaven

MiHaven is a social enterprise specialising in property development and construction, student accommodation and industry-based Registered Training Organisation training in Far North Queensland communities.

SEFA loans provided seed funding which enabled MiHaven to create a pipeline of purpose-driven property development and continue to support trainees to enter long-term employment by providing training in construction, retail, early childhood, aged/ disability care and hospitality.

Over the past 8 years MiHaven has designed, built and project managed over 100 innovatively designed cyclone rated energy sustainable houses (including the first purpose-built social housing for women and families impacted by domestic violence in partnership with Access Community Housing Company) while training 800 disadvantaged, low-income Indigenous people. Consistently achieving 95% attendance in on-the-job accredited training, MiHaven has ultimately placed 60% of trainees into employment.

Jarjum Centre

Jarjum Centre is an Early Childhood Centre for Aboriginal Children in Lismore that has become a community hub for families and nearly 120 children, It has on-site allied health professionals and provides family services including parenting support, financial literacy, and crisis support.

To better meet the demand for its services, Jarjum needed a fit-for-purpose building in a safer location. They worked with Sefa over 5 years to become investment ready, with Sefa helping to facilitate a tailored loan and coordinate grant funding from multiple sources including government that enabled purchase of a suitable site.

There are few options for accessing funds for co-designed or community-based approaches. For many place-based organisations like Jarjum, the assistance of an intermediary and access to blended finance is vital to their success and impact.

The Cage

The Cage Youth Foundation exists to ensure that Redlands youth and families experiencing disadvantages, hardships, and isolation are identified, connected, and supported through practical, innovative, and person-centred services.

The Cage had been keen to purchase a home base for many years and were introduced to SEFA by Community Sector Banking in 2013, as they had minimal equity to contribute towards a purchase. SEFA helped to complete the purchase with the equity/deposit they had raised to date. A bespoke loan was approved that included loan repayments matching their current rental payments. After five years of planning, they were finally able to own their home base.

The Cage (an acronym for Creating A Good Environment) is now a self-funded not for profit charity and social enterprise operating in Redland Bay, Queensland. They are an evolving one stop shop of community support regularly seeing 80 kids per week engaged with a youth worker, 30 families per week given food, 50-60 children per week at breakfast club, and 12 adults given counselling support and 4 family sessions a month.

See Chapter 6 of our enclosed Final Report for further information on the wholesaler, detailed evidence from the UK, and relevant case studies.

Recommendation 3: Commonwealth Outcomes Fund

We recommend establishment of a $100m Commonwealth Outcomes Fund as an important element of the overall architecture Australia needs to sustain a healthy and growing impact investment market.

The Outcomes Fund would make payments to states, territories and service delivery organisations based on agreed, measurable outcomes achieved. It would enable the emergence of common standards for contracts and payment mechanisms, such as social impact bonds or payment by results agreements. See Chapter 7 of our enclosed Final Report for further detail and case studies.

By using outcomes funding rather than block grant funding, the government sharpens its focus on understanding what works and what does not, often for the most complex cohorts, and generates the data to scale success, stop what isn't effective and avoid significant long-term costs to the budget bottom line. The Outcomes Fund can be budget neutral; it is simply another way of funding programs and outcomes that the Commonwealth wants to achieve and is already allocating resources towards (e.g., existing employment services) and provides a means to leverage state and territory government funding toward Commonwealth outcomes.

A focus on outcomes that align with government priorities allows for adaptive delivery as programs can iterate their models to meet new challenges as they emerge. Having the data and stakeholder buy-in to cease funding programs that haven't achieved desired outcomes is even more important in the context of significant budget pressures and economic downturn.

Based on original consultations we anticipate multiple state and territory governments will be interested in collaborating with the Commonwealth on an outcomes fund. There are many complex social challenges that are suited to outcomes-based payment initiatives (for example in areas such as out-of-home care, homelessness, health, unemployment and recidivism) where Commonwealth top-up contributions towards complementary outcomes would make more transactions viable and more likely to scale.

The UK's experience over the last decade has shown outcomes-based funding to be especially effective in policy areas where services need to be highly personalised to beneficiaries with multiple, complex needs and where communities and civil society can play a leading role.[8] Attaching funding to outcomes rather than activities or outputs empowers local authorities and communities to implement local, place-based solutions that foster genuine cross-sector collaboration and much stronger accountability for results compared to traditional funding mechanisms.

Independent analysis of outcomes contracts in the UK has found them to have generated £1.418bn of public value, where every £1 spent by commissioners has generated £10.20 of public value (fiscal, social and economic). Looking at the fiscal value alone, which encompasses the direct savings to, or costs avoided by, the public sector, the benefit to cost ratio is 2.85.[9]

8 Johal, A; and Ng, G (2022) Outcomes For All: 10 Years of Social Outcomes Contracts Big Society Capital.
9 Ibid.

Case Study: Youth Foyers

Over 44,000 young people aged 15-24 present alone to Specialist Homelessness Services (SHS) each year, but the current service response is crisis-oriented, expensive and failing to breaking cycles of disadvantage. Three out of five young people remain in SHS services as repeat users and cost governments over $370,000 per person throughout their lifetime.

Youth Foyers are a placed-based, integrated solution providing education, employment and accommodation for young people aged 16 – 24 who are at risk of or experiencing homelessness. Youth Foyers provide a safe and stable home for ~40 young people for up to two years, working in partnership with young residents to unlock their learning and work goals and transition to independence. Foyer Accreditation ensures high standards and consistent outcomes.

The result is an increase in positive social and economic outcomes throughout a young person's life, and a reduction in dependence on mainstream services and supports independently valued at $170,619 per person.

The Foyer Foundation is leading a consortium of service providers, communities, philanthropists and investors working to scale the approach to 50 Foyers by 2030, enabling Youth Foyers to:

- reach an additional 20,000 young people by 2040
- save the government over $2.9b
- cost ~$400m in operating funding
- amplify the Federal Government's contribution by leveraging both private capital and state government funds through an impact investing structure.

Recommendation 4: Commonwealth Office of Impact Investment (COII)

We recommend you establish a Commonwealth Office of Impact Investment as a dedicated unit in a central agency (or as a standalone independent statutory authority), to drive Australian impact investing policy and monitor and evaluate the success of this strategy.

As set out in Chapter 8 of our report, a key function of the COII would be to administer the Commonwealth Outcomes Fund and lead on impact investment policy across government, including encouraging social procurement and addressing regulatory and legislative barriers to impact investing. The COII would monitor and evaluate government's impact investing initiatives and could also champion best practice impact measurement frameworks across government. Access to quality data and evidence would enable social enterprises to develop the best solutions to address entrenched disadvantage and understand the impact of their business or program. We estimate the operating costs of COII to be approximately $3.5 million per annum for ten years.

Consistent with your government's commitment to rebuilding public sector capability and investing in APS reform, we firmly believe the impact investment strategy proposed here can only work if there is sufficient investment in dedicated public sector capability and the specialist expertise necessary to centrally coordinate and effectively deliver on government's impact investing objectives.

Conclusion

Prime Minister, thank you again for the opportunity to review and resubmit our Final Report. We remain strongly of the view that developing the impact investment market has the potential to transform the lives of Australians experiencing our most profound economic, social and environmental challenges.

Establishing Impact Capital Australia and its sister Foundation for Impact Investment will build the infrastructure required for Australia to grow impact investment in order to address disadvantage in line with your Government's priorities.

In parallel, an Outcomes Fund and Commonwealth Office of Investment Impact would revolutionise government's approach to commissioning for impact, build public sector expertise in measuring what matters most, deepen APS skills in cross-sector engagement, and leverage state and territory funding toward the most complex, cross-portfolio and interjurisdictional social challenges.

Importantly, we believe the timeliness of action is critical. Impact investment will only flourish in Australia with catalytic government involvement. The longer we delay, the greater the opportunities lost to make a meaningful and measurable difference to many lives. We stand ready to work alongside you, your Government and industry and philanthropic partners to deliver these much-needed initiatives to build a mature and self-sustaining impact investing market that will improve lives and reduce entrenched disadvantage for generations to come.

Impact Investing Expert Panel

Michael Traill AM, Chair

Amanda Miller OAM, Deputy Chair

Dr Catherine Brown OAM

Daniel Gilbert AM

Sally McCutchan OAM