Social Impact Investing Program Evaluation

Final Report

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Department of Social Services
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Urbis & Bridges Australia staff responsible for this report were:

Director	Julian Thomas
Bridges Australia	Sabina Curatolo
Associate Director	Dr Francis Matthew-Simmons
Senior Consultant	Matilda Page
Consultant	Ross Dennis
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Urbis acknowledges the important contribution that Aboriginal and Torres Strait Islander people make in creating a strong and vibrant Australian society.

We acknowledge, in each of our offices, the Traditional Owners on whose land we stand.

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Executive Summary

For over a decade, the Australian Government has been exploring social impact investing (SII) and its ability to address complex social issues through innovation.

Continuing interest in the potential of SII is demonstrated in the 2023-24 Australian Budget, which includes a $199.8 million six-year integrated package to address entrenched and concentrated community disadvantage. This package includes funding for Australia's largest outcomes fund, additional support for for-purpose organisations seeking to access capital, and funding for place-based initiatives for disadvantaged children and their families.[1]

This funding package represents a renewed focus on SII for the Australian Government – a focus on an investment approach that aims to achieve social objectives alongside a financial return. SII brings together governments, service providers, investors, and philanthropists, to mobilise resources, leverage additional financial capital, realign incentives, and encourage innovation and scale as required. By creating the right incentives, government can catalyse entrepreneurial activity and innovation, harnessing this to meet its desired policy objectives.

Since 2017 the Department of Social Services (DSS; the Department) committed $52.7 million across four trials in SII, which form the focus of this report. Two of these trials focused on testing innovative financial models for funding for-purpose organisations, while the others focused on building capacity within the broader SII sector.

Trial	Funding	Timing	Objectives
Payment by Outcomes (PBO) trials	$15.7 million	2019-20 to 2026-27	Improve DSS' understanding of outcomes-based contracting and evaluate the opportunities of SII financial models in addressing social disadvantage.
State Partnerships	$22.3 million	2017-18 to 2026-27	Increase the Government's, understanding of SII initiatives, experience in developing and managing SII contracts, and ability to manage and share data with other governments.
Sector Readiness Fund (SRF)	$8 million	2018-19 to 2022-23	Build capacity in the non-government and private sectors to develop SII proposals.
Outcomes Measurement Initiative (OMI)	$6.7 million	2019-20 (case studies) to 2021-22 (consultations)	To grow SII by helping for-purpose organisations define, measure and communicate their non-financial outcomes and social impact

[1] Commonwealth of Australia, 'Budget overview - Stronger foundations for a better future', Commonwealth of Australia, 2023, accessed 14 June 2023.

This project

DSS engaged Urbis to conduct an evaluation of the four SII trials. The purpose of the project was twofold: to review and record what has been achieved and learned by DSS through undertaking the trial projects, and to identify – from these findings – how the Australian Government can best engage and support the SII sector in future.

To complete the evaluation, we conducted a document review, interviewed internal and external stakeholders, and facilitated an in-person workshop with DSS staff to discuss findings and identify how learnings from the trials could be embedded.

Document Review

- Catalogued and reviewed 206 documents relating to the four trials
- Undertook narrative and thematic analysis of the emerging lessons from initiative design, implementation, and results (where visible)

Development of preliminary evidence assessments for each trial

Interviews

- 13 DSS staff/executive members
- Three stakeholders from each state government
- Six service providers
- Three investors

Workshop

- Held in Canberra with DSS' SII unit to test early findings from the assessment of available evidence

Key findings and insights

We drew out key lessons and insights from the documentation and data provided by engagement with stakeholders and tested these insights in a workshop with the SII unit. The insights fall into three key domains: commissioning outcomes, building the market, and the role of government.

Domain 1: Commissioning outcomes

- Data
  - Outcomes-based contracting is not possible or effective without high quality data. The SII trials have driven development in government processes and capacity, and within the broader sector through market-building activities.
  - Despite this development, there exist significant limitations to government data, including restrictions on how the data may be used and who can access it. These restrictions constrain the implementation of data-driven, outcomes focused SII.
- Skillsets
  - The skills required to design and manage outcome-based contracts are different from those required for more "traditional" public programs. Technical skills, including an understanding of risk and managing commercial contracts, need to be underpinned by an ability to build trust and work in partnership with others.
  - In an environment characterised by a mobile workforce (at decision-making and operational levels), there are practical challenges in building and subsequently maintaining organisational SII-related knowledge within government, including within DSS and its SII unit.

- Innovation
  - Innovation is often a goal of SII. To unlock innovation, performance targets need to allow for service-level flexibility, and appropriately address failure to deliver results. Over-weighting or penalising failure can give rise to the unintended downside risks of discouraging innovation.

Domain 2: Building the market

- Scale
  - Government can mobilise or unlock private resources to address societal issues through market building actions already tested in other markets; the SRF providing one example.
  - Intermediaries are an important part of building the SII market. Australia still has a limited number of intermediaries that can provide specialist services to the impact market. A shallow intermediary pool makes conflicts of interest more likely and limits the development of an efficient market for SII capital.
- Capabilities
  - While the sector is growing, many organisations in Australia have a limited understanding of the risks and/or opportunities for innovation involved in outcomes-based approaches. Higher risks, greater uncertainty, and initial set-up costs mean outcomes-based funding approaches are not suitable for some organisations.
  - Impact measurement and management (IMM) remain challenging for many, but IMM is an important part of value creation for for-purpose organisation
  - Policy areas where responsibility and costs are shared between state/territory and federal governments are those where inter-government partnership is more appropriate.

Domain 3: The role of government

- Systemic Constraints
  - The trials exposed inflexibility within existing government infrastructure and systems, which were not designed to accommodate different ways of using government capital to achieve social impact
  - There are constitutional constraints on the policy areas in which Australian Government agencies are able to work; this makes development of truly ‘sector-agnostic’ interventions more challenging.
- Culture/mindset
  - SII offers new ways of funding programs that can challenge existing perceptions around the roles of the public and private sectors. For example, there has been resistance to the application of private capital to solving social problems, given the misperception that it involves government “supporting investors” seeking to “profit from social disadvantage”. A change of mindset will be required to fully embed SII as a ‘business-as-usual’ social policy tool within DSS and beyond. This change in mindset will also require a change in how government departments view the risks and benefits of data sharing.
  - A strong authorising and enabling environment within DSS will facilitate the work of the SII unit in implementing SII initiatives. The trials took place in a context of inconsistent awareness and understanding of SII within DSS, creating additional challenges for the SII unit which was itself embarking on a learning journey.
  - Maintaining organisational knowledge of SII within government, including within DSS and the SII unit is an important goal. SII, a concept which demands specialist skills and knowledge, is still a ‘new’ within much of the Australian Government. Staff turnover in the SII unit can have a larger impact than turnover in the numerous other areas where there is a higher ‘base’ level of understanding among staff.

Embedding and growing capability in Social Impact Investing

Key Capabilities required for working in SII

- Building relationships and trust by:
  - Negotiating and managing contract
  - Being Flexible and allowing risk
  - Sectoral knowledge
  - Using a shared language
  - Understanding data and outcomes.

Lessons from the trials suggest a set of key capabilities required by any individual or team working in the impact investing sector. These comprise a series of technical skills, underpinned by a capacity to build relationships and trust with different stakeholders.

An ability to build relationships and trust emerged as a critical capability. As SII remains a growing area involving new risks for stakeholders, maintaining trust is a foundational requirement.

Given these insights from the trials, key activities need to be undertaken to grow SII in Australia. We have focused on developing SII capacity at three levels: the SII unit, DSS, and the Australian Government more broadly.

Consolidating and strengthening SII in DSS

The DSS SII unit has been widely applauded by the sector for its engagement in the trials, has developed significant social capital among trial participants, and has established itself as a trustworthy and committed stakeholder.

In the context of renewed Australian Government commitment to SII, the SII unit has an opportunity to consolidate these gains. This may involve the continued development of its internal capacity and embedding its understanding of SII in DSS more broadly, through creating additional team collateral to better support on-boarding of new staff, continuing to synthesise and internally circulate key learnings from completed projects, and considering additional opportunities to educate other parts of the Department on SII.

Enabling the role of government

The trials re-affirmed the Australian Government's unique position at the heart of Australia's SII ecosystem. Further opportunities for government to facilitate and build capacity in the market include:

- further expansion of and convening the inter-jurisdictional network, facilitating dialogue, sharing of lessons, and data sharing among the participating States and Territories
- developing and sharing a consistent outcomes framework across government to streamline measurement and reporting
- developing a whole-of-government approach to impact investing, which incorporates not just social but also environmental impact
- enabling additional investment from the philanthropic and private sectors through market signalling and the creation of incentives for participation.

1. Introduction

The Australian Government faces continued pressure to address significant social and environmental issues, with limited public resources. Many Australians still experience disadvantage and marginalisation despite repeated attempts by state and federal governments to address their underlying causes.

Social Impact Investing (SII) represents a developing and innovative approach to investment wherein private and philanthropic resources are galvanised to achieve a public or social good. It is an approach that aims to achieve an intentional social objective alongside a financial return - and to measure the achievement of both. SII methods and approaches have been used in Australia and around the world for more than two decades, to leverage the resources and capabilities of non-government actors to address long-standing and complex social challenges.

In considering both a social and financial return, SII brings together governments, service providers, investors, and philanthropists, to leverage additional resources, realign incentives, and encourage innovation and scale as required.

> "Impact investment is a means of unlocking serious problem-solving capacity through data, collaboration, applying new tools to existing problems and established tools to different problems. It is a lever for sending signals for action and changing incentives to move capital where it is needed rather than where it will readily go or where it is usually applied." [2]

SII provides several potential benefits over traditional program delivery. It shifts the focus toward outcomes and results, rather than inputs and activities, providing more room for service providers to innovate and optimise their services. It can allow for risk of new approaches to be transferred or shared between governments and investors, give their expected outcomes and potential financial returns. It can also stimulate creativity and innovation or uncover new opportunities in servicing unmet needs.[3]

SII has potential to drive social impact, not only by increasing the scale of existing interventions through access to additional capital, but by leveraging the skills and expertise of the private sector. By creating the right incentives for organisations to achieve specific outcomes, SII can catalyse entrepreneurial activity and innovation, harnessing this to meet its desired objectives.

The Australian impact investment market was recently sized at $30 billion (assets under management (AUM) being the yardstick of measurement). Contributing to this size, bespoke impact funds have grown to $4 billion in AUM; the market, however, predominantly directs resources ($24.6 billion) to green, climate, or social impact bonds (SIBs).[4]

The SII eco-system

The SII 'eco-system' is made up of several components. These components include the pool of potential impact capital managed by investors, and the 'demand' for capital arising from for-purpose investment opportunities, including businesses, assets, and programs. Located between the supply and demand for capital are intermediaries connecting purposeful investment opportunities with investors. Intermediaries take on many forms and undertake a wide array of tasks, including preparation for capital raising, facilitating introductions to investors, and the measurement of impact. Underpinning this process is an enabling regulatory and policy environment instituted by government, and a broader ecosystem of participating organisations that provide assistance with, for example, the development of legal instruments, or the provision of additional financial expertise or human resources.

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[2] Impact Investing Australia, submission to Social Impact Investing Taskforce Interim Report, 2017, Canberra: Department of the Prime Minister and Cabinet.

[3] Addis, R. in Nicholls, A., Paton, R., and Emerson, J., *Social Finance*, 2015, Oxford University Press, UK.

[4] Banhalmi-Zakar Z et. al., Responsible Investment Benchmark Report 2022 Australia, 2022, Melbourne: Responsible Investment Association Australasia.

In practice, SII can incorporate different financial instruments, including payment by results contracts, debt financing, and equity investments. It has been used in a wide range of social policy areas, including but not limited to affordable housing, healthcare, education, and microfinance. Impact investing has also been used in other sectors, for example in financing renewable energy projects or sustainable agriculture. The impact investing market is more mature in relation to environmental or climate initiatives compared to social, with a much larger overall size.[5] SII policy can draw on an expanded set of policy tools to catalyse or enable impact. One such tool is grants – it should be noted, however, that grants are not an instrument of impact investing, as they do not provide a financial return.

An outcomes-based approach may not be appropriate in every instance, nor will it necessarily provide greater value for money. The assumption that appropriate financial incentives will be sufficient or effective in achieving government objectives may ignore the wide set of determinants of government-created ‘public value’ (one of these determinants being outcome achievement). Using SII to achieve government objectives does not replace the need to negotiate what those objectives ‘should’ be.

In 2017, the Australian Treasury defined five key principles to guide Australian Government agencies that were engaging in SII (e.g. DSS).[6] The Treasury suggests that these agencies consider:

- the Government's role as an enabler and developer of the market
- value for money co-design with stakeholders
- fair sharing of risk and return
- robust outcomes-based measurement and evaluation
- outcomes that align with Australian Government policy priorities.

[5] Banhalmi-Zakar Z et. al., Responsible Investment Benchmark Report 2022 Australia, 2022, Melbourne: Responsible Investment Association Australasia.

[6] These principles may be superseded by the work of the SII Taskforce but were in effect at the time of the establishment of the DSS SII trials.

Australian Government involvement in social impact investing

The Australian Government has been involved in building the SII market since 2011, with most investment allocated toward programs administered by the DSS with some administration costs attributed to the Australian Treasury. In its 2019-20 Budget, the Australian Government furthered its commitment to the SII market through the establishment of the SII Taskforce (the Taskforce) within the Department of the Prime Minister and Cabinet. The role of the Taskforce was to examine the Commonwealth's role in the SII market.[7] The Taskforce delivered its Interim Report[8] in 2020, articulating the potential role(s) for government as a market facilitator, through implementation of public policy; regulator, through its responsibility for legislation and regulations that affect markets; and participant, by paying for social outcomes through outcomes-based payments. These suggested roles have informed how we approached the potential role of government in this evaluation.

State and territory governments have also been working to grow the SII sector, through, for example, the creation of specialist teams in central agencies (e.g. the Office of Social Impact Investment within NSW Treasury) or the introduction of policies to increase procurement from social enterprises (e.g. Victoria's Social Procurement Framework).[9]

The 2023-24 Australian Budget included a $199.8 million package of measures focused on 'targeting entrenched community disadvantage'[10] – marking a renewed focus on SII in Australia. The package included:

- $100 million over five years (from 2024-25) to establish a social impact investment Outcomes Fund that makes contractual payments to states, territories, and providers for agreed outcomes
- $11.6 million to support eligible organisations in building their capacity to access capital and improve social outcomes.

Table 1: History of Australian Government activity in SII

Year	Activity
2023	▪ $199.8 million funding allocated to targeting entrenched community disadvantage and capacity building for for-purpose organisations (through the Outcomes Fund and otherwise)
2021	▪ Social Impact Investing Taskforce reconvened
2019	▪ $14.1 million funding for DSS Payment by Outcomes (PBO) trials ▪ SII Taskforce announced
2018	▪ $8.3 million funding to expand SII trials ▪ Government committed to work in partnership to scale the impact investment market
2017	▪ $30.3 million funding for DSS SII trials: State Partnerships ($22.3 million) and Sector Readiness Fund (SRF; $8m)
2017	▪ SII Discussion Paper released[11] ▪ Treasury releases principles for the Australian Government's involvement in the SII market

[7] Department of Social Services, Social Impact Investing; Communities and Vulnerable People, accessed 23 March 2023.

[8] The Taskforce is due to deliver its final report in 2023.

[9] Victorian Government, Social procurement – Victorian Government approach, accessed 20 June 2023.

[10] Australian Government, Broadening opportunity, accessed 30 June 2023.

[11] Australian Government, Social Impact Investing Discussion Paper accessed 23 March 2023.

Year	Activity
2015	▪ A New System for Better Employment and Social Outcomes report[12] recommends the Government expand outcomes-based contracting
2014	▪ The Financial System Inquiry recommends Government help develop the impact investing market
2011	▪ $20 million Social Enterprise and Development Investment Fund created to invest in social enterprises, and to be matched by investors

(Source: Adapted from the SII Taskforce Interim Report)

The Department of Social Services Social Impact Investing Trials

Since 2017, DSS has managed $52.7 million across four specific 'trials' in SII. The trials were funded by the Australian Government as it considered its role in the social impact investing market, following the release of the Treasury principles, and were informed by 100 market submissions responding to its Discussion Paper on SII. This report focuses specifically on these four trials.

Two of the trials (the PBO trials and State Partnerships) have focused on testing innovative ways of funding for-purpose organisations. The other two (SRF and the Outcomes Measurement Initiative [OMI]) were geared toward building the capacity of for-purpose organisations and intermediaries in the sector.

Table 2: The SII trials

Trial	Funding	Timing	Objectives	Partner organisations
SRF	$8 million	2018-19 to 2022-23	Build capacity in the non-government and private sectors to develop SII proposals.	▪ Impact Investing Australia ▪ 58 social enterprises were supported to raise capital, 17 achieved a combined investment amount of $62.2 million.
PBO	$15.7 million	2019-20 to 2026-27	Improve DSS' understanding of outcomes-based contracting and evaluate the opportunities of SII financial models in addressing social disadvantage.	▪ Many Rivers ▪ Tasmanian Government ▪ 54 Reasons (Save the Children) ▪ Paul Ramsay Foundation ▪ White Box Enterprises
State Partnerships	$22.3 million	2017-18 to 2026-27	Increase the Government's, understanding of SII initiatives, experience in developing and managing SII contracts, and ability to manage and share	▪ NSW Government ▪ South Australian Government

[12] Reference Group on Welfare Reform to the Minister for Social Services, *A New System for Better Employment and Social Outcomes, 2015,* Canberra: Commonwealth of Australia.

Trial	Funding	Timing	Objectives	Partner organisations
			data with other governments. Develop an understanding of savings at different levels of government.	
Outcomes Measurement Initiative (OMI)	$6.7 million	2019-20 (case studies) to 2021-22 (consultations)	To grow SII by helping for-purpose organisations define, measure and communicate their non-financial outcomes and social impact	▪ Global Sisters ▪ Vanguard Laundry

This project

In 2023, DSS engaged Urbis to conduct an evaluation of the SII trials. While evaluations of individual trials had previously been undertaken, this evaluation focused on capturing learnings from the whole body of work undertaken by DSS over the five-year period. The evaluation sought to uncover:

- the Government's role in building the SII market (furthering the conceptual work undertaken by the Taskforce)
- the effectiveness of outcome-based financial models, using the evidence from the trials
- how entrenched social disadvantage may be better addressed.

The 2023-24 Budget was delivered midway through project completion, changing the context of the report. Accordingly, we examined how DSS (and the SII unit) could embed learnings from the trials, with respect to the new budget measures and the new role of the SII unit in DSS.

Evaluation Methodology

Evaluation overview

The evaluation of the SII trials commenced in February 2023 and was completed in June 2023. The evaluation comprised a document review of key program documents provided by DSS, a series of stakeholder interviews with DSS and external stakeholders, and a workshop with the SII unit.

Key evaluation questions (KEQs)

The evaluation of SII seeks to answer the following eight evaluation questions:

Role of Government

1. What does evidence from the trials say about the role the Australian Government should play in the SII sector, and why?
2. What has been learned from the trials with respect to the capacity and capability of the non-government and private sectors to participate in SII, and how can this be developed in the future?

Implementation Factors

3. What has been learned from the trials in relation to robust outcome(including non-financial outcome) measurement in SII and how should this be addressed in the future?
4. What has been learned from the trials in relation to data access, sharing and use, and how should this be addressed in the future?

5. To what extent did the SII trials allow for and/or incentivise innovation in service delivery (for example, in testing new service models)?
6. What has been learned from the trials with respect to how the Government can effectively develop and manage SII contracts?

Policy Implications

7. What has been learned from the trials with respect to the appropriateness of different funding arrangements (e.g. PBO) in different policy areas?
8. To what extent does the SII market currently promote equity of opportunity for remote, rural and urban communities, and what could be done to deliver this?

Document review

We catalogued and reviewed 206 documents relating to all four of the SII trials. Most of these were provided to us by DSS.

The document review required the research team to individually read, summarise and catalogue each document into a register, highlight key operational documents, and sort the documents according to the KEQs listed above. While each document held value, some provided greater insight into the workings of the trials, potential generalisable lessons, and the role of government. The documents that were most useful, in terms of information held, were then written into an evidence assessment which was provided to DSS. This evidence assessment analysed the trials, isolating lessons learned, highlighting where more information was required to answer the KEQs, and suggesting how best to tailor the stakeholder interviews.

Stakeholder interviews

We conducted interviews with internal (DSS) and external stakeholders, focusing on lessons learned from the trials. Each interview was conducted with two researchers from Urbis or Bridges Australia and had their own consultation briefs with interview questions that aligned with the trial in question and the KEQs. Stakeholders interviewed were:

- 11 staff members from the DSS SII unit
- Two members of the DSS Executive
- Eight state government stakeholders (four stakeholders from the NSW Government, two from the South Australian Government, and one from the Tasmanian Government)
- Six service providers
- Four intermediaries
- Three stakeholders from an external investor in one of the trials (Paul Ramsay Foundation).

All interviewees were asked for consent to be recorded and transcribed.

Workshop

We facilitated an in-person workshop with 11 members of the DSS SII unit in April 2023. The purpose of the workshop was to:

- report on and discuss findings from the document review and stakeholder interviews
- collect feedback from the team on the capabilities and skills required for Government employees when working on SII
- identify specific strategies to grow the capacity of the SII unit and embed these in DSS.

Findings from the workshop were captured and have informed the suggestions posed in this report.

This report

This document is the final evaluation report for the evaluation. It follows a previously completed evidence assessment, which includes the findings of the document review. This document is structured as follows:

- Chapter 2 provides a summary of each of the trials, including the funding amounts, partners involved, any key design features. outcomes achieved, and the key lessons to be taken from each
- Chapter 3 provides a synthesis of the insights gained from the trials, relating to the three domains of:
  - commissioning outcomes
  - building the market
  - the role for government in SII
- Chapter 4 provides suggestions on how the learnings should be embedded within DSS and applied within the current context of new budget measures.

1.1. The trials

Introduction

The SII trials were intended to inform decisions about the approach that Government could take in growing Australia's SII market. Our focus in this evaluation has been identifying key lessons and insights that have emerged from the trials. This section provides descriptive information about each trial (and, where relevant, its sub-components), any key design features, and the key learnings from each.

Emergent lessons from the trials

Reflecting on the themes emerging from analysis of the trial experience, we identified three key domains under which the insights and lessons have been grouped. These domains are commissioning outcomes, building the market, and the role of government.

- Domain 1: Commissioning outcomes
  - Data, skillset, and innovation
- Domain 2: Building the market
  - Scale, and capabilities
- Domain 3: The role of government

Payment by Outcomes

DSS has undertaken three PBO trials, with a total of $15.7 million committed from 2018-19 to 2026-27 to fund their co-development, implementation, and evaluation.

Contracting for public services using a PBO approach involves linking achievement of intentional changes or outcomes to specific financial incentives, usually payments. PBO can offer a range of potential benefits including greater effectiveness, flexibility, and encouragement of innovation. PBO may also offer cost-savings as the payer (in this case, government) is able to more successfully procure and fund intentional outcomes. PBO contracts can be used as an instrument in SIBs or in outcomes funds.

The DSS PBO trials follow substantial development of this type of contracting approach across Australian states and territories. The first example of a PBO approach in Australia was the NSW Newpin SIB, which commenced in 2013. Since then, more than 20 outcomes-based contracts have been executed across Australia, with the greatest number (10) occurring in NSW.[13]

The three PBO trials undertaken by DSS were expected to enable the Australian Government to improve its understanding of outcomes-based contracting and evaluate the opportunities of SII financial models in addressing social disadvantage.[14] The stated objectives of the PBO trials are to inform:

- the appropriateness and efficiency of PBO contracts
- how to improve the design and use of robust outcome measurement
- whether the PBO trial contracts are suitable funding tools in social services
- whether the policy focus areas trialled are suitable for PBO contracts.[15]

[13] Social Ventures Australia, A guide to outcomes contracting and social impact bonds, accessed 30 March 2023.

[14] DSS internal document (Summaries of lessons learned and next steps).

[15] Department of Social Services, Payment by Outcomes Trials, accessed 31 March 2023.

PBO1: Many Rivers Microenterprise

Key Features of PBO 1

- Funding: Up to $3.8 million from the Australian Government, depending on the extent of outcomes achieved
- Timing: July 2021 – December 2025
- Invention Description: Small scale loans and business support, such as assistance with business planning, registration, or insurance requirements.
- Beneficiary cohort: Unemployed or underemployed people who had recently been receiving income support and aimed to establish their own business (n = up to 390).
- Outcomes sought: Many Rivers Microenterprise are seeking to achieve two outcomes:
  - Business establishment – following an assessment by Many Rivers, and including attainment of an active Australian Business Number (ABN)
  - Welfare reduction – calculated by the difference in total value of Income Support Payments in the three years prior to the Enrolment Date, compared to the three years following the Enrolment Date.
- Key design features: Microenterprise Development Managers (MEDMs) are a key part of the supports offered through Many Rivers. MEDMs live and work in the communities where clients are located, and understand client needs.
  - The supports offered include assistance with business basics, such as understanding and meeting business registration and insurance requirements, market research, risk analysis, review of cashflow, and establishing links with customers and suppliers.

Key learnings from PBO 1

- Data requirements for the PBO were greater than those included in Many Rivers' typical approach – this may impact the willingness of the client to participate. Some clients resisted the need to provide Centrelink reference numbers due to a general lack of trust in government institutions, resulting in delays and clients not joining the program
- Service providers are likely to face additional costs when engaging with a PBO approach, relative to what would be expected under a traditional grant model. In the case of PBO1, changes to the DSS data system (DEX) imposed additional costs on Many Rivers – more specifically, the costs of hiring a software designer to ensure Many Rivers' CRM was integrated with DEX.
- A feature of PBO models is the facilitation of innovation; the focus on outcomes and impact should give providers more freedom in designing solutions. Despite this, feedback on PBO1 suggests that its strength came from a wealth of data and experience within the provider (more than 10 years of business coaching) that allowed the trial to build off a strong base of understanding.

PBO2: 54 Reasons – Save the Children

Key features of PBO2

- Funding: Up to $7.6 million ($3.8 million from the Australian Government and $3.8 million from PRF), subject to outcomes exceeding the expectations of co-development modelling
- Timing: December 2021 – 31 March 2026
- Intervention description: 54 Reasons are delivering the Play2Learn+ program for children and families in Tasmania. The program engages children and families in the 12 months prior to kindergarten, building the capacity and confidence of caregivers in supporting their children's learning and development.
- Beneficiary cohort: Children between the ages of three and four in Tasmania, holding a Concession Card and who are not engaged in early learning for more than 10 hours per week on average (n=300).

  Outcomes sought: Improved school readiness and increased school participation

Key design features of PBO2:

- Assertive outreach was a key part of 54 Reasons and helped the program reach families that are not currently engaging with pre-schooling and whose access and engagement with their service was limited or had decreased.
- Supportive playgroups were combined with parent coaching which helped families participate in a safe and supportive setting, where children can engage in play and parents or carers can engage with supports.
- Use of coaching and developmental monitoring, through the Parenting Interactions with Children: Checklist of Observations Linked to Outcomes (PICCOLO) tool enabled 54 Reasons to monitor the quality of parent-child interactions and to identify areas of attention where parents or carers could improve.

Key learnings from PBO2

- Scale: The PRF provided additional funding (double) for the program, however there were difficulties faced in naturally scaling the program. The initial service areas did not have enough eligible participants, and service delivery had to expand to new school catchments.
  - Participants were required to hold a health care card, which was the was the validated measure of disadvantage for the trial. This excluded some Tasmanian residents who were on temporary visas, despite being otherwise well suited to the program.
- Capabilities: Due to the scale and eligibility issues, PBO2 produced a surplus from base funding, rather than meeting their outcomes. The payment mechanism that was introduced (to offset a potential large service provider surplus without achieving outcomes) was reported to be overly complex and time consuming to establish.

PBO3: White Box Enterprises

Key features of PBO3

- Funding: Up to $3.8 million from the Australian Government, subject to achievement of outcomes
  - White Box Enterprises also attracted $750,000 of private investment.
- Timing: July 2022 – June 2026
- Intervention description: White Box Enterprises provides wrap-around support services to people experiencing significant barriers to employment, through participating social enterprises (Work integrated social enterprises - WISEs).
- Beneficiary cohort: White Box Enterprises is targeting people experiencing significant barriers to employment (e.g. disability), currently receiving income support, and experiencing unemployment (n=up to 170).
- Outcomes sought: Participating social enterprises receive outcomes-based payments when participating employees have passed the six-, 12-, and 18-month marks of employment, and have been transitioned to competitive employment for six and 12 months.

Key design features of PBO3

- Partnering with other social enterprises, White Box was able to take on participants and help match them, to help individuals upskill and develop in their roles.
- Participating social enterprises receive a share of the outcome payment made, ensuring alignment between program outcomes and social enterprise goals.

Key learnings from PBO3

- White Box Enterprises is using an untested model with no existing track record. There were difficulties in allocating participants to participating social enterprises and in tracking engagement. The program is interacting with fewer participants than planned. Design of PBOs should involve substantial planning to ascertain the potential demand for a program, and the likely ‘supply’ of an intervention.
- White Box Enterprises had not worked with government before the PBO. Accordingly, coordinating reporting with the participating social enterprises required input and coaching from the SII team. Further,

the data used when establishing the PBO was not fit for purpose in later recording periods (e.g. due to a lack of baseline data capture).

1.2. State partnerships

The State Partnerships trials were established to explore the value of government investment and the sharing of data across jurisdictions in support of social impact investment. The Australian Government committed $22.3 million from 2017-18 to 2026-27 to work in partnership with the NSW and South Australian governments, providing funding for Foyer Central (in NSW) and Newpin and Resilient Families (in South Australia). Both programs are ongoing.

The partnerships were established under the Project Agreement for Commonwealth State Social Impact Investments, which was created subject to the provisions of the Intergovernmental Agreement on Federal Financial Relations (IGA FFR). The Project Agreement was signed by all states and territories except for Queensland, however, only NSW and South Australia had commenced projects at the time of the evaluation. Individual SII Bilateral Schedules were co-developed with each state.

Both the Australian Government and their state and territory partners shared financial contributions, data, and analysis to ensure the accountability and sustainability of the investments. The partnerships were designed to allow the Australian Government to:

- operate as an enabler and developer of the SII market
- co-design programs with direct stakeholders
- share financial risk and return
- design robust outcomes-based measurements and evaluation
- improve quality of services and policy development
- increase the accountability, transparency and performance of financial investments, and
- ensure that SII's investment programs align with Australian Government policy priorities.[16, 17]

Under the terms of the Project Agreement, the Australian Government is responsible for providing a financial contribution, providing data and analysis to support the states, and evaluating Commonwealth-state facilitation of social impact investments. The states are responsible for providing a financial contribution, program delivery, and providing state data and analysis to support evaluation.

NSW Government

Foyer Central

Key Features of Foyer Central partnership (NSW)

- Key Partners:
  - NSW Government
  - Uniting
  - St George Community Housing
  - Social Ventures Australia (SVA)
- Funding:
  - Foyer Central is contracted by the NSW Government, through the Foyer Central SIB fund, which attracted $7 million upfront capital including the Australian Government contribution.
- Timing:
  - 2021 – 2031
- Intervention description:

[16] Australian Government, Government principles for social impact investing, accessed 30 March 2023.

[17] Department of Social Services, Project Agreement for Commonwealth State Social Impact Investments, accessed 9 June 2023.

  - Foyer Central is a supported accommodation complex with 53 studio apartments in inner Sydney that provides young people, who are exiting out-of-home-care (OOHC) and are at risk of homelessness, a safe and supportive space to access opportunities for their personal development, health and wellbeing, education and employment.
- Beneficiary cohort:
  - Young people aged 18-22 years who reside in NSW, have lived experience of OOHC and who are currently experiencing, or at risk of, homelessness.
- Outcomes sought:
  - Sustained engagement with education, employment and/or independent housing, as well as avoidance of incarceration, homelessness services and having a child enter OOHC.

Key design features from Foyer Central partnership (NSW)

- Foyer Central offers safe and stable accommodation and tailored supports in exchange for engagement in training, education and/or employment. For the program to reach an outcome milestone, participants must maintain employment, education and/or independent living, and not record a conviction, live in social housing or have a child placed into OOHC.
- Trauma-informed care is utilised when working with young people to help identify, develop and invest in the skills, capabilities and assets of young people. Consistent relationships and a safe and predictable environment provided by Foyer Central helps to support participants to build resilience and coping strategies.

Key Learnings from Foyer Central partnership (NSW)

- Systemic constraints:
  - SII in the area of homelessness, housing and helping young people engage with services (increasing their independence) has a significant potential to deliver downstream cost savings for government, in sectors such as welfare and disability support, which are Australian Government portfolios and responsibilities.
- Culture/mindset:
  - Opportunities to facilitate knowledge sharing, maintain openness and transparency such as the interjurisdictional network (a network of stakeholders across Australian jurisdictions such as DSS and relevant state and territory bodies), is an effective way to ensure growth and increase multilateral partnerships with different states and territories.

SA Government

New Parent Infant Network (Newpin)

Key features of Newpin partnership (SA)

- Key Partners:
  - Uniting Communities
  - SVA
- Funding:
  - $6.5 million over seven years (through the Newpin SA SIB Trust)
- Timing:
  - 2021 – 2028
- Intervention description:
  - Newpin is an 18-month centre-based program that offers parenting modules, therapeutic group meetings, child development activities and a supportive environment.
- Beneficiary cohort:

- Families with young children aged six or younger who are on a temporary care order, OOHC, and where reunification has been identified as an appropriate goal.

- Outcomes sought:
  - The program aims to reunify children with their families.

Key design features of Newpin partnships (SA)

- The Newpin model in South Australia was adapted from the model previously used in NSW. However, the model was adapted to the South Australian context where alcohol and other drug (AOD) use was more prevalent.
- South Australia also had different laws to NSW regarding child removal into OOHC, which provided a shorter window of time to work with families.

Resilient Families

Features of Resilient Families partnership (SA)

- Key Partners:
  - The benevolent Society (TBS)
- Funding:
  - $11.3 million[18]
- Timing:
  - 2021-2027
- Invention description:
  - Resilient Families (RF) is a 12-month program delivering intensive, in-home support (4-6 hours per week in the initial phase) for families where the presence of risk factors indicates a need for intervention to reduce risk and prevent harm to the child or young person.
- Beneficiary cohort:
  - Families with an ‘index child’ that is aged under 9, and has been assessed as ‘conditionally safe’ after an Initial Safety Assessment
- Outcomes sought:
  - Family preservation

Key design Features of Resilient Families partnership (SA)

- Practitioners in the program deliver TBS, in partnership with the Parenting Research Centre, has developed 42 Evidence Informed Practices (EIPs). Of which, RF practitioner’s draw on the following practice guides in their work with families
- TBS employs a Cultural Engagement Practitioner to enhance connections between local Aboriginal communities and families who identify as being Aboriginal.
- The program’s brokerage funding was supplemented with additional funding from DHS, extending the list of activities to assist RF families. This included education and sporting enrolment fees, driving lessons for parents, vouchers for whitegoods, and medical expenses.

Key Learnings from SA Government Partnerships

- Cultural/mindset:

[18] Hon Michelle Lensink MLC (Minister for Human Services), Hon Anne Ruston Senator (Minister for Families and Social Services), New Program to Keep At-Risk Families Safely Together [media release], accessed 19 July 2023.

- The state partnerships provided substantial value for the South Australian Government, beyond financial contributions. The nature of engagement and communication with DSS created a meaningful relationship which will feed into subsequent projects. The partnership benefited from a strong culture of learning, and trusting relationships between the different agencies, services providers, and legal and data custodians. However, these took some time to establish.

- Data:
  - Several data sources were needed, and a cultural shift was required to enable data custodians to share the available data with participating stakeholders.
- Systemic constraints:
  - Implementation of the partnerships in South Australia addressed specific service needs in the community. But there is evidence from previous implementation (of Newpin in NSW) of a potential for duplication in service delivery, where the introduction of a new policy initiative created additional services with the same intended outcomes, reducing the intake of potential clients.[19]
  - State partnerships should mitigate the risk of this occurring, in cases where the Australian Government has less familiarity with the existing service environment

1.3. Outcome Measurement Initiative

The OMI aims to help for-purpose organisations define, measure and communicate their non-financial outcomes and social impact and attract private investment.[20]

The OMI involved two advisory groups responsible for testing new activities: the Data Demonstration Project (access to government-held data including testing different approaches to inform future decisions on roles and responsibilities in OMI),[21] and the Navigation Tool (an online public platform that provides a centralised source of credible and practical information on OMI and other SII tools).[22] As part of these projects, the groups conducted stakeholder interviews, as well as international jurisdiction reviews and background literature reviews.[23]

Since 2019-20 two for-purpose organisations, Vanguard Laundry (name changed in 2022) and Global Sisters, received funding from DSS under OMI. These two organisations were selected as case studies and funding was intended to support them to expand their programs, increase their impact in the lives of their participants, and diversify their funding sources.[24] Details on these case studies are provided below, followed by the key learnings from OMI overall.

Vanguard Laundry

Key Features of OMI case study:

Funding:

- $6.7 million (total OMI funding)

Timing:

- 2019 – 2022

Intervention Description:

- Vanguard Laundry provides employment opportunities directly through their commercial laundry service and supports participants to transition into other paid employment, education or training.
- It is aimed at people with lived experience of social disadvantage who have had difficulty securing long-term employment.

- Beneficiary cohort:
  - People with lived experience of mental health or social disadvantage who have had difficulty securing long-term employment.
- Outcomes sought:
  - To support participants to transition to paid employment opportunities, education or training.

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[19] Urbis, Newpin Final Evaluation Report 2020, 10.

[20] Department of Social Services, [Outcomes Measurement Initiative](), accessed 28 March 2023.

[21] DSS internal document (CSI OMI Project Final Report Revised).

[22] Ibid.

[23] Department of Social Services, [Outcomes Measurement Initiative](), accessed 28 March 2023.

[24] Ibid.

Key design features of OMI case study – Vanguard Laundry

- Participants working with Vanguard Laundry are paid award wages whilst they undertake professional and personal development. These can be fundamental elements like attending and completing shifts or more specific, for example working to production KPIs.
- Participants move from professional and personal development to develop a portfolio, CV and Vanguard helps link participants with other employment opportunities.

Global Sisters

Key Features of OMI case study

- Funding:
  - $6.7 million (total OMI funding)
- Timing:
  - 2019 – 2022
- Intervention description:
  - Global Sisters provides end-to-end support to participants to help them improve their financial situation by bringing their business ideas to life.
- Beneficiary cohort:
  - Women who are unemployed or underemployed due to systemic and structural barriers.
- Outcomes sought:
  - To support participants to develop business opportunities that allow them to be self-employed and achieve financial independence.

Key design features of OMI case study – Global Sisters

- The program involved:
  - Supporting women with business financials and business viability with education through the Sisters School program (educational program).
  - Supporting women through one-on-one coaching, supporting and brokering of potential funding opportunities.
  - Access to the Global Sisters Marketplace (e-commerce platform).

Key learnings from OMI case study – Global Sisters

Key learnings from OMI

- Culture/mindset:
  - Within the OMI initiatives there have been instances of a lack of consistent understanding of impact measurement and evaluation across sectors. Building a shared awareness of these practices, their benefits, and developing a consistent and common language may improve practices across government and non-government sectors.
- Scale:
  - OMI activities foster continuous improvement by identifying areas for growth. A continuous commitment to knowledge sharing and dissemination of lessons learned have been important contributors to the evidence base, and for the ongoing sustainability of the sector.
- Innovation:
  - Initiatives such as OMI require for-purpose organisations to be ‘Social Impact Investing ready’ to participate; that is, there is often a level of assumed knowledge and capability. Making these criteria more explicit and providing a pathway forward would be useful for organisations embarking on OMI activities. This is also critical for ensuring organisations continue activity in SII beyond a trial.

1.4. Sector Readiness Fund

The SRF trial demonstrated one way in which government can leverage private capital to drive social impacts. The SRF supported three different groups of market actors, while incentivising the investment of private capital into designated social issues. The three groups were:

- For-purpose enterprises: who were seeking to grow their businesses through raising investment capital, and scaling their impact as a result
- Intermediaries: specialist advisers who provide enterprises with the support they need to get ready to attract and take on investment capital
- Impact investors: providers of mission-aligned capital seeking to invest in for-purpose opportunities.

The ultimate beneficiaries of the program were those supported by the increased reach of the growing for-purpose enterprises.

Key Features of SRF

- Key partners:
  - Impact Investing Australia (administered the SRF)
- Funding:
  - $8 million
- Timing:
  - November 2018 – 30 November 2023
- Intervention description:
  - The SRF provided grants to 58 enterprises and supported 30 intermediaries. The total capital raised by participating enterprises was $21 million, almost three times the total value of the funding provided by the SRF.
- Beneficiaries:
  - N/A (beneficiaries were indirectly assisted through the SRF by the organisations provided funding, however the fund supported organisations to scale their impact on beneficiaries).
- Outcomes sought:
  - The SRF was designed to support social enterprises to attract investment to grow their business and increase their social impact, through purchasing capacity building services.

Key design features

- Applicants benefitted from specialist feedback at every point of engagement with the SRF – from Expression of Interest to application, to grant management. Unsuccessful applicants were also provided bespoke specialist feedback.
- The SRF leveraged philanthropic funding to administer grant management costs.
- A volunteer independent panel acted as an investment committee to increase the chances of successfully raising capital.
- Required grantees build capacity to measure their impact, by developing asocial impact framework within 6 months of receiving the grant, which was reviewed by Impact Investing Australia.
- The SRF required a social enterprise to come forward with a chosen intermediary when applying for the grant.

Key learnings from SRF

- Skillsets:
  - Impact measurement remains challenging for many for-purpose organisations who must also focus on their business-as-usual activity, and potentially capital raising activities.

  - Many intermediaries are predominantly focused on providing business and financial support. It can also be helpful for ongoing sustainability of the organisations, even without attracting investment.
- Capabilities:
  - The SRF demonstrated that building the capacity of for-purpose organisations, including in impact measurement and reporting, can be effective in leveraging private investment for social impact.
  - A significant proportion of applicants for support were deemed too early stage to receive a grant. There may be an additional role for government in supporting enterprises at an earlier stage in their development (which were not eligible to participate in the SRF).
- System constraints:
  - The SRF was constrained to supporting enterprises pursuing outcomes aligned to the DSS portfolio, but evidence showed strong interest from other for-purpose organisations, such as those focusing on the environment, facing similar challenges in raising capital.

2. Insights from the Trials

This section discusses the insights drawn from the trials, across the three domains of commissioning outcomes, building the market, and enabling the role of Government.

Commissioning outcomes

The trials have contributed to "increased appetite and confidence" in outcomes-based approaches within DSS, and a recognition of the opportunity to be less risk-averse and prescriptive to encourage innovation. In this report, we are intentional about the use of the term 'outcomes commissioning', which refers to a strategic approach to achieving results to identified problems.

An outcomes commissioning approach involves understanding the needs of the affected communities, prioritising and planning services, determining feasibility, contracting, and then monitoring effectiveness. It can also include establishing incentives or conditions to encourage market action. 'Outcome contracts' refers to the contracting of specific and pre-defined outcomes, and is a sub-component of outcomes commissioning.

Outcomes-based approaches depend on access to good data

In outcomes-based approaches, outcomes are set, priced and verified using agreed sets of data. For example, the Foyer Central trial involved assessing sustained income and independent housing for a period of 12 months, with relevant data sourced from Centrelink. Successful achievement of verified outcomes signal more than just improved circumstances for program participants, or information for improving future programs – they also trigger payment events.

Data requirements for this type of program are often higher compared to a more 'traditional' program delivery model which may focus solely on inputs or outputs. Data for these types of programs is also required to understand the counterfactual – i.e., what would have happened without these interventions. The additional requirements often equate to higher upfront costs in setting up required data, administration and reporting systems.

The requirement for robust outcome measurement through the SII trials has driven development in government processes, outcome measurement capacity within government, and within the broader sector. Data partnerships, including cross-jurisdictional and cross-portfolio data sharing, can provide different data sets to inform better measurement of outcomes and a greater understanding of financial implications and pricing. The trials have informed DSS' contribution to the APS Reform Multi-Agency Data Integration Project (MADIP) underway. This project will facilitate "users to undertake policy analysis more efficiently."[25]

There are limitations associated with government data. One limitation arises from using data collected for one purpose to inform other purposes. For example, welfare data, collected for the purpose of welfare payments, may be useful as a proxy for other measures. However, this data ceases to be captured once a client gains employment then no longer receives payments, at which point, the client effectively disappears from the dataset.

Access to data is another limitation. Although DSS may be the data owner, there are restrictions on how the data may be used and who can access it, even by the Government or within the department. Through the trials, DSS was allowed to use the data for the purposes of policy research - a permitted secondary purpose. Consideration should be given to the type of data required for outcomes-based approaches in new policy initiatives, as the Australian Government has limited scope to share data outside of a 'trial' environment, which will need to be addressed to further develop this capacity in the future.

> "…we have always worked in aggregate data, and this is individually focused data, and what that means is that we really examine the question of are we doing everything we can to support this client in their journey, in the way that they would expect and the way that our funders would expect." [Service Provider]

[25] Australian Government, [APS Capability Reinvestment Fund 2023-24](), accessed 9 June 2023.

Strong problem identification, cohort selection and verification through independent data leads to better outcomes for clients

The impacts of regular programming, which relies on a theory of change and the measurement of inputs and outputs, is usually only known through evaluations undertaken long after the program is completed. Outcomes-based programming can provide earlier information, through the verification of outcomes enabled by independent data. This relies on a solid understanding of the root cause of the problem being addressed and specific needs of the identified cohort.

Outcomes-based payments are usually based on the change achieved for an agreed proportion of enrolled participants. This focus may lead service providers to adapt or modify their working practices to better meet the needs of their clients. In the PBO trials, service providers were initially confident they knew the make-up of their clients, and that clients were receiving the benefits of their services. However, during the contract negotiation process where measurements were being set, service providers found some gaps in their existing understanding, and realised further awareness of clients' needs was needed to achieve the desired outcomes. Narrowing of eligibility criteria, where needed, also led to changes in service models, referral and enrolment processes.[26]

> "…it's also important I think from an operational perspective, because it has – it's provided us a lens through which we can really examine the quality of the journey that we embark on with clients as well." [Service Provider]

This focus on outcomes also promotes greater accountability for their delivery by service providers. Setting a price for the achievement of a social change for a specific cohort of people can disincentivise practices of 'cramming'" or 'parking' where service providers might choose to work with clients where outcomes are more readily achieved. In the case of the PBO trials, once participants were enrolled in the programs, the service provider was responsible for the outcomes achieved on their behalf. In that context, ensuring the right participants are enrolled in the program is a key challenge.

> "…verifying that people meet the eligibility criteria. This is where I think the PBOs have all struggled." [DSS staff member]

Defining and understanding the problem and identifying and accessing the data to measure and verify outcomes is resource intensive and takes significant time, particularly as there needs to be agreement from all parties. However, this is a foundational step in establishing an outcomes-based approach and cannot be avoided.

Scaling outcomes-based approaches is not simple arithmetic

Scaling of outcomes-based approaches can occur through the expansion of programs or by the replication of program models. However, outcome measures are typically highly bespoke and tailored for individual investments. This means that scaling solutions is more complicated than simply increasing the targeted cohort size as a function of investment.

For example, the OMI case study organisations investigated scaling up, but this would have involved step-changes. In PBO2, the philanthropic investor offered to pay for the doubling of already agreed outcomes for a defined cohort. The service provider recognised that it was not possible to simply expand the pool of candidates in the region as they did not meet eligibility criteria for participation. Further work was undertaken to determine the diverse needs and responses of a larger cohort and ensure eligibility and data collection and verification.

> "it's the ultimate check of whether the real impact that we think exists is actually occurring with our clients." [Service Provider]

There are other aspects of outcomes-based approaches such as tools, contractual templates and processes that can be replicated or adapted for multiple use. Governments can facilitate scaling and replication by establishing platforms for knowledge sharing of tools, data and advice between organisations.

[26] DSS internal document (Issues paper 3 - Payment model design considerations)

Commissioners of outcomes-based approaches require special skillsets

The skills required to commission and manage outcomes-based approaches are different from more ’traditional’ public policy and programs. The latter tend to involve a delivery of services by the public service, or the outsourcing of program delivery through fee-for-service contract management or grant funding arrangements. In traditional programs, payments are usually linked to the delivery of specified inputs (e.g. hours of service) or activities undertaken by the service provider or contracted party.

In outcomes-based approaches, where payments are made in part or entirely upon the successful delivery of verified agreed outcomes, commissioners work with stakeholders and service providers to agree on the conditions in which outcomes will be identified, measured and verified. In these approaches, the financial risk is shared between government and service providers who do not receive full payment until the successful achievement of outcomes is verified. Additional complexity arises where external funders or capital providers take on the financial risk by providing working capital to service delivery organisations, as is the case for SIBs.

Expanded skillsets are required of public servants to manage these approaches (discussed further in Section 4). These include, but are not limited to, sectoral knowledge, familiarity with underserved cohorts, partnership brokering and building trust-based relationships, understanding data and outcomes measurement, a greater understanding of financial models and risk sharing, negotiating and managing (commercial) contracts, legislative/legal issues, and how to manage cross-government and cross-jurisdictional data access. These skills have been identified and built within the SII unit as part of the trials and have also been developed within state and territory governments via specialist teams (e.g. the NSW Office of Social Impact Investment).

Despite this development, these skills remain novel to much of the public sector. While such skills would be held within different parts of government, the need for combined sectoral knowledge, outcome ‘literacy’, and capabilities in financial models and commercial contracts make SII more challenging, and by contrast, lead to a capability result that is greater than the sum of its parts.

> “… make sure that you’re bringing people with the right capability set into this team in the first place. Then, really supporting them in knowledge transfer and rapid skill building. Because it’s complex work, it’s different work to the work that they’re doing across other parts of the public service.” [Intermediary]

Outcomes-based contracting requires fit-for-purpose systems

Existing administrative and financial management systems within DSS were found not to be fit for the hybrid requirements of outcomes-based approaches and SII. The trials exposed the inflexibility of existing infrastructure and systems which were not designed to accommodate different ways of using government capital to achieve social impacts.

To implement the trials, DSS had to develop or build upon existing systems to meet new requirements for data sharing and contract management. For example, to enable the identification of targeted cohorts and verification of achieved outcomes, data which previously had not been shared within the department, was now required to be shared at the unit record level with external partners. This required the building of new data applications and the associated development of bespoke governance arrangements and data protocols.

Government accounting protocols and the annual budgetary cycle have presented challenges to the implementation of the PBO trials. Present systems require “greater certainty of anticipated payment amounts and timing than is often available under PBO projects, and the bureaucratic processes needed to move funding from one accounting period to another.”[27] At present, any portfolio savings and underspend are returned to consolidated revenue. This means any funding not expended in one year would not necessarily be returned to the social services portfolio, nor reinvested in social policy initiatives.

PBO3 (White Box Enterprises) is utilising an innovative finance mechanism through a trust (managed by a third party) to organise payments from DSS. The PBO2 team also advised they would have made use of a similar trust structure were they to undertake the project again.[28] Additional considerations include the management of interest accrued through the fund and whether it is considered part of the outcome payments, returned to government, or paid to the service provider.[29]

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[27] DSS internal document (Social Impact Investing Lessons Learned Review, 2021, Stanninghouse)
[28] DSS internal document (DSS Calm Llama meeting notes, 15 Sep 2022)
[29] DSS internal document (DSS Calm Llama meeting notes, 15 Sep 2022)

Cross-government partnerships can pursue shared outcomes

Impact investment approaches can be used to address cross-portfolio and inter-jurisdictional government issues. The State Partnerships trials explored the opportunity of impact investing in two states: in NSW (Foyer Central) and South Australia (Newpin, Resilient Families) targeting support for people at risk of homelessness, youth homelessness and other priority groups. Investments from both the Australian and state governments in these trials have meant more attention on the results and provided a greater sense of accountability. The Australian Government involvement helped to enable relevant data is produced and recorded in a useful and shareable way.

Partnerships between different levels of government are most suited to policy areas with shared responsibility between state and territory and the Australian governments, or where the costs and benefits of action are explicitly borne by both levels of government. For impact investing policies, where there is shared responsibility for issues among the Australian Government and states and territories, "the principle of subsidiarity should apply with Australian Government action facilitating state-based activity and service delivery."[30] That is, "powers and responsibilities should be left with the lowest level of government practicable."[31]

The establishment of inter-jurisdictional networks has been widely acknowledged by government partners as a great platform for sharing SII knowledge across jurisdictions. Building upon this established network and trusted relationships could facilitate future cross-governmental partnerships.

Outcomes-based commissioning can unlock innovation in service delivery and the creation of social impact

Governments can incentivise social innovation and enable new approaches through the commissioning of outcomes. The State Partnerships and PBO trials have provided examples of shifting from a purchaser-provider model, to shared risk and reward and trust-based co-design. The potential benefits of these approaches have been summarised in the evidence base as:

- incentivising innovation
- improved accountability and increased visibility of outcomes
- financial savings to government.

For DSS, the innovation enabled during the trials related to the funding mechanisms and outcome measurement used, rather than focusing on service delivery itself. The services delivered as part of the trials had some previous history of use, although there were some alterations made to account for local contexts.

To encourage innovation in services, performance targets need to allow for service level flexibility, as well as creating some leeway when considering failure to deliver results. Over-weighting a focus on failure can lead to unintended downside risks, including encouraging service providers to "stick to tried and tested service models."[32]

Outcomes-based approaches may also deliver additional favourable social outcomes beyond those identified for payment. Conversely, there is a need to consider the possibility of unfulfilled outcomes for some participants.[33]

The comparative value of these approaches versus other funding models is dependent on the price settings and payment model adopted, as well as budget treatment of any savings.[34] However, public value generated by these approaches is often greater than the measured outcomes they deliver. Public value for these social innovations can leverage external resources, lead to new solutions to tackling policy issues and associated expansion of the policy toolbox, and may be amplified for those clients who benefit from the life-changing impacts arising from the program interventions. Value creation also arises from improved impact governance, i.e. the intentional targeting, measuring and management of impact.

[30] Impact Investing Australia, submission to Social Impact Investing Taskforce Interim Report, 2017, Canberra: Department of the Prime Minister and Cabinet.

[31] Council for the Australian Federation, Subsidiarity, accessed 28 May 2023

[32] DSS internal document (DSS Calm Llama meeting notes, 15 Sep 2022)

[33] DSS internal document (DSS Discussion paper 1 Implementation team Outcomes Continuum paper)

[34] DSS internal document (DSS Discussion paper – Price setting 3)

Sharing of financial risk is not well understood by service providers

The sharing of financial risk is an attractive feature of outcomes-based contracts for governments and payers. Funders in outcomes-based approaches have multiple levers which can be adjusted to affect the price and balance the risk-reward ratio. Government funders can use these levers to create incentives for innovation or improvements to service delivery.[35]

In outcomes-based approaches, the payer agrees on a set price for the delivery of outcomes at a unit level, or an agreed price per unit or for a target level. Delaying payment until after the verification of delivered outcomes creates a funding gap between the cost of providing services and receiving payment. This can be challenging for service providers to manage, particularly for smaller organisations with lower volumes of operating capital. Impact investing solutions are increasingly used to cover this funding gap, through mechanisms such as SIBs. Service providers or investors reasonably expect to be compensated for the additional financial risks they are taking on. In these cases, government funders pay a commensurate premium for sharing the risk.

Each PBO trial demonstrated different risk appetites from the different service providers, evidenced by differences in the proportion of funding tied to outcomes versus fixed payments to cover operational costs.[36] In one PBO, the service provider opted to reduce their financial risk by setting a high proportion of payments that were fixed, while another service provider was confident in achieving higher than predicted outcomes and set their fixed outcome at a much lower rate. However, for this PBO, the assumptions about availability of inter-departmental data for outcomes metrics were flawed. This meant a gap in baseline data to inform a counterfactual scenario of what would have happened to this cohort but for the PBO intervention.

Overall, while there was some evidence of tailoring of risk tolerance from providers, feedback from some stakeholders suggests that while the sector is growing, many organisations in Australia have limited understanding of the potential risks involved in outcomes-based approaches, particularly in the case of outcomes not being achieved. Higher risks, greater uncertainty, and initial set up costs also mean outcomes-based funding approaches will not be suitable for some organisations. The trials privileged larger organisations who could more readily absorb the financial risks associated with outcomes-based approaches. Future efforts could explore ways to reduce the risk of participation for smaller organisations who may have other benefits, including networks on the ground.

> “It seems like the understanding around the financial risk of these contracts and how much money service providers can stand to lose is not really well understood." [Intermediary]

Outcomes-based approaches can facilitate co-investment

Outcomes-based impact investments can facilitate co-investment and can attract and accommodate multiple investors. Different types of investment capital can have different risk appetites, terms and expectations for financial returns. Investors may also prefer to co-invest to leverage existing funding or de-risk their own capital. Co-investment can also reduce the costs of due diligence and can facilitate diversification of investor portfolios. The outcomes-based trials demonstrated the blending of capital with diverse combinations of more than one investor participating in the deals.

In the case of the State Partnerships, Australian Government funds were sub-scale but were attractive to parties for more than the financial benefits. For example, the opportunity to build relationships across jurisdictions for future opportunities was cited by both State partners across the three trials as a desired feature. For the SII unit, these partnerships provided learning opportunities, capability building and additional scope to explore its role in interjurisdictional outcomes commissioning.

The PBO trials did not fully explore or leverage the different types of investor capital to full advantage. For example, in PBO2, there was an opportunity for the philanthropic investor, which has different risk appetite and drivers, to fund supplementary outcomes rather than increased levels of outcomes already required by government.

[35] DSS internal document (Value to government estimation, Many Rivers Transaction, 2020, Taylor Fry)

[36] DSS internal document (DSS Issues Paper #3 – Payment model design – Adjusting Risk)

2.1. Building the market

Government can mobilise private resources to address identified social issues

As in other areas of innovation, government can incentivise market direction through policy initiatives - the SRF trial showcased one way in which governments can leverage market activity to direct capital to areas of priority without having to be the payer or commissioner. While the impacts of initiatives such as the SRF should be intentional and measured, the outputs and outcomes of these approaches are typically less prescriptive than in outcomes-based contracting. This means the transaction costs are considerably smaller, and the investments – and the social impacts they enable - can be more readily scaled.

As regulators, government can set national policies that require social procurement or the measurement of impact. As market builders, government can incentivise and encourage resources to flow to areas of social need through a range of market building tools, like those used in other areas of market innovation. This includes the provision of catalytic capital or market signalling. The PBO2 and PBO3 trials demonstrated the opportunities available to mobilise private capital, into areas where the Australian Government may already be active.

Intermediaries are an important part of the SII market. Each of the trials involved advisers, intermediaries and/or investors applying their specialist skills in pricing, program design and measurement. Service providers would not be expected to have these capabilities in-house. Intermediaries provide a critical role in connecting for-purpose organisations with investment capital and bridging the gaps in knowledge and expertise.

Supporting the intermediary market will enable the ecosystem and its impact to grow. Australia still has a limited number of intermediaries who can provide specialist services to the impact market, and growth in this sector has been significantly enabled by government to this point. Intermediaries are also largely clustered in metropolitan areas in the eastern states.

The small pool of intermediaries has the potential to create real or perceived conflicts of interest; this occurred during more than one of the trials. In saying this, there is a sense that support for growing the intermediary market is shrinking at a time when the impact market is still growing, and support is needed.

> “…our sense from talking to intermediaries is there is still a need for government investment in market building in this area.” [DSS stakeholder]

For-purpose organisations benefit from support throughout their growth journey

Support is needed for for-purpose organisations (agnostic of form) throughout their maturation process.

To address the three gaps (enterprise, intermediary, investor) in the market, the SRF growth grants targeted early-stage enterprises who already had a track record and were looking to grow. This is an area where support continues to be needed. However, support is also required for enterprises in between the startup and early stage.

In the SRF, enterprises were encouraged to select intermediaries with whom the enterprises had already established trust and rapport. Previous research indicates these trust-based relationships lead to the best chance of successful capital raising. Feedback from the trials however also indicated that support is better offered in discrete parcels, with an ability for enterprises to easily move to different suppliers or intermediaries. Offering smaller, more flexible funding would also serve to help diversify and grow the intermediary market. However, design needs to consider limiting the administrative burden on resource-poor enterprises.

The selection panel of experts who provided their pro-bono services played a value-adding role of quasi-investment committee. The panels were comprised of individuals with an intentional mix of diverse backgrounds. There were from a cross-section of entrepreneur to impact specialist and from venture capital to institutional investors. The selection panels provided bespoke and specialist advice to all interviewed applicants, irrespective of whether or not they were successful in being awarded a grant.

The SRF trial’s evidence showed that 29 per cent of applicants were assessed as ineligible at the expression of interest stage because their impact did not align with the DSS social impact areas; many of these were targeting environmental impacts. In designing the SRF, DSS worked hard to expand the range of eligible social issues within the limits allowed by Constitution requirements. Working across portfolios with other government departments might be a way to extend the eligibility criteria. Considerations could be given to working with the Department of Industry, Science and Resources, for example, which is establishing an Industry Growth Program to support Australia small and medium enterprises (SMEs)s and startups to commercialise their ideas and grow their operations.

Enabling market participation through capacity building

To build the market, government policy focus should be on enabling organisations to participate independently. As the market matures, this requires a range of supportive measures, but care should be taken to build capacity where possible.

For example, feedback from some intermediaries and social enterprises in the SRF indicated that they needed more support to help manage relationship disputes in the implementation of grant-enabled services. In response, recommendations from the SRF evaluation prescribed a more hands-on role for grant administrators in managing relationships between intermediaries and grant recipients. This level of engagement may resolve the immediate problem of managing a contractual dispute but may undermine the business' ability to manage such issues on their own. A better solution could be to provide education about contract management as part of the grant.

Value creation can be embedded throughout SII policy initiatives

Intentional policy design can embed value creation throughout an initiative. For example, the SRF growth grant process was designed to leverage external value at every stage. At the application stage, intermediaries worked in consultation with growth grant applicants to recommend a suite of services they would deliver to achieve agreed capital raising results. Awarding the grant funding to the enterprise for the purpose of commissioning intermediary services, and a 30 per cent performance hurdle for capital raising helped the parties to drive towards mutually reinforcing objectives. This approach meant that intermediaries were not only responsible for delivering an agreed set of services, but they also had responsibility to ensure the services achieved the outcomes they were designed to deliver. At the application stage, an external panel of market experts played the role of a quasi-investment committee and assessed applications for their impact and likelihood of achieving capital raising.

The SRF also relied on the administrating organisation, IIA, to fundraise operational capital to manage the grant. This redirected philanthropic capital from being used for purposes best suited to philanthropy.

Impact measurement and management remains challenging for many

For impact-led businesses, their social impact is an important part of how they build their value. As the SII market grows, the ability for service providers to measure impact reliably and cost-effectively will become more critical. A DSS scoping study of outcome and impact measurement suggested limitations among service providers in reporting on outcomes were barriers to private investment, as investors are unable to assess opportunities.[37] The findings from the trials have reiterated the importance of outcome measurement to enhance social enterprises' ability to communicate and build relationships with potential and existing funders.

However, measuring social outcomes and impact is inherently challenging. Outcomes can be difficult to measure, hard to quantify and are sometimes only visible except at longer timescales. The factors which contribute to social change are complex and it is difficult to isolate and precisely attribute the change created by a single initiative. Consequently, measurement often requires using (generally imperfect) indicators that act as proxies for the underlying change.

The capacity of all actors in SII, including non-government and private sector organisations, to measure social impact continues to be challenging and will likely require ongoing attention to continue to grow the market.

> "It also needs to be remembered that an impact investment approach is not inherently riskier than any grant funded program, just less familiar."[38]

[37] DSS internal document (Social impact investing outcome and impact measurement scoping study).

[38] Impact Investing Australia, submission to Social Impact Investing Taskforce Interim Report, 2017, Canberra: Department of the Prime Minister and Cabinet.

> "There's certainly so many learnings coming through. I think with a different lens–- I'm going into it understanding that every learning is great. That's my understanding, is every learning is important" [Stakeholder interview]

2.2. The role of government

Legal constraints are real and need to be understood

There are important constraints on how governments can act within the space of SII, which have arisen within the trials. First among these are the limitations on areas within which the Australian Government can make laws and apply policy, given the constraints of section 51 of the Constitution. These limitations need to be appropriately considered in the development of future SII policy and programming.

The second constraint lies in the administrative arrangements of government in portfolio areas, with departments required to pursue the purposes of funding set out in appropriations bills relevant to their portfolio. Impact investments can be cross-disciplinary and typically do not adhere to the Government's organising portfolio structure. This means that a budgetary allocation or expense from one portfolio area may not deliver impacts aligned with that portfolio's outcomes.

One case study for the SRF is an example of an impact delivered across portfolios. In this case, the enterprise was assessed as eligible to be awarded a growth grant because it created employment opportunities in an underserved and formerly mining region of NSW. It did so by building lithium batteries which will deliver positive environmental impact.

> "And it felt to me like it was very difficult for people in DSS to talk to their colleagues in other departments just because of the nature of government." [Stakeholder interview]

The right skills, tools and experience are required for success

Findings from the trials suggest there is a key set of capabilities required by any individual or team working in the impact investing sector. These comprise a series of technical skills, underpinned by an ability to build trust and strong relationships and with different stakeholders. The trials have demonstrated this makes a large difference in how projects proceed. This is discussed further in Section 4.

There is also a need to maintain organisational knowledge on SII within Government, including within DSS and the SII unit. SII is a relatively unique concept within the Australian Government, which requires specialist skills and knowledge. Public sector workforces are typically highly mobile with staff moving positions regularly. Staff turnover in the SII unit can have a larger impact on progress than many other areas where there is a higher foundational level of understanding. Turnover has also led to a high reliance on a small number of external partners, which raises the risk of conflicts of interest.

The combination of a different set of necessary skills and the lower awareness of SII points to a need for a greater institutional understanding of SII within DSS. Embedding this understanding is explored further in Section 4.

> "So, I think that's really a key learning for government, is that the resourcing to support this actually needs to be far more significant to ensure that things like the lessons learned are really actually preserved properly and relevant and maintained at a relevant point… there is a big disconnect in knowledge loss between teams if there's a turnover of staff." [Stakeholder interview]

Departmental norms may need to be reshaped

Implementation of the trials took place in a context of patchy awareness, understanding and support from within DSS, which created additional challenges and hurdles for the SII unit which was itself embarking on a learning journey. SII unit staff also described some broader ideological barriers. This reportedly included an expressed view that through the SII trials, government was "supporting investors" who may be seeking to "profit from social disadvantage."

Aligning the authorising and enabling environment within the department will set up future SII initiatives to be more likely to successfully and efficaciously meet policy objectives. In practice, this means that the DSS executive understands SII and is committed to delivering the Government's stated strategic objectives.

A shift away from the existing mindset within DSS will be required to allow SII initiatives to meet their objectives and full potential. The shift involves an expanded view of government (and specifically DSS) in achieving intended social benefits. Such a shift does not negate the important and predominant role government plays in providing welfare and services to its clients. It extends the policy toolbox, including additional roles for government in leveraging external resources in pursuit of positive societal change.

The trials required a mindset shift in DSS, a department more accustomed to providing grants or managing contracts for the delivery of agreed activities. For example, the SRF provided grants to build capacity within providers, with the intention of leveraging further investment capital. Funding was also earmarked for other intermediaries to build provider capacity, rather than being directed towards service delivery, and by extension, beneficiaries of those services.

The SII unit was widely acknowledged as being trusted, collegiate and well-intentioned. However, some partners in the trials noted that the power dynamics of purchaser-provider were omnipresent in the trials. This was evident in both the PBO trials and the SRF.

> “The power dynamic is completely wrong, between how the government works with the service delivery partner, all of the power is held with government and the delivery partner has got to play by whatever tune they play.” [Stakeholder interview]

Imbalances in power dynamics in the future may be mitigated through:

- structurally and culturally establishing ‘true’ partnership arrangement reflecting the strengths and capacities of the different parties, while acknowledging all parties are invested in the outcomes and impact of an intervention
- increasing the capacity of service providers to understand the structure and risks of PBO contracts so they feel empowered as a true ‘partner’.

Privacy limitations/risk aversion toward data sharing is a substantial constraint

At the outset of the trials, feedback indicates that DSS tended towards risk aversion in its approach to data access and sharing. One stakeholder described the default response to any request in which there was any chance of a breach or misuse of data as “no”. However, changes more broadly across government in recent years, including data initiatives, have led to a shift in how data is managed and shared.

As noted earlier, data requirements are greater in outcomes-based approaches. In addition, the risks are heightened as data is being collected about individual clients. Although it is de-identified, data is assigned a common client ID and shared at the record level with third parties and independent certifiers. This carries some risk that individuals could be re-identified by providers.

The trials took a risk management approach to data sharing, through the establishment of extensive data protocols and permissions from data custodians. These generated a high administrative burden for each individual program.

Another privacy concern which arose centred around “coerced consent.” This was not exclusive to the trials. Clients who wished to participate in the trials and receive access to welfare were asked to sign a waiver stating that their data could be used for other purposes within the project. If participants did not agree to this waiver, they would be excluded from the trials and disqualified from receiving potentially life-enhancing support.

Resolving these issues will require alternative strategies, e.g. a less 'risk-averse' policy around privacy. For example, consideration should be given to whether consent could potentially be waived with sufficiently strong data privacy safeguards in place. The feasibility of large-scale PBO approaches may not be feasible if restrictions around data are too onerous to permit the tracking of outcomes required.

> “…the administrative burden is significant at this point in time, just for small projects. So, there would have to be significant investment in infrastructure, and legislative change, and other things for us to be able to even use our own data better and more efficiently.” [DSS staff member]

The Australian Government is uniquely placed in the Australian social impact investment market

The Australian Government Social Impact Investment Taskforce (SIIT) has provided advice about the roles of the Australian Government, as a market enabler, participant and facilitator.[39] Through the trials, the Australian Government acted as both a market participant through paying directly for social outcomes, and as a market facilitator, through assisting service providers to grow their capacity and the re-activation of the interjurisdictional community of practice. The trials have provided less evidence in relation to the Australian Government's role as a regulator of the SII market, largely due to the nature of the trials as targeted projects and the role of DSS within government.

The trials re-affirmed the Australian Government's unique position at the heart of Australia's SII ecosystem. Moving beyond the role of payer, the Australian Government is well placed to catalyse market activity. There are further opportunities for the government to:

- facilitate the market by:
  - developing a whole-of-government approach to impact investing which incorporates not just social impact but also environmental impact
  - further expanding and convening the inter-jurisdictional network, facilitating dialogue, sharing of lessons and data sharing among the participating States and Territories
  - incentivising transactions through the States
  - setting an outcomes framework for SII that will streamline measurement and reporting
  - considering national policies to link up activities nationwide, for example, establishing a social procurement policy with a mission to scale impact opportunities
  - enabling additional investment from philanthropy and the private sector through market signals and creating incentives for participation.
- build the capacity of the market by continuing to support organisations to raise capital through improved outcome measurement and reporting.

Supporting engagement of other market builders

An important aspect of enabling participation in the SII market is through market signals and creating the right incentives for actors in the SII ecosystem, beyond service providers. For example, philanthropy has a unique potential for higher-risk opportunities through its granting capability, and to seed opportunities which it can scale through investment of its corpus. The recently announced alliance of Foundations Group for Impact Investing (FGII), which brings together a group of Australia's progressive foundations, is a step change in support for social enterprises. In addition, philanthropy can help build the field by supporting new market entrants or smaller service providers by absorbing some of their risks or underwriting of costs.

Mobilising impact-aligned resources is key to scaling the impact market. There is an opportunity to further engage institutional investors, who require opportunities at scale and need to better understand the risks of investing in this market. An impact wholesale fund as proposed by the SIIT and IIA is a key solution to mobilising investment at scale.

Networks of social enterprises are emerging in states around Australia, and forming new alliances nationally. In saying this, the narrow definition of what constitutes a social enterprise may make it difficult to scale impact. Finally, civil society organisations can be strong conduits to the participation of affected communities and can provide useful insights into the unexpected consequences of emerging opportunities for impact investing activities.

Government has a role in supporting new and potential market players to understand the basics of outcomes-based commissioning. This could include the provision of definitional level information about how outcomes-based approaches work, how they are different to more traditional forms of contracting and building understanding of the risks involved.

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[39] Australian Government, 2019. Social Impact Investment Taskforce Interim Report, https://www.pmc.gov.au/resources/social-impact-investing-taskforce-interim-report, accessed on 2 June 2023 Australian Government, 2019.

3. Growing Capability

Given the insights from the trials, there are key activities that will be required to grow SII in Australia, incorporating lessons learned not just about process but about required skillsets, capabilities, and authorising environments. We have focused on developing SII capacity at three levels: at the level of the SII unit, within DSS, and within the Australian Government more broadly.

Core SII capabilities required by government

There are a set of key capabilities required by any individual or team working in the impact investing sector. These comprise a series of technical skills, underpinned by a capacity to build relationships and trust with different stakeholders.

Trust emerged as a critical component for successful SII projects throughout the evaluation at multiple levels. For example, at the program level with clients/beneficiaries, and between intermediaries, providers and the government.

- Negotiating and managing different types of contracts
  - Outcomes-based commissioning and SII require more complex and commercial contracts than are typically created for government-funded services. The ability to create and manage these contracts, including when performance is lower than expected, is an important skill for public servants when government is paying for outcomes.
- Being flexible and allowing risk
  - To enable social innovations, government cannot be overly prescriptive. Like any type of investment, there are inherent risks in SII which should not be removed or avoided but managed. Managing risk effectively (including pricing) will allow the full opportunities of SII to be achieved.
- Sectoral knowledge
  - Establishing deep sectoral knowledge will allow public servants to understand the root causes of issues to be addressed and the unintended consequences of interventions. Crucially, it also gives other actors confidence in government.
- Using shared language
  - The SII sector involves its own specific language and set of technical terms. Misunderstanding key terms can happen in SII projects, so being able to establish a shared language among different stakeholders will contribute to project efficiency and success.
- Understanding data and outcomes
  - As mentioned, there is an increased focus on social outcomes in SII. Understanding outcomes, the data that is available and how this data can be used to measure those outcomes is a highly advantageous skill.
- Developing trust
  - Building relationships and trust is the underpinning skill that will be required for public servants engaged in SII. The SII unit was widely praised by trial participants for its collaborative and trustworthy approach.

Consolidating and strengthening SII unit

The DSS SII unit has been widely praised by the sector for its engagement in the SII trials. The Unit has developed significant social capital among trial participants and has established itself as a trustworthy stakeholder. In addition, the Unit has developed wide-ranging skills, experience, and learning required for the next phase of government engagement in the SII market.

However, due to resource constraints, high staff turnover and other external factors including the disruptions to business-as-usual arising from the COVID pandemic, not all of these learnings have been captured for sharing or embedded into the processes and institutional knowledge. This section suggests actions the SII unit could take to enable it to lead the government's SII efforts, share knowledge, and build capacity of others.

Potential actions for strengthening the DSS SII unit

- Create team manual: To support on-boarding of new staff and to mitigate challenges of high staff turnover by articulating mission, ways of working, and approach to SII
  - Establish policies, processes and practices which embed learnings into the work of the SII unit.
  - Keep registry of periodic issues, briefs, and updates.
- Establish team roles: Specialist skills are required for SII – more specific team roles will consider the make-up of the team and address any existing gaps:
  - Define capability requirements of team. Key skillsets to consider include:
    - Finance (financial and benefit modelling and structuring deals)
    - Legal professionals (ensuring compliance with government legal requirements and complex contract management)
    - Procurement (commissioning of outcomes)
    - Risk management.
- Synthesise key learnings: The trials have led DSS to engage in new ways and create a body of lessons and papers. These should be updated, synthesised, and made available to staff on an ongoing basis.
  - Key learnings include:
    - co-development – incentivising innovation, enabling flexibility, and improving business models for the increased efficiency and effectiveness delivering outcomes.
    - implementation – creation of operations manuals between government and service provider setting out how the parties will deliver routine operations of the outcomes-based trials.
    - egals – provision of template legal documentation.
    - data sharing – cross-government and cross-jurisdictional access to data is highly complex, and stronger data systems are required to support pricing outcomes and to measure and verify outcomes for payments.
    - payment structure – payment ratios, eligibility criteria, and risk-reward balance.
    - managing different financial instruments – existing IT systems were set up to manage grants or procurements. Adjustments needed to be made to manage outcome payments.
    - pricing and risk sharing – there is limited understanding among service providers of the risk implications in outcomes-based financing (particularly in the case of poor performance) and the capability to undertake the due diligence required to appreciate the risk profile. The trials have produced lessons and materials relating to the adjusting of risk in PBO approaches, including useful explanation of the levers available to adjust the level of financial risk borne by providers, investors or payers.
    - impact investment readiness – greater understanding of opportunities and challenges for social enterprise growth.
    - outcomes measurement and impact management – the trials have captured insights from engagement with datasets, indicator development and measurement and reporting practice in different policy areas.
- Education and training for other DSS staff: Building an organisational understanding of SII, and building the skills required that will insulate the SII unit from negative impacts due to staff movements or machinery of government changes
  - Having graduates rotating through the team creates opportunities to influence the future public service workforce.
  - A key challenge will be developing skills in how to build and train an ‘innovation’ mindset in a risk averse APS culture.
  - Partnership building is a specific skillset – and mindset. There are potential opportunities to consider how to train for effective partnerships (relevant to SII).

Building awareness, capability, and support for SII within DSS and across government

Implementation of the SII trials has led the SII unit to develop specialist capabilities. Greater awareness of the SII unit within DSS, including its capabilities and potential, will facilitate efficacy in delivering the new SII government measures.

The SII unit's location in a line agency means it manages the implementation of programs. Line agencies, such as DSS, have deep sectoral expertise. As an experienced practitioner with a demonstrated track record and sectoral social capital, the SII unit is well-placed to inform the policy-making areas of government, for example, The Treasury.

Lessons from the SII unit trials indicate that awareness and understanding of SII and support for the SII unit within DSS have grown. However, changes in staffing (at all levels of the department), and ongoing changes in the strategic and authorising environment mean that this will continue to be an area of need.

Future actions for the SII unit to raise its profile and enable knowledge sharing within DSS could include:

- development of an **external-facing SII education** package
- inclusion of SII information in the **DSS induction** process
- regular **communications through DSS Staffnet** or other avenues.

There are also opportunities to engage closely with other teams in DSS who may be facing similar issues; for example, the Getting Better Outcomes unit has recently engaged in a series of capacity building activities within DSS – which could serve as a guide for the SII unit.

At the Executive level, a significant enhancement would be the identification of a "champion" of SII within DSS. This champion could also act as a liaison point for other government departments.

Supporting Australian Government engagement

The trials reaffirmed the Australian Government's unique position at the heart of Australia's SII ecosystem. Through the trials, the Australian Government acted as a market participant by paying directly for social outcomes, and as a market facilitator, for example, by assisting service providers to grow their capacity and through the re-activation of the inter-jurisdictional community of practice. The trials provided less evidence in relation to the Australian Government's role as a regulator of the SII market, largely due to the nature of the trials as targeted projects and the role of DSS within government.

Moving beyond the role of payer, there are further opportunities for the government to:

- Facilitate the market by:
  - developing a whole-of-government approach to impact investing which incorporates not just social impact but also environmental impact
  - further expand and convene the inter-jurisdictional network, facilitating dialogue, sharing of lessons and data sharing among the participating states and territories
  - incentivising transactions through the states.
- Outcomes platform: pooling capital and setting an outcomes framework.
- Building capacity of the market: build the capacity and capability of participants in the SII market, including the intermediary market, and build capacity in areas that will facilitate capital raising, such as outcome measurement and reporting.
- Establishing enabling settings to unlock additional investment from philanthropy and the private sector through market signals, setting up an enabling environment and creating incentives for participation.
- Consider national policies to link up activities nationwide. For example, establishing a social procurement policy with a mission to scale impact opportunities.

SII and the social innovations it can enable are still broadly unfamiliar to much of the Australian Government. However, SII and SII-adjacent activity has been ongoing in pockets across the Australian Government and inter-jurisdictionally. Examples include the Clean Energy Finance Corporation (CEFC), the Department of Foreign Affairs and Trade (DFAT)'s Emerging Markets Impact Investment Fund (EMIIF), and the Investing in Women program. Within state and territory governments, examples include the NSW Office of Social Impact Investment (OSII), the South Australian Department of Treasury and Finance, and the Victoria Government's Social Procurement policy.

SII-adjacent policy initiatives include opportunities to adopt SII practices to improve effectiveness. One example might be the Department of Industry, Science and Resources Industry Growth Program for SMEs and startups. This policy is part of the National Reconstruction Fund and could include impact measurement and other lessons from the SRF from the outset. This would provide additional information to government about the program's effectiveness.

Paramount to realising the potential of this market and enabling a whole-of-government approach will be a shared understanding of SII, with a clear strategic purpose that is uniformly understood across government. As a practitioner with an experienced SII team, DSS can support this effort through existing and emerging government-wide initiatives. Examples of these initiatives and the role DSS can play include:

- **APS Reform:** New ways of working to create social innovation and manage risk are foundational to enabling APS Reform. The APS Reform has identified building capabilities as a priority area of focus, and DSS is already participating in a Round 1 project of the APS Capability Reinvestment Fund 2023-24. Another opportunity to participate might include the in-house consulting model currently being trialled.[40]
- **Australian Centre for Evaluation (ACE):** DSS experience in the measurement of outcomes and impact evaluation could inform the government objective "to embed a culture of evaluation in the Australian Public Service."[41]
- **Participate as a go-to practitioner in cross-departmental dialogue to inform policy-making.** This would require the DSS to engage in profile-raising work to ensure that the SIIT experience was known, understood, and recognised across government.
- **Australian Public Service Academy:** Support the Academy to develop an education module for SII.

3.1. Supporting the 2023-24 Budget commitments

This section provides a discussion and considerations for applying the learnings within the current context of the new policy commitments: the Social Enterprise Development Initiative (SEDI) and an Outcomes Fund.

Considerations for the Outcomes Fund

Budget measure: $100 million over five years from 2024-25 to establish a social impact investment Outcomes Fund to make contractual payments to states, territories and service providers based on delivering agreed, measurable outcomes through specific projects.[42]

Outcomes funds pool capital to pay for the successful achievement of pre-determined outcomes. These types of funds are emerging as one of the most significant ways in which governments can mobilise additional capital and resources to target societal issues. They can potentially accommodate multiple outcomes contracts, meaning funders can contribute to a range of outcomes and have greater certainty of their contribution to an intended impact. The funds can also attract and accommodate multiple investors.

Potential: The Outcomes Fund established by the Australian Government could leverage lessons from the PBO and State Partnership trials to incentivise, enable and scale solutions by enabling more efficient sharing of data and outcomes measurement inter-jurisdictionally and across the market.[43]

The Outcomes Fund could also be designed to attract capital from multiple funding sources including state and territory governments and philanthropy. It could be intentionally structured to incentivise impact investments where external investors provide up-front finance to cover working capital of service providers through social impact bond arrangements.[44,45]

Expected SII unit role: Co-lead design and implementation.

Key considerations: The following is a list of considerations in establishing the Outcomes Fund, drawn from the experience of the SII trials. It is not intended as a comprehensive list of actions.

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[40] Australian Government, APS Reform outcomes and initiatives, accessed 9 June 2023.

[41] Leigh, A, Australian Centre for Evaluation to measure what works [media release], accessed 9 June 2023.

[42] Australian Government, Budget Paper No. 2, accessed 30 June 2023.

[43] Impact Investing Australia, submission to Social Impact Investing Taskforce Interim Report, 2017, Canberra: Department of the Prime Minister and Cabinet.

[44] University of Oxford, Government Outcomes Lab, accessed 28 May 2023.

[45] Cohen, R., *Impact Reshaping Capitalism to Drive Real Change*, 2020, Ebury Press. Pp. 26-27.

Considerations for the design, implementation, and supporting capabilities for the Outcomes Fund

Design

- A clear objective for the fund which is informed by government and market experience and is widely known, well understood, and has the commitment and buy-in from government and ecosystem stakeholders.
  - Develop a clear strategic objective for the Fund in consultation with other government and ecosystem stakeholders. The ambitions and constraints of government need to be communicated at the outset to manage expectations and elicit useful engagement and ongoing buy-in from stakeholders.
  - Clear, documented strategic objectives will enable consistent understanding across government, the social sector and participants in the Fund.
- Communications plan
  - Develop a communication plan to receive and share information internally (team and department), across government, and externally with ecosystem stakeholders and the Australian public.
  - Clear communications can build understanding and drive support for participation and opportunities in the Fund. It can also help manage risks.
- Consult with the sector
  - Establish a consultation process dedicated to the development of the Fund. Map stakeholders including market builders, practitioners, service providers, intermediaries, investors, and for-purpose organisations, which can bring lived experience of intended beneficiaries.
  - Engagement with the sector at this stage can inform what is possible and contribute to the most appropriate design for the Australian ecosystem. It can also help to build buy-in and manage misaligned expectations.
- Draw upon national and global impact investor networks
  - Engage with existing formal and informal networks in Australia and internationally, especially those focused on market building, such as Impact Investing Australia, intermediaries with experience in outcomes-based approaches, and philanthropists and investors who have participated in outcomes-based approaches and funds.
  - Pioneers and market builders understand that success in one market can drive success in others. They tend to be especially generous in sharing their experience of what has worked elsewhere and pitfalls to avoid.
- Review local and global evidence
  - Review existing evidence on DSS experience, states and territories in Australia in outcomes-based approaches; as well as international experience with outcomes funds e.g. UK Life Chances Fund (LCF).
  - An evidence base is emerging around outcomes funds that can inform the design.
- Draw upon national philanthropist networks
  - Engage with philanthropists, especially through alliances like the recently announced Foundations Impact Investors Group (FIIG) and communities of practice in Philanthropy Australia.
  - Philanthropy can play multiple roles, including paying for outcomes, topping up performance payments, capacity building for enterprises and community organisations, or as an investor. There are many philanthropists actively seeking new ways to improve the efficacy of granting through outcomes-based approaches and impact investing.
- Identify desired outcomes and data
  - Identify appropriate policy areas and cohorts to be targeted by the Fund, establish outcomes to measure and verify, and identify data sharing requirements and challenges.

- SII relies heavily on measuring outcomes. Appropriate policy areas will be those where appropriate outcome data is accessible, for example returning to work or addressing homelessness.
  - Through the trials, DSS was allowed to use data as a ‘trial’ environment, but new outcomes-based approaches will not be considered trials.
- Address limitations in current systems
  - Navigating existing financial management and granting systems and other government budgetary hurdles.
  - The trials revealed systemic limitations within current systems that are preventing the full benefits of SII.

Implementation

- Plan resourcing and timeframes
  - Identify timeframes and resources (including staffing levels and capabilities) required to manage the Fund.
  - The 2023-24 Budget papers outline indicative annual funding will not be drawn until the co-design is complete and accepted by government. This will respond to the needs and opportunities presented.
- Coordinate across government(s)
  - The SII unit has developed substantial awareness and relationships among state and territory governments. Build upon existing relationships with state and territory governments.
  - Set up a national platform to enable program delivery by the states and territories. Share learnings nationally.
  - States and territories may be best placed to manage the delivery of the outcomes-based contracts, as per the trials.
- Build awareness and educate potential actors
  - Develop baseline educational materials about the purpose, scope, and limitations of the Fund for new actors wishing to participate (consider NSW-type briefing).
  - The PBO trials demonstrated that for many service providers, the costs and risks associated with outcomes contracting were not always understood.
  - It is important that potential service providers properly understand the opportunities and challenges of outcomes contracts.

Supporting Capabilities

- Develop core capabilities
  - Build upon the existing lessons, experience and skills developed in the SII unit to grow core capabilities
  - Designing, establishing, and managing the Outcomes Fund will require skills and knowledge not readily practised in other areas of government. This includes in the co-design of the Fund with market actors and the social sector, commercial contract management, data sharing and the measurement and verifying of outcomes.

Considerations for the Social Enterprise Development Initiative

Budget measure: $11.6 million over three years from 2023-24 for a Social Enterprise Development Initiative to provide grants, online education and mentoring for eligible organisations to build capability to access capital, better participate in the SII market and support improved social outcomes. It is understood this new policy initiative will be co-designed based on learnings from the SRF and changed market conditions.[46]

Description: The experience of the SRF shows that the social enterprise market continues to require support to grow. Key lessons arising from the SRF to inform the SEDI include:

- reducing the size of the grants and allowing multiple touchpoints throughout an enterprise's journey
- expanding support to include earlier stage enterprises
- providing opportunities for diverse and new intermediaries to participate to drive market growth
- focus on building capability in impact measurement and management.

The SEDI should be designed on the principle of enabling scaling of impact through growth of independent impact organisations. Consideration could also be given to working across government to expand the priority issues targeted.

Note: The term "Social Enterprise" is interpreted in the broadest, most inclusive definition. This could include any business or organisation delivering social impact and seeking to scale that impact by raising capital.

Expected SII unit role: Lead design and implementation.

Key considerations: The following is a list of considerations in establishing the SEDI, drawn from the experience of the SRF trials. It is not intended as a comprehensive list of actions.

Table 3: Potential actions for design, implementation, and capabilities support for the SEDI

Area of activity	Objective	Actions	Rationale
Design	**Enable for-purpose organisations to deliver their business-as-usual while growing their business**	Allow flexibility in the use of grants, including to cover cost of staffing required for fundraising. Continue to streamline application and reporting processes to keep additional administrative burdens and transaction costs low.	Early-stage enterprises and for-purpose organisations are often time-poor and resource-constrained. For small organisations, dedicating scarce resources away from the day-to-day running of the business to work on activities to grow the business, such as seeking funding comes at a significant cost.
Design	**Enable for-purpose organisations to choose the services they require delivered by best-matched providers**	Continue to enable choice of service provider/intermediary by providing grants directly to enterprise. Ensure that flexibility in contracts is understood by the contracting parties.	Experience of participants in the SRF trial indicated that the best results were achieved when there was value alignment between enterprises and service providers. Providing the grants to the enterprise empowered enterprises to have ownership of their business decisions.

[46] Australian Government, Budget Paper No. 2, accessed 30 June 2023.

Area of activity	Objective	Actions	Rationale
			The flexibility that existed in the contracts was not often utilised, and was not always understood by stakeholders.
Design	**The right support at the right time**	Consider provision of smaller-sized grants to enable entrepreneurs to receive multiple grants each and to seek services as needed. This should be balanced with the goal of growing the market, rather than subsidising it.	Participants – both enterprises and service providers – identified the size of the grants and the requirement to commit to a suite of services up front as a challenge.
Design	**Build capacity of impact measurement and management (IMM)**	Include development of Social Impact Frameworks as part of the grant/capacity building. Improve data collection and outcome reporting capability within for-purpose organisations, including those at an early stage of capital raising. Consider using the Impact Management Platform Five Dimensions of Impact as an approach to IMM and help organisations measure, manage, and communicate their impact.	IMM is still emerging and not widely understood across the impact market yet is part of the value creation for for-purpose businesses. For-purpose enterprises and organisations benefit from articulating an impact thesis or theory of change as part of their business strategy. As businesses mature, so can their IMM systems. Impact information should ultimately be used to be part of the value creation, including uncovering hidden risks and opportunities, and establishing good governance practices.
Design	**Grow the breadth and depth of the intermediary market**	Require that a proportion of the SEDI grants be used to engage the services of intermediaries. Establish a platform for the SEDI including an outlet for intermediaries where enterprises can find more information and be introduced to their services. This may be similar to the IIA list of intermediaries, but with more relevant information for providers; e.g. areas of speciality, relevant experience, scale etc.	Different types of intermediaries play a key role in connecting parts of the market. The market will benefit from deepening and widening this pool of talent – from established for-purpose organisations, to established intermediaries pivoting to purpose-driven activity, and new entrants establishing themselves.
Design	**Support for contract management**	Allocate a portion of the SEDI for education in contract management.	Experience of the SRF has shown that for-purpose organisations, and to a lesser extent, intermediaries, may be

Area of activity	Objective	Actions	Rationale
			entering into commercial contracts for the procurement of professional services for the first time. Moreover, new opportunities are emerging through social procurement policies and an overall greater focus on impact in the market.
Implementation	**Alignment with other initiatives**	Consult with other government departments, jurisdictions, philanthropy, and networks to complement support for organisations. This could include: **Australian Government**: Department of Industry, Science and Resources SME growth initiative **Victoria:** Ready for Growth grants **Philanthropy:** Foundation Impact Investors Group (FIIG) – streamlining capital raising for for-purpose enterprises and organisations.	Impact market building and enterprise growth aligned activity is occurring across the Australia impact ecosystem, driven by government and philanthropy. Liaising with other actors can harmonise a whole-of-government approach and complement measures to create pathways and avoid duplication.
Supporting capabilities	**Add value through engagement of independent market actors**	Engage a diverse and independent panel comprised of market actors to act as a quasi-investment committee to increase the chances of social enterprises successfully participating in the SII market. These could include investors, entrepreneurs, philanthropists and impact specialists. These roles should be remunerated in line with other government advisory roles.	Feedback provided by the independent panels of the SRF enabled grant applicants to improve their business offering.
Supporting capabilities	**Ensure SII unit team has core skills and experience required to support market building**	Identify where recruitment of staff with core policy-making skills and knowledge to the SII unit should be supported with procurement of specialists to deliver grants provision and education activities. Include experience in enterprise development and investment.	Establishing a startup, managing a business and raising capital for growth require different enablers and support to traditional programs. The SII unit will likely be unable to recruit that expertise internally.

Disclaimer

Acronyms

ABN	Australian Business Number
AOD	Alcohol and other drugs
APS	Australian Public Service
AUM	Assets Under Management
CRN	Customer Relationship Manager
DSS	Department of Social Services
EMIIF	Emerging Markets Impact Investment Fund
FIIG	Foundation Impact Investors Group
IGA FRR	Intergovernmental Agreement on Federal Financial Relations
IIA	Impact Investing Australia
IMM	Impact Measurement and Management
KEQ	Key Evaluation Question
MADIP	Multi-agency Data integration Project
MEDM	Microenterprise Development Manager
NEWPIN	New Parent Infant Network
OMI	Outcomes Measurement Initiative
OOHC	Out-of-Home-Care
PBO	Payment by Outcomes
PICCOLO	Parenting Interactions with Children: Checklist of Observations Linked to Outcomes
PRF	Paul Ramsay Foundation
SBB	Social Benefit Bond
SEDI	Social Enterprise Development Initiative
SIB	Social Impact Bonds
SII	Social Impact Investing
SRF	Sector Readiness Fund
SII Unit	Social Impact Investing Unit (DSS)
SVA	Social Ventures Australia
WISE	Work integrated Social Enterprise