

# 2019-20 Pre-budget Submission to the Commonwealth Government

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## Executive summary

Australia has experienced more than 20 years of continuous economic growth and increased investment in health, education and social services and yet many Australians continue to experience poverty and exclusion.

Social Ventures Australia (SVA) is a non-profit that works with partners to alleviate disadvantage – to create an Australia where all people and communities thrive.

We influence systems to deliver better social outcomes for people by learning about what works in communities, helping organisations be more effective, sharing our perspectives and advocating for change. We focus on keys to overcoming disadvantage including great education, sustainable jobs, stable housing and appropriate health, disability and community services.

Based on our experience, SVA is recommending a series of modest, targeted investments by the Commonwealth Government – in education and impact investing - which the evidence suggests will increase the social impact of existing government spend and extend the reach of programs which have been shown to improve the wellbeing of Australians.

SVA notes that there are a range of other reforms including improvements to universal services, income support and labour market programs that are essential to reduce disadvantage and social inequality in Australia. This submission proposes targeted investments where SVA has direct experience and that are likely to yield significant social impact in the medium term.

SVA recommends the Commonwealth Government pursue the following new initiatives:

### Education

- Fund an **Australian Education Evidence Broker** to drive evidence-informed policy and practice in Australian schools in line with commitments in the National School Reform Agreement, through an endowment of \$150.1 million.
- Create a dedicated **leadership network for regional, rural and remote schools** to identify, foster and spread best practice teaching and learning, at a cost of \$7.5 million over four years.

### Impact investing

- Establish new **mechanisms to engage government in social impact investing**, including a Minister for Social Impact Investing, and an Office of Social Impact Investing, at a cost of \$1.1 million per year.
- Expand the existing Sector Readiness Fund for social enterprises to include a **Contract Readiness Fund** of \$5 million over four years to support social enterprises to meet growing demand for social procurement.
- Create an **Outcomes Fund** to support the development of Social Impact Bonds (SIBs) and other 'pay for success' mechanisms in Australia, with an investment of \$20 million.

SVA's view is that the initiatives proposed are modest investments in the context of the Commonwealth budget, are based on sound evidence, and have the potential to improve social outcomes, prosperity and inclusiveness for Australians as well as increasing the social impact of the Commonwealth Government.

SVA would welcome further discussions about the rationale and proposed funding measures for any of the initiatives.

## Australian Education Evidence Broker

### **Recommendation:**

That the Commonwealth Government fund an Australian Education Evidence Broker (the Broker) in line with the commitments by both State and Commonwealth Governments in the National Schools Reform Agreement.

An Australian Education Evidence Broker will fill a gap within our education system to drive evidence informed practice and policy. SVA looked at international systems and created *Evidence for Learning* (E4L) three years ago to pilot an Evidence Broker in Australia. Having proved the model, a solution is now needed at scale.

Based on our experience and the experience internationally, SVA recommends a Commonwealth investment of \$150.1 million for an Australian Education Evidence Broker.<sup>1</sup> An open tender to operate the Broker should be conducted and the funding should be provided as an endowment to secure its long-term success and independence. It should be able to accept funding from States, Territories and philanthropists for commissioned work.

The Broker would fulfil the following functions:

- Collate and synthesise international education evidence
- Assess strength and quality of evidence of existing and new programs
- Commission high quality research trials and translations in line with nationally agreed research priorities
- Develop teaching practice guides of high-impact interventions
- Stimulate demand within teaching profession for high quality evidence.

### **Rationale:**

Australia should aspire to an education system where children have an equal opportunity to access high quality education and to develop the skills and knowledge to be able to participate fully in the community, regardless of their background. This requires improvements in both the formal learning environments (early learning, schools, TAFEs, tertiary education) and in home and community environments; which have both been shown to have a profound impact on educational attainment.

With the Commonwealth committing an extra \$23 billion over 10 years for 'needs based' funding for schooling, it is imperative that this money is spent on things that make the biggest difference to learning, and that those things are implemented properly within the system.

To achieve these goals, Australia needs a more effective system to generate and apply evidence in education so that higher impact approaches are more frequently adopted and lower impact approaches are more quickly retired. This will lead to better education outcomes for all Australian students.

In comparison to health research in Australia, education research currently lags well behind both in absolute and relative terms.<sup>2</sup> Education research attracts \$470 million per year, or around 0.5% of expenditure, in comparison to more than 5% of investment in health.

<sup>1</sup> This funding would support the Broker's operations for 10 years. Our recommendation is that the funding be provided as a one-off endowment. See p6 for details.

<sup>2</sup> Productivity Commission (2016), *Inquiry into the National Education Evidence Base, Report no. 80*, p214  
<http://www.pc.gov.au/inquiries/completed/education-evidence/report>

The Commonwealth Government has already committed to improving the use of evidence in education, including the creation of an Evidence Broker, following the recommendations of several independent inquiries.

Reform 7 in the National Schools Reform Agreement commits the Commonwealth, State and Territory Governments to create:

*“An independent national evidence institute to inform teacher practice, system improvement and policy development: Establishment of an independent national evidence institute to undertake research on what works in improving school outcomes and the translation of this research into practical resources for use by schools and teachers.”<sup>3</sup>*

In its policy statement, *Quality Schools, Quality Outcomes* (QSQO), the Commonwealth Government has stated that it intends to focus investment in programs and policies which evidence demonstrates will improve student outcomes. The previous Commonwealth Minister for Education stated that *“There’s an urgency to make sure that every dollar we have is not only distributed fairly and equitably, it is also used as effectively and efficiently on [...] evidence-based reforms [...] and in pursuit of evidence.”<sup>4</sup>*

The Productivity Commission *Inquiry Report on the National Education Evidence Base* also recommended that top-down and bottom-up approaches should work together to adopt and apply evidence to education policy and teaching practices in order to drive a better allocation of resources and improved outcomes.<sup>5</sup>

To achieve this, the Commission highlighted the need for a body to conduct the ‘bottom-up’ evidence functions currently missing in the education system, that is a national Evidence Broker.

In 2017, the *Review to Achieve Educational Excellence in Australian Schools*, chaired by Mr David Gonski AC, (the ‘Gonski Review’) was established to:

- *“provide advice on how ... extra Commonwealth funding should be used by Australian schools and school systems to improve school performance and student achievement.*
- *examine evidence and make recommendations on the most effective teaching and learning strategies and initiatives to be deployed.*
- *‘provide advice on related institutional or governance arrangements to ensure the ongoing identification and implementation of evidence-based actions to grow and sustain improved student outcomes over time.’<sup>6</sup>*

The Gonski Review report, released in March 2018 followed the Productivity Commission report in concluding that the government should:

*“Establish an independent institution to coordinate the strategic development of a national research and evidence base through the sourcing and generating of research, and the synthesising and promotion of educational evidence that can be easily accessed and implemented to improve student outcomes.”<sup>7</sup>*

The Commonwealth Government has endorsed the report’s recommendations.<sup>8,9</sup>

<sup>3</sup> Australian Government (2018) *National Schools Reform Agreement – Fact Sheet* Commonwealth of Australia. <https://www.education.gov.au/national-schools-reform-agreement-fact-sheet>

<sup>4</sup> Birmingham, S (2016) *Speech to ACEL Conference* <https://www.senatorbirmingham.com.au/speech-at-ancel-2016-conference/>

<sup>5</sup> Productivity Commission (2016) *op. cit.*

<sup>6</sup> Australian Government (2017) *Quality Schools: Review to Achieve Educational Excellence in Australian Schools Terms of Reference* <https://docs.education.gov.au/system/files/doc/other/tors.pdf>

<sup>7</sup> Australian Government (2018) *Through Growth to Achievement: Report of the Review to Achieve Educational Excellence in Australian Schools Recommendation 23* [https://docs.education.gov.au/system/files/doc/other/662684\\_tgta\\_accessible\\_final\\_0.pdf](https://docs.education.gov.au/system/files/doc/other/662684_tgta_accessible_final_0.pdf)

<sup>8</sup> Commonwealth of Australia (2018) *Budget 2018-19, Budget Strategy and Outlook Statement 1*, p27

<sup>9</sup> Commonwealth of Australia (2018) *Portfolio Budget Statements 2018–19 Education and Training Portfolio*, p10

There is now strong agreement across tiers of government and the political spectrum of an immediate need to fund and establish an education evidence Broker.

Australia can learn from overseas examples of how other national policy makers have sought to ensure the most effective practices are adopted within a decentralised school system.

The *Education Endowment Foundation* is an evidence ‘broker’ to the English education system. It supports teachers and senior leaders by providing free, independent and evidence-based resources that improve practice and boost learning. Evidence of what works to improve teaching and learning is generated through rigorous trials – up to the standards of medical testing such as randomised control trials - of promising but untested programmes and approaches. Schools are then supported across the country in using evidence to achieve the maximum possible benefit for young people.<sup>10</sup>

EEF reports suggest this has:

- Been cost effective for pupils taking part in trials, with a lifetime gain valued at three times the cost of delivering and evaluating the programs; and
- Led to increased evidence informed practice (two in three school leaders use the EEF Teaching & Learning Toolkit; one in three schools is now involved in research).<sup>11,12</sup>

While it cannot be solely attributed to the EEF, attainment gaps between students from high and low-income families have reduced by 23 per cent in primary and 14 per cent in secondary schools.

Through the EEF’s new partnerships in Latin America, the Toolkit has been adapted and translated into Spanish and Portuguese and the EEF is in discussions with other countries in Europe and Asia to further expand an international education evidence network.

Social Ventures Australia established *Evidence for Learning* (E4L), to adapt the UK’s EEF model to the Australian federation and test it at small scale.

E4L built on the work of the EEF by raising philanthropic funding to add Australasian research and making the assets freely available and promoted nationwide. The EEF is a founding partner and E4L is now the exclusive Australian licensee and agent of all their resources and assets.

E4L currently works collaboratively with multiple governments, agencies, professional associations, networks and schools. It is actively sharing evidence about effective approaches by providing free, online summaries of global evidence through the Teaching & Learning Toolkit aligned to improvement strategies for Australian school systems.<sup>13</sup>

E4L is also supporting the creation of new rigorous evidence by commissioning randomised controlled trials of programs in schools through its Learning Impact Fund.<sup>14</sup> This includes the trial of the Resilient Families program in Victorian schools, and the MiniLit program in NSW government schools. To drive the use of evidence, E4L is supporting schools to use evidence in their professional decision-making through the development of Australian practice guides and events like the Evidence Exchange.<sup>15</sup>

## Proposal:

A national Broker which focusses on generating, sharing and promoting use of educational evidence is fundamental to supporting the sector to methodically improve educational outcomes and improve Australia’s ‘learning productivity’.

<sup>10</sup> See <https://educationendowmentfoundation.org.uk/about/> for further information

<sup>11</sup> National Audit Office UK (2015) *Funding for disadvantaged pupils* <https://www.nao.org.uk/wp-content/uploads/2015/06/Funding-for-disadvantaged-pupils.pdf>

<sup>12</sup> Education Endowment Foundation (2016) *The EEF at 5* [https://educationendowmentfoundation.org.uk/public/files/Publications/5th\\_Anniversary\\_Brochure\\_Final.pdf](https://educationendowmentfoundation.org.uk/public/files/Publications/5th_Anniversary_Brochure_Final.pdf)

<sup>13</sup> See <http://evidenceforlearning.org.au/the-toolkit/> for further information

<sup>14</sup> See <http://evidenceforlearning.org.au/lif/> for further information

<sup>15</sup> See <http://evidenceforlearning.org.au/evidence-exchange-2016/> for further information

Establishing a single national body is a more efficient approach than having each sector and state attempt to marshal these resources separately, and the Commonwealth Government is uniquely positioned to facilitate this.

Additional benefits of a national body accrue through sharing evidence across jurisdictions, conducting larger scale and more statistically significant studies, and testing more approaches concurrently to speed up the innovation cycle.

To achieve this, a new organisation is needed, namely an Australian Education Evidence Broker. The Broker will report publicly on what international and local evidence demonstrates will improve learning outcomes; conduct high quality trials of promising programs; and produce teaching support resources to increase the adoption of evidence-based practices in schools.

Consistent with the findings of the Gonski Review, the Broker should synthesise the current international **Knowledge Base**, publish independent **Program Reviews**, manage a **Trials Fund**, develop **Practice and Implementation Guides** for educators, and support **Evidence Networks** to help schools mobilise evidence.

The review panel also recommended nine principles to inform the design of this new institution. The Review suggested it should be: **Independent, Collaborative**, foster **Evaluative** thinking and practice, a **Promoter and Commissioner** of research and the findings; a **Capacity Builder; Dynamic** to respond to the changing environment; **Future-focused; Responsive** to the needs of system and educators; and **Innovative** in testing new programs and approaches.

While E4L has demonstrated how an adapted model of the EEF can work in the Australian context, there is a need for a permanent, scaled evidence Broker in the national education architecture to realise the goals of federal and State governments, the Gonski Review, and the National Schools Reform Agreement.

None of the existing national education institutions (AITSL, ACARA or ESA) have the current capability or the mandate to determine ‘what works in schools’ (through *empirical evidence generation*) nor the ability to ensure that evidence-based practices are adopted and implemented with fidelity in schools (*supporting evidence use by teachers and school leaders*) and to do so at scale.

Without this capability, it is not possible to see how the Commonwealth Government can ensure its significant investments in education are directed to evidence-based approaches that improve school performance and student attainment.

Some State governments and other education sector organisations have invested in developing some of these evidence capabilities, but they are inconsistent. Smaller States are unlikely to be able to afford to create a stand-alone evidence function. The Broker’s design, funding and governance is intended to complement not replicate existing assets.

### **Funding, costs and governance:**

The estimated budget for the Broker (including establishment costs in year 1, and recurrent operational costs) is \$150.1 million over 10 years.

The Broker’s greatest impact will be achieved if the Commonwealth ‘pump-primed’ the entity to send a signal to researchers, policy makers, school leaders and system leaders of the need to engage in evidence informed practice at scale to create cultural change within the school system.

To ensure its independence, the best funding model for the Broker would be as an endowment. There is precedent for this approach – the Commonwealth and Victorian governments jointly founded the Grattan Institute with an endowment, to ensure that its research agenda was, and was seen to be, independent of the views of any particular government. The EEF was also established by the

Cameron government in England through an endowment. Long term funding certainty could also be achieved through recurrent budget expenditure.

Table 1 provides an indication of scale and costs of the Broker’s activities, based on scaling the costs of the EEF relative to the size of the Australian education sector. If, as recommended in this submission, the funding is provided as an endowment, the full cost to the Commonwealth budget would occur in year 1.

**Table 1: Australian Evidence Broker budget and impact compared to EEF**

	Evidence Broker (10 Years)	England Comparison	
		EEF (In 2017)	EEF (10 Years)
# Schools Engaged	7,760	7,670	15,250
% Schools Engaged	82%	32%	64%
Total Schools in Country	9,414	24,000	24,000
National Government (\$m AUD)	150.1	216.0	424.0
Philanthropy (\$m AUD) @ 25%	37.5	39.1	106.0
Toolkit Summaries	40	34	40
Program Reviews	225	-	-
Research Trials	147	145	250
Practice Guides	10	3	10
Evidence Networks	67	20	75
(Schools served - 50 per network)	3,350	1,000	3,750

It should be a requirement in tendering for the Broker to seek additional sources of funding outside of the Commonwealth Government to leverage the initial investment.

State, Territory, Catholic and Independent school systems as well as philanthropists would be encouraged to pay for trials/evaluations within their own school systems and to purchase services and supports for their teachers and principals from the Broker. This will defray the costs and create a ‘user pays’ mechanism for school systems. As a national body, all reports created by the Broker – including program successes and failures – will be available for use by States and non-government schools and systems.

It is proposed that the Australian Evidence Broker would be established as a public company limited by guarantee, under the *Commonwealth Corporations Act 2001* and subject to the provisions of the *Public Governance, Performance and Accountability Act 2013*. The Broker would operate under its own constitution, with decisions made by a skills-based board of directors who are responsible for the governance of the entity. A separate advisory council should be established to enable full and meaningful representation across the school sectors and ensure that Broker is fully engaged with the needs and concerns of school systems, teachers, principals and others.

Further information on potential governance and advisory structures is available on request.

## Leadership network for regional, rural and remote schools

### Recommendation:

That the Commonwealth Government invest \$7.5 million to fund a collaborative network of school leaders in regional, rural and remote (RRR) schools. The network would mobilise great practice, strengthen leadership, and build evidence of what works in complex communities. A collaborative network would:

- Connect like-minded school leaders through an intentional and collaborative community of practice.
- Build a clear evidence base of programs and initiatives that are making a difference to students in RRR schools, particularly those experiencing disadvantage
- Increase awareness of innovative approaches that have a proven impact on learning outcomes of students in RRR communities
- Influence school leadership ability to use innovative and evidence-informed approaches that have impacted on learning outcomes.

Importantly, the collaborative network would operate nationally, crossing jurisdictions and mobilising knowledge and practice beyond the networks currently available to RRR schools.

### Rationale:

As a cohort, the educational outcomes of RRR students have lagged behind those of metropolitan students for many years. RRR students as a cohort score lower on NAPLAN as well as international tests of school student performance such as PISA and TIMSS. They are less likely to complete Year 12 or equivalent, and to achieve a Bachelor's degree or diploma.<sup>16</sup>

High quality school leadership can be expected to have a significant impact on learning outcomes for RRR students. There are clear challenges in making this a consistent reality in RRR schools, including attraction and retention of high-quality leaders, and effective professional support and development with specific recognition of context for these educators. High quality practice exists currently in some RRR communities, but we lack mechanisms to ensure that this spreads to other communities facing similar challenges.

An intentional network of schools to capture, validate and then mobilise expertise would be an empowering lever in improving practice on a broader scale. The creation of the network could be an effective mechanism to support the development of good practice as well as the translation of this practice into contexts that are remarkably diverse.

A collaborative network of RRR schools would support the Government's goal to improve educational outcomes for RRR students, as identified through the Independent Review into Regional, Rural and Remote Education.<sup>17</sup>

It would also support the specific recommendations of the Review that government should:

- *“Ensure RRR contexts, challenges and opportunities are explicitly included in the selection, preparation, appointment and on-going professional support of educational leaders.*
- *Support RRR communities to implement innovative approaches to education delivery designed to improve education access and outcomes for students living in remote communities.”<sup>18</sup>*

<sup>16</sup> Halsey (2018) *Independent Review into Regional, Rural and Remote Education – Final Report*. Commonwealth of Australia. <https://www.education.gov.au/independent-review-regional-rural-and-remote-education>

<sup>17</sup> *ibid.*

<sup>18</sup> *ibid.*



Since 2013, SVA has convened the *Bright Spots Schools Connection* (the *Connection*), a collaborative network model to support leadership development for improving student outcomes. The model has so far directly benefited 30,000 students from 50 Australian schools. Based on our experience in this initiative, and on extensive consultation with national and international partners, we have found that this model is successful in accelerating change in communities experiencing disadvantage. Our ongoing evaluation indicates a wide range of benefits, including improvements in student achievement and aspiration, and a greater sense of motivation in teachers. We have seen the improvement of teaching practice through a professional support network that sets high expectations, so that current pockets of excellence inform, lead and influence others in their work and practice too. Experience from the *Connection* informs us that great leadership can enable and support consistent quality teaching and learning; poor leadership can disable it.

Evaluation of the 'Star Hubs' program within the *Connection* provided strong evidence that collaborative networks are an effective model of professional learning for school leaders. 93 per cent of participating school leaders reported that they had increased connections with likeminded leaders and 85 per cent reported that their thinking and underlying beliefs had been positively challenged and changed within 12 months.<sup>19</sup>

The Commonwealth has a crucial role to play in establishing a national collaborative network, developing a strong national community of educators with a common purpose of advancing education for all Australian students. Although each RRR school exists in a unique context, it shares some common challenges and opportunities with other RRR schools which it may not share with other schools in its own jurisdiction or school system. Only the Commonwealth Government can convene a network that crosses jurisdictional and school system boundaries.

### **Proposal:**

The Commonwealth Government should fund a collaborative network of school leaders in regional, rural and remote schools. A network specifically designed for RRR schools could draw on the experience of the *Bright Spots School Connection*. This model would include a number of core activities, as well as tailored support such as:

- Access to a cluster of schools coordinated by a convenor, who would lead activities for the cluster of schools
- Exposure to the other schools identified as having implemented promising practice, to learn from and network with leaders through quarterly conferences
- Access to the schools through school visits, educator exchanges and shared activities
- Tailored support to enable the schools to translate their learning into concrete, actionable strategies.

Sustained involvement (for example, a three or four year partnership) is a critical success factor when designing professional supports for geographically isolated educators. Not only do RRR students need to be engaged and supported in learning over a sustained period of time, educators also require support in these contexts to build the expertise and quality necessary for consistency of practice at scale.

### **Funding:**

An initial commitment of \$3 million and subsequent commitment of \$1.5 million per year over the forward estimates from the Commonwealth would support 50 core schools in RRR areas. This would reach approximately 300 schools through broader network outreach.

<sup>19</sup> SVA Consulting (2016) *Star Hubs Initiative: 12-month evaluation report*

## Impact investing infrastructure

### Recommendation:

That the Commonwealth Government appoint a Minister for Social Impact Investing and establish an Office for Social Impact Investment to sit within either the Department of Finance or the Treasury.

### Rationale:

Social impact investments (SII) are investments made with the intention of generating positive, measurable social outcomes, alongside appropriate financial returns. SII can take many forms, including, but not limited to, investment in social enterprises, social impact bonds, and social housing and disability housing.

The Australian SII market is on the cusp of a growth phase, and there is a great opportunity for it to mature quickly as long as the right supporting infrastructure and initiatives are in place. An enabling environment, with strong leadership from a host of players including government, is essential to growing the SII market.<sup>20</sup> There is significant evidence, both internationally and from Australia, demonstrating that Government leadership is crucial in developing an efficiently functioning impact investing market.<sup>21</sup>

SVA agrees with the Treasury's 2017 discussion paper on social impact investing that it would be an effective use of resources for the Commonwealth Government to create an enabling environment to encourage more private capital into social impact investing; as well as provide funding or co-funding for capacity building, outcomes payments, and data and measurement tools, which will deliver better social outcomes for the Australian people.<sup>22</sup>

### Proposal:

- Appointment of a Minister for Social Impact Investing
  - A Minister with responsibility for Social Impact Investing, within the treasury and finance portfolio, to ensure appropriate exposure for SII policy to generate cross-portfolio support.
  - Responsibility for SII should be allocated to the Treasurer, Assistant Treasurer, or Minister for Finance.
- Establish an Office for Social Impact Investment to sit within the Treasury or Department of Finance
  - Experience both in Australia and abroad suggests that a central point of coordination, usually within or associated within a central agency, is essential to coordinate SII across government.
  - Involvement from an agency with a whole of government remit is important given the complexities in calculating both the costs and the potential outcomes across Government departments of SII, including the need for access to, and understanding of, various data sets.
  - As the market grows, there is also a need for new approaches to data and impact measurement in SII, which a co-ordinating office within government would be well-placed to facilitate.
  - Impact investors and intermediaries also need a central point of contact for origination of new kinds of transactions with the Commonwealth and to provide a central point to provide advice and feedback on ways to remove barriers to new investments.

<sup>20</sup> Addis, Bowden and Simpson (2014) *Delivering on Impact*. Impact Investing Australia. <http://gsqii.org/reports/delivering-on-impact/>

<sup>21</sup> *ibid.*

<sup>22</sup> The Australian Government the Treasury (2017) *Social Impact Investing Discussion Paper*. Commonwealth of Australia. [https://static.treasury.gov.au/uploads/sites/1/2017/06/C2017-002\\_Social\\_Impact\\_Investing\\_DP.pdf](https://static.treasury.gov.au/uploads/sites/1/2017/06/C2017-002_Social_Impact_Investing_DP.pdf)

**Funding:**

The cost of establishing an Office for Social Impact Investing within the Treasury is scalable depending on intended scope. Initial establishment with a focus on inter-departmental and inter-governmental co-ordination, policy development and advice, and some data management, and a 'shop front' for impact investors and intermediaries would be in the order of \$4.4 million over the forward estimates.<sup>23</sup> Funding for implementation of social impact investment initiatives, such as those proposed elsewhere in this submission, would be additional to this. Creating a new Ministerial portfolio would not incur any additional cost to the Budget.

<sup>23</sup> This estimate is based on four years of funding for a staff of 6 FTE, ranging from an SES Band 1 to APS6, including on-costs.

## Contract Readiness Fund for social enterprise

### Recommendation:

That the Commonwealth Government expand the existing Sector Readiness Fund for social enterprises to include a **Contract Readiness Fund** of \$5 million over the forward estimates. This fund would enable social enterprises to access the specialist support services they need to position them to win and deliver on large social procurement contracts.

### Rationale:

Social procurement is the innovative use of business and government purchasing power to create social value. Social procurement contracts are typically issued by either government or businesses and include consideration of social factors – such as employment of disadvantaged groups – in the tendering process. This can underpin demand for the products and services supplied by social enterprises, in which impact investors can then invest.

Australia is experiencing significant growth in social procurement due to the increased use of business and government purchasing power to create social value.

Governments are critical to the acceleration of social procurement. For example, the Commonwealth Government has committed to place 3 per cent of its procurement contracts with Indigenous suppliers - an estimated 1,500 contracts or \$135 million each year.<sup>24</sup> The Victorian Government's Social Procurement Framework requires all government expenditure to take social outcomes into account, and in some to mandate social procurement approaches. Infrastructure projects in Victoria are starting to generate significant revenue for social enterprises and, if properly harnessed, have the potential to create thousands of jobs for people experiencing disadvantage. Social procurement in the UK has fuelled the growth of social enterprise champions such as the HCT Group, a social enterprise that operates many of London's red buses, providing 30 million passenger trips every year.<sup>25</sup> Corporations are also increasingly exploring social procurement as a means of demonstrating their commitment to corporate social responsibility.

Social procurement is not just good social policy policy, it also represents value for money. Supply Nation undertook a Social Return on Procurement analysis and found that for every \$1 spent with an indigenous business there was a \$4.41 return.<sup>26</sup>

The growth in social procurement is already driving demand for social enterprise growth. However, the constraint in meeting this expected demand is a lack of contract-ready social enterprises at sufficient scale to deliver on large contracts. A survey of corporate and government procurement officers reveals barriers to realising the full potential of social procurement include difficulties in sourcing suitable social benefit suppliers, risk associated with breaking existing supply chain relationships and potential impacts on supply chain productivity.<sup>27</sup> Many social enterprises do not currently have the experience or expertise to successfully compete for and deliver large social procurement contracts. Social enterprises seeking to realise social procurement opportunities need a combination of business support and investment.

The Commonwealth's \$7 million investment in the Sector Readiness Fund has been an important step in growing the social enterprise marketplace in Australia. However, the current fund is only able to

<sup>25</sup> See [http://www.hctgroup.org/about\\_us](http://www.hctgroup.org/about_us) for further information

<sup>26</sup> Supply Nation (2018) *The Sleeping Giant: A Social Report on Supply Nation Certified Suppliers* <https://supplynation.org.au/wp-content/uploads/2018/08/Sleeping-Giant-Report.pdf>

<sup>27</sup> Barraket and Loosemore (2018) Co-creating social value through cross-sector collaboration between social enterprises and the construction industry' *Construction Management and Economics* Vol 36 Issue 7. <https://doi.org/10.1080/01446193.2017.1416152>

support social enterprises who need assistance to raise capital. In many cases, social enterprises that are seeking to win and deliver on large contracts do not need additional investment but do need other specialist support. There is a substantive gap in the Australian market for this contract readiness support.

To ensure that social enterprises maximise the potential of the emerging social procurement opportunities, SVA has launched a new contract readiness support initiative. This is a pilot program to support social enterprises to win and deliver large social procurement contracts, via a combination of social enterprise growth advisory services, transaction services and post-contract support.

While this initiative has significant potential, it is currently philanthropically funded and is limited in scale and duration. SVA believes that broader government support for capacity building activities could provide the necessary tools to support the growth and sustainability of social enterprises around the country at a much larger scale.

An expansion in the size and scope of the Sector Readiness Fund to include a Contract Readiness Fund could provide the necessary capacity building capability to support the growth and sustainability of social enterprises around the country. Such a fund could contribute to the wider social enterprise ecosystem by sharing case studies, tools, contributing to key events and common ecosystem platforms which provide greater information and access to all interested parties.

#### **Case study: Vanguard Laundry Services**

In 2016, SVA was instrumental in raising \$6 million of capital from a blend of philanthropy, government, local investors and bank finance to setup Vanguard Laundry Services (VLS) which is a start-up non-profit commercial laundry based in Toowoomba. SVA worked to help deliver the Vanguard Laundry social procurement deal through partnering with St Vincent's Hospital and the Toowoomba Clubhouse. Luke Terry, an experienced entrepreneur, had a vision to open a commercial laundry social enterprise in Toowoomba and saw the business as an opportunity to support the local community by employing people with mental health issues.

SVA provided strategic and commercial advice, brokered pro-bono legal support, recruitment assistance and support to transform this business opportunity from an idea into a leading Australian social enterprise. Vanguard Laundry in Toowoomba now has a \$14 million contract with St Vincent's Health and employs 40 staff. The laundry is aiming for 1000 staff within 10 years.

The ultimate beneficiaries of a Contract Readiness Fund will be disadvantaged Australians who will be able to access jobs, many of them for the first time. The exact characteristics of the beneficiaries will depend on the social enterprises supported, but based on SVA experience and FASES data, we expect cohorts to include people with disabilities, young people, disadvantaged women, unemployed people and Aboriginal and Torres Strait Islander people. Ultimately, social enterprises are responsive to local needs, and can be targeted towards key cohorts facing acute challenges, such as refugees and recent migrants, older Australians and workers affected by industry restructuring.

There is a growing body of international and local evidence to support the establishment of a Contract Readiness Fund. Internationally, the most conclusive evidence comes from the UK Investment & Contract Readiness Funding (ICRF), a £13.2 million grant fund that aimed to increase the number and scale of social ventures that are investable and able to compete for public sector contracts on a level

playing field. 155 ventures received grants to pay for investment and contract readiness support, with an average grant size of £85,000.<sup>28</sup>

This support led to £233 million of value being unlocked, including £154 million of contracts. In other words, every £1 spent by government on contract readiness unlocked £23 of contract value. 89 per cent of ventures reporting increased contract readiness as a direct result of ICRF support.<sup>29</sup> Ventures consistently reported that ICRF helps to build the capabilities of ventures for the longer term rather than simply helping them access specific short-term opportunities. Across a range of dimensions, ventures report significant increases in their skills and knowledge thanks to the help they have received. The most significant increases were for approaching legal issues; measuring impact; and building a case for expansion<sup>30</sup>. More recently, the UK Cabinet Office, Big Society Capital and Big Lottery Fund have jointly established the Access Foundation, a £100m foundation aimed at helping early stage social enterprises and charities access finance. The Access Foundation will deliver support via a Growth Fund (providing matched loan and grant capital up to £150,000) and its capacity building programs.<sup>31</sup>

### **Proposal:**

For social procurement (and impact investing) to achieve its full potential, the social enterprise market will need to continue to scale – and bringing in expert capacity building support is critical for this.

We recommend that the Commonwealth Government provide \$5 million for a Contract Readiness Fund, as an expansion of the existing \$7 million Sector Readiness Fund. This would support 20-30 social enterprises to scale nationally, via winning and delivering multiyear contracts over \$1 million. This will create new employment opportunities for disadvantaged Australians as well as significant lasting improvement in the capability and financial sustainability of social enterprises.

In the long-term, this network of 20-30 leading social enterprises in major business-to-business industries, would have operations in most states and territories and have the scale and sophistication to transact directly with Government and ASX companies – without any external support.

### **Funding:**

An investment of \$5 million over the forward estimates would enable up to 30 social enterprises nationally to scale to win and deliver multi-year contracts over \$1 million. Funds of this scale would be sufficient to make a meaningful difference in the market, while not overwhelming the existing capacity of the sector to engage.

<sup>28</sup> Ecorys UK on behalf of UK Cabinet Office (2015) *In Pursuit of Readiness: Evaluation of the Investment and Contract Readiness Fund* <https://www.sibgroup.org.uk/resources/in-pursuit-of-readiness>

<sup>29</sup> *ibid.*

<sup>30</sup> Boston Consulting Group (2014) *Ready, willing and able: an interim review of the Investment and Contract Readiness Fund*, <https://www.gov.uk/government/publications/investment-and-contract-readiness-fund-interim-review-report>

<sup>31</sup> See <https://access-socialinvestment.org.uk/> for further info

## Outcomes Fund

### **Recommendation:**

That the Commonwealth Government establish an Outcomes Fund to support the development of Social impact investments (SIIs) in Australia, including Social Impact Bonds and other 'pay for success' mechanisms.

### **Rationale:**

Social impact investments (SII) are investments made with the intention of generating positive, measurable social outcomes, alongside appropriate financial returns. 'Pay for success' mechanisms, such as Social Impact Bonds, reflect a new approach to government procurement, where governments pay service providers when they achieve a set of social 'outcomes', rather than just on the traditional 'outputs' basis. SIBs typically finance preventive and early intervention services that tackle social issues that generate long term savings for government. The structure allows for a sharing of risk between government, service providers and private investors.

While the experience in the states has been that SIBs take time to develop, they have significant benefits beyond the individual transaction. SIBs have been shown to improve the capability of governments and service providers to:

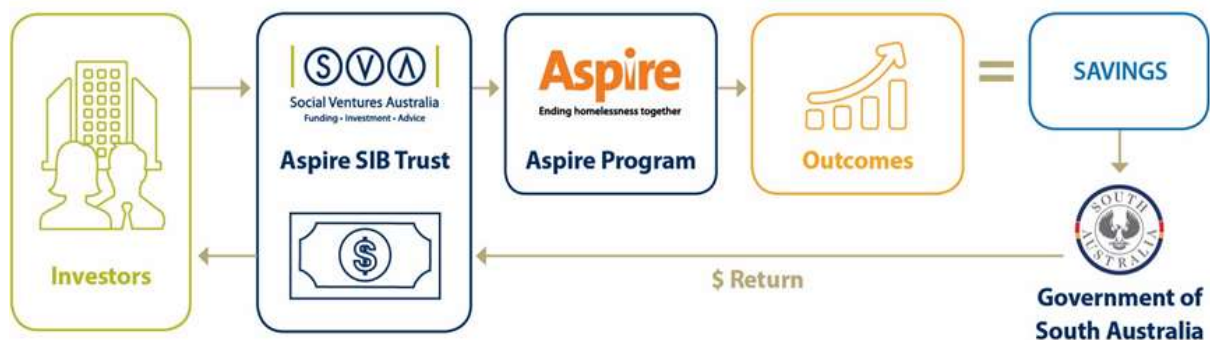
- Understand and quantify the true costs of different interventions across departments;
- Work within outcomes-based contracts;
- Rigorously monitor and evaluate service outcomes; and
- Participate in control trials.

The SIB market in Australia has to date been driven by state governments who have sought out programs to address state level costs including child protection, prison populations, avoidable hospital and healthcare expense and acute homelessness services. As of December 2018, thirteen SIBs have been contracted across Victoria, New South Wales, Queensland and South Australia, with more currently being developed.

Developing a market for SIBs in Australia on a national scale will require partnerships between different levels of government and service providers to be successful. There are substantial opportunities for the Commonwealth Government to benefit from the potential long-term savings that pay for success models may generate.

There are already several state SIBs which are likely to generate benefits for the Commonwealth Government. One example is the Aspire Social Impact Bond (SIB) in South Australia, as shown in Figure 1. A range of investors have invested \$9 million (via a trust) in a preventative program undertaken by Adelaide's Hutt St Centre which will in turn seek to generate improved outcomes in the areas of bed days in hospital, criminal convictions and the use of acute homelessness services. Improvement against a baseline will determine the savings to the South Australian Government and a share of those benefits is passed back to investors over the 7.75 year term of the SIB. A core component of the intervention methodology is providing extensive support to individuals to enable them to re-engage with the workforce.

Figure 1: Structure of the Aspire Social Impact Bond



The recently contracted Sticking Together SIB, Australia’s first SIB addressing youth unemployment, is also expected to generate long-term returns, the bulk of which will flow to the Commonwealth Government. This innovative transaction is expected to generate a positive impact through participants’ increased time spent productively engaged in work or work-like activities, along with improved wellbeing, reduced reliance on welfare and greater lifetime earnings.

The Sticking Together Project is an intensive 60-week coaching program that supports young people to get ready for work and, importantly, develop life skills that enable them to stick with their jobs. It was developed by SYC, a highly experienced non-profit service provider that has delivered employment, training, housing and wellbeing services to young people for 60 years.

The program aims to work with around 870 young people aged 18 to 24 in New South Wales, who are unemployed and have high barriers to employment (Stream B and C job seekers in the jobactive system). The program will find ways to improve each young person’s connectedness, motivation and personal self-worth through the lens of home, health and relationships, and will also provide support to their employers.

Establishing an Outcomes Fund to support transactions like these could catalyse additional investments from state governments, particularly in areas where the long-term financial benefits are sufficiently split between the federal and state governments that the investment is not viable from a state government angle but would be worthwhile from a national point of view.

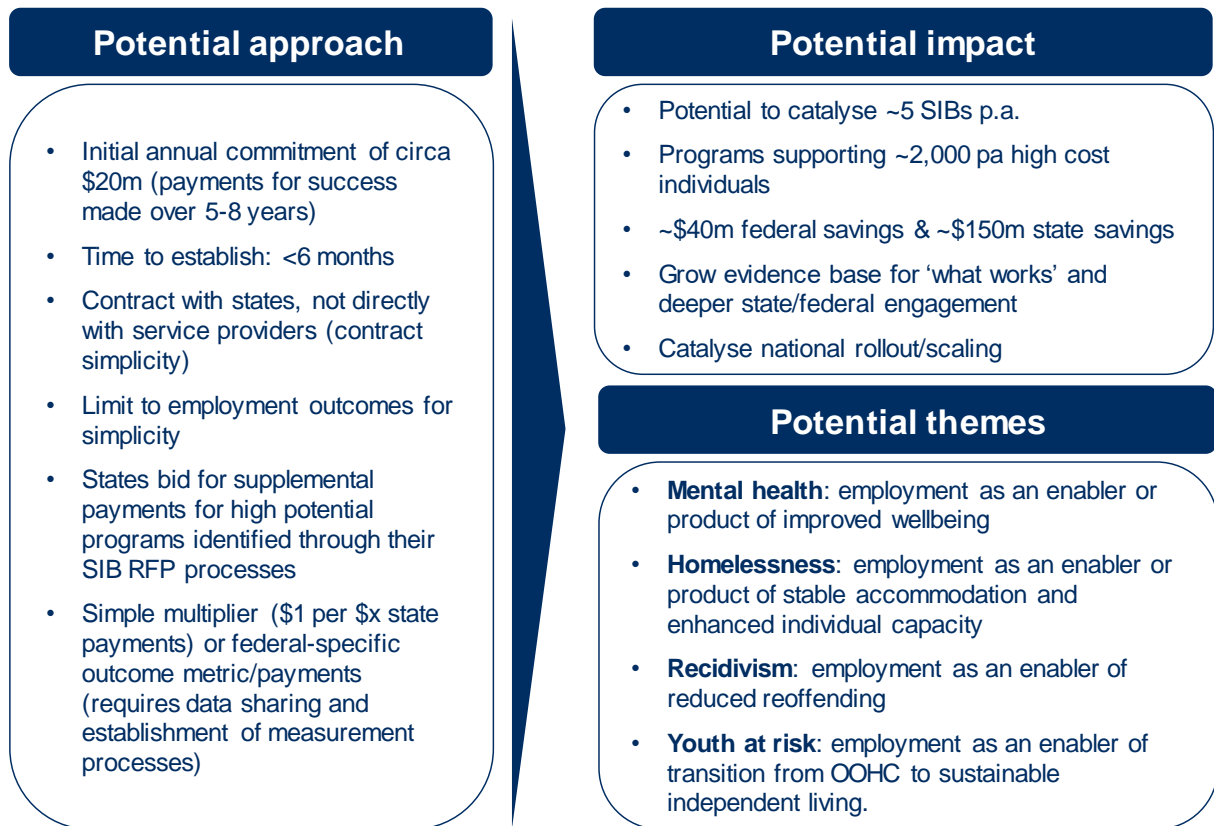
**Proposal:**

In the 2017-18 Budget, the Commonwealth Government committed \$22 million to support social impact investments, including funding to support partnerships with State and Territory governments to develop and trial SII initiatives that help young people at risk of homelessness, and other vulnerable priority groups. The 2018-19 Budget included an additional \$6.7 million over four years to build the capacity of the Australian SII sector by undertaking longitudinal studies and through the development of an impact framework aligning with the Commonwealth Government principles for social impact investing. The framework will be published online, along with supporting resources for measuring the impact for social enterprises.

As a next step, the Commonwealth Government could consider catalysing new SIBs via the establishment of an Outcomes Fund to supplement State and Territory government SIBs, as shown in Figure 2.



Figure 2: Commonwealth Government outcome fund to supplement State government SIBs



In this model, the Commonwealth Government outcomes contribution could be made directly to the state government for simplicity. This would require data sharing between federal and state governments to track successful outcomes for the same cohort.

Like all outcomes-based contracts, the measures of success need to be carefully designed to ensure that the wellbeing of the people receiving the service is improved and that perverse incentives are avoided.

**Funding:**

An Outcomes Fund would be somewhat scalable, but an annual commitment from the Commonwealth Government of \$20 million could catalyse around five SIBs per year, with payments to be made progressively over the following five to eight years. We estimate that an investment of this scale could result in welfare savings in the order of \$40 million for the Commonwealth, and savings of circa \$150 million for State and Territory governments, depending on the payment structure, program design and target cohort.