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Social Impact Investing Discussion Paper

Huber Social Submission

27 February 2017

Introduction

Huber Social is an innovator that is bringing fresh approaches to addressing social problems

- Our vision is a society that systematically improves the lives of those in need
- Our mission is to solve complex social problems
- Our strategy is to work with partners to grow their social impact exponentially

In recent years the social services sector has improved the measurement of social impact and has developed new ways to connect social outcomes with private investment.

However, these improvements have not gone far enough. Social impact bonds are too cumbersome for many service providers, outcome measurement is not done consistently and there is a lack of coordination and collaboration across the sector.

Solving complex social issues requires a systematic approach. It requires a more concerted effort between social service providers, governments, donors and investors to get better at defining the root cause of social issues and measuring our effectiveness in addressing these.

Huber Social brings this all together through a systematic, innovative and scalable approach to solve complex social issues; providing measurement, funding and capability.

For more on Huber Social go to www.hubersocial.com.au

Social Impact Investing

Huber Social sees social impact investing as one means of helping to achieve two of our main goals:

- **Accelerate innovation** in social service delivery and broaden its impact. As is the case in most sectors, innovation mainly comes from the newer, smaller social service providers. However, these tend to find it difficult to attract funding or scale rapidly. Social impact bonds are too cumbersome and impose too much overhead burden to be of assistance to these innovators. Huber Social has developed a more scalable social investment approach along with the outcome measurement and assurance capability required to attract investors. Our objective is to enable good, innovative service providers to scale up quickly and to focus on their core purpose so that they deliver greater social impact
- **Create a self-reinforcing system**:
    - Donors get certainty of social return for their donations, and the social impacts generated by their donations are measured and verified. We believe that the omission of donors from the discussion paper is a missed opportunity to look at ways of expanding the donor base and focusing their funds on the things that work.
    - Investors have access to an "asset class" that provides both non-cyclical financial returns and social benefits.
    - Social Service Providers no longer need to do their own fundraising. Instead they can focus their efforts on their core purpose.
    - Government can direct its funding to areas that have the greatest impact.

We therefore see social impact investing as a means to an end, rather than an end in itself. Driving growth in social impact investing for its own sake, without creating a net improvement in social outcomes, would be a retrograde step.

Social impact investors, donors and government need to be complementary funding sources rather than substitutes. This is why we are developing innovative forms of social investment that enable multiple investors to invest in multiple service providers.

The Role of Government

Huber Social agrees with Treasury[1] that the overarching purpose of government is to protect and increase the wellbeing of the people it represents.

To support Government's objectives we have developed an innovative measurement framework that provides a consistent way to measure social impact across different sectors. The framework links

- Individual wellbeing with personal capabilities (e.g. resilience) and opportunities
- The development of those capabilities with specific social service programs and interventions

Through this framework we can identify what the specific sector based 'needs' are and which interventions are likely to drive the greatest improvements in wellbeing for a given cohort. This enables targeted investment at the services that build capability of individuals to be able to participate in society economically and socially, thereby addressing the recommendations of the McClure Report, specifically *Pillar 2: Strengthening Individual and Family Capability*[2] as well as operationalising Treasury's Wellbeing Framework.

We see a key role for government in setting outcome measurement standards and principles (but not prescribing measures) that enable data to be collected in a consistent manner by different organisations. This should still allow sufficient flexibility for innovation and the development of improved measures.

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[1] Economic Roundup, Issue 3, 2012, Treasury's Wellbeing Framework, http://www.treasury.gov.au/PublicationsAndMedia/Publications/2012/Economic-Roundup-Issue-3/Report/Treasury8217s-Wellbeing-Framework#P8_97

[3] HM Treasury, The Green Book, Appraisal and Evaluation in Central Government, https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/220541/green_book_complete.pdf, 2011, pages v and 58

We also see a key role for government in providing funding that goes beyond the relatively narrow scope set out in the Discussion Paper. Whilst seeking to encourage innovation on the one hand, the scope of government funding for social impact investments is constrained to areas where government can achieve a cost saving.

Huber Social believes that this “cost saving” approach asks the wrong question. Rather than asking how much money might be saved through a particular social investment; government should instead be asking how much social impact is generated for the money it invests. As noted earlier, the best overarching measure of social impact is wellbeing and therefore return on social investment should be measured in terms of the increase in wellbeing delivered per dollar invested, which logically leads to productivity gains.

Comparison between different social investments therefore requires wellbeing to be measured in a consistent way, hence the need for government to set measurement standards and principles.

Nearly all government expenditure could be considered social investment, yet its impact on wellbeing is rarely comprehensively measured. Huber Social believes that the social services sector has the opportunity to lead by example in measuring the impact of government investment on wellbeing and to use this as a basis for directing government funds to where they generate the greatest improvement in wellbeing.

This wellbeing approach has been used successfully by the UK Treasury to ensure that “public funds are spent on activities that provide the greatest benefits to society, and that they are spent in the most efficient way”[3]. The UK Treasury has used subjective wellbeing data (such as the ‘life satisfaction approach’) that looks at people’s reported life satisfaction in surveys such as the UK Office of National Statistics’ Integrated Household Survey) in cost benefit analyses.

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[3] HM Treasury, The Green Book, Appraisal and Evaluation in Central Government, https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/220541/green_book_complete.pdf, 2011, pages v and 58

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The Huber Social measurement framework is similar, but goes further to evaluate projects and interventions in terms of how they contribute to a person's wellbeing given their specific context (sector), and not just in terms of the value to the 'average person', as in the case of the UK Treasury.

Huber Social Responses to Selected Consultation Questions

1	What do you see as the main barriers to the growth of the social impact investing market in Australia? How do these barriers differ from the perspective of investors, service providers and intermediaries?
	Current approaches to social impact investing in Australia have several limitations: • Legal structures are difficult and expensive to establish • Outcome measures that underpin these investments tend to be either overly complex and difficult to monitor, or proxies that are easy to measure, but may not drive the desired outcomes These limitations restrict the access of service providers to social investment funds, as only those with large budgets can justify the cost of establishing and maintaining these complex structures. Smaller social service providers, who tend to drive innovation, still struggle to access funds. For investors, this limits access to social investments and, as the Discussion Paper notes, there are more funds available than there are suitable investment opportunities. It also limits the type of service providers that investors can access to the larger more established players.

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	For the recipients of social services, this means that most social impact investments simply replace one funding source with another, rather than encouraging innovation in service delivery or expanding the social impact. Inappropriate measures can also lead service providers to focus on "hitting the numbers" rather than doing what is in the best interest of their clients. Current approaches to social impact investing also omit any role for donors, or implicitly act as a substitute for them. Huber Social believes that this represents a lost opportunity to expand the funds available to the social sector by offering donors the same levels of assurance around the outcomes generated by their funds as that provided to investors.
2	What do you see as the future for social impact investing in Australia: for example, can you foresee the development of new structures for social impact investing?
	Huber Social is launching the Huber Social Fund, which provides a unique mechanism for donors and investors to work together and combines the outcome-focus of social benefit bonds with the convenience and scalability of a managed fund. The Huber Social Fund also allows service providers to focus on what they do best, and provides a virtuous cycle of improving capabilities, performance and funding that generates more and more social impact. We believe that this innovative approach will create a new model for sustainable social impact investing in Australia. Huber Social also foresees a growing role for assurance services that not only provide a clearer focus on social outcomes and greater certainty for investors, but are also provided in a way that helps to build the capabilities of service providers.

3	Are there any Australian Government legislative or regulatory barriers constraining the growth of the social impact investing market?
	In general terms, being able to release potential new sources of funding for social services is held back through outdated definitions and regulations that are not fit for purpose. For example, the legal definition of 'charitable purposes' (Income Tax Assessment Act 1997 (Cth) and the Charitable Fundraising Act 1991 (NSW) limits innovation and the potential of other funding sources in the impact investment sector. Further, regulations regarding investments in the Australian market are geared towards traditional market-based investments. In the specific case of social benefit bonds, there is a reliance on government paying for the financial return. However, if we can attach payment for proven social outcomes generated by not-for-profits as a 'charitable purpose' under the law, thereby attaching tax incentives, this role may also be filled by donors. Huber Social has sought leading impact investing legal advice and the model proposed is viable under the current law but not without navigating considerable obstacles (such as legislative requirements referred to above). If government wants to foster wider scale adoption of new models for impact investing, closer consideration needs to be given to enabling donor funds to supplement government funds through receiving tax incentives. In particular, the interpretation of 'charitable purpose' should be extended to include paying for proven social outcomes, as opposed to the traditional 'charitable purpose' definition which simply allows a tax deduction for donations given in the hope of producing some social good.

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	Whilst Huber Social recognises and supports the need for robust regulation in Australian financial and investment policy, a flexible and outcome focused approach that reduces red tape and encourages in-built assurance in impact investment products (appropriately monitored by a financial regulator such as ASIC or APRA) would allow the impact investment market to flourish.
4	What do you see as the role of the Australian Government in developing the social impact investing market?
	Huber Social sees a key role for government in setting outcome measurement standards and principles (but not prescribing measures) that enable data to be collected in a consistent manner by different organisations, whilst still allowing sufficient flexibility for innovation and the development of improved measures. We also see a role for government in providing funding that goes beyond the relatively narrow scope set out in the Discussion Paper. Whilst seeking to encourage innovation on the one hand, the scope of government funding for social impact investments is constrained in the Paper to areas where government can achieve a cost saving. Huber Social believes that this "cost saving" approach is a case of asking the wrong question. Rather than asking how much money might it save through a particular social investment; government should instead be asking how much social impact is generated for the money it invests. Huber Social believes that the best overarching measure of social impact is wellbeing and therefore return on social investment should be measured in terms of the increase in wellbeing per dollar invested. Comparison between different social investments therefore requires wellbeing to be measured in a consistent way, hence the need for government to set measurement standards and principles.

	Nearly all government expenditure could be considered social investment, yet its impact on wellbeing is rarely (never?) measured. Huber Social believes that the social services sector can set the example for government in how to measure the impact of government investment on wellbeing and use this as a basis for directing government funds to where they generate the greatest improvement in wellbeing.
6	Are there areas where funding through a social investment framework may generate more effective and efficient policy outcomes than direct grant funding?
	The grant process is cumbersome and does not provide sustainable funding for even the effective recipient service providers. Setting up social investment framework that evaluates social investment based on social return generated allows for the learnings, rewards and improvements in social service delivery to continue. A social investment framework will open service providers to new sources of capital and capability which is broader than the traditional grant, government or philanthropic funding sources. From the social delivery point of view, grant funding is unsustainable whereas a social investment framework means there is no break in service delivery and service providers can focus on their core social work. A successful social investment framework would require a consistent and systematic measurement approach, such as the one proposed by Huber Social, to continue to refine what the needs of sectors are, to then be able to continually assess what projects and interventions are delivering the greatest social outcome. This system would create a data bank and build on the knowledge (data based findings), to get better at identifying the needs of the sector and the interventions that are successful at addressing these needs. These findings would inform relevant and effective policy improvements as required.

	With grants you do not get sustainability of outcomes or the consistency in methods to be able to build on the findings gained from each evaluated approach. Grants also detract the limited sector resources from actually doing the core social work.
11	We are seeking your feedback on the four proposed Principles for social impact investing.
	Huber Social supports the principles-based approach outlined in the Discussion Paper, but believes that to drive the development a self-reinforcing system some modifications are required. **Principle 1** places an unnecessary constraint on the scope of government funding that is likely to stifle innovation. As cost savings are easier to measure than improvements in social outcomes (Principle 2 notwithstanding), social investments will tend to default to driving cost savings whilst assuming that social impacts are still delivered. Huber Social believes that this “cost saving” approach is a case of asking the wrong question. Rather than asking how much money might it save through a particular social investment; government should instead be asking how much social impact is generated for the money it invests. Huber Social believes that the best overarching measure of social impact is wellbeing and therefore return on social investment should be measured in terms of the increase in wellbeing delivered per dollar invested. **Principle 2** could be strengthened by ensuring that outcome measurement systems are not only used to monitor investments, but are also used to “close the loop” by providing feedback to service providers that enables them to improve their services. This would in turn encourage the development of more immediate and continuous measurement systems, rather than the “audit at the end” systems that are common today.

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	Principle 3 could be strengthened by including donors. Huber Social believes that providing donors with the same levels of assurance around the outcomes generated by their funds as that provided to investors will help to expand the pool of donors. Social impact investors, donors and government need to be complementary funding sources rather than substitutes. Principle 4 could be strengthened by requiring social outcome measures to be linked to their impact on wellbeing – the overarching measure against which different social impact investments can be compared. This would then drive greater consistency in how specific social outcomes are defined and measured. Huber Social sees a key role for Government in setting measurement standards and principles, but not prescribing measures, to provide flexibility in their application to specific contexts and to allow innovation to drive improved measures and measurement systems.

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