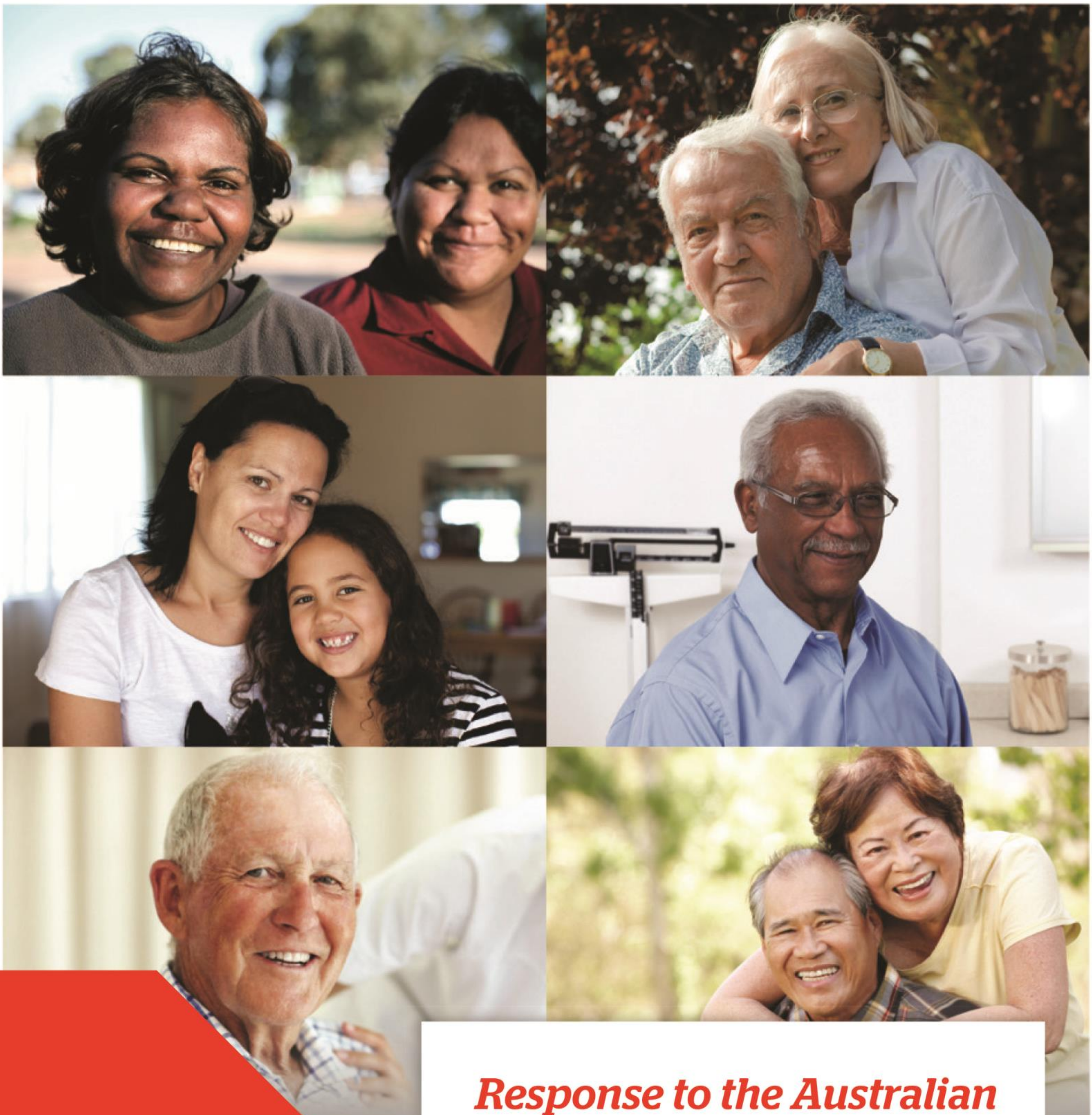


Response to the Australian Government's

Social Impact Investing Discussion Paper

27 February 2017

Silver Chain

CONENTS

Silver Chain will restrict our response to two of the three sections of your discussion paper, those being; Section 3, "Role of the Australian Government in social impact investing" and section 4, "Australia's social impact investing principles".

We do not feel qualified to comment on questions raised in section 5, "Reducing regulatory barriers", where discussion is solicited in areas such as Private Ancillary Funds (PAF), the fiduciary duty of superannuation trustees and barriers in Corporation law to PAFs investing in impact investment products.

POSITIONING SILVER CHAIN'S RESPONSE

Factors that inform Silver Chain's opinion

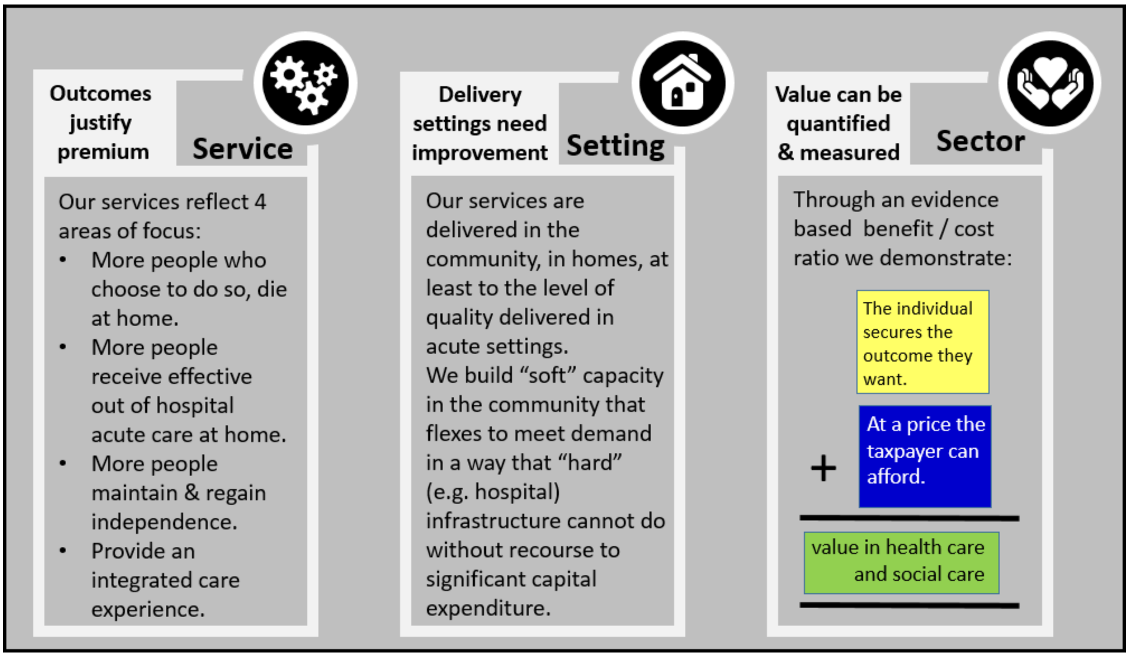
Silver Chain welcomes this opportunity to respond to the Federal Government's discussion paper on *Social Impact Investing (SII).* Silver Chain Group is one of the largest in-home health and community care providers in Australia. With over 3,000 staff and 400 volunteers, Silver Chain assists over 62,000 people in Western Australia, South Australia, Queensland, Victoria and New South Wales to remain in their own homes and communities every year.

Silver Chain's perspective on the potential of SII is based on our in-depth understanding of the impact in Australia of the globally significant trend of increasing burden of chronic disease, our ageing population and the cost of contemporary medical treatments and technologies rising at a rate, exceeding Gross Domestic Product growth.[1]

We are both a Social Impact Investor and Service Provider. Silver Chain is actively progressing innovation and increased choice in the NSW health sector through a nationally contested opportunity run by the *NSW Office of Social Impact Investment* (NSW Treasury) and the NSW Ministry of Health. We have been selected as one of two providers to engage in a Joint Development Phase (JDP) process, with final decision making lying with the NSW Government.

Our considered opinions are arrived at through relationships established delivering services to our clients, the nature of the settings we work in and our overall experience within the health and social care sectors (see Diagram 1 below).

Diagram 1: Silver Chain Group's foundations



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[1] AIHW (2015). *Health expenditure Australia 2013–14*. Health and welfare expenditure series no. 54. Cat. no. HWE 63. Canberra: AIHW.

Underpinning our views is a firm belief that existing systems of care produce inefficiencies that adversely influence quality of life and care for many Australians every day. For example:

- Many people currently receiving the most expensive hospital-based end of life care, often in Intensive Care Units (ICU's) could, with the right service, be managed well and with dignity at home, for significantly less financial outlay and surrounded by those people they choose to be with.

  Shortcoming: *Ineffectiveness and inadequate user choice*

- A number of current programs delivered under the banner of 'restorative care' are intrinsically unsuited for a model of care that should target an outcome of independence, but instead deliver standardised care which all but encourages dependence.

  Shortcoming: *Inefficiency, ineffectiveness and inappropriate contestability.*

- Potentially preventable hospitalisations, where better primary care integration would see those individuals treated in a community setting, including at home, with no compromise to quality, at lower cost and significant improvement in experience. There were more than 600,000 potentially preventable hospitalisations in Australia in 2013-14, accounting for (6.2% of all hospital admissions).[2]

  Shortcoming: *Inefficiency, ineffectiveness and inadequate user choice.*

Notes on our response

Silver Chain will restrict our response to two of the three sections of the discussion paper, those being; Section 3, "Role of the Australian Government in social impact investing" and section 4, "Australia's social impact investing principles".

We do not feel qualified to comment on questions raised in section 5, "Reducing regulatory barriers", where discussion is solicited in areas such as Private Ancillary Funds (PAF), the fiduciary duty of superannuation trustees and barriers in Corporation law to PAFs investing in impact investment products.

We trust our response is of utility to the Australian Government, helping explore further how to develop SII within Australia. Silver Chain welcomes the opportunity to maintain a dialogue with the Government promoting the development and uptake of SII.

[2] AIHW (2015). *Admitted patient care 2013–14: Australian hospital statistics*. Health services series no. 60. Cat. no. HSE 156. Canberra: AIHW.

THE ROLE OF THE AUSTRALIAN GOVERNMENT IN SOCIAL IMPACT INVESTING

Australian Government's consultation question:
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?

Barriers to SII Growth

We recognise that there are barriers to the progress of SII within Australia.

As a preamble, however there could be merit in framing the question differently. What does the environment look like in jurisdictions (e.g. UK & US) where SII is more established. We make the following observations on characteristics common to jurisdictions where the principles of SII are at a more advanced stage of maturity:

- **Business-as-usual is no longer acceptable.** Current interventions and responses are recognised as unsustainable. There is a willingness amongst decision-makers to consider progressive approaches to complex problems which may well manifest across multiple settings.
- **They have established the "size of the prize".** Credible economic analysis has been conducted to support an alternative approach. Often the basis of this recognition is that agency (e.g. health, justice, social welfare) operating expenditure is increasing in excess of population growth.
- **The alternative approach needs to be preventative and early stage.** The focus is prevention versus crisis or remedial treatment. They have concluded that early intervention benefits have a "long tail", a bigger prize for government, society (and investor).
- **SII can be directed at a small, but high-risk population with a sizable, unmet need**. Great value (to the individual and the taxpayer) is achieved by focusing on a relatively small number of so called "frequent flyers" across various settings.
- **Successful interventions need to be scalable to serve the target population.** Securing key stakeholder support mandates scale and a meaningful impact on government budgets. Interventions demonstrate the ability to achieve scale across a targeted cohort when fuelled by additional funding.
- **Programs must be data driven, evidence & outcomes based.** Outcomes need to demonstrate a better result than the "counter factual" i.e. what would have happened if we did not conduct this type of intervention. .

"...Justice Martin cited a 2008 juvenile justice report that found that the 250 kids with the greatest intersection with the criminal justice system would cost the State $100million between the ages of 10 and 17.
'***For that money you could send them to Guildford Grammar and a Swiss finishing school and have some change***,' he said "***So we've got to do something better***."

Source: The Weekend West Australian, August 17-18, 2013

Barriers we have observed with the following key stakeholders:

- Government: Providing a funding and underwriting role.
- Impact Investor: Providing working capital
- Service Provider: Providing the innovative and scalable intervention
- Intermediaries: providing transaction structuring & support and specialised service outcomes advice.

Government (specifically State)

A non-exhaustive list of arguments against funding reform include:

- ***The argument for prioritisation***
  An unwillingness to prioritise SII over a list of existing public policy imperatives.

- ***The argument for capacity***
  We perceive an under-recognition of the societal and economic benefit of capacity liberation across various settings. Health, criminal justice and social welfare budgets are not impacted negatively by SII (i.e. it cannot be expected in the short term that beds and jail cells – and their funding - will be automatically reduced). Rather the central argument revolves around capacity liberation – e.g. less pressure is applied to hospital beds, clinician and health professionals because of targeted cohorts receiving a different style of intervention. Capacity liberation is a critical mechanism in reducing the longer-term need for new "hard" infrastructure – e.g. new and/or replacement hospitals and prisons.

- ***The argument for trying something different***
  There are three major arguments cited for not progressing with SII's:

- a) **Attribution/Counterfactual** – how do we establish this service alone achieved the outcome and the outcome would not have been achieved without the intervention?
  b) **Timing** – how long will it take this preventative approach to demonstrate an outcome?
  c) **Gaming** – how can we be confident there is not an element of cherry picking of clients?

  Silver Chain is confident each of these areas of risk can be mitigated and the number of global SII programs is testimony to that view and the need for governments to actively pursue different approaches to addressing society's seemingly intractable 'wicked problems'.

Impact Investor

Silver Chain has taken the strategic decision to become an Australian Impact Investor on those opportunities where we can manage risk, return and the targeted outcome within the context of our vision to ***deliver the world's best Health and Aged Care, so that people have the confidence to live their whole lives as they choose.***

Silver Chain competed for and was selected by the NSW State Government to conduct a Joint Development Phase, which – if concluded successfully – will be the first time globally palliative care is provided under a Payments by Results (PbR) contract based on SII principles.

We have pursued a role as an impact investor for the following reasons:

- It expands Silver Chain's commitment to the provision of a community dividend.
- It will help us realise our vision sooner.
- It demonstrates Silver Chain's commitment to progressing outcomes based contracts in our sector. As a mission based, not for profit, organisation our appetite for an investment return is likely to be less than that of an ethically aligned institutional investor. Our risk appetite however is likely to be similar, if not less to the extent our risk appetite is a barrier.

We will fund impact investing opportunities from reserves, established over decades and a critical safety net to maintaining continuity of service provision in areas that suffer funding shortfalls.

It is our view that more traditional impact investors will look at similar barriers around risk and return, whilst recognising the typical investment profile is a portfolio management play where there is appetite for increased risk in certain areas and a capacity to withstand loss.

We recognise that governments will look to diminish their underwriting – through mechanisms like the carrying charge – of SII "transactions" as the model becomes more prevalent. Such under-writing mechanisms remain however, an important approach to helping impact investors assess the risk return proposition.

Service Provider

The major challenge for Service Providers is likely to be reflected in the very nature of what would be required of them to execute an SII contract. By definition, the outcomes based construct of SII contracts requires that a Service Provider understands:

- **Their COST to serve**
  Understanding the detailed costs behind a service can be a non-trivial exercise, particularly in organisations where many staff work on multiple programs each operating through a different bloc funded contract approach. The traditional form of contract does not require the same level of scrutiny that an outcome based contracting approach will be exposed to.

- **Societal BENEFITS**
  It is seldom mandated in traditional bloc funded services that Service Providers have to establish a monetised service benefit. Demonstrating a positive link between an intervention and scientific efficacy literature will tusually suffice in a traditional bloc funding approach. A progressive funding model like SII requires robust demonstration of an acceptable Benefit Cost ratio, that will stand up to the scrutiny and expectations of both the Government and Impact Investor.
  In addition the benefit needs to be as jurisdiction specific as possible. The peer reviewed monetised benefits of intervention X in Stokholm will mean very little to an Australian State Government.

Intermediaries

It is our observation there are many Intermediatries from large strategy organisations to niche consultancies who are showing increasing interest in the area of Impact Investing and the critical role it could have in delivering new types of outcomes and value for communities and the public exchequer.

Silver Chain works with these organisations in supporting our efforts to develop our sector and influence progressive public policy in the best interests of the communities across Australia we seek to serve. Whilst they have a need to operate within a profit growth model, and therefore to a degree their barriers are time and cost focused, we see increasing interest in impact investing and other related outcomes based, societally focused, initiatives as part of their recognition of maintaining a social license to operate.

Australian Government's consultation question
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?

The future for SII in Australia

We note that Australia is a member of the Global Social Impact Investment Steering Group (GSG), established in August 2015 as the successor to the Social Impact Investment Taskforce. Along with other member states of the EU and G8 this forum allows Australia to follow trends and contemporary developments of SII on a global scale.

We note the CSG is optimistic for the future and potential of SII.

"As investors add the third dimension of impact to risk and financial return in their decision making, we expect there to be a considerable pool of capital looking for opportunities to invest in achieving measurable social impact."

Source: Impact Investment the invisible heart of markets
http://www.socialimpactinvestment.org/

In September 2014, the CSG indicated more than one thousand asset managers, with combined assets in excess of $45 trillion, had signed up to the six United Nations Principles for Responsible Investment (PRI). These principles commit those managers to incorporate environmental, social and governance factors into their investment decision-making processes.[3]

The Chief Investment Officer of Australia's largest Insurer QBE has stated QBE would make a $US100million investment globally over the next three years into the "highly desirable emerging asset class" of SII. He added, ***"It would be great if both state and federal governments could do more to facilitate those sorts of investment opportunities domestically."***[4]

To the extent that the views of Australia's largest Insurer and the CSG are credible, it would be reasonable to conclude a future where there will be no shortage of investment looking for impact investable programs.

Similarly, there is significant reform underway requiring Service Providers to adopt an outcomes based approach to the delivery of their services:

- **The national disability insurance system** has at its core a Consumer Directed Care (CDC) model where the funding decision is made by the individual with a disability who then selects the service provider they feel will support them in securing the outcome they desire.
- **The national health reform agenda in Australia** has created Primary Health Networks (PHNs), established in every state as outcomes based commissioners seeking to fund defined outcomes in mental health, chronic disease management and recognising the need for preventative approaches in a primary care setting as a critically important mechanism for reducing pressure on the secondary and tertiary acute, hospital settings.
- **Increasing pressure from all funders** to understand what outcomes are being achieved to justify ongoing contract support for social programs.

[3] UN Principles for Responsible Investment, 'Signatory assets top US$45 trillion". Available at: www.unpri.org/pri-signatory-assets-top-us-45-trillion/
[4] Australian Financial review, September 17th 2014

The future is likely to see the consolidation of the health and aged care sectors where Service Providers can participate in a more sophisticated risk and reward sharing relationships with their funders.

The discussion paper points out the modest (in comparison to health care, criminal justice or social welfare budgets) nature of current SII programs - being in the range of $7million to $15million.

There is a common perception that many of today's biggest challenges are intractable - e.g. the increasing burden of chronic disease management, indigenous incarceration rates and wider "closing the gap" issues and challenges to be addressed by an ageing population.

We contend there is a place for increased national and state leadership on SII. To paraphrase WA Chief Justice Wayne Matthews (as indicated in our response to your Question 1) surely ***"we've got to do something better".***

Australian Government's consultation question:
3. Are there any Australian Government legislative or regulatory barriers constraining the growth of the social impact investing market?

Barriers constraining the growth of SII

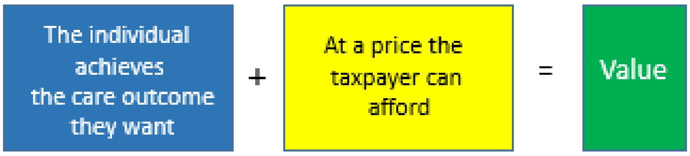
Given the ongoing efforts of OSII in NSW to deliver two SII projects each year, there is precedent to conclude any legislative or regulatory barriers present can be - and clearly have been overcome.

In NSW, OSII (an office of NSW Treasury) working in concert with the Ministry of Family & Community Services and the Ministry of Health has committed to establishing a working SII contracting model.

It seems reasonable to conclude that each State in Australia will require an OSII like functioning office, and that office is part of a central agency function (e.g. Treasury or Department of Premier and Cabinet). It would appear unlikely that progress could be easily made without establishing an internal administrative structure first. Cooperation is needed not just across agencies, but also between Federal and State governmental entities.

In healthcare there is a gravitational pull of consumers into the hospital system, whilst many individuals would be better cared for, and have a preference to have their care delivered in primary care settings, e.g. in their communities and in their homes.

Securing outcomes that are person centric by necessity needs a mature dialogue at a State and Commonwealth level focused on value. That value focus is best described as:



Australian Government's consultation question:
4. What do you see as the role of the Australian Government in developing the social impact investing market?

The Australian Government's role in developing SII

We referred earlier to a non-exhaustive list of health and social issues that may seem intractable e.g. increasing burden of chronic disease, indigenous incarceration rates, "closing the gap", challenges associated with an ageing population, domestic violence, declining educational outcomes, homelessness.

The problems that could attract innovative outcomes based SII attention impact on every State. It is our view that the Australian Government should be centrally positioned in any national dialogue, notwithstanding that a nationally mandated approach would manifest itself in discrete State based initiatives.

For illustrative purposes, it is informative to review funding in the health system.

- The Australian Institute of Health and Welfare (AIHW) calculates that spending on all health care in Australia in 2011–12 totalled just over $140.0 billion or 9.5% of gross domestic product (GDP).
- This is around $5,881 in recurrent expenditure per person (not including capital).
- Most health spending in Australia (almost 70%) is funded by governments, with the largest component ($42.0 billion) for the provision of public hospital services.

The Australian Government could establish a national SII specialist hub, consistent with its membership of the CSG. The Australian Government could also play a valuable connecting role in national benchmarking of state based SII projects, and facilitation of national best practice and knowledge management.

Australian Government's consultation question:
5. Do you see different roles for different levels of government in the Australian social impact investing market? For example, the Australian Government as co funder with State and Territory Governments continuing to take the lead in developing social impact investments?

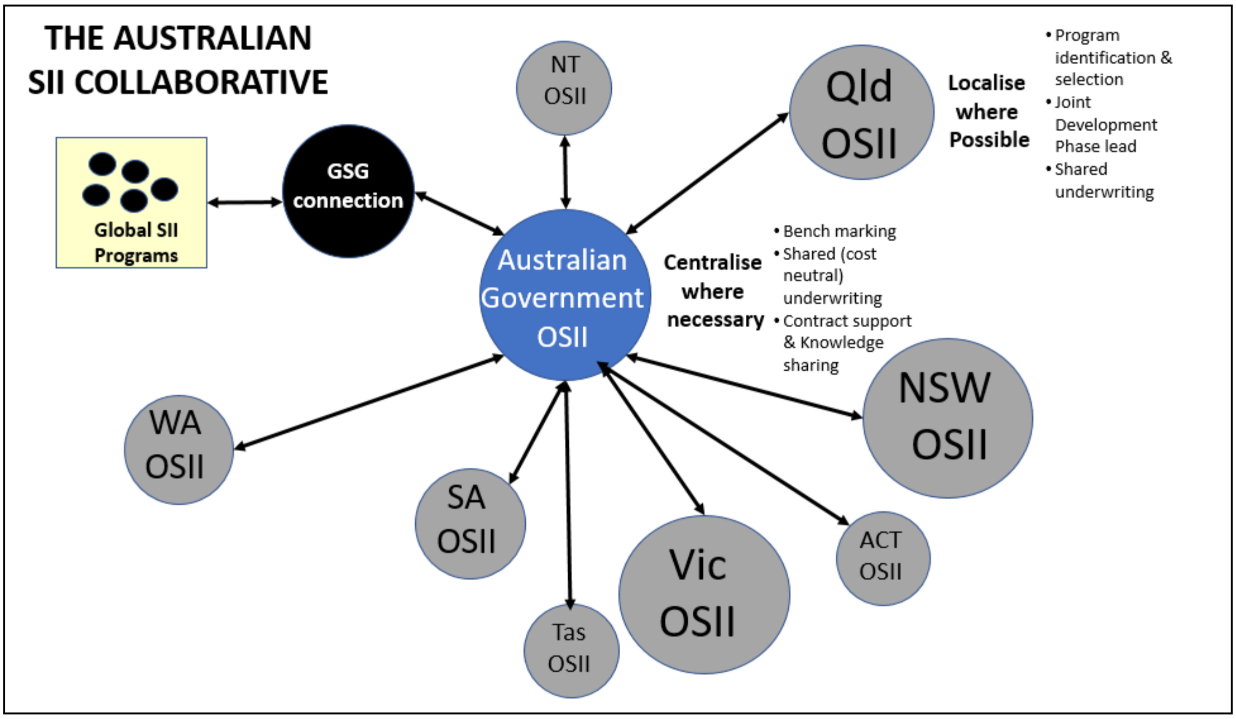
8. Are there opportunities for the Australian Government to collaborate with State and Territory Governments to develop or support joint social impact investments?

SII roles and opportunities for Governments in Australia

In response to both questions 5 and 8, yes, we envisage different but aligned roles for different levels of government. Given the most likely settings where SII would be targeted – health, criminal justice and social welfare – and the strong role each State has in the provision of those services, it would be hard to foresee any model that does not have State Governments in a leadership role with their own jurisdictions.

That said there are enough common elements to SII where the Australian government could play a value adding central role.

The following design principle could be leveraged to establish an Australian SII Collaborative.



From a fiscal perspective, the Australian Government could share in the underwriting of an SII transaction, either sharing investment returns "on the way through" or the standing charge established.

> **Australian Government's consultation question:**
> 6. Are there areas where funding through a social investment framework may generate more effective and efficient policy outcomes than direct grant funding?
>
> 7. What Australian Government policy or service delivery areas hold the most potential for social impact investing? Are there any specific opportunities you are aware of?

Areas of high potential for SII funding

The following content is in response to both question 6 and 7. We take this opportunity to expand on the applicability of end of life care to Social Impact Investing.

> "**100%** …of Australians, when at their most vulnerable, will access a health care system that was never designed for them. That system will fail many of them."
>
> *Source : Dr Chris McGowan, CEO Silver Chain*

Developments and advances in medicine and science, along with the social determinants of health, mean that people are living longer and, in many instances healthier. Regardless, there is much about Australia's Health Care system that is programmatically and economically misaligned. Notwithstanding the first-class quality of our health system, Australia's current health care funding and delivery framework is based on a system design that is not 'fit for purpose' for our ageing population. That design responded to an early 20th century community profile where trauma and infectious diseases were the principal sources of morbidity. This is no longer the profile of contemporary community needs that the health care system must be designed to serve.

49%	70%	90%
Australians aged 65-74 have 5+ chronic diseases	Australians aged 85+ have 5+ chronic diseases	Deaths have chronic disease as an underlying cause

Source : AIHW, 2014

Nationally, 90% of people would rather die at home than in hospital, yet only 14% of people achieve that wish. In WA, where Silver Chain has a 30-year partnership with the WA State Government, over 70% of our clients who choose to die at home, do so.

Our modelling –- across a three-year period (2009, 2010 and 2011) reflects the direct impact of SGC's service in WA ***resulting in a reduction of 39,684 public hospital beds days, an average of 13,228 hospital bed days liberated each year.***

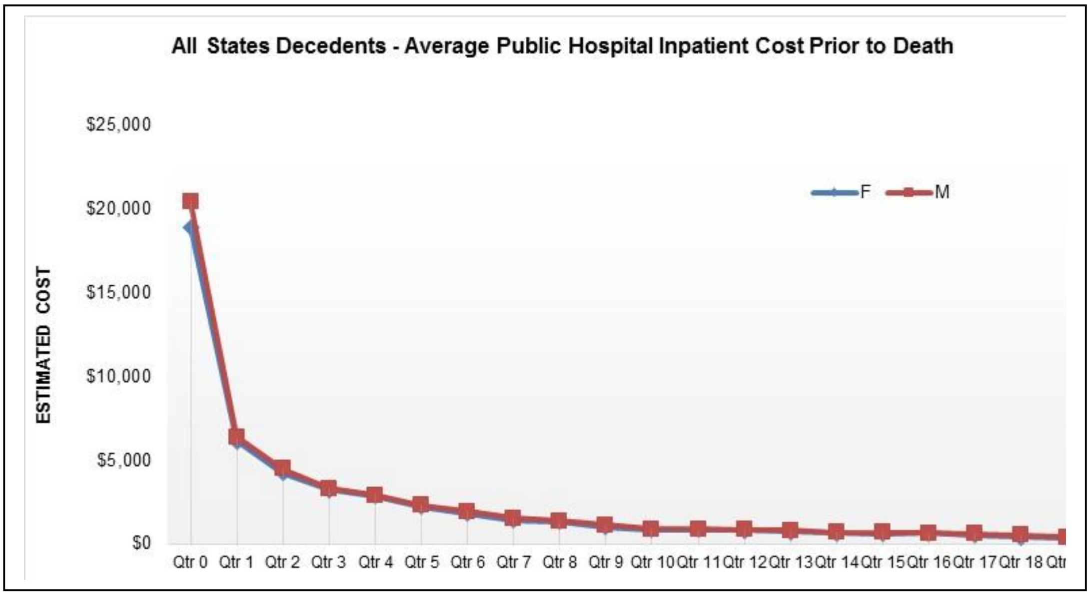
The recent experience of Professor Fiona Stanley AC (see below) goes to the heart of the clinical, psycho-social and spiritual support provided by our doctors, nurses, care aides, social workers, counsellors and chaplains on a daily basis as they impact the lives of patients, carers, families and communities.

"When we learnt that my husband required palliative care we had no idea of the level of support available. Very soon we came to experience the highest quality care delivered by the Silver Chain Hospice Care Service. With their support, we were able to provide the care that Geoffrey needed, keeping him home where he wanted to be knowing that help was only a call away.

There were many nights we required visits but the team always provided the surety and comfort we needed to keep Geoffrey at home. To spend the last days of his life with dignity, surrounded by his family was the most precious time that we will always be grateful for.
This service needs to be replicated to ensure the community receives appropriate care at the end of life and it must be a more cost efficient way of delivering services."

Source: Professor Fiona Stanley AC, FAA, FASSA , Telethon Kids Institute. Distinguished Research Professor, University of Western Australia. Vice-Chancellor's Fellow, University of Melbourne.

The shape of the public hospital inpatient cost curve below (featuring all States) evidences the weighting of public hospital costs towards the last three months of life[5].



[5] Dr Chris McGowan PhD. "What is the cost of public hospital care at the end-of-life? 2015. Thesis submitted for Doctor of Philosophy, Flinders University.

Australian Government's consultation question:
9. What are the biggest challenges for the implementing the Australian Government's public data policy in the social impact investing market? What can do the Australian Government do to address these challenges?

Australian Government's consultation question:
10. Are there opportunities for the Australian Government to form data sharing partnerships with State and Territory Governments, intermediaries and/or service providers?

Data considerations

We applaud the variety of initiatives to make available de identified data to all Service Providers. Something that is of significant value when constructing Benefit / Cost ratios. We anticipate challenges the Government will face will occur in recognised issues of maintaining privacy, behaving within an appropriate ethical policy framework and balancing those two issues against the need to make accessible data that is rich enough for research parties to gain meaningful insights.

We believe SII works most productively as a partnership based transaction, and data that underpins the measurement and evaluation of outcomes forms one of the foundation pillars of that partnership. So, through joint development of an SII contract it is critical that there is shared understanding of what data will most likely provide desired outcomes.

The potential to use de-identified linked data – across agency settings – is significant and one we would welcome progression on.

Australian Government's consultation question:
11. We are seeking your feedback on the four proposed Principles for social impact investing

AUSTRALIA'S SOCIAL IMPACT INVESTING PRINCIPLES

Australian Government principal 1: Value for money

We believe there is merit in looking at the value for money request New South Wales Government's OSII make of service providers responding to SII opportunities in NSW. Following is the Value for Money excerpt from the public domain Request for Proposal (RFP) issued by OSII.

3.3 Value for Money
Just as for infrastructure and commercial investments, social impact investment proposals should only proceed when expected benefits outweigh costs. All measurable benefits – financial, economic and social – can be used to support a business case for a proposal. Proposals should outline:

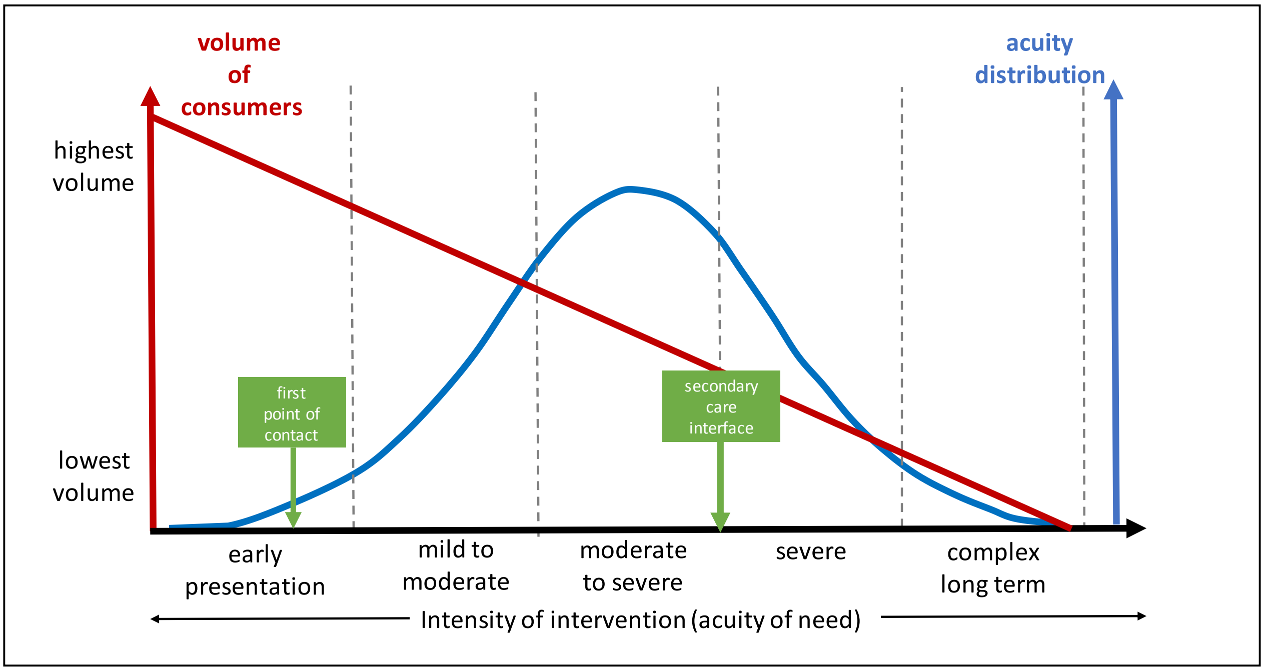
- **The composition of benefits**.
  Proposals must identify the intended benefits and how and when they will be achieved. Where possible, benefits should be quantified in dollar terms as this will help calculate the cost benefit ratio (see below), and show how financial returns and other payments will be funded. For example, immediate cash savings to government are among the most straightforward ways of funding these costs. Ideally, cash savings should be sufficient to cover the set-up and delivery costs of the service, transaction costs, and returns to government and investors (if relevant). Proposals should also identify indirect benefits and how they contribute to value for money relative to direct government service provision.
- **Who receives the benefits.**
  Proposals should identify who receives the economic and social benefits, including government agencies (local, state and Commonwealth), communities and individuals. Where possible, proposals should indicate to which agencies or levels of government specific benefits will accrue as a result of the intervention. However, only financial benefits that accrue to NSW government agencies can be used to offset payments to investors or service providers.
- **Proportion of benefits achieved during the contract period.**
  Proposals should clearly state the total benefits, both social and financial, that are expected to result from the service and transaction both during and after the transaction period. Benefits achieved by preventative and early intervention proposals may not be visible for some time. In this case, proposals must show what is expected to be achieved during the proposed contract period. Where possible, proposals should demonstrate that benefits deliver a positive net present value (NPV) during the term of the contract. Over time, maximum benefits will come from scaling transactions to cover the billions in base social service expenditure rather than just incremental new pilots. Proposals should demonstrate the ability to achieve scale through the proposed service or over time should the proposed transaction prove successful.
- **Where the intervention falls on the service spectrum.**
  Proposals should identify the type of service or intervention that will be delivered (i.e. prevention, early intervention, secondary prevention or acute). Proposals likely to deliver the greatest social benefits and savings to the NSW Government are anticipated to be those that prevent or reduce the need for acute, high cost services in the future.
- **Benefit-cost ratio.**
  The NSW Government prefers social impact investment transactions that deliver financial benefits that are greater than the total costs of the transaction. While the financial outcomes of the transaction will not be agreed until the JDP, proposals that include sufficient financial modelling to demonstrate a likely cost benefit ratio greater than 1:1 will be well regarded. Please note that proposals should provide the inputs required for calculating a benefit-cost ratio in addition to an estimated ratio.

The following observations are worth highlighting:

- ***Benefit cost ratio***
  It can be observed that OSII are specific about the attractiveness of a benefit cost ratio in excess of 1:1, that is the intervention must at the very least pay for itself. Silver Chain

believes Service Providers must be able to demonstrate a ratio in excess of 1:1 to be suitably compelling to both Government funders and Impact Investors.

- ***Where the intervention falls on the service spectrum***
  There needs to be clarity of any perspectives the Government may have on preference for acuity of need and intensity of interventions sought. Globally SII programs tend to be directed across the "intensity of intervention spectrum" indicated in our diagram below.



Robust outcomes-based measurement and evaluation

> **"There is no 'right' way to monitor outcomes."**
>
> *Source: Dr. Emma Disley, RAND Europe*
> *Determining, monitoring and evaluating the outcomes of Social Impact Bonds:*
> *lessons from the UK, May 2016*
> *(RAND Europe was commissioned by the Ministry of Justice to peform the final process evaluation report on what is recognised by many as the world's first first payment by results Social Impact Bond at HMP Petersborough. Dr Disley played a lead role in that response.")*

Dr Disley observed the challenges requiring to be overcome in constructing a working outcomes based contract that satisfies all actors involved in an SII transaction. These challenges are recognised globally and there are many lessons to be learned from the experience of others.

The discussion paper raises issues of perverse incentive and cherry picking which need to be addressed to prevent 'Gaming' of the system. Gaming is not an issue inherent or unique to an SII. There is the potential for gaming in any system established to incentivise performance.

The fact that Gaming risk exists in SII mandates good design and mitigation of risk.
As indicated in our response to question 1, one characteristic of all jurisdictions who have embraced SII – arguably the single largest motivation for SII – is that ***business as usual is no longer acceptable.***

Key elements of the design to mitigate Gaming risk include:

- **Selecting the right outcome measures**
  Dr Disley indicated there is no right way to monitor outcomes. There are however wrong ways to do that.

  Reflecting that gaming risk comes with all performance contracts take the example of the second fleet in the late 18th century. Approximately 3% of the First Fleet of 778 convicts sent in 1788 to Australia died as a result of transportation. The percentage of deaths due to transportation increased to approximately 40% for the Second Fleet in 1790. A significant factor in that increase is attributed to the nature of the contract established with the commercial firm who secured the shipping contract through open tender. The performance measure selected was the number of convicts transported, rather than the number arriving healthy in Australia.

  Important in selecting the right outcomes (and indicators of those outcomes) is selecting positive outcomes for individuals undergoing the intervention, rather than simply selecting outcomes that can be measured.

  The number of convicts who embarked on the Second Fleet was an available and accurate data source for a performance measure. In terms of arguing whether it was the right outcome measure would require an understanding of the desired outcome. If the desired outcome was to populate Australia with a labour force to progress the colony then the outcome measure was flawed.

  If the desired outcome was to reduce the population in the overflowing prisons and prison hulks on the Thames – filled to overflowing due to significant civil unrest of the period – then the outcome measure could be assessed as suitable – whilst the outcome was morally reprehensible, and eventually recognised at the time as a disastrous application of policy.

> By way of example, in our extended Palliative Care SII we have put forward three outcome measures:
> - Total bed days in the last three months of life (planned and unplanned);
> - Total number of ED presentations in the last three months of life;
> - Place of death.

- **Methods of evaluation**
  In her paper “Determining, monitoring and evaluating the outcomes of Social Impact Bonds: lessons from the UK, May 2016”, Dr Disley presents the difference between attribution and the counterfactual, indicating:

  - **Attribution** asks “whether a change in the outcome measure was due to the SIB-funded intervention?”
  - **Counterfactual** asks “what would have happened if the intervention had not taken place?”

  Dr Disley states that there is no “right” way, it is up to the parties to form a view that minimises risk and takes into account the need for a balanced approach that includes:

  - Independent evaluation which if implemented correctly can help detect gaming and perverse incentives.
  - A robust referral process with some integrity controls build in again to minimise “cherry picking” risk.

- A level of pragmatism to balance the fact that gaining a 100% comfort around attribution or counterfactual is neither cost effective or practical – but can certainly be proven within an acceptable degree of statistical significance.

Fair sharing of risk and return

The discussion paper correctly identifies the various risk/reward profiles of the impact investor from Institutional investor (seeking an adjusted market rate return) – to Philanthropic / Ethical investors (seeking a lower return).

Silver Chain responds to this paper as both a Service Provider and Impact Investor – using our limited reserves to promote and participate in SII development in Australia. We indicated earlier in this response our reasons for taking the role of Impact Investor, and will repeat them here:

- It expands Silver Chain's commitment to the provision of a community dividend.
- It will help us realise our vision sooner to ***deliver the world's best Health and Aged Care, so that people have the confidence to live their whole lives as they choose.***
- It demonstrates Silver Chain's commitment to progressing outcomes based contracts in our sector.

We are confident that given the right environment – specifically that meaningful partnerships can be developed with key government agencies, it is entirely feasible to deliver significant, ongoing outcomes that Australian citizens want and the public exchequer can sustain.

This confidence – based on Silver Chain's proven capacity, and the strength of the partnership with government we can establish – determines levels of risk.

To this end, the standing charge is an important financial component whilst recognising that as the Australian SII environment develops, it is likely to diminish.

This is an argument of environment maturity, a more developed SII environment should lead to greater precedent and increased levels of comfort for all actors involved around the sharing of risk and reward.

A deliverable and relevant social outcome

Many of the factors raised in the Discussion paper around principal are critical Service Provider characteristics regardless of the nature of the contract established with a funder - whether traditional bloc funding or a progressive SII outcomes based contract – for example governance arrangements; the capability of the management team and the sustainability of service provider business model.

We believe many of the other characteristics raised - contract and relationship management skills, the ability to adjust the delivery of the intervention in response to data about performance and whether the proposed intervention is supported by the existing evidence base – are all capabilities that will be increasingly important in an outcomes based funding environment demanded by SII.

Progressing beyond a more traditional bloc funding model to a performance based SII contract will require the ability to clearly explain the central issue faced by the targeted cohort – and as indicated in the discussion paper that should align with Government policy and service delivery agenda.

It could be argued the move to outcomes based models like Consumer Directed Care and SII – will require Service providers to more effectively communicate the issue they seek to address with their intervention, rather than leading with their capability as is often the approach within current funding guidelines.