

22 February 2024

Targeting Entrenched Disadvantage Taskforce
Social Policy Division
The Treasury
Langton Cres
Parkes ACT 2600

Dear Taskforce,

We are writing to provide input to the current consultation process on the design of the Commonwealth Outcomes Fund. While we have completed the feedback survey provided, we wanted to take this opportunity to share some additional insights based on our experience in this area and provide some further suggestions to the Australian Government in designing and implementing the Outcomes Fund.

Social Ventures Australia is a leader in the social impact investing market with unparalleled experience across the sector, having been responsible for many of the largest and most innovative transactions. More specifically, SVA has played a pivotal role in the development of the outcomes-based contracting and social impact bond (SIB) landscape since Australia's first SIB in 2013. Over this period our experienced practitioners have worked with four State governments, dozens of services providers and hundreds of investors to develop and implement nine SIBs. Our team has also provided extensive advice to the Australian and New Zealand governments on developing their own outcomes-based contracting arrangements.

The document attached to this letter outlines the following based on SVA's experience:

- The rationale for outcomes-based commissioning approaches in Australia, including different types of approaches (such as outcomes-based contracting and its benefits)
- Four priorities for the Australian Government in designing and implementing the Outcomes Fund, including:
 1. Picking one pressing social issue to target with the Outcomes Fund and doing it well (i.e. delivering on a clearly defined strategic objective of the Outcomes Fund)
 2. Implementing an outcomes payment framework which includes the standardisation of key commercial terms (cohort eligibility criteria, metrics, counterfactual, payment guidance) prior to commencing any commissioning/procurement process of the Outcomes Fund;
 3. Building and retaining Australian Government capability in a specialised team/agency; and
 4. Standardising contracting templates for State and Territory governments entering into outcomes-based contracting arrangements;
- The role of private investors and philanthropy in outcomes-based contracting

In relation to priority 2 above, I would also like to draw your attention to another area of SVA's work. Having clearly defined and well tested outcome metrics is, in our view, a prerequisite for a successful outcomes based contract, supporting data-driven decision making at a local level, allowing benchmarking across projects, and the potential to streamline reporting.

Our [Restacking the Odds project](#) is a great example of how stakeholders can come together to develop and apply a standard set of evidence-informed lead indicators to track and measure progress towards agreed outcomes. Restacking the Odds is a partnership with the Centre for Community Child Health at the Murdoch Children's Research Institute and Bain & Co. It has used research evidence to examine key drivers of developmental outcomes for children, and hence identify lead indicators of success across dimensions of service quality, quantity and participation. The Restacking indicator framework could be directly valuable if the Fund is focused on Early Years.

The approach we used to develop indicators could be replicated in other sectors to identify standardised lead indicators for other priority issues.

We would welcome the opportunity to discuss these issues further with you. We are excited about the establishment of the Outcomes Fund, and believe that if it is well-designed it has the potential to make real improvements to the lives of people in Australia experiencing entrenched disadvantage. For further information, please contact Kirsten Armstrong, SVA's Director, Impact Investing or Rosie Hodson, SVA's Director, Policy and Advocacy.

Yours sincerely

Suzie Riddell
Chief Executive Officer

Design of the Commonwealth Outcomes Fund

Submission from Social Ventures Australia

Provided to Tackling Entrenched Disadvantage Taskforce, The Treasury

February 2024

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1. SVA's experience with outcomes-based commissioning and social impact investing

Social Ventures Australia (SVA) is a not-for-profit organisation with the mission to alleviate disadvantage, towards an Australia where all people and communities thrive. We influence systems to deliver better social outcomes for people by learning what works in communities, helping organisations be more effective, sharing our perspectives, advocating for change and influencing systems.

SVA is a leader in the social impact investing market with unparalleled experience across the sector, having been responsible for many of the largest and most innovative transactions and funds in Australia, including [Goodstart](#), the [Newpin Social Benefit Bond](#), [Synergis](#), the [Social Impact Investment Trust](#) and the [Diversified Impact Fund](#).

SVA has played a pivotal role in the development of the social impact bond (SIB) and outcomes-based contracting landscape since Australia's first SIB in 2013. Over this period our experienced practitioners have worked with four State governments, the Australian and New Zealand governments, dozens of service providers and hundreds of investors to develop and implement outcomes-based contracts and SIBs. This includes the [Aspire SIB](#), [Resolve SBB](#), [Newpin Queensland SBB](#), [Sticking Together SIB](#), [Side by Side SIB](#), [Foyer Central SIB](#), [Newpin SA](#) SIB and [Arc SIB](#).

2. Overview of outcomes-based commissioning approaches

2.1. Strategic rationale

There is a clear need in the social sector for creating greater accountability for measurable outcomes. Outcomes-based commissioning approaches can strengthen accountability (and transparency) for generating measurable outcomes, whilst supporting effective government policy setting and resource allocation in an increasingly tighter fiscal environment (i.e. continuing or scaling effective policy/interventions, and ceasing or winding back ineffective policy/interventions).

2.2. Types of outcomes-based commissioning approaches

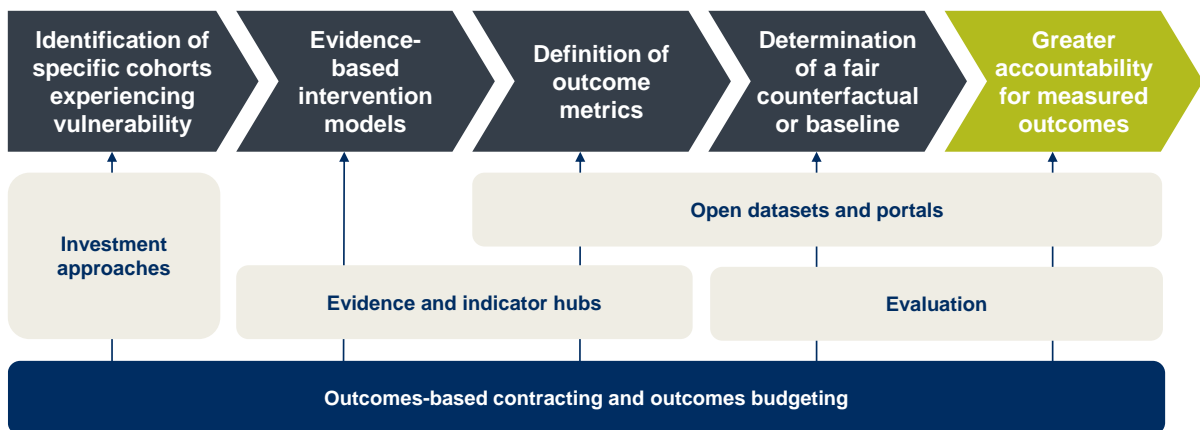
There are number of tools in the shed to create greater accountability for outcomes. Outcomes based contracting is only one tool and it has linkages and commonalities with many others. They include:

- **Outcomes funds and outcomes-based contracting:** contracting structures with payments to service delivery organisations directly linked to the achievement of measurable outcomes (i.e. Payment by Results, Payment by Outcomes, Social Impact Investments, Partnerships Addressing Disadvantage and Social Impact Bonds). An outcomes fund is a pool of money is made available for entering into outcomes-based contracting.
- **Open datasets and portals:** publicly available government datasets / portals available to be used by public and private organisations to inform decision making (e.g. [UK Justice Data Lab service](#), [NSW Bureau of Crime Statistics and Research](#))
- **Investment approaches:** Identification of groups at risk of long-term govt service dependency, creating an evidence base for investments that will improve people's lives (e.g. [NSW Their Futures Matter](#), [DSS Try Test and Learn](#))
- **Outcomes budgeting:** a common framework for reporting to citizens and / or managing government agency resources and decision making by the government (e.g. [Victoria Early](#))

[Intervention Investment Framework](#), [Australian Government's Measuring What Matters Framework](#))

- **Evaluation:** an examination of systems, programs and services to ensure they are achieving their intended outcomes and providing a benefit
- **Evidence and indicator hubs:** hubs, networks and organisations that collect and improve evidence of what works in service design and delivery, and why (e.g. [Evidence for Learning](#), [UK What Works Networks](#), [Restacking the Odds](#))

Ultimately, we envisage a sophisticated system that is accountable for creating meaningful change, in which outcomes-based contracting is a key tool which leverages the learnings and outputs of other elements:



2.3. Benefits of outcomes-based contracting

In addition to generating greater accountability for (and transparency of) outcomes, outcomes-based contracting has other related benefits including:

- Funding innovative interventions to break the cycle of disadvantage (for example, higher cost interventions which are not ordinarily fully funded through usual government grant funding)
- Growing the evidence base around ‘what works’ for specific cohorts of people experiencing disadvantage
- Enabling better cross-government collaboration across agencies and jurisdictions
- Building capability and changing culture within government agencies and services providers, and create partnerships (for example within government, better use of government data, establishing data linkage protocols and processes or an outcome measurement framework, or new procurement and contract management processes)

3. Priorities for the Outcome Fund

Based on our experience to date, we have identified the following priorities for the Australian Government in designing and implementing the Outcomes Fund:

3.1. Priority 1: Pick one pressing social issue to target with the Outcomes Fund and do it effectively (i.e. delivering on a clearly defined strategic objective of the Outcomes Fund)

\$100 million is a meaningful but relatively modest amount when distributed across multiple State and Territory government projects. We would strongly encourage the Australian Government to target only **one social issue** with the Outcomes Fund to enable the Australian Government to deliver on a clearly

defined strategic objective of the Outcomes Fund. Targeting multiple areas will result in a longer and more complex design and implementation process of the Outcomes Fund (i.e. multiple cohorts, metrics, data collection and reporting processes, counterfactuals, contract terms). Spreading the money across multiple issues also limits the Australian Government's ability to generate meaningful insights and build capability in particular areas.

As the \$100 million amount is still a meaningful investment by the Australian Government in establishing and managing the Outcomes Fund, the strategic objective of the Outcomes Fund needs to be bigger than the provision of support to a group of individuals (and improvements in their outcomes) during the term of the Outcomes Fund. For example, any of the following could be objective(s) of the Outcomes Fund:

- **Expansion:** a particular intervention model is delivered under the rigorous measurement and evaluation regime of an outcomes contract with a view to rolling it out more broadly if it works. The scale-up phase may involve outcomes-based payments, or simplified payments based upon the level of performance delivered under the initial outcomes contract. It may involve extending a contract with the current service provider, or replicating the program with delivery by multiple providers.
- **Trialling lots of things:** a number of programs addressing a common problem are delivered under a common measurement framework of the Outcomes Fund, with a view to deepening the evidence base around what works, perhaps in different geographies, or with different population sub-groups, and explicitly using that to inform future policy and investments.
- **Creating capability:** the process of developing the Outcomes Fund and individual outcomes-based contracts is used to create and test capability that can be applied more broadly across the Australian Government. For example, establishing data linkage protocols and processes, or establishing an outcome measurement framework, or analysing data to identify cohorts and understand areas of need, or establishing new procurement and contract management processes.
- **Cross-government partnerships:** the social issue of concern that the Outcomes Fund is seeking to address may cut across multiple Australian Government agencies or across both Australian and State/Territory governments. An outcomes contract or fund can be a tool to build the foundations for bringing multiple agencies or governments together to collaborate and pool funding across budgets to address a social issue.

All of the social impact areas included as survey response options warrant additional investment and reform. However, we would suggest the following questions to determining what social issues to prioritise through the Outcomes Fund:

- Is this area a current Australian Government policy reform priority?
- Could this area benefit from trialling innovative approaches in procurement and/or service delivery?
- Is it feasible to undertake outcomes-based contracting projects in this area (e.g. sufficient size and concentration to support an appropriately scaled intervention, competing initiatives in the policy landscape, data availability for cohort identification and outcomes measurement, referral and enrolment practicalities)?

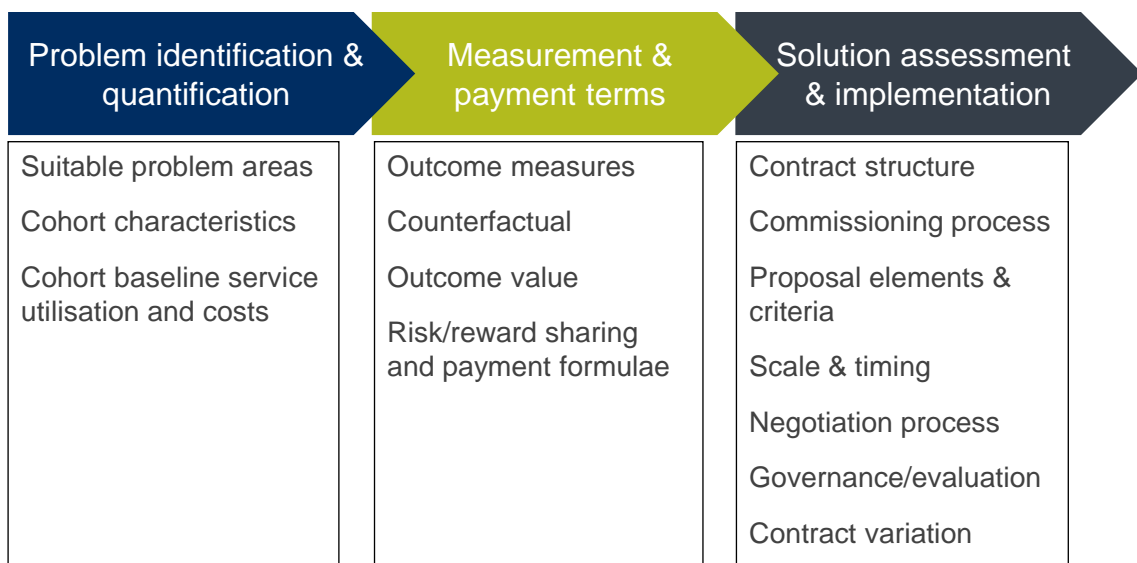
With these considerations in mind, the following areas may warrant additional exploration:

- **Early years:** high priority for Australian Government; services are fragmented with limited accountability to deliver supports that improve childhood outcomes
- **Welfare and employment:** questionable effectiveness of employment service model for people with high barriers to employment, lots of different intervention models trialled but still unclear what works for who

- Homelessness: criticism from the Productivity Commission of current National Housing and Homelessness Agreement as a funding model making progress towards ending homelessness
- Health: escalating costs as the population grows older and less healthy, with fragmented service delivery and competing interests
- Disability: rapidly escalating NDIS costs and emerging inefficiencies in the consumer choice based model
- Aged care: quality and staffing issues clash with budget challenges

3.2. Priority 2: Implement an outcomes payment framework prior to commencing any commissioning/procurement process of the Outcomes Fund.

An outcomes payment framework will provide the Australian Government with a blueprint for implementing the Outcomes Fund. This should be supplemented with the recent learnings from the Department of Social Services’ (DSS) [Payment by Outcomes Trials](#), [State and Territory Partnership Trials](#) and its [Transition Funding for Successful Try, Test and Learn Projects](#). The key elements of a framework are summarised in the diagram below. Many of these elements will overcome the many barriers for service providers (including social enterprises) and investors engaging with outcomes-based contracting.



Standardisation of commercial terms

A key premise of a framework is the standardisation of key commercial terms prior to the commissioning/procurement process of the Outcomes Fund, including:

- Target cohort: set ‘default’ eligibility criteria (with some flexibility)
- Metrics: develop standardised / mandated outcome measures (data, consent)
- Counterfactual: determine a viable counterfactual approach
- Payment structure: develop guidance on structure and timing of payments (and inherent level of risk sharing)

This standardisation will result in faster development times of outcomes-based contracts and assist with making outcomes-based contracting more accessible to more organisations. Common pitfalls during development phases of outcomes contracts to date include: discovering that linking of additional datasets is required (requiring additional resourcing and ethics / other approvals); discovering good baseline data is not available for a proposed metric(s); a different metric is proposed by one of the parties; the estimate of baseline service utilisation made during proposal development turns out to be overly pessimistic (so the level of potential savings is overly optimistic); and / or the number of people that fit the proposed eligibility criteria is lower than expected. All of this involves a reworking of the financial model, pressure on all parties to compromise on their starting positions, and a fair amount of frustration and time. This is where the common assessment that 'outcomes-based contracts and SIBs are complicated, expensive and time intensive' mainly arises (for large and small non-government organisations alike – and for government departments).

Standardisation of metrics

SVA's [Restacking the Odds](#) project (a partnership with Centre for Community Child Health at the Murdoch Children's Research Institute and Bain & Co.) provides a model for developing and applying a standard set of evidence-informed lead indicators to track and measure progress towards agreed outcomes. This supports data-driven decision making at a local level and can be applied across projects/approaches, with potential to streamline reporting.

Restacking has used research evidence to examine key drivers of developmental outcomes for children. Lead indicators are identified for 5 evidence-based early years' strategies, across dimensions of service quality, quantity and participation. The *Restacking* indicator framework could be directly valuable if the Fund is focused on Early Years. There is also potential for the approach to be replicated to identify standardised lead indicators for other priority issues.

Accept proposals over an extended, rolling period

Another key premise of a framework is the Australian Government accepting proposals for outcomes-based contracts from State and Territory governments (and possibly service providers) over an extended period such as 12 months.

This will result in higher quality proposals and assist with making outcomes-based contracting more accessible to more organisations. In Australia to date, State governments have had compressed periods for service providers to respond to outcomes based contracting tenders. Organisations have to make significant strategic decisions (whether to participate, who to partner with) very quickly, and then have to do a large amount of work considering all aspects of program design, cohort eligibility, outcome measurement, payment structures and risk allocation/capital requirements. The level of experience/understanding, access to relevant data, and point-in-time organisational capacity - and hence the quality of submissions - will all be highly variable. Significant time can be spent by proponents who are not well placed to submit a tender, but feel compelled to 'have a go'.

3.3. Priority 3: Build and retain Australian Government capability in a specialised team/agency.

The Australian Government should leverage the knowledge and assets (processes, documents, systems) developed by the team in the DSS responsible for the [Payment by Outcomes Trials](#), [State and Territory Partnership Trials](#) and its [Transition Funding for Successful Try, Test and Learn Projects](#) during the development of the Outcomes Fund. This would support the development and solidification of internal capability within the Australian Government. Additional work is required to ensure that the Australian Government has the right technical capabilities and culture in place to deliver the Outcomes Fund. This may include secondments and other contracting arrangement with State governments (e.g. NSW Office of Social Impact Investment, Victoria Department of Treasury and Finance) and non-government organisations. Additional work is also required to ensure that the Australian Government retains people with experience and expertise in implementing outcomes-based contracts. Given the experience in State governments and the UK, this capability should sit within Treasury or a new specialised agency such as a 'Commonwealth Office of Social Impact' which has the appropriate authorising environment to operate across the whole of the Australian Government.

3.4. Priority 4: Standardise contracting templates for State and Territory governments entering into outcomes-based contracting arrangements.

There is an opportunity to streamline the development process of outcomes-based contracts and reduce legal costs (for non-government organisations and government departments alike) by developing a simplified contract template that must be utilised by all States and Territory governments-participating in the Outcomes Fund. This contract is commonly referred to as an implementation agreement or program deed by State Governments which they use to enter into with service providers (or special purpose vehicles), however, the form of the contract varies widely.

4. The roles of private investors and philanthropy in outcomes-based contracting

Private investors and philanthropy have distinct contributions to make in the context of outcomes-based contracting.

4.1. Private investors

Involving private investors through structures such as SIBs enables service providers of all sizes to participate and enter into outcomes-based contracting arrangements. The commercial reality of any outcomes-based contract is that the service provider may not get paid if the target outcomes are not achieved. If this makes the service provider financially uncomfortable (which is the case for many service providers in the sector for a range of reasons), involving private investors (or philanthropy) enables them to share the risk of non-payment. A commensurate return to the investors (and service provider/s) should be paid by government for taking on that risk. Different investors have different return expectations for this type of investment.

The secondary benefit of involving private investors is improved accountability and transparency over planned and actual outcomes. For SVA-managed social impact bonds, all outcomes are reported to investors and made publicly available for use by others.

4.2. Philanthropy

Philanthropy can play a similar role to private investors (i.e. sharing financial risk), but it can also contribute differently in the context of outcomes-based contracting. Philanthropy can also play the role of 'co-commissioner' or 'outcomes funder' (i.e. provide outcomes funding alongside government) where appropriate. It is important to recognise that philanthropic grant funding is highly scarce relative to government funding, so philanthropic funding should seek to enable or augment government funded projects (rather than replicate or replace).