

NEWPIN SOCIAL BENEFIT BOND
Annual Investor Report
30 JUNE 2017



FOREWORD

Dear Investor,

Social Ventures Australia (SVA) is pleased to present the Newpin Social Benefit Bond (Newpin SBB) Annual Investor Report for the year ending 30 June 2017.

The Newpin SBB has continued to perform well in its fourth year of operation, producing strong social outcomes and financial returns.

This year saw the number of children successfully restored to the care of their families grow to 203, and restoration rates continue to strengthen. The program has also supported an additional 55 families in preventing their children entering into care. Overall, the Newpin SBB has now delivered a 13.16% pa financial return to investors.

We hope you enjoy reading this report, and thank you for your continued support.



Michael Lynch
Executive Director
Impact Investing



Elyse Sainty
Director
Impact Investing



**The Hon. Dominic Perrottet MP,
NSW Treasurer
and Minister for
Industrial Relations**



**The Hon. Pru Goward MP,
NSW Minister for Family
and Community Services,
Minister for Social
Housing, and Minister
for the Prevention of
Domestic Violence and
Sexual Assault**

'The social impact investment market in Australia has experienced strong growth in the last 12 months, underpinned by the success of Newpin, Australia's first social benefit bond.'

Newpin continues to deliver positive outcomes for vulnerable families that participate in the program and delivers strong returns to investors and the community. This is an outstanding example of what can be achieved through innovative partnerships between the not for profit sector and Government.'

'I am so pleased that the Newpin Social Benefit Bond has continued to achieve remarkable results in restoring children to their families, because we want all children to have a safe and loving home for life.'

'Newpin is an excellent example of Government collaborating with the non-government sector to break the cycle of disadvantage experienced by vulnerable families.'

'By investing in social benefit bonds like Newpin, we can help grow a program that improves outcomes for those in greatest need of support.'

NEWPIN OVERVIEW

The Newpin SBB funds the operation and expansion of the vital work of the Newpin program, which is run by Uniting. The Newpin SBB will operate for 7.25 years, utilising \$7 million of capital from investors. It is underpinned by an outcomes-based contract between the NSW Government and Uniting.

The purpose of the Newpin program is to restore children in out-of-home care to the care of their parents by creating and supporting safe family environments (Cohort 1), and to prevent children at risk of significant harm from entering out-of-home care in the first place (Cohorts 2 and 3). It is an intensive 12 to 18-month therapeutic course for families with young children aged five years or less, and operates centres supporting both mothers and fathers.

Figure 1: Newpin family Cohorts

Cohort 1	Families that have at least one child aged five years or less who has been in out-of-home care for at least three months.
Cohort 2	Families that have at least one child aged five years or less that has been assessed as being at risk of serious harm. These children will either be the subject of a Supervision Order or a safety and risk assessment by the Department of Family and Community Services (FACS).
Cohort 3	Families that have at least one child aged five years or less that do not meet the definitions above but have been identified as needing support to prevent deterioration in the family environment.

Introducing Magdalena Liso



We are delighted to welcome Magdalena Liso, Head of Newpin, ACT and Southern NSW, who has joined Uniting to take on this key leadership role within Uniting's Resilient Families team. Magdalena is responsible for overseeing the Newpin SBB program, in addition to leading a range of other programs across Southern NSW and the ACT aimed at delivering better outcomes for children and their families.

Magdalena has over 20 years' experience working in the human services sector, both locally and internationally. She has undertaken both frontline and strategic leadership roles across a range of sectors, including family and community services, health, homelessness and employment.

'My role provides an opportunity for new learning and innovative practice via a holistic approach, which aims to tackle complex practice issues in the child protection and safeguarding space. Most importantly, this role affords me the privilege of sharing in the journey of our clients and the people we serve.'

From Magdalena's early observations, the key drivers to which she attributes the success of the Newpin program are the intensity and length of support provided, the peer support element of the program, the strong collaboration between Uniting and FACS, and a continually nurtured, system wide commitment to addressing restoration and family preservation.

'Newpin ensures families have access to information, support and advocacy to participate in the child protection process in an empowered way, so that they can contribute to better child protection outcomes for themselves and their children.'

NEWPIN PROGRAM UPDATE

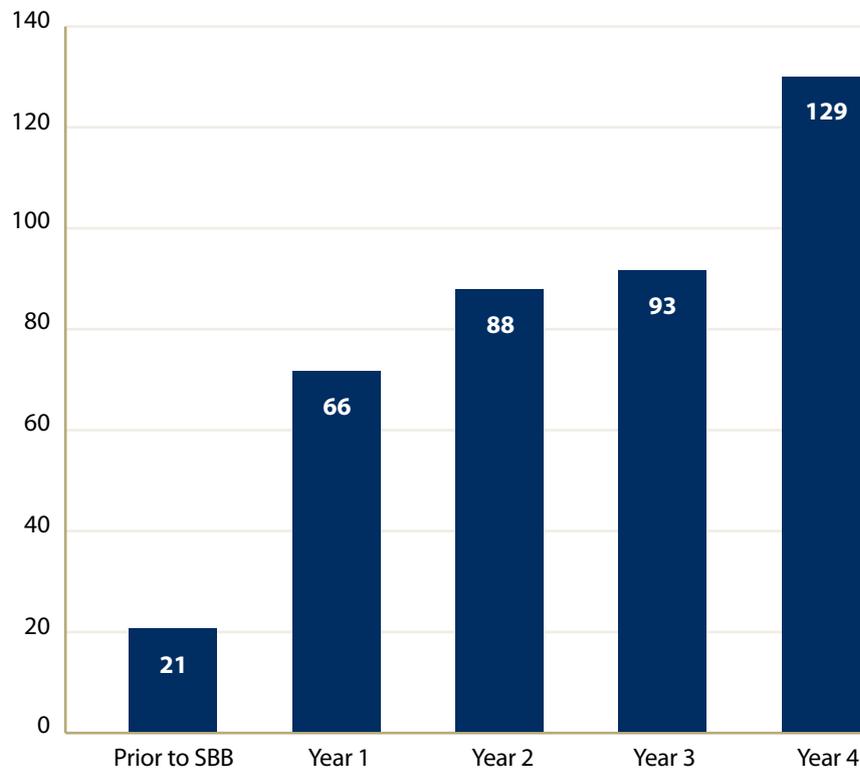
In its fourth year, the Newpin SBB program continued to grow and restore children to their families, and positively supported families with children at risk of entering care.



Referrals

A total of 129 children entered Newpin in Cohort 1 families this year (excluding those who were subsequently withdrawn or exempt exits). In addition, 27 children in other Cohorts entered the program. In total, just under 400 children in Cohort 1 families have participated in the Newpin program over the first four years of the SBB.

Figure 2: Cohort 1 referrals by program year



Staff from Uniting and FACS continue to work closely to identify families suited to the Newpin program, and the majority of referrals are received from FACS caseworkers. Referrals can also be received from other non-government organisations.

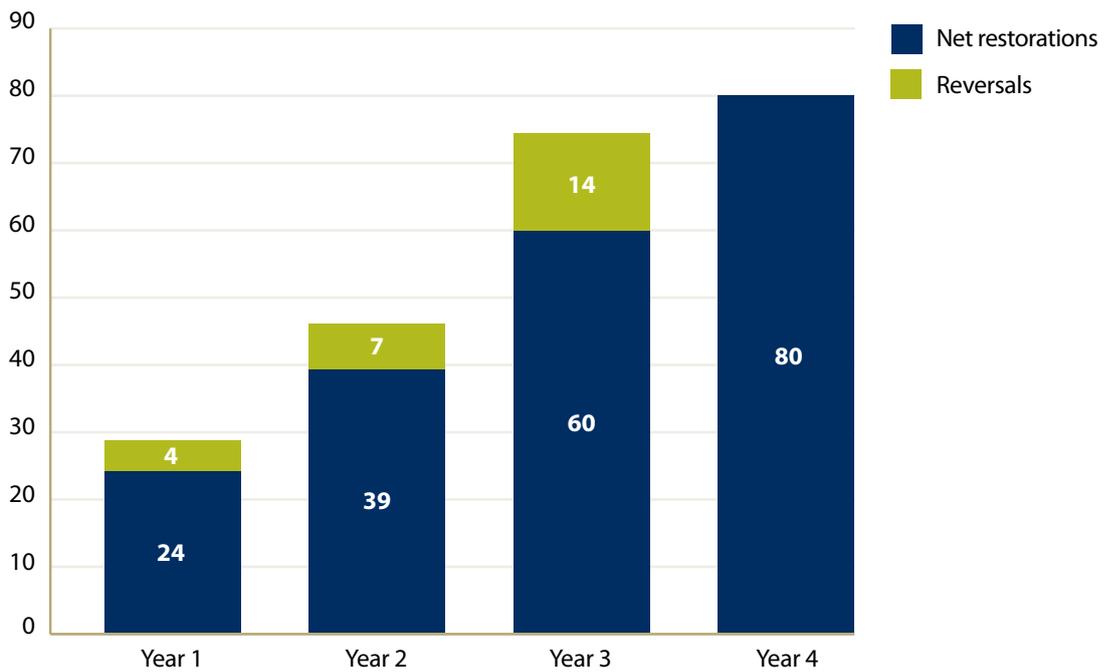
NEWPIN PROGRAM UPDATE (CONT.)

Restorations

A total of **80 children** were restored to their families during Year 4. Pleasingly, none of those restorations had been reversed as at 30 June 2017. It should be noted however that these families are still within their 12-month assessment period, and it is likely that some restorations will subsequently break down.

To date, a total of 228 restorations have been achieved, 25 of which were reversed within 12 months of the restoration, resulting in **203 net restorations**. 141 net restorations were made to mothers, and the other 62 to fathers. The overall reversal rate for mothers is running at 14.5%, while for fathers it is only 1.6%.

Figure 3: Net restorations and reversals by year of restoration

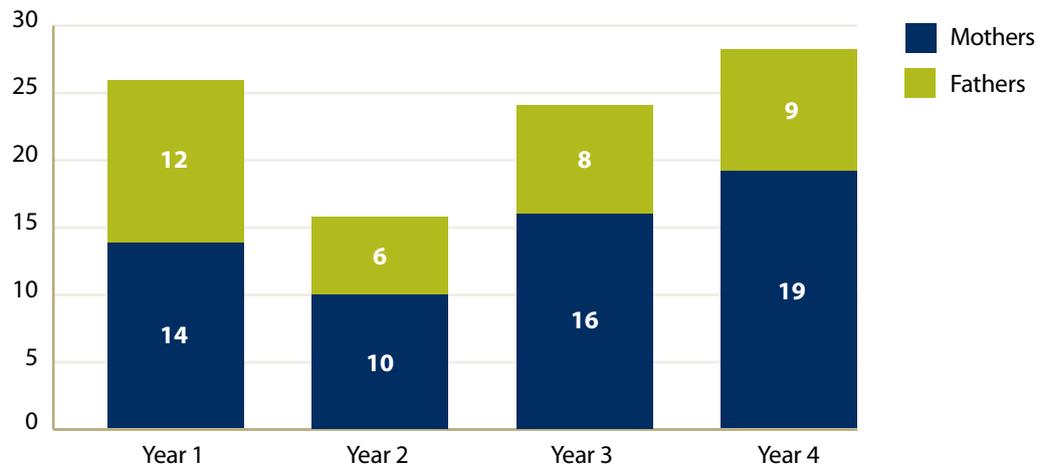


121 of the children who have been successfully restored over the first four years of the SBB are in families that have now 'graduated' from Newpin. On average, these restorations occurred 5 months after the family entered Newpin, and the family stayed on the program for a further 11 months. The other 82 children who have been restored remained on the program as at 30 June 2017.

Unsuccessful exits

An unsuccessful exit occurs when a family leaves the Newpin program before a restoration occurs. An additional 28 children have exited Newpin unsuccessfully, bringing the total to 94. Families that exited Newpin unsuccessfully over the year spent an average of 8 months on the program prior to leaving.

Figure 4: Unsuccessful exits from Newpin



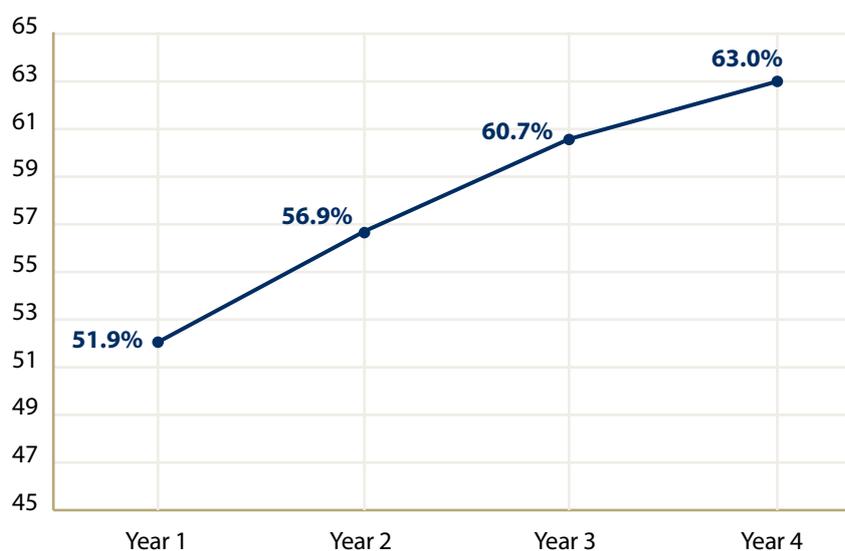
Where families are unsuccessful it may be a result of a violent partner returning to the household or a parent returning to drug abuse, increasing risk to the child. However, there is no simple explanation as to why some parents succeed where others fail. A combination of factors, including the extent and duration of early abuse, the presence or absence of secure attachment figures in childhood, aptitude for insight and a person’s temperament all impact on an individual’s resilience and capacity for change.

Rate of restoration

The overall rate of restoration (net of reversals, and for both mothers and fathers) to the end of Year 4 is 63.0%¹.

The overall rate of restoration has increased steadily since the inception of the SBB. The rates achieved for mothers and fathers remain broadly similar (62.9% and 63.3% respectively), despite the higher reversal rate for mothers.

Figure 5: Cumulative rate of restoration at year end



The program’s restoration performance to date has been analysed based on the period during which a family first entered Newpin (see Figure 6 below). Because restorations typically occur earlier than unsuccessful exits (and, by definition, reversals), restoration rates for recent entrants will tend to overstate the likely long term outcomes. The ‘intake year’ rates will change as those children who are still active progress to either a restoration or an unsuccessful outcome. Of the group that entered over Year 4, more than half are yet to have an outcome.

¹. Calculated as 203/(203+25+94)

Figure 6: Restoration rates by year of referral to Newpin

Year of initial referral to Newpin	Restoration rate at end of Year 3	Restoration rate at end of Year 4	Active children (not yet restored)
Prior to SBB commencement²	10%	10%	-
Year 1	65%	65%	-
Year 2	56%	51%	-
Year 3	88%	75%	4
Year 4	-	79%	71

Counterfactual outcomes

The 'counterfactual' is the estimate of what would have happened in the absence of the Newpin program. Over the first three years of the SBB, a fixed Counterfactual Rate of Restoration of 25% was used to determine outcome payments from the NSW Government to Uniting. Year 4 was the first year that the outcomes of a matched control group were used to determine the Counterfactual Rate of Restoration. The control group restoration rate for Year 4 was 19.2%. As this is the first use of the control group restoration rate as the counterfactual, outcomes for the control group will be closely monitored throughout Year 5.

Using the Counterfactual Rate of Restoration, approximately 74 restorations would have been expected from the 322 children who have had an outcome recorded to date (either a restoration or an unsuccessful exit). The Newpin program has thus been successful in reuniting around 129 children with their families who would otherwise have been expected to remain in out-of-home care.

Matt's^{3*} story

Matt is a young Indigenous man with a complex history of intergenerational trauma. Matt's two young sons were removed from his care in May 2016 when their mother passed away in a car accident. He has no other family and lacked support during this time of grieving. He was diagnosed with depression, and turned to alcohol abuse as he struggled to cope with his loss.

Matt was referred to the Newpin program with the objective of restoring his two sons into his care. As the months went by, Matt showed signs of healing, and opened up about his years of growing up without a family and being involved in the out-of-home care system.

The children were distressed by their removal and would cling to Matt crying at the end of each session. Matt supported his sons through this transition, and slowly the children found the ability to play and express their stories again.

Since participating in the Newpin program, Matt has a new partner, Sarah, a kind and loving woman. Sarah became part of the Newpin family as well, attending therapeutic sessions with Matt and his sons.

A couple of weeks before Christmas 2016, the two boys were restored to Matt, and he and Sarah have since added another little boy to their family. The Newpin staff were delighted watching them play together at Family Day, and are encouraged by the evidence of healing that Matt and his family have demonstrated. The children are still in Matt and Sarah's care, and Matt often brings fish that he has caught to the Newpin centre to share with other Newpin families and staff.

2. A small number of families that were already participating in the Newpin program at the time of the commencement of the SBB were included for the purpose of determining SBB outcomes.

3. The actual names of Newpin participants have been changed to respect their privacy

NEWPIN PROGRAM UPDATE (CONT.)

Cohort 2 and 3 results

During Year 4, eight families were successfully supported in preventing their children entering into care. This brings the total number of families successfully supported to 55. Although Newpin only works with small numbers of Cohort 2 families, these families are always at high risk of having their children removed.



Program expansion

There are currently five Newpin centres operating in NSW, with planning underway for an additional four centres. Plans are well advanced for sites in Port Kembla, Hurstville and Newcastle, which are scheduled to open by the end of 2017. In Newcastle, services are already being delivered from a temporary site and the program has commenced accepting referrals. Planning is also underway for a site in Fairfield, which is expected to commence operations in early 2018.

There are many factors taken into consideration when identifying and selecting the location of a Newpin centre, including the local need, accessibility and the presence of existing Uniting services in the area.

Establishing a new centre involves significant time and resource. The process entails securing new premises, undertaking any renovations or site works required, recruiting and training staff, developing partnerships with local referral partners, and most importantly, building trust and credibility in the local community.

This expansion path represents a significant step-up in the scale of Newpin and the impact the program will generate.

INVESTOR RETURNS

We are pleased to report that the fourth year of the Newpin SBB has again delivered positive results for investors.

Restoration Rate

The Restoration Rate determines the Interest Payments that are payable by Uniting under the UC Loan Deed, and hence the Coupon Payments to investors.

For this purpose, the Restoration Rate is the proportion of children in out-of-home care attending a Newpin mothers' centre who are restored to the care of their parent(s), where the restoration has not been reversed within 12 months. Reversals are capped at 10% of the cumulative number of restorations.

The Restoration Rate is calculated annually at the end of each financial year based on cumulative restoration results.

The Restoration Rate at the end of Year 4 was **66.29%**, calculated as follows:

$$\begin{aligned}\text{Restoration Rate} &= (\text{Restorations} - \text{Capped Reversals}) / (\text{Restorations} + \text{Unsuccessful Exits}) \\ &= (165 - 16.5) / (165 + 59) \\ &= 66.29\%\end{aligned}$$

The Restoration Rate, and the program data used to calculate it, have been verified by the Independent Certifier, Deloitte.

Interest Rate

Under the terms of the UC Loan Agreement, the Interest Rate used to determine the Interest Payment from Uniting is calculated as follows:⁴

$$\text{Interest Rate} = 3\% + [0.9 \times (\text{Restoration Rate} - 55\%)]$$

Subject to:

- If the Restoration Rate is below 55% the Interest Rate is nil; and
- A maximum of 15%.

With a Restoration Rate of 66.29%, the Interest Rate is thus **13.161%**.

Coupon Payment

Coupon Payments will be made to investors promptly following receipt of the Interest Payment from Uniting, due on 30 September 2017. Investors will receive a Coupon Payment representing their pro-rata share of the Interest Payment received from Uniting.

The Interest Payment is calculated as follows:

$$\begin{aligned}\text{Interest Payment} &= (\$7,000,000 \times \text{Interest Rate} \times \text{total elapsed years}) - \text{prior year payments} \\ &= (\$7,000,000 \times 13.161\% \times 1,552/365) - \$2,766,555.53 \\ &= \$1,150,734.99\end{aligned}$$

4. The Interest Rate and resulting Interest Payment (and therefore Coupon Payment) have been independently certified by Deloitte.

INVESTOR RETURNS (CONT.)

Due to the cumulative nature of the Restoration Rate, the Coupon Payment paid to investors will effectively be 13.16% for Year 4 plus the difference between the Year 3 Interest Rate and Year 4 Interest Rate for the first 3.25 years. This equals $13.16\% + (13.16\% - 12.15\%) \times 3.25$, a total of **16.44%** of the amount invested.

If the cumulative mothers' Restoration Rate in future years falls below 66.29%, the effective 'overpayment' for the first 4.25 years will be netted off future investor coupons. For example, if the Restoration Rate at the end of Year 5 is 63.5% or below, then the cumulative interest rate would be 10.65% or lower. Applying the same formula as above, the Coupon Payment would be nil⁵.

We would like to stress that whilst the performance over the first four years has been positive, future results may well be volatile, especially as new centres open. Variations in performance could detrimentally affect the cumulative Restoration Rate and investors' returns.

Early Termination Payment

If the Newpin SBB were to terminate for any reason during the year ending 30 June 2018, under the terms of the UC Loan Agreement investors would receive 100% of their principal.

The Newpin Queensland Social Benefit Bond

SVA and UnitingCare Queensland, in partnership with the Queensland Government, announced the launch of the Newpin Queensland Social Benefit Bond (Newpin Qld SBB), Queensland's first social impact bond, in April 2017. SVA raised \$6 million in private capital to on-lend to UnitingCare Queensland to fund the roll-out of the Newpin program in three regions across Queensland.

Currently, more than 9,000 children in Queensland are living away from their parents in either foster care, kinship care or in a residential service. It is a sad fact that Aboriginal and Torres Strait Islander children are significantly overrepresented in the out-of-home care system, and therefore working with First Australian families will be a primary focus of the Newpin program in Queensland.

It is anticipated that around 200 families, the majority being First Australians, will be referred to the program over a five-year period. Each of these families will have at least one child of pre-school age, and collectively it is expected that the program will support around 560 children who are in out-of-home care at the time they commence the program.

Payments will be made to UnitingCare Queensland by the Queensland Government based on the incremental number of children successfully reunited with their families. The level of these payments will be reflected in the investment returns generated by the Newpin Qld SBB.

The program is based on the model that underpins the NSW Newpin SBB, and will operate under a licensing arrangement from Uniting in NSW. The Newpin Qld SBB will leverage the track record and learnings from the Newpin program in NSW, as well as the expertise of Uniting staff, who will support UnitingCare Queensland throughout the implementation and ongoing operation of the Newpin program.

The first Newpin centre in Queensland is scheduled to open in Cairns in January 2018.

5. Calculated as $[10.65\% + (10.55\% - 13.16\%) \times 4.25] = 0\%$





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