

NEWPIN SOCIAL BENEFIT BOND Annual Investor Report

30 JUNE 2016



FOREWORD

Dear Investor,

Social Ventures Australia (SVA) is pleased to present the 2016 Newpin Social Benefit Bond (SBB) Annual Investor Report.

The Newpin SBB has performed well over the third year in both a social and investment sense. Highlights for the period include the opening of another new centre in Ingleburn, and the successful restoration of a further 67 children.

Overall, the program has now restored a total of 130 children to their families and delivered a 12.15% pa financial return to investors. The program has also supported an additional 47 families preventing their children from entering into care.

Please take the time to review this report, and we thank you for your continued support.



Ian Learmonth
Executive Director
Impact Investing



Elyse Sainty
Director
Impact Investing



**A note from
The Hon. Gladys Berejiklian, MP
NSW Treasurer and Minister
for Industrial Relations**

“Social impact investment allows Government to make a real difference by bringing together the expertise of the not-for-profit sector and capital from the private sector.

“The NSW Government is pleased that our first Social Benefit Bond continues to deliver positive results for the most vulnerable while providing a return to investors – this is a great achievement.”

NEWPIN OVERVIEW

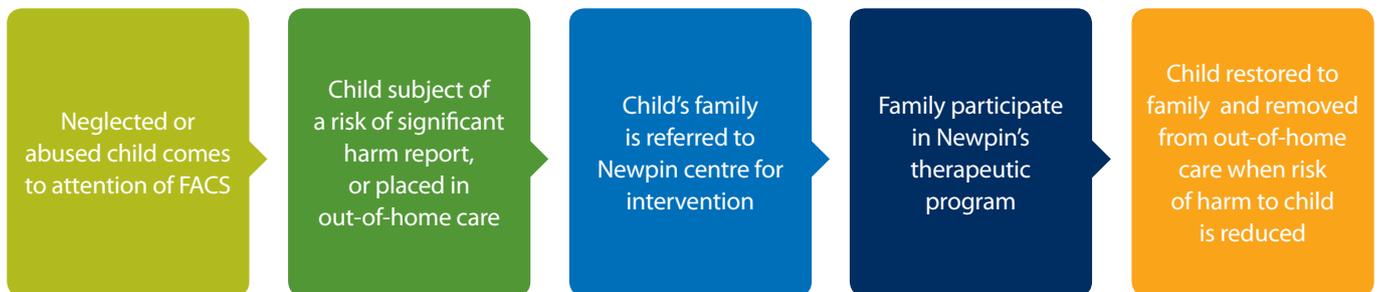
The Newpin SBB funds the maintenance and expansion of the vital work of the Newpin program, which is run by Uniting. The Newpin SBB will operate for 7.25 years, utilising \$7 million of capital from investors. It is underpinned by an outcome-based contract between the NSW Government and Uniting.

The purpose of the Newpin program is to restore children in out-of-home care to the care of their families 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 & 3). It is an intensive 12 to 18 month therapeutic course for families with young children aged five years or less, and operates centres for 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 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.

Figure 2: Newpin service delivery process



NEWPIN PROGRAM UPDATE

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

Referrals

A total of 111 children entered Newpin in 'Cohort 1' families this year, up from 91 in Year 2. In addition, 14 children in other Cohorts entered the program. In total, 79% of families referred to Newpin over the first 3 years have been in Cohort 1, those with the most challenging circumstances.

Staff from Uniting and the Department of Family and Community Services (FACS) continue to work closely and collaboratively to identify families suited to the Newpin program, and the majority of referrals to Newpin are received from FACS case workers. Referrals can also be received from other non-government organisations.

Restorations

A total of **67 children** were restored to their families during Year 3 (and were still with their parents at 30 June 2016).

To date, a total of 148 restorations have been achieved, 18 of which were reversed within 12 months of the restoration, resulting in **130 net restorations**.



Decisions to restore a child to the care of their family, or to reverse a restoration, will always be made in the best interest of the children. Some level of reversals is inevitable in restorative work. If a restoration does fail, every possible effort will have been made to enable children to be brought up by their parents. The parents that Newpin works with have to overcome many obstacles to be the best parent that they can be and sometimes, despite their best efforts, they cannot sustain the change.

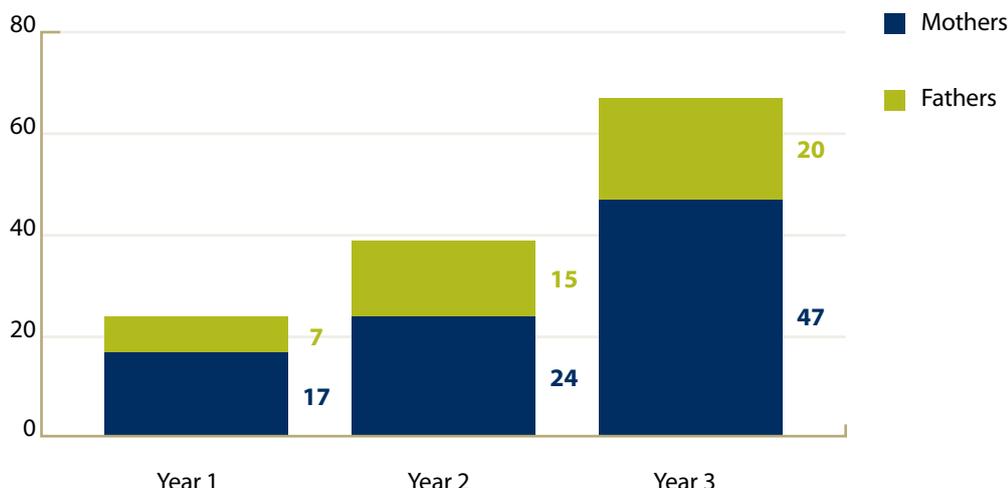
Whilst the majority of reversals are impossible to predict, Newpin continues to analyse all new reversals in order to learn from possible trends and improve post restoration support. Newpin also looks at international research into what makes for successful restorations and has explored these findings in training for all Newpin staff.

Newpin has received a higher number of referrals in 2015/16 for families with three or more children and although restoration to larger families can pose a higher risk of breakdown it would be unethical for Newpin not to accept these referrals. The Newpin program helps to ensure that a family is given every possible chance of being together prior to the court making a decision to go for long term orders that would result in children remaining in care until the age of 18.

It should be noted that the 67 net restorations that have been recorded over Year 3 are still within their 12 month assessment period, and some may subsequently be reversed. Of the 42 restorations in Year 2, three were reversed this year.

NEWPIN PROGRAM UPDATE (CONT.)

Figure 3: Net restorations achieved



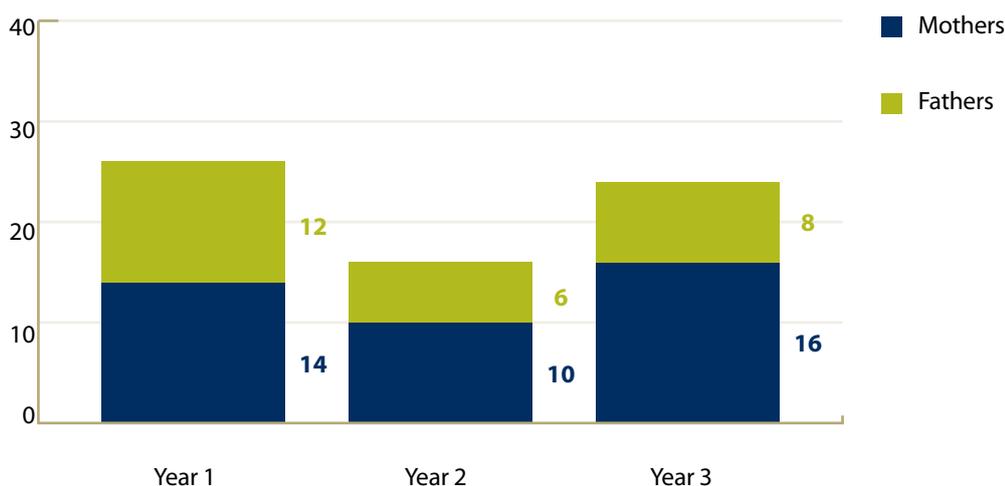
65 of the children who have been successfully restored over the past three years have now ‘graduated’ from Newpin. On average, these restorations occurred six months after the family entered Newpin, and the family stayed on the program for a further 10 months. The other 65 children who have been restored remained on the program as at 30 June 2016.

Unsuccessful exits

An unsuccessful exit occurs when a family leaves the Newpin program before a restoration occurs. A total of 24 children exited Newpin over the year, bringing the total to 66. Families who exit Newpin unsuccessfully spend an average of 10 months on the program.

In addition, 10 children exited the program over the year after their restoration was reversed.

Figure 4: Unsuccessful exits from Newpin



Where families are unsuccessful it is usually as a result of a mother returning to a violent partner or a parent returning to drug abuse. However, the majority of parents referred have had their children removed due to one or both of these issues and 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) to the end of Year 3 is 60.7%¹. Pleasingly, the rates for mothers and fathers is almost identical, although for mothers both the gross rate and reversal rate are somewhat higher than for fathers.

The program's restoration performance to date has been analysed based on the period during which a family first entered Newpin (see Figure 5 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 that are still active progress to either a restoration or an unsuccessful outcome. Of the group that entered over Year 3, around half are yet to have an outcome.

Figure 5: Restoration rates by year of referral to Newpin

Year of initial referral to Newpin	Restoration rate at end of Year 3	Active children (not yet restored)
Prior to SBB commencement ²	10%	Nil
Year 1	65%	Nil
Year 2	56%	4
Year 3	88%	52

Working with Indigenous families

It is a sad fact that Aboriginal and Torres Strait Islander children are significantly over represented within the Australian care system. Newpin has an excellent record in engaging Aboriginal families. Across the Newpin centres nearly 20% of the families are Aboriginal and the restoration rates for those families buck the national trend, being on par with those for non-Aboriginal Newpin families.

Nina commenced Newpin in early January 2016. When Nina was first referred to the St Marys centre she would not admit to her Community Services case worker that she was Aboriginal because she believed that this would impact negatively on her chances of achieving restoration. Nina and her partner Greg had three children under the age of four that had been removed from their care several months previously, due to issues around drug abuse and homelessness.

Once Nina was engaged with St Marys, Greg also joined parenting groups at the Fathers centre and both parents attended family contact sessions with their three children at Newpin. Within four months of commencing the program Nina and Greg had demonstrated their ability to provide a safe and nurturing home environment and their three children were restored to their care. Nina says that within Newpin she found "a place of acceptance and predictability", she was not judged on past behaviours but rather, was supported to move forward. She now delights in her Aboriginality and says that one of the things that has contributed to her feeling so proud to be Aboriginal is the high esteem in which non-Aboriginal mums hold the St Marys Family Worker, who is Aboriginal.

1. Calculated as 130/(130+18+66)

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

NEWPIN PROGRAM UPDATE (CONT.)

Cohort 2 & 3 results

During the year, 12 families were successfully supported in preventing their children entering into care. This brings the total number of families successfully supported to 47. Although Newpin only works with small numbers of Cohort 2 & 3 families, these families are always at high risk of having their children removed as most of these parents already have one or more children in long term care.



Program expansion

Five centres are currently in operation and Uniting is working closely with FACS to identify high potential areas throughout the state to establish more centres. As new centre locations are considered, a number of key factors are taken into account including local need, accessibility and Uniting's existing presence.

A new centre at Ingleburn was opened during the year, and started accepting referrals at the end of 2015. So far, the new centre has welcomed 13 families with 22 children, and has achieved its first restoration.

Planning continues in relation to the opening of a centre in Newcastle, and referrals are expected to commence in September 2016. Suitable properties are also currently being inspected in Wollongong, with a goal of opening a centre in that area as soon as possible.

Opening new centres: a case study

Setting up a new Newpin centre from scratch brings with it a number of risks and challenges. The first new centre to be established as a result of the Newpin SBB was the Wyong centre on the Central Coast. Despite a suitable building having been identified early on, it took several months until the building was ready for use.

Wyong Newpin staff started taking referrals in July 2014, but for a while had to run the program out of community halls. Although this was great for building partnerships with local organisations it was not ideal in terms of establishing the safe and homely environment that is characteristic of a Newpin centre. Achieving results from any new centre takes time for a couple of reasons. First it is necessary to work closely with FACS and the local NGO providers of out-of-home care services, in order to ensure a steady flow of appropriate referrals. And secondly, families usually attend the centre for approximately half a year prior to restorations taking place.

The Newpin Wyong centre's results have proved that the risks are well worth taking. So far, 38 children have been restored to Central Coast parents (25 to mothers and 13 to fathers), and the restoration rate for the centre is running at 78%.

"It was amazing for me to see all the changes made by our first mum who achieved restoration. She had needed to move away from the area in which she'd grown up and was isolated and lonely when she started at Newpin. She told me that Newpin became her support network and her family. By the time that she had completed the program she had local friends and her children were settled and doing really well at school"

Vanessa, Wyong Family Worker

INVESTOR RETURNS

We are pleased to report that the third 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 Mother's Centre who are restored to the care of their mother (where the restoration must be maintained successfully for 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 the 2016 Financial Year was 65.17%, calculated as follows:

$$\begin{aligned} \text{Restoration Rate} &= (\text{Restorations} - \text{Capped Reversals}) / (\text{Restorations} + \text{Unsuccessful Exits}) \\ &= (105 - 10.5) / (105 + 40) \\ &= 65.17\% \end{aligned}$$

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:

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

Subject to:

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

With a Restoration Rate of 65.17%, the Interest Rate is thus 12.153%.

Under the UC Loan Deed, investors were entitled to a minimum interest rate of 5% pa over the first 3 years of the SBB. The fourth year will be the first year without this return guarantee and investors will be fully exposed to the performance of the Newpin program.

INVESTOR RETURNS (CONT.)

Coupon Payment

Coupon Payments will be made to investors promptly following receipt of the Interest Payment from Uniting, due on 30 September 2016. Investors will receive a Coupon Payment representing their pro-rata share of the Interest Payment received from Uniting.

The Interest Payment is calculated as follows³:

$$\begin{aligned} \text{Interest Payment} &= (\$7,000,000 \times \text{Interest Rate} \times \text{total elapsed years}) - \text{prior year payments} \\ &= (\$7,000,000 \times 12.153\% \times 1,187/365) - \$1,404,787.64 \\ &= \$1,361,767.89 \end{aligned}$$

Due to the cumulative nature of the Restoration Rate, the Coupon Payment paid to investors will effectively be 12.15% for year 3 *plus* the difference between the Year 2 Interest Rate and Year 3 Interest Rate for the first 2.25 years. This equals 12.15% + (12.15% - 8.92%) x 2.25, a total of 19.42% of the amount invested.

If the cumulative Restoration Rate in future years falls below 65.17%, the effective 'overpayment' for the first 3.25 years will be netted off future investor coupons.

For example, if the Year 4 Restoration Rate is 62%, then the cumulative interest rate would be 9.3%. Applying the same formula as above, the Coupon Payment would be nil⁴.

We would like to stress that whilst the performance over the first three years has been positive, it is still early in the Newpin SBB and future results may well be volatile. 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 2017, under the terms of the UC Loan Agreement investors would receive 100% of their principal.

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

4. Calculated as [9.3% + (9.3% - 12.15%) x 3.25] = 0%





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