

## **2017/2018 Budget Submission to the Commonwealth Government**

8 February 2017

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## Executive Summary

Australia has experienced more than 20 years of continuous economic growth and increased investment in health, education and social services and yet many Australians continue to experience poverty and exclusion.

Social Ventures Australia is a non-profit that works with partners to improve the lives of people in need in Australia, including through fostering initiatives and developing evidence of what drives social impact.

Based on our experience, SVA is recommending a series of modest, targeted investments by the Commonwealth Government – in education, housing and for First Australians - which the evidence suggests will increase the social impact of existing government spend and extend the reach of programs which have been shown to improve the wellbeing of Australians.

SVA notes that there are a range of other reforms including improvements to universal services, income support and labour market programs that are essential to reduce disadvantage and social inequality in Australia. This submission proposes targeted investments where SVA has direct experience and that are likely to yield significant social impact in the medium term.

SVA recommends the Commonwealth Government pursue the following new initiatives:

- **Invest \$10 million over 4 years in a service to drive improvements in classroom practice through better use of education evidence**, in line with the draft recommendations of the Productivity Commission Inquiry into the Education Evidence Base.
- **Fund an Australian Housing Finance Aggregator**: Provide \$31.8 million over four years to establish a housing finance aggregator body that will unlock private capital in order to increase the supply of social and affordable housing.
- **Expand the Working on Country program**: Increase the number of Indigenous ranger jobs to 1550 FTE by 2021, through increased funding for the Working on Country (WoC) program as well as funding to support the growth of a vibrant Indigenous land management sector.

	Year 1	Year 2	Year 3	Year 4	Total
<b>Education Evidence Hub</b>	\$4m	\$2m	\$2m	\$2m	<b>\$10m</b>
<b>Housing Finance Aggregator</b>	\$6.7m	\$7.5m	\$8.4m	\$9.2m	<b>\$31.8m</b>
<b>Working on Country</b>	-	-	-	-	<b>\$200m</b>
<b>Total</b>					<b>\$241.8m</b>

## Jobs for Families Childcare Package

SVA also notes the substantial evidence of the long term economic and social benefits of affordable and high quality early learning and care and supports the early learning and community sector's position that the Jobs for Families Child Care Package should be passed subject to amendments outlined below. This would deliver more affordable access to early learning and child care for both working families and for vulnerable children who will benefit most.

SVA does not support linking the reforms to the proposed changes to Family Tax Benefits and other unrelated savings measures. The costs of the package, including an estimated \$150 million per year to increase the base entitlement from 12 to 15 hours per week, is more than offset by savings already achieved through the delay of the package and the increase in productivity it will generate.

### **Investment Approach – Try, Test and Learn Fund**

SVA supports the investment of \$96 million in the Try, Test and Learn fund which is designed to invest in innovative approaches to social policy including providing high quality evaluations of programs.

SVA views this as an initial investment in a much wider approach of improving the evidence base of social programs that are funded by government which also aligns the desired outcomes of people who receive services with the way in which the services are commissioned by the Government – so called outcomes base contracting and management.

As such, any funding from the initial allocation (including \$31.7 million in 2016-17) that is unspent in the first year should be maintained within the fund and included in the forward estimates. The fund should also be increased over time to conduct larger scale trials at multiple sites to provide more experience of using evidence to inform social service commissioning based on outcomes.

The current funding round is likely to be sub-scale and of insufficient duration to demonstrate causal impacts of programs even with high quality monitoring and evaluation.

## **Education Evidence Hub**

### **Recommendation:**

Consistent with the draft recommendations of the Productivity Commission Inquiry into the Education Evidence Base: Invest \$10 million over 4 years in a service to drive improvements in classroom practice through better use of education evidence.

### **What is the issue?**

Since 2000, on a range of measures (both relative and absolute), despite increased government funding, academic performance in Australian schools has been stagnant or declining.<sup>1</sup> There are undoubtedly schools and communities that require significant further investment, however there is also an imperative to raise the educational return on our growing national investment in schooling. Australia needs a more effective system in order to generate and use evidence in education which will ensure we do more of what works and less of what does not. A national educational evidence base that supports the sector to methodically improve educational outcomes is essential to improving the 'learning productivity'.

This gap in the national education system can be best addressed by adopting and implementing the initial recommendations of the Productivity Commission Inquiry into the Education Evidence Base to strengthen school decision making with better evidence, so that higher impact approaches are more frequently adopted and lower impact approaches are more quickly retired.

In order to achieve system-level improvements for all students, it is paramount that the focus should be directed towards developing and presenting evidence in forms that are accurate, accessible, actionable and appropriate for the workforce that is the fulcrum for student achievement; the teacher and leaders.

There is an opportunity to create a national capability to improve the adoption and implementation of evidence based programs in schools, which in turn will increase the learning from the teaching delivered in schools and improve the educational return on the national investment.

### **Action required:**

The Australian government should fund activities that advance specific Commonwealth objectives whilst also developing a national evidence capability.

The most efficient and cost effective way to do this would be to invest \$10 million in an organisation (new or existing) to host a national 'evidence hub'.

The 'evidence hub' would:

1. House the national research agenda which would be agreed through the COAG Education Council. It would not be prescriptive but each state and territory system would make its own investments in response to local priorities.
2. Be able to conduct high quality trials and evaluations with funding allocated for national priorities. In addition, States, Catholics and Independents could also fund the 'evidence hub' to generate high quality, independent research relevant to their jurisdictions.
3. Hold and promote current best global evidence via the Teaching & Learning Toolkit and related assets.

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<sup>1</sup> Productivity Commission 2016, 'National Education Evidence Base', Productivity Commission Draft Report, pp.3.

4. Collect evidence from the across the States and internationally and translate this evidence into practice guide for school leaders to more easily adopt highest impact approaches.
5. Provide resources and support for good implementation and local measurement and evaluation of the impact of programs on learning outcomes.

The 'evidence hub' should also have the capability to conduct high quality research and evaluation of in-school programs. The \$10 million investment would not include the cost of funding these trials or their evaluations. It's anticipated that a range of partners including but not limited to the Commonwealth Government would co-fund trials and evaluations. Funding from State governments, the Independent and Catholic school sectors, businesses, and philanthropists would be encouraged to fund randomised controlled trials to generate further evidence.

SVA has incubated a social enterprise, Evidence for Learning, which provides many of these functions and is a potentially valuable partner in the 'evidence hub' which:

- is independent of all systems and agencies; so can present credibly on the best evidence to frontline professionals from all sectors and jurisdictions in order to make actual practice change;
- is non-government, cross sectoral and national so can work collaboratively with any jurisdiction or school sector on a funded evidence initiative and has already demonstrated success in doing so; and
- can generate new private funding to support the evidence agenda (and has a track record of success in doing this) and it could leverage any federal funding with further philanthropy.

Evidence for Learning is already actively sharing evidence about effective approaches by providing free, online summaries of global evidence through the Teaching & Learning Toolkit.<sup>2</sup> It is also creating new high quality evidence via randomised controlled trials on programs in schools through its Learning Impact Fund<sup>3</sup> and it is developing actionable and appropriate materials and support for school leaders.<sup>4</sup>

Evidence for Learning is partnering with several State Governments to test programs in their schools and share best evidence for better decision making. We hope to work with the Commonwealth to add to this knowledge and generate further resources. This will ensure that the results are shared and utilised by teachers and school leaders throughout Australia in order to improve educational outcomes.

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<sup>2</sup> <http://evidenceforlearning.org.au/the-toolkit/>

<sup>3</sup> <http://evidenceforlearning.org.au/lif>

<sup>4</sup> <http://evidenceforlearning.org.au/evidence-informed-educators/evidence-exchange-2016/>

## National Housing Finance Aggregator

### Recommendation:

Invest \$31.8 million over 4 years for a national housing finance aggregator in order to facilitate the delivery of more social and affordable housing in Australia. Design details for the preferred model are included below.

### What is the issue?

The Australian Housing and Urban Research Institute (AHURI) calculated Australia's shortfall in affordable and available private rentals for low income earners at almost 400,000 properties in 2011, up from 225,000 in 2006.<sup>5</sup>

Based on this, SVA believes there is an urgent need in Australia for a new, viable and scalable financing model to assist with the supply of social and affordable housing (SAH) supported by a complementary suite of initiatives, in partnership with the States, to ensure a sustainable financing model is delivered. Compared with overseas jurisdictions including the United Kingdom and United States, the scale and sophistication of SAH finance in Australia is limited.

Currently in Australia, there are significant barriers to generating interest from the private sector for the provision of finance for social and affordable housing. The use of a housing finance aggregator should be one part of the solution for attracting more private capital into the affordable housing market in Australia.

Australia currently has a mismatch between the supply of appropriate capital and the underlying demand for social and affordable housing. While restricted funding is not the only contributor to the chronic shortfall in social and affordable housing stock, improved access to capital is an important piece of the puzzle in addressing the challenge. There is significant potential for a housing finance aggregator to use private sector financing including institutional capital to help bridge the gap in supply and contribute to increasing the stock of social and affordable housing across the country.

### Action required:

The Affordable Housing Working Group recently released their report *Innovative Financing Models to Improve the Supply of Affordable Housing*<sup>6</sup> which recommended the establishment of an expert taskforce to design the proof of concept for a bond aggregator model to provide greater private and institutional investment in affordable housing.

SVA and Macquarie Group made a joint submission to the Affordable Housing Working Group which outlined the structure, costs and potential benefits of an Australian Housing Finance Aggregator (AHFA).

It is our view that the model should follow that of the UK's The Housing Finance Corporation (THFC) by establishing an AHFA entity that:

- aggregates funding needs for housing providers (including Community Housing Providers, Real Estate Investment Trusts and Special Purpose Vehicles);
- undertakes credit assessment of these entities;

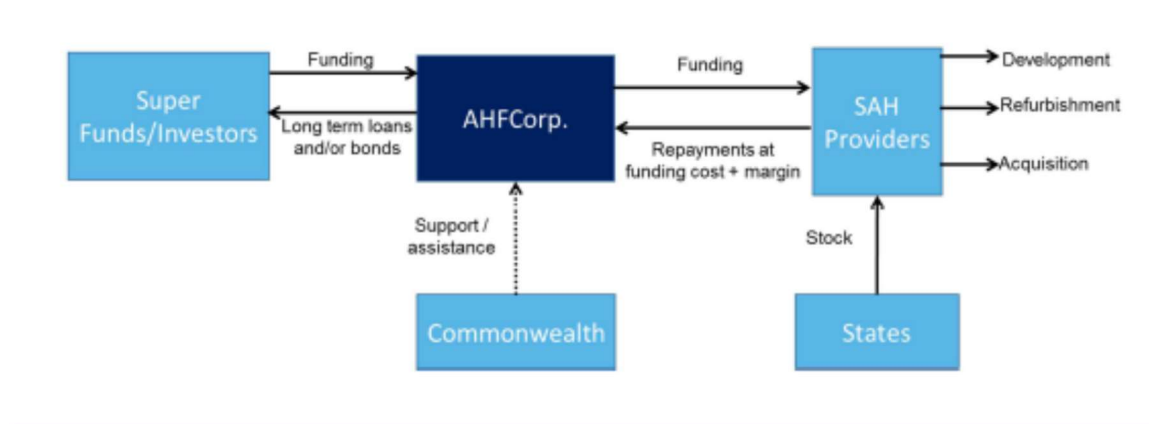
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<sup>5</sup> Hulse, K., Reynolds, M. and Yates, J. (2014) *Changes in the supply of affordable housing in the private rental sector for lower income households, 2006–11*, AHURI Final Report No. 235, Australian Housing and Urban Research Institute Limited, Melbourne, pg 2.

<sup>6</sup> Affordable Housing Working Group, *Innovative Financing Models to Improve the Supply of Affordable Housing Report to Heads of Treasuries*, 2016. Available at:

- sources periodic tranches of debt from institutional investors in its own name;
- ensures continuous compliance with covenants to ensure SAH providers are solvent and able to pay their obligations with right to procure rectification of compliance breaches;
- sources SAH providers' repayments via free cash flows from secured properties; and
- on-lends debt to SAH providers at cost of debt plus margin to cover costs, with borrowers subject to covenants and their repayment obligations secured either via:
  - a fixed and floating charge over the SAH suppliers as a whole;
  - a mortgage over particular SAH supplier assets selected on the basis of their revenue profile; or
  - where necessary, powers to replace non-performing SAH suppliers with better-run providers by way of transfer of housing stock from the non-performer to the other, thereby minimising disruption to the SAH tenant.

An indicative diagram of the proposed structure appears as Figure 1 below.



Ideally, the AHFA would be a not-for-profit entity that has access to both sector and financial expertise and resources. The aggregator would require management and administrative support from a financial sector participant, including:

- credit assessment;
- loan origination to providers of SAH;
- ongoing loan maintenance, including collection and monitoring;
- raising debt capital from and managing payments to suppliers of debt capital to the aggregator; and
- periodic reporting and compliance, both to debt funding providers to the aggregator and the entities to which the aggregator lends.

The AHFA would also benefit from a partner with both financial and social sector expertise to provide the following services:

- opportunity identification and business development;
- deep sector knowledge to help tailor financing packages to the needs of borrowers;
- measurement and evaluation of the aggregator including ongoing cost benefit analysis for Commonwealth and social impact; and
- engagement with other key stakeholders including State Governments, peak bodies, and commercial lenders.

This model would overcome barriers to investment by:

- ensuring high credit quality of AHFA debt funding recipients through AHFA's thorough credit assessment process;
- generating debt finance better-suited to the longer-term timeframe SAH requires; and
- pooling debt funding to a sufficiently large scale to enhance the economic feasibility of private sector debt finance to SAH suppliers, thereby allowing finance to be accessed by SAH suppliers (in particular CHPs) at a considerably lower rate than that currently available.

Consequently, the funding costs CHPs face in Australia could be substantially reduced, enabling them to unlock a greater level of equity in existing stock to fund further supply via:

- construction, development or acquisition of new dwellings; and
- extending the useful life of existing dwellings via repairs and maintenance, including renovation to make stock more suitable for purpose.

The working group also recommended that government support is required to efficiently leverage long-term institutional investment for affordable housing and provide greater value for government expenditure.<sup>7</sup> SVA agrees with this recommendation based on our knowledge of THFC in the UK. THFC's low-cost funding is in part due to the UK sector's strong regulatory oversight by Government. Ratings agencies have previously formed a favourable view of debt issued by the sector in the UK due to robust regulation and regulatory frameworks, including powers to intervene when housing associations are in financial distress by forcing mergers or transfers of stock.<sup>8</sup>

Our previous analysis of the sector indicates that cost of funding for CHPs via existing debt facilities typically entails interest charges of around 4.5% pa to 7.5% pa (around 250 to 550 bps above 5 year Australian government bonds) at Loan to Value Ratios (LVRs) of around 20% to 30%. By comparison, the THFC has sourced debt at spreads of between 100 to 250 bps over equivalent UK government bonds.

### **Cost of implementing this model**

The ongoing operational costs for the forward estimates are detailed in the table below.

	<b>Operating costs</b>
FY18	\$6.7m
FY19	\$7.5m
FY20	\$8.4m
FY21	\$9.2m
<b>Total</b>	<b>\$31.8m</b>

Over time it's anticipated that the operating costs for the AHFA would be more than covered by the returns achieved on investments. Options for the AHFA to retain earnings to fund operations directly could also be explored.

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<sup>7</sup> Ibid

<sup>8</sup> See for example Fitch Ratings 'English Registered Social Housing Providers: Strongly Government-Monitored and Regulated Sector', 25 May 2012; Moody's Investors Service 'English Housing Associations', 22 September 2010

## Expansion of Working on Country programs

### Recommendation:

Expand the Working on Country program to increase the number of Indigenous Ranger positions to 1550 Full Time Equivalent (FTE) by 2021. This will require both program funding and funding to support the growth of a vibrant Indigenous land management sector.

### What is the issue?

The Working on Country (WoC) program aims to support Aboriginal and Torres Strait Islanders' aspirations to care for country by providing employment and training opportunities for Aboriginal and Torres Strait Islander people living in regional and remote Australia to undertake natural resource management work. Most of the working on country ranger groups provide land management services on Indigenous Protected Areas (IPA). Ranger Activities include management of cultural sites, fire regimes, biodiversity, feral animal and weed control, and nationally accredited training and career pathways in land and sea management.

The Productivity Commission's recent report *Overcoming Indigenous Disadvantage* stated that the combined funding for IPA and WoC programs supports 777 FTE ranger positions in 109 ranger groups. This equates to over 2600 Indigenous people being employed in either full-time, part-time or casual jobs.<sup>9</sup> Currently, the Working on Country program is funded at \$320 million over 5 years until 2018.<sup>10</sup>

A report released by Pew Charitable Trusts in 2015 highlighted the benefits of the program including:

- Increased labour productivity through improved Indigenous health;
- Greater workforce participation leading to increased economic output;
- Cost savings to governments through lower expenditures on public health, policing, corrective services and public housing; and
- Economic returns generated by new Indigenous business ventures, including the associated tax component of this revenue that is received by government.<sup>11</sup>

SVA was engaged by the Department of Prime Minister and Cabinet to assess the Social Return on Investment (SROI) of the Working on Country programs in five diverse Indigenous Protected Areas: Warddeken in the Northern Territory; Girringun in Queensland; Birriliburu and Matuwa Kurrara Kurrara (MKK) in Western Australia; and Minyumai in New South Wales (NSW).

Between the 2009-15 financial years, an investment of \$35.2m by Government and third parties into the five IPAs has generated social, economic, cultural and environmental outcomes with an adjusted value of \$96.5m. The adjusted value takes into account what would have happened in the absence of these programs and other investments that contributed to the outcomes. The results of the SROI analyses are encouraging, and validate previous studies about 'things that work' on country as described by the Productivity Commission.

The SROI also found that the programmes demonstrate success in engaging Indigenous Australians on country in meaningful employment to achieve large scale conservation outcomes. Rangers attributed high value to strengthening their connection to country and opportunities for inter-generational

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<sup>9</sup> SCRGSP (Steering Committee for the Review of Government Service Provision) 2016, *Overcoming Indigenous Disadvantage: Key Indicators 2016*, Productivity Commission, Canberra, pg. 4.58.

<sup>10</sup> Pew Charitable Trusts and Synergies Economic Consulting (2015), *Working for Our Country: a review of the economic and social benefits on Indigenous land and sea management*, pp 20.

<sup>11</sup> Pew Charitable Trusts and Synergies Economic Consulting (2015), *Working for Our Country: a review of the economic and social benefits on Indigenous land and sea management*, pp 6.

learning provided through their work. For government, the value created from the employment outcomes include low cost land management as well as skills development and increased engagement in the work force, reduced income support payments and increased income tax, less violence and safer communities.

**Action required:**

The Working on Country program generates social, economic, cultural and environmental outcomes, for communities where other programs have proven unsuccessful. Given the documented evidence of success, the program should be expanded in order to double the current numbers to 1550 rangers by 2021.

Expansion requires investment in the programme itself as well as engaging and preparing additional communities to operate the program and the infrastructure to support the growth and ensure positive outcomes continue to be achieved in new locations.

1. The Government can facilitate further investment in IPAs to increase the programme's impact and improve its sustainability:
  - A long-term commitment to IPA and WoC funding, at or above current levels, to ensure the continued achievement of positive outcomes for Rangers and Community members.
  - Government can actively support the development of Indigenous land and sea based commercial enterprises to improve the sustainability of Indigenous land and sea management activities.
  - Government can also explore innovative models of attracting third party investment, in the form of both non-returnable (environmental NGOs and philanthropy) and returnable capital (impact investors).
2. Government can continue to build an evidence base to understand what matters to Indigenous land and sea managers and what works, by:
  - Developing a shared measurement framework, which accounts for the priorities of Indigenous communities, Government and third party investors;
  - Further supporting effective measurement and evaluation at the project level; and
  - Publicly sharing consolidated data.
3. Government could pursue increased integration of:
  - the IPA programme with the WoC programme; and
  - the IPA and WoC programmes (collectively) with the broader Indigenous Advancement Strategy (IAS), including through improved collaboration with the PM&C regional network.

SVA is assuming that the operating funding for current WoC programme continues beyond the current funding cycle which ends in 2018.

The additional costs (\$200 million over four years) is to expand the program to 1550 FTE by 2021 and is based on the assumption that the costs would rise over the forward estimates during the expansion. Phasing would need to be determined in order to identify communities and locations where the WoC could operate and for these to come online.

## **Amendments to the Jobs for Families Child Care Package**

### **Recommendation:**

Amend the Jobs for Families Child Care Package so that it can deliver more affordable access to early learning and child care for both working families and for vulnerable children who would benefit most from access to early learning. This package should not be linked to the savings from changes to Family Tax Benefits or other unrelated savings measures currently in the legislation.

### **What is the issue?**

SVA supports the overarching direction of the Jobs for Families Child Care Subsidy Package as it will deliver increased investment in quality early learning.

Modelling by PWC in 2015 suggests that these reforms would also boost workforce participation with the equivalent of 20,000 women being supported to join the workforce.<sup>12</sup> Within three years, the productivity benefit of increased workforce participation would add around \$3 billion to GDP and around \$1 billion to government coffers in increased taxes and welfare savings.<sup>13</sup> Whilst this is a positive measure and strongly aligned to meet workforce participation objectives, the package should be amended to support child development objectives and therefore produce better outcomes for both children and families.

SVA supports the view of the early learning and early childhood sectors that 12 hours of child care subsidy is not adequate to make a difference to a child's development. There is a significant amount of research showing that a minimum of 15 hours of quality early learning is necessary to improve children's developmental outcomes.<sup>14</sup>

The United Kingdom, New Zealand and most recently Ireland all provide between 15-20 hours of early childcare education to all 3 to 5 year olds, with priority given to the most disadvantaged children in some cases. Comparatively, Australia is well behind international best practice. In order to reach this minimum standard of 15 hours additional investment would be required which could be generated from the considerable savings accrued as a result of the delayed implementation of this package as well as from the increased compliance measures and improved forecasting in the mid-year economic and fiscal outlook. This would also remove the artificial reliance on cuts to the Family Tax Benefits.

Aboriginal and Torres Strait Islander children are twice as likely as other children to start school developmentally vulnerable. It is paramount to increase participation in early childhood education in order to improve developmental outcomes for Aboriginal and Torres Strait Islander children. The base entitlement should be increased from 12 hours to 22.5 hours which would equate to three sessions a week. It is therefore also imperative to provide funding to ensure the viability of Indigenous services that are located in remote areas where there are limited options for support. Many of these services whilst being in remote areas, also service highly disadvantaged communities and allow access for disadvantaged children in order to improve developmental outcomes.

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<sup>12</sup> PWC (2014) "Putting a value on early childhood education and care in Australia"

<sup>13</sup> Ibid.

<sup>14</sup> A review of research on the effects of early childhood education and care (ECEC) upon child development. Brussels, European Commission pp 25-38 <http://ecec-care.org/>

**Action required:**

In line with other sector participants, SVA proposes that the following changes to the Jobs for Families Package are made:

1. Increase the base entitlement from 12 to 15 hours of child care subsidy, and raise the income threshold for the base entitlement from \$65,710 to \$100,000 to cover the bottom 40 per cent of vulnerable families. This aligns the base entitlement threshold for the Child Care Subsidy with the cut off for Family Tax Benefit payments.
2. Provide an increased base entitlement of 22.5 hours for Aboriginal and Torres Strait Islander Children.
3. Provide dedicated funding to support the budget based funded services that have been identified as unviable under the proposed new package, despite providing much needed services for their communities. This is particularly relevant to many Aboriginal Family Day Care models which are often the only service for hundreds of kilometres and will not be able to operate under the proposed Child Care Package model.
4. Ensure the activity test and subsidy approval processes are sufficiently flexible to accommodate the complex needs of families and that vulnerable families are not inadvertently excluded
5. Provide long-term funding certainty for quality early learning for all children in the year before school.

Investing in child care and early learning results in a positive impact on workforce participation and productivity, social equality, and educational and life outcomes. The amendments we propose to the legislation are modest, and affordable and will deliver sound social returns. For example, it is estimated that increasing the base entitlement to 15 hours of early learning will cost the budget around \$150 million a year.

SVA recommends the Jobs for Families Child Care Package be amended in order for the Government to deliver a childcare reform package that is good for children, families and the future prosperity and social inclusiveness of Australia.

## **Conclusion**

SVA's view is that the initiatives proposed are modest investments in the context of the Commonwealth budget, are based on sound evidence, and have the potential to improve social outcomes, prosperity and inclusiveness for Australians as well as increasing the social impact of the Australian Government.

SVA would welcome further discussions about the rationale and proposed funding measures for any of the initiatives.

## **About SVA**

Social Ventures Australia works to improve the lives of people in need. Our approach focuses on understanding the structural causes behind persistent disadvantage, then finding and supporting the innovative approaches that can create systemic change.

In order to overcome disadvantage in Australia, we have focussed on initiatives designed to provide great education, sustainable jobs, stable housing and appropriate health, disability and community services. By offering funding, investment, and advice we support partners across sectors to increase their social impact.

We are a non-profit organisation established in 2002 by The Benevolent Society, The Smith Family, WorkVentures and AMP Foundation.