Budget woes could use private capital, public good

< PREV
Regional Telecommunications Review panel appointed

A new generation of investors are seeking social outcomes not just profits, opening the way to a different type of Public-Private Partnership. Social benefit bonds could help governments get more from their budgets. NSW has begun this market, should the Commonwealth be next?

The handing down of the federal budget is nearly upon us and along with it, mounting anticipation around the policies and cuts to be announced as we navigate Australia's budget deficit.

While the winners and the losers are yet to be revealed, one thing is certain. From the housing crisis to homelessness, from disadvantage in Aboriginal communities to youth unemployment, the social and environmental challenges we face as a nation far exceed the resources we have to address them.

Commonwealth spending has been projected to rise from $414 billion in 2014-15 to some $690 billion in nominal terms over the next 10 years. To give some sense of our increasing budget strain, over the decade to 2012–2013, Australian government spending grew by 45.2%, compared with GDP growth of 34.3%.

Australia is not alone in this challenge. Governments across the world face growing gaps

Australia is not alone in this challenge. Governments across the world face growing gaps between societal needs and the ability to fund solutions. Philanthropy plays a critical role, but simply cannot fill all the gaps. There's little doubt we need to find different ways of meeting our needs and those of generations to come.

Meanwhile, a new generation of investors is eager for their investments to deliver social change in addition to a good financial performance. Many organisations with a social purpose are looking for additional finance to scale up what works and to increase their impact in communities.

The growing field of impact investing – investments that deliver a measurable social or environmental return as well as a financial return – has the potential to help meet the needs of these different actors and play an important role in helping tackling our social and environmental problems.

Impact investments vary widely in their nature and scale, ranging from low-interest loans and equity for social enterprises to charity bonds, funds that invest in local jobs, and social impact bonds typically developed as public/private/not-for-profit partnerships.

Social impact bonds are one example of an approach that helps governments get more from their budgets. Instead of a government paying directly for the provision of a social service, private investors provide capital to a service provider to achieve agreed-upon social outcomes. If these outcomes are achieved, governments repay investors their upfront investments along with a financial return, using revenue typically generated through cost savings associated with a particular intervention on a social issue.

Australia was the second cab off the rank globally with the launch of the NSW Benevolent Society and Newpin "social benefit bonds", designed to deliver better services and results for families at risk. The Baird government has since committed to bringing two impact investing transactions to market each year and South Australia is looking to trial at least one social impact bond.

There are significant, concrete opportunities for private capital to take a more active role in delivering social infrastructure and services that are traditionally provided and funded by the government and not-for-profit sector alone, in areas such as aged care, health, affordable housing, education and international development.

The fifth survey of impact investors released this week by J.P. Morgan and the Global Impact Investment Network shows that 146 of the world's largest impact investors – including fund managers, banks, development finance institutions, foundations and pension funds – collectively manage US$60 billion in impact investment assets and committed US$10.6 billion to impact investments in 2014. Australia is playing an important role in helping to develop the enormous potential of this global market across a range of geographies, political systems and social issues.

Our recent Financial System Inquiry highlighted the potential of impact investing to benefit government and taxpayers by reducing costs and improving social policy outcomes. Its final report includes impact investment as a significant matter, recommending the government plays "a more active role to facilitate the social impact investment market in Australia".

Governments have a unique role in that they can be both impact investing participants and impact investing stewards. As a major buyer of goods as well as a commissioner and

provider of services, they can play a pivotal role in attracting and directing private capital provider of services, they can play a pivotal role in attracting and directing private capital, as well as developing supply and demand. Policy action and regulatory clarity is also critical for encouraging a greater number of investments and removing the existing barriers to market development.

Social services are set to become major areas of growth in Australia. Welfare and health are expected to make up 52% of our federal budget by 2018, and Commonwealth spending on the National Disability Insurance Scheme alone is projected to grow 45% annually to be around $11 billion by 2023-24.

The economic significance of these areas and others underscores the opportunity for impact investing to work as a key tool in better targeting of government spending, attracting more private capital, ensuring the money used is delivering positive outcomes and most importantly, helping to prevent social issues rather than merely deal with their consequences.

Read more at *The Mandarin*: John Fraser: fiscal repair, structural reform for budget

Top Views

Victorian service reshuffle: super-departments born

by David Donaldson | views 11516

New broom in Victoria: Eccles to replace Tongue at DPC

by David Donaldson | views 8728

Feathers ruffled: how hawks took over the Immigration nest

by Stephen Easton | views 7652