

MARKETS IN THE COMMUNITY:

The Benevolent Society Social Benefit Bond

KangaNews is proud to support the charitable endeavours of Australian and New Zealand capital-markets professionals. In this issue, two bankers talk about their role in pioneering social-benefit bonds (SBBs) in Australia with a deal for The Benevolent Society (TBS). Proceeds from the transaction have gone directly towards funding the Resilient Families Programme in New South Wales (NSW) – a community-services programme aimed at preventing children from going into out-of-home care.

At the end of March 2016, there were 18,568 children and young people in out-of-home care across NSW according to data provided by TBS. To address this issue, the state government has committed more than A\$1 billion (US\$745.3 million) to child protection and out-of-home care in its 2016/17 budget. However, it is widely recognised that the number of children who require support substantially outweighs the level of funding available.

TBS's move to issue an SBB was a pioneering initiative set up by TBS – a not-for-profit organisation – Westpac Institutional Bank (Westpac) and Commonwealth Bank of Australia (CommBank) as a new and innovative form of social financing. Following similar pilot transactions in the UK and US, this SBB was designed to facilitate private-sector funding into a social-welfare project.

The A\$10 million, five-year bond was launched in October 2013 across two note classes – A\$7.5 million of senior, performance-based secured bonds and A\$2.5 million of subordinated bonds.

Performance is based on the youngest child in each family – the 'index child' – and payments ultimately depend on a performance percentage. Actual returns are calculated based on cumulative results and paid to investors at the maturity date of the bond. As at December 2016, the performance percentage of the bond is well above its threshold level, while 360 children in 156 families have benefited from its proceeds.

FROM THE BEGINNING

The journey towards the SBB deal began close to five years ago, when the NSW government presented the idea to industry stakeholders, including banking professionals, ahead of launching a pilot programme in partnership with TBS.

At the time, only a handful of SBBs had been issued globally.

Simon Ling, general manager and global head of debt markets at CommBank in Sydney, and Craig Parker, Sydney-based executive director and head of structured finance at Westpac, recognised they were in fortunate positions within their organisations and would be able to leverage the resources available to them for positive change.

"Craig and I know each other well, having worked together for a number of years. We knew we could have a real impact on social-finance initiatives like this one and, because we have the knowledge and experience, we thought we were in the best position to push this SBB forward," Ling says.

From a personal perspective, Ling had previously been involved in developing and financing a social-housing programme that became the major financing vehicle for social-housing associations in the UK.

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SIMON LING COMMONWEALTH BANK OF AUSTRALIA



The Resilient Families Programme: Keeping children with their families

The Benevolent Society (TBS) acts as a catalyst for change in Australian communities, deploying initiatives to address critical social issues. In one of Australia's pioneering social-financing endeavours, TBS established the Resilient Families Programme to be funded by one of the country's first social-benefit bonds (SBBs).

The Resilient Families Programme commenced in October 2013 in conjunction with the launch of the SBB. It is an evidence-informed programme providing practical and therapeutic supports, that seeks to promote better outcomes for children by building protective and stable home environments.

The 12-month programme targets families where children have been deemed to be at significant risk of harm to the extent that they have been flagged by the New South Wales Department of Family and Community Services (FACS). Referral by FACS does not entail compulsory participation in the programme, however.

The Resilient Families Programme is designed to deliver an initial 12-week

intensive period of support for the family. In the first instance, facilitation of a safe environment is often necessary. Annette Chennell, executive director, ageing and disability at TBS, tells *KangaNews* a number of primary factors often act as a catalyst for programme entry.

"Many of the families we work with are dealing with potential homelessness, drug or alcohol issues, domestic violence or mental-health issues," she explains. "So it is fundamental to the families' success in the programme that these problems are dealt with first and foremost."

A senior family worker will help create a support plan in collaboration with the family. The plan works on a flexible-arrangement basis to ensure support can be provided

at times which best meet the families' needs. It also offers assistance for families in their engagement with other specialist services as appropriate.

According to Chennell, this framework helps families understand and work towards increased safety, secure and stable relationships, coping and self-efficacy, and improving empathy. This is for both the children and parents or carers. Chennell says. When family members are comfortable that they have reached the goals in their plan and have addressed certain life stressors they can then exit the programme.

One of the unique features of the Resilient Families Programme, Chennell suggests, is the opportunity for families to re-enter after

the 12-month completion period. "It is not uncommon for an additional stressor to present itself after a family has exited the programme. Some reasons for re-engaging in the programme include substance misuse relapse or a parent re-entering the home following incarceration," she says.

The average period of re-engagement for each family has been six months and, at June 30 2016, a total of 14 families had voluntarily re-engaged in the Resilient Families Programme. "It's fabulous that families choose to re-engage in the programme because it shows they are able to identify when they need support again and it acts as a form of early intervention. As soon as something goes off track they are able to recognise that there is help available," Chennell tells *KangaNews*.

He adds: "We also sensed a future in this particular SBB, which made investing time and resources more worthwhile. Like the social-housing financing in the UK, Craig and I believed this would lead to new developments in the market and new financing techniques for social projects, and would also bring new investors into the space. We could see it would take some time but recognised it could develop into a major

area of growth and opportunity for not-for-profits in Australia."

The not-for-profit nature of TBS did not lend itself to the conventional commercial treatment around fees that banks would usually expect, says Parker. Consequently, it was "more appropriate for us to take the project on on a pro-bono basis, which allowed us to work in a particularly collegiate manner to get the best deal done".

Both Ling and Parker say their organisations were extremely supportive of the project from its inception, despite the lack of financial gain.

PARTNERING WITH TBS

Having intellectual property like the Resilient Families Programme and the Resilience Practice Framework is very important to what TBS does, says Annette Chennell, executive director,



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CRAIG PARKER WESTPAC INSTITUTIONAL BANK

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ANNETTE CHENNELL THE BENEVOLENT SOCIETY



ageing and disability at TBS in Sydney. But she adds that its execution ultimately depends on the funding made available. “We know that the right intervention works, and that you can have a significant impact on people’s lives when you get the right amount of money to target the right families.”

There is a wealth of evidence confirming the consistently poorer outcomes achieved by children going into out-of-home care across education, health and general wellbeing, Chennell adds. Taking part in innovative funding was a natural progression for TBS, given the team recognised the government would be unable to support the entirety of the programme.

Chennell adds: “We know many people are not receiving the services they need so to try something new that enabled investors to get a great return for ‘doing good’ was a no-brainer. We have wanted to drive this kind of social push since the establishment of our organisation.”

A ROAD UNTESTED

Chennell says the main challenge for TBS was getting the performance measures on the bond right. “This also meant the lead managers had to become comfortable with having their programmes, processes and results deeply interrogated. We don’t shy away from transparency but the spotlight was intense as the approach was so new.”

Although Ling had worked in social financing before, he says the confronting nature of some of the issues families in Australia are dealing with was difficult at times. “I recall going to more than one meeting where police were involved and suddenly we are talking about families

who have been affected by domestic violence or alcoholism. These are things Craig and I would not normally come face-to-face with in the finance world.”

Trying to develop deep investor interest was a lot harder than initially anticipated, adds Ling. “Many investors were very enthusiastic early on but when the rubber hit the road the idea was probably too early for some buyers. It was something very new for the Australian market and a lot of investors didn’t know how to value the bond or what benefit it would bring.”

Parker adds: “Notwithstanding this, if we were to issue the bond today I think we would be knocked over in the rush of demand. Back then conventional investors would say the bond didn’t meet their mandates. So it took us a while to look for sources of investable funds. Today, many portfolios have allocations in their fund-management policies that allow them to participate quite easily in these types of transactions.”

Parker confirms that in total 42 investors participated across a range of sectors all the way to high net-worth individuals. “CommBank was an investor in its own right. On the other hand, Westpac invested via two of its foundations – The Westpac Foundation and the St. George Foundation. Collectively, Westpac put forward A\$1.2 million,” he comments.

FUTURE AMBITIONS

Both Parker and Ling say they recognised from the outset that this project would be pivotal in the development of social finance in Australia. “We knew it was transactions like this that people would learn from and end up using as precedent for future

SBBs. That’s why the pro-bono aspect of the project was so significant – because we knew the future impact would be substantial,” Parker says.

When the SBB and Resilient Families Programme collaboration first began, there were only a handful of SBBs that had been executed globally. Ling says virtually every state government in Australia is now looking at financing using these types of securities and there are proposals out for a number of them to complete deals. “There is certainly a lot of activity brewing in the space, but it takes time to build momentum in this type of market.”

Looking forward, Ling says: “We are five years on from when TBS’s SBB first launched and we are still working on perfecting it. The challenge is that it is massively time consuming for all three parties, so we hope to make the process for SBBs more efficient in future.” •

The Benevolent Society’s vision is to create a society “where all Australians can live their best life”. The Resilient Families Programme has been part of this vision for three years and continues to work towards preventing at-risk children from entering out-of-home care. For more information, including how you can help, please visit <https://www.benevolent.org.au/>

Members of the Australian and New Zealand capital-markets industry are welcome to contact KangaNews if they would like their own or a colleague’s work with a charitable organisation or project to be profiled in this editorial series. Please contact Samantha Swiss via sswiss@kanganews.com