

NEWPIN SOCIAL BENEFIT BOND Annual Investor Report

30 JUNE 2015



FOREWORD

Dear Investor,

Social Ventures Australia (SVA) is pleased to present the 2015 Newpin Social Benefit Bond (SBB) Annual Investor Report.

The Newpin SBB is the first social impact bond in Australia. It is an innovative performance-linked payment contract that funds the maintenance and expansion of a therapeutic, centre-based program to support and empower families facing potential or actual child protection issues.

We are pleased to report that the Newpin SBB has had a second successful year in both a social and an investment sense. The program has now successfully restored a total of 66 children to their families and delivered an 8.9% pa financial return to investors, based upon a cumulative Restoration Rate for the first two years of the SBB of 61.6%. The program has also supported an additional 35 at-risk families in preventing their children entering into out-of-home care.

Please take the time to review this report, and we thank you for your investment and continued support, without which this innovative program and these results would not have been possible.



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 Benefit Bonds allow Government, NGOs and private investors to collaborate to tackle some of the biggest challenges that face our community.

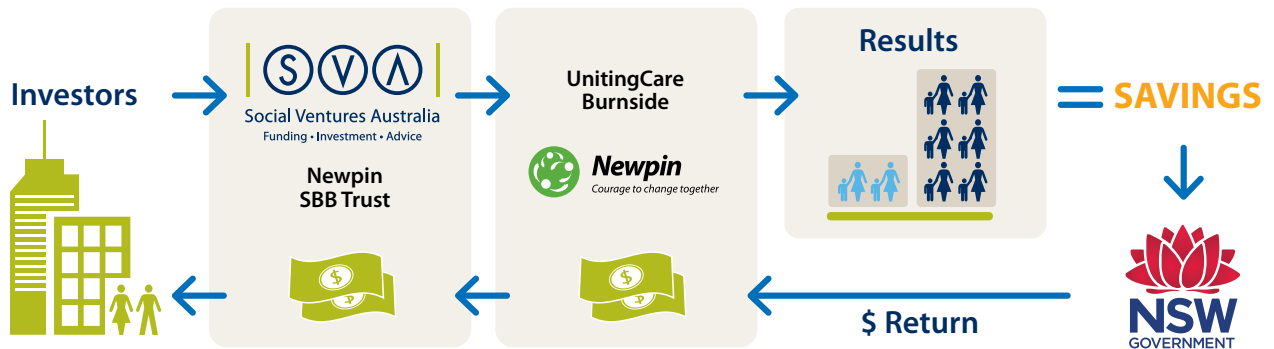
The NSW Government is pleased to see that its innovative Social Benefit Bond – an Australian first – has continued to deliver positive outcomes for the most vulnerable in the community while providing a return to investors.”



NEWPIN OBJECTIVES AND PROCESS

The Newpin SBB funds the maintenance and expansion of the vital work of the Newpin program, which is run by UnitingCare Children, Young People and Families (part of UnitingCare NSW.ACT). 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 UnitingCare.

Figure 1: Newpin SBB Structure

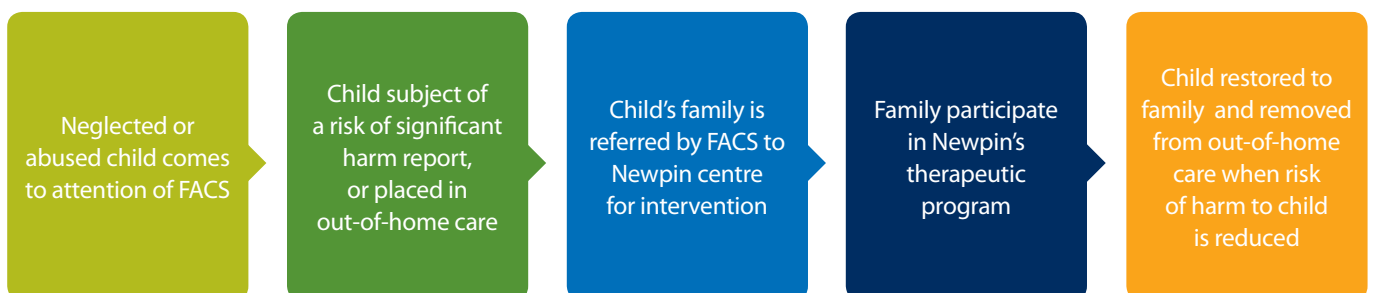


The purpose of the Newpin program is to restore children in out-of-home care to the care of their families by creating and supporting safe family environments (Cohort 1), and to prevent children at risk of significant harm from entering out-of-home care in the first place (Cohorts 2 & 3). It is an intensive 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 2: 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 3: Newpin service delivery process



NEWPIN PROGRAM UPDATE

The Newpin program continues to restore children to safe families and positively support families with children at risk of entering care.

Referrals

A total of 113 families were referred to Newpin this year, up from 86 in Year 1. Sixty-one of these were Cohort 1 families, with 91 children eligible for restoration. In total, 55% of families referred to Newpin over the first two years have been in Cohort 1, those with the most challenging circumstances.

While the overall level of referrals this year was pleasing, the new centre at Wyong took time to build a strong referral pipeline due to the time it takes for local NGOs and FACS caseworkers to learn about and build trust in a new service. Setting up Newpin hot desks in local FACS offices was successful in increasing referrals and will be incorporated into the establishment of future new centres.

Restorations

A total of 42 children were restored to their families during Year 2 (and were still with their parents at 30 June 2015). This is up from 28 restorations in Year 1, of which four were reversed this year (see below for more detail). This growth reflects both an increase in the rate of restorations and a larger volume of families participating. Two thirds of the 66 successful restorations to date have been to mothers, and the average period from entry to Newpin to restoration is six months.

It is particularly pleasing that the restoration rate for fathers improved from 37% in Year 1 to 71% in Year 2, albeit the number of children involved is relatively small. The progress that many fathers are making in turn feeds an increased willingness amongst FACS caseworkers to refer fathers to the program.



To reach the point where a child can be safely restored to the care of their family, the parents involved have had to address complex and deep-seated personal issues, often involving substantial trauma and abuse in their own childhoods. The raw numbers of successful restorations tell only part of the story of the positive impact Newpin has had on the lives of vulnerable children and their parents. Please refer to *Newpin: Getting Children Home* for the stories of many of the parents whose lives have been turned around by Newpin, and the insights of many others involved in the program.

Reversals

Five mothers with eight children in total had their restorations reversed this year, representing an overall reversal rate of 10.8%. Four of the restorations had occurred in Year 1 and four in Year 2.

Some level of reversals is inevitable in restorative work, and will always reflect decisions made in the best interest of the children. 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. On average, families stay on the Newpin program for eight months post restoration, as it is understood how hard the first six to twelve months can be.

An analysis has been carried out of the families for whom reversals have taken place so far, and at this point there does not seem to be any particular pattern leading to reversals. Additional staff support and training is being put in place to ensure that Newpin continues to develop knowledge and skills around post restoration support.

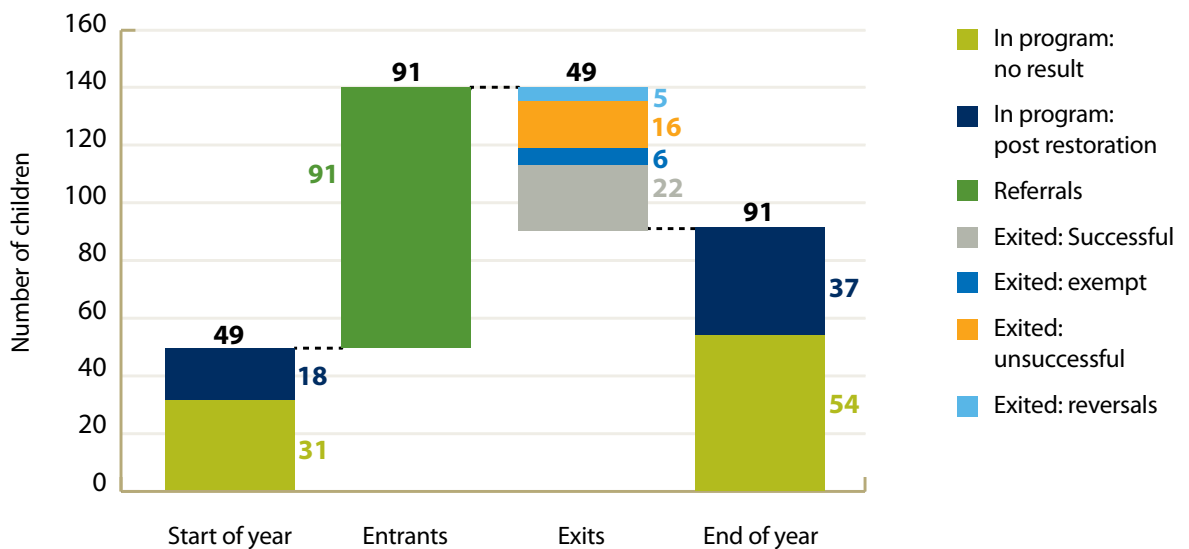
Unsuccessful exits

An unsuccessful exit occurs when a family leaves the Newpin program before a restoration occurs. The level of unsuccessful exits has fallen during the second year of the program, from 26 to 16 children. Families who exited Newpin unsuccessfully spent an average of around 10 months on the program.

More than one third of unsuccessful exits to date have been from the children that were already in Newpin at the commencement of the SBB on 1 July 2013. These families had not been referred in via the standard SBB process and did not have the same level of support in their first few months as they would have now: as a group, their restoration rate was only 10%. Improved practices have led to better restoration experience: the group of families entering Newpin during the first year of the SBB currently have a collective restoration rate of 67% (with four children yet to have a result; even if all are unsuccessful the final restoration rate for the group will be 62%). The 2014-15 group is tracking at a similar level, but more than half are yet to have an outcome (restoration or unsuccessful exit).

Where families are unsuccessful it is usually as a result of a mother returning to a violent partner or a parent recommencing drug use. 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.

Figure 4: Cohort 1 participant numbers over 2014–15



Expansion plans

The first new centre under the SBB program was established in Wyong in July 2014. The program is staffed by a strong team and is now securely embedded within the local community.

The second new centre was due to open in Newcastle in July 2015, however unforeseen challenges with the premises have led to this centre being temporarily postponed. In the meantime, an ideal building has been identified in south west Sydney and planning is underway with a goal of establishing this as a Newpin centre by the end of 2015.



INVESTOR RETURNS

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

Transaction Document Amendments

In June, SVA sought the approval of investors to amend the Newpin SBB transaction documents to ensure that investors were not paid for reversals, in line with the original intentions of all parties. To protect investors from the uncertain impact of reversals over the balance of the SBB term, UnitingCare agreed that a cap should be placed on the number of reversals counted in the determination of the Restoration Rate. This cap is 10% of the cumulative number of Restorations.

On 1 July 2015 all 60 investors in the Newpin SBB Trust had approved the proposed amendments to the Newpin SBB transaction documents. The Implementation Deed and the UC Loan Deed have now been amended in accordance with the information provided to investors.

SVA was grateful for the level of cooperation from all investors during this process, and encouraged by investors' willingness to unanimously agree to terms which - while ensuring the spirit of the Newpin SBB is fairly reflected - ultimately diminished returns. There were several 'learning opportunities' arising from this situation, but the process provided very positive insights into both the level of engagement, and the motivations, of impact investors.

Restoration Rate

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

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 families (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 2015 Financial Year was 61.58%, calculated as follows:

$$\begin{aligned} \text{Restoration Rate} &= (\text{Restorations} - \text{Capped Reversals}) / (\text{Restorations} + \text{Unsuccessful Exits}) \\ &= (52 - 5.2) / (52 + 24) \\ &= 61.58\% \end{aligned}$$

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 UnitingCare 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 61.58%, the Interest Rate is thus 8.922%.

INVESTOR RETURNS (CONT.)

Coupon Payment

Coupon Payments will be made to investors promptly following receipt of the Interest Payment from UnitingCare, due on 30 September 2015. Investors will receive a Coupon Payment representing their pro-rata share of the Interest Payment received from UnitingCare.

The Interest Payment is calculated as follows²:

$$\begin{aligned}
 \text{Interest Payment} &= (\$7,000,000 \times \text{Interest Rate} \times \text{total elapsed years}) - \text{prior year payments} \\
 &= (\$7,000,000 \times 8.922\% \times 821/365) - \$655,890 \\
 &= \$748,897
 \end{aligned}$$

Due to the cumulative nature of the Restoration Rate, the Coupon Payment paid to investors will effectively be 8.9% for Year 2, plus the difference between the Year 1 Coupon Rate and Year 2 Coupon rate for the first 1.25 years, or $(8.9\% - 7.5\%) \times 1.25$, a total of 10.7% of the amount invested.

If the cumulative Restoration Rate in future years falls below 61.6% the effective 'overpayment' for the first 2.25 years will be netted off future investor coupons.

It is important to note that whilst the performance over the first two years has been positive, it is still early in the Newpin SBB and future results could still be volatile. Variations in performance could detrimentally affect the cumulative Restoration Rate and investors' returns.

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





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