

# Early Intervention: Smart Investment, Massive Savings

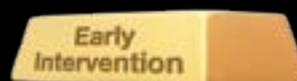
The Second Independent Report to Her Majesty's Government  
Graham Allen MP

3 Year old children

Costs to taxpayer



Normal



Extreme neglect



# Early Intervention: Smart Investment, Massive Savings

The Second Independent Report to Her Majesty's Government

Graham Allen MP

‘We have all recently conducted reviews for Her Majesty’s Government in this field and while we agree on so much, we would like to particularly underline that all five of us strongly support this Report’s emphasis on the cost-effectiveness of Early Intervention. We feel it is vital that the Government now begins the groundwork to enable our late reaction culture to be transcended by an Early Intervention one. Our collective view is that the moment for a serious, sustained programme of Early Intervention, which is promoted inside and outside government, has arrived.’

**Dame Clare Tickell**, Independent Report – *The Early Years: Foundations for life, health and learning*

**Rt Hon Frank Field MP**, Independent Review on Poverty and Life Chances – *The Foundation Years: preventing poor children becoming poor adults*

**Graham Allen MP**, Independent Review on Early Intervention Delivery – *Early Intervention: The Next Steps* and *Early Intervention: Smart Investment, Massive Savings*

**Professor Eileen Munro**, Independent Review of Child Protection – *A Child-centred System*

**Joyce Moseley OBE**, Chair – *Resolving Multiple Disadvantage: leading local responses to local needs*

July 2011

## Acknowledgement

The images on the front cover illustrate the negative impact of neglect on the developing brain. The first CT scan is from a healthy 3-year-old child with an average head size (50th percentile). The image below is from a series of three 3-year-old children following severe sensory-deprivation neglect in early childhood. The child's brain is significantly smaller than average and has abnormal development of cortex (cortical atrophy) and other abnormalities suggesting abnormal development of the brain.

From studies conducted by researchers from the Child Trauma Academy ([www.childtrauma.org](http://www.childtrauma.org)) led by Bruce D Perry, MD, PhD.

Perry BD (2002) Childhood experience and the expression of genetic potential: what childhood neglect tells us about nature and nurture. *Brain and Mind*, 3: 79–100.

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# Acknowledgements

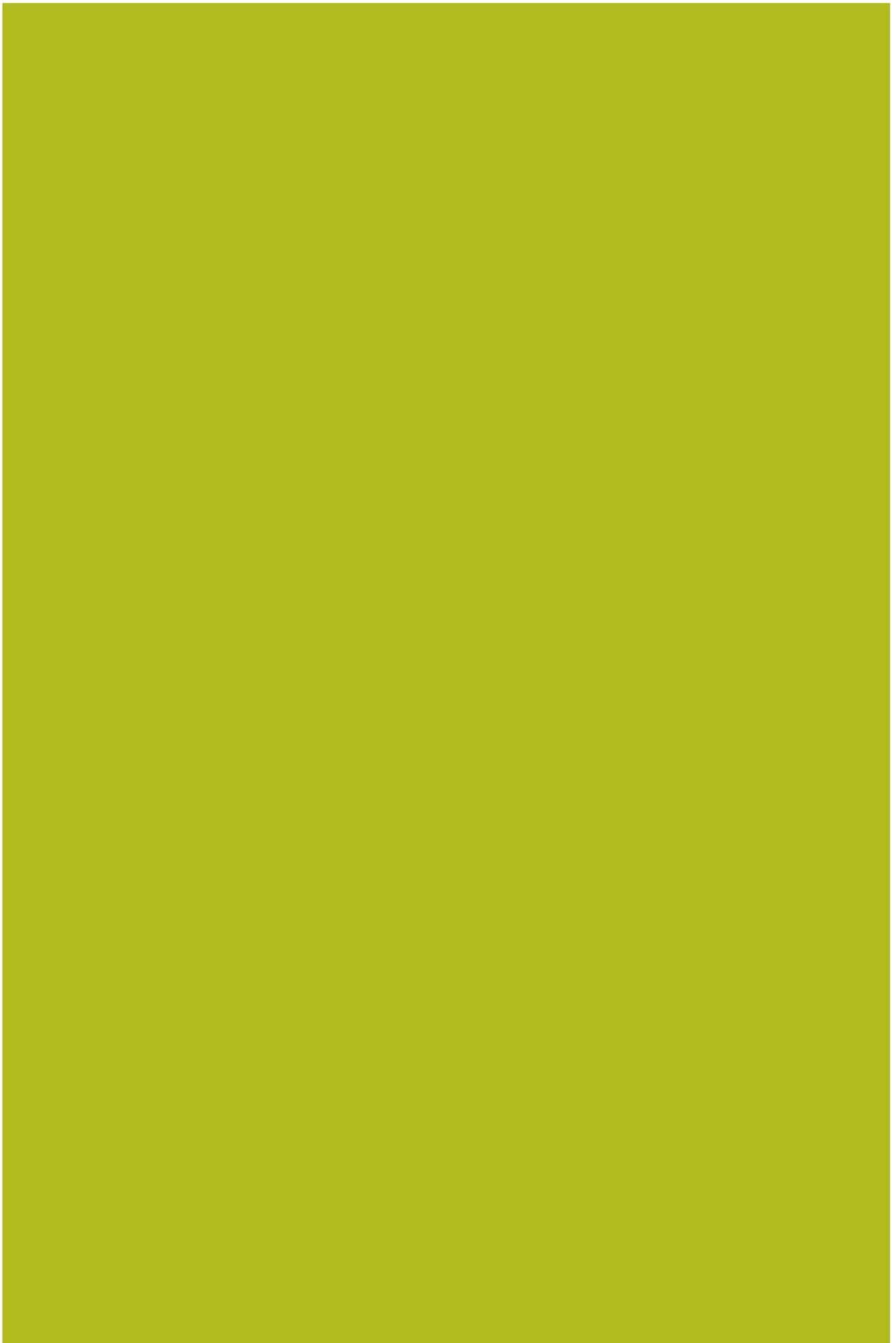
I would like to acknowledge my debt to the review team, who have continuously dedicated themselves to this work throughout. Their perseverance, skill and efforts have made this Report a much easier task to complete. In particular the team leader, Dr Angela Donkin, has co-ordinated the team to extremely high standards, as well as managed my expectations! Other members of the team that I would like to thank are my policy advisers from HM Treasury and other government departments, including Clive Senior, Laura Julve, Stuart Broom, Sam Tendeter, Lauren Kocan and Almudena Lara. I must also thank Nick Bodle for his essential administrative support and Matthew Woolston, who has linked my work in the House of Commons with this Report.

The review team and I have received incredible support from many external partners and individuals. I would like to thank, in particular: The Social Investment Business, Royal Bank of Canada; Coutts; Rothschild; Triodos Bank; Deloitte; Private Equity Foundation; BlackRock; PricewaterhouseCoopers; Impetus; Charity Bank; The Young Foundation; Royal Bank of Scotland; Birmingham City Council; Manchester City Council; Nottingham City Council; Oxfordshire County Council; East Sussex County Council; Hertfordshire County Council; Westminster City Council; Legal & General; Functional Family

Therapy; NESTA (National Endowment for Science, Technology and the Arts); Incredible Years; London Early Years Foundation; Family Nurse Partnership; Barclays Capital; McKinsey & Company; Number 10; NS&I (National Savings and Investments); Co-operative Bank; National Academy for Parenting Research; Greater London Authority; 4Children; and The Children's Society.

Additionally, a number of individuals have been extremely supportive of the review, including: Ray Shostak; Matthew Pike; Richard Heller; Jim O'Neill, Goldman Sachs; David R Adair; Richard Collier-Keywood and Ian Oakley-Smith, PricewaterhouseCoopers; Richard Haseldine; Roberta d'Eustachio, Ambassador for Philanthropy; Stanley Fink; Professor Michael Little and Nick Axford, The Social Research Unit at Dartington; Christopher Egerton-Warburton; Charlie Green and Tom Attwood, Trustees for the Private Equity Foundation; Chris Robinson, Mayor's Fund for London; Sir Howard Bernstein, Manchester City Council Chief Executive; Ian Charlesworth, The Social Investment Business; Ian McPherson, Metropolitan Police; Peter Wanless, Big Lottery Fund; and Stephen Hughes, Birmingham City Council Chief Executive.

I hope that those whom I have inadvertently omitted will forgive me.



# Letter to the Prime Minister (July 2011)

Rt Hon David Cameron MP  
10 Downing Street  
London  
SW1A 2AA

4 July 2011

Dear Prime Minister

I have completed my second Report, *Early Intervention: Smart Investment, Massive Savings*, in order to deliver it before the summer Parliamentary recess. As with my first Report, to implement the recommendations requires no legislative time and no net increase in public expenditure, but it does now need your political commitment to turn **talk into action**.

It proved hard to finance Early Intervention in our country even when public resources were abundant. Now that they are severely restrained, the task may seem impossible. However, Early Intervention turns this conventional wisdom on its head by reaping massive savings in public expenditure for the smallest of investments in better outcomes, and by avoiding expensive provision when things go wrong. By building out the immense costs of failure, it is in fact the best sustainable structural **deficit reduction programme** available.

My review, which has involved thousands of practitioners, service managers, policy makers and ministers, shows that there is an urgent case for greater investment in Early Intervention. There are no 'magic bullets' or instant cures – they do not exist. It has proved difficult; however, this Report outlines a serious programme of hard work to build a base from which to go further. People across the country have identified imaginative and creative ways to **change our 'late reaction' culture**. I know that ministers are persuaded, but my experience in compiling my reviews makes it clear that the whole official machine has to come to the party too, and my Report suggests how this can be done.

However, this is not a task for the public sector alone. This Report makes recommendations that will enable others – from neighbourhood charities to City financiers – to play a part in keeping with your approach to rebuilding civic society.

My first Report detailed the immense penalties to society and to the individual of failing to provide a strong foundation of social and emotional capabilities early in life. This second Report focuses more on addressing the vast financial and economic costs. It illustrates not just the price of failure to the taxpayer but the deadweight on the economy of carrying – across the generations – underachievement, low skills and poor educational attainment. Failure to address these will render us vulnerable to global competitors. Early Intervention must become a key priority for both our economic as well as our social renewal strategy.

In this Report, I propose two complementary approaches to funding: one is to use current public funding more effectively; the other is to mobilise additional investment from sources outside the public sector. This will require a new approach to supporting service commissioners, providers and a new cadre of investors. To achieve this, I propose the creation of a national, independent Early Intervention Foundation, the development of a reliable evidence base for the most effective Early Intervention programmes and the creation of a market in social finance to support Early Intervention. I am convinced that substantial additional funding could be found in order to give Early Intervention new impetus to produce lasting gains to individuals, public finances and economic competitiveness. This will have a clear benefit to individuals, communities and British society.

There are many detailed recommendations in the Report but, as we have discussed, there are just two which I believe require your personal leadership to secure the potential impact of greater Early Intervention:

1. To challenge and change the culture at the heart of government from late intervention to Early Intervention.
2. To offer a bold challenge to funders from the private, charitable and local government sectors that, if they create an independent Early Intervention Foundation to drive progress from outside Whitehall you will support them with co-funding.

It was extremely heartening to read the endorsements of the leaders of the UK's three main political parties for both Reports. I believe that it is essential that the all-party approach to the intergenerational answers required is maintained. The financial and social benefits of Early Intervention last well beyond any one Parliament or any one Government and are best achieved in a climate of maturity, patience and stability.

It is now time for clear leadership to change Early Intervention from a philosophy to a funded, sustained practical programme of investment and returns, which when taken to scale will transform the social and economic potential of a generation of babies, children and young people.

Good wishes in the task ahead.

A handwritten signature in black ink that reads "Graham Allen". The signature is written in a cursive, flowing style.

**Graham Allen MP**  
**The Early Intervention Review Team**

# Letter to the Prime Minister (January 2011)

Rt Hon David Cameron MP  
10 Downing Street  
London  
SW1A 2AA

19 January 2011

Dear Prime Minister

I have completed the Review of Early Intervention requested by the Government last June and am delivering it ahead of time. I hope it will be helpful that there are no requests for legislation and no requests for immediate public spending. Should you accept and act upon the recommendations, not only will the life chances of so many children be enhanced but I would also expect considerable dividends to be paid to the taxpayer and government on a recurring basis.

This Report therefore makes the following recommendations:

1. The cross-party co-operation that has characterised this issue should continue and be actively developed. All parties should publicly accept the core message of Early Intervention, appended, acknowledge that the culture of late intervention is both expensive and ineffective, and ensure that Early Intervention plays a more central part in UK policy and practice.
2. All parties should commit to the central objective of Early Intervention to provide a **social and emotional bedrock** for the current and future generations of babies, children and young people by helping them and their parents (or other main caregivers) before problems arise.
3. With the encouragement of the Government, the best and most rigorously proven **Early Intervention programmes** should be pulled together using the best methodology and science available, to promote their wider use.
4. The Government should encourage 15 local **Early Intervention Places** to pioneer the programmes.
5. The Government should promote an independent **Early Intervention Foundation**, independently funded, to motivate those in the Early Intervention sector; prove the programmes above, work with pioneering Places above and raise additional long-term finance for Early Intervention from non-governmental sources.
6. The Government should take further the existing policies in this field to make sure that all children have the social and emotional capability to be 'school ready' at five, including:
  - a. a long-term plan to give all vulnerable first-time mothers who meet the criteria and want it, access to Family Nurse Partnerships;

- b. working up a national parenting campaign as part of the Big Society;
- c. high-quality, benchmarked pre-school education for 2-, 3- and 4-year-olds as part of a 0–5 Foundation Stage;
- d. a cross-party review to plan progress towards a quality paternity and maternity settlement; and
- e. a more coherent series of assessments for the 0–5s to detect and resolve social and emotional difficulties before they become intractable.

A full list of the recommendations can be found on pages xvii to xxi.

Finally, to exploit the tremendous political and financial momentum behind Early Intervention, I strongly recommend that the Cabinet Social Justice Committee swiftly issues a timetable enabling those recommendations which are accepted to go ahead without delay.

I will publish a further report, which will be delivered to you before the summer recess, exploring the use of new private sector financial instruments to fund the local roll-out of proven Early Intervention programmes to Early Intervention Places via the Early Intervention Foundation. This is a tremendous opportunity for this and future governments to take a long-term view on tackling causes rather than symptoms, reducing dysfunction and creating essential social investments with good rates of return. Countless children, who would otherwise underachieve, will be able to meet their potential and in turn become fully rounded citizens and, above all, excellent parents if the right decisions are taken now.

Good wishes in the judgements you must make.

A handwritten signature in black ink that reads "Graham Allen". The signature is fluid and cursive, with the first letters of "Graham" and "Allen" being significantly larger and more stylized than the rest of the letters.

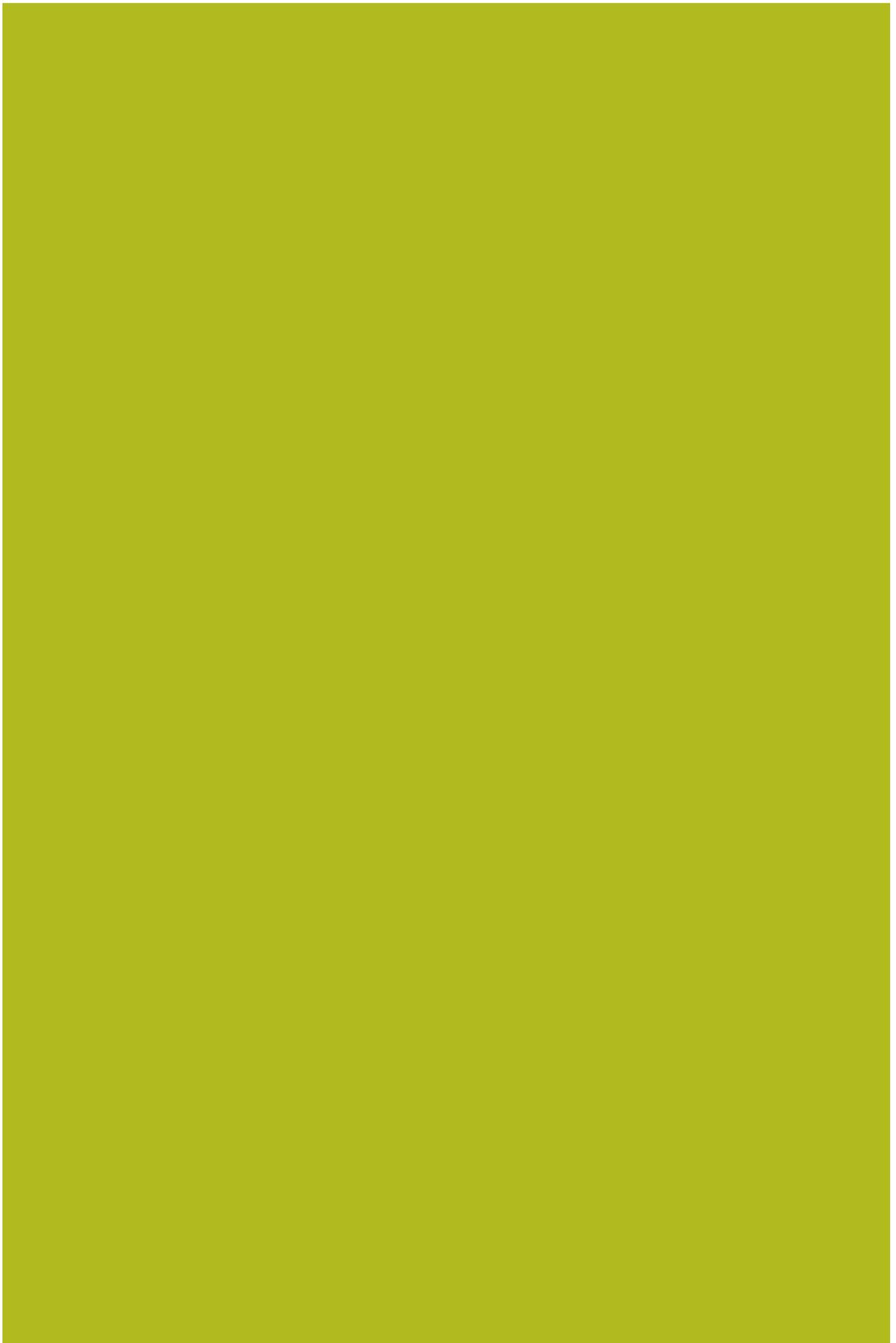
Graham Allen MP  
The Early Intervention Review Team

## The core message on Early Intervention

Early Intervention is an approach which offers our country a real opportunity to make lasting improvements in the lives of our children, to forestall many persistent social problems and end their transmission from one generation to the next, and to make long-term savings in public spending. It covers a range of tried and tested policies for the first three years of children's lives to give them the essential social and emotional security they need for the rest of their lives. It also includes a range of well-established policies for when they are older which leave children ready to face the challenges of each stage of childhood and of passage into adulthood – especially the challenge of becoming good parents to their own children.

In spite of its merits, which have achieved increasing recognition by national and local government and the voluntary sector, the provision of successful evidence-based Early Intervention programmes remains persistently patchy and dogged by institutional and financial obstacles. In consequence, there remains an overwhelming bias in favour of existing policies of late intervention at a time when social problems are well-entrenched – even though these policies are known to be expensive and of limited success. Strong leadership by **all** political parties is required to overcome this bias and achieve a cultural shift to Early Intervention. A move to successful Early Intervention requires new thinking about the relationship between central government and local providers. It also needs authoritative evidence about which forms of Early Intervention are most successful, and about their impact.

**The Early Intervention Review Team, 2011**



## Foreword



We now get to the sharp end. The arguments have been made, the evidence marshalled, now it becomes a question of leadership. Can we take the next step? Can we not only set the vision but boldly make the changes which will make it happen? Can Whitehall change its late intervention culture? Can we bring **all** of our assets to bear – private, local, philanthropic and voluntary – and not just government?

Money needs to be reprioritised and generated for investment that will ultimately return to us many fold. A new institution must be created to support commissioners, providers and investors and to build on the momentum to advance Early Intervention; ministers must willingly take on the pain of cultural change across Whitehall. By the time you read this, you will know which path has been chosen.

This Report promises no ‘magic bullets’ or quick fixes, only a route map for the hard work required for progress. It is reinforced by all the other recent distinguished reviews of the Rt Hon Frank Field MP, Dame Clare Tickell and Professor Eileen Munro – all four of us argue for the cost-effectiveness of early intervention. This is not the end of the work; it is the beginning. A fantastic start has been made by many practitioners, decision makers and policy makers, and this Report indicates where further work is needed or where leadership and institutions are required to make change happen.

### The potential

This Report is very technical in some sections, which is inevitable with its focus on new innovative financial approaches. Underneath that, this Report is rooted in one simple ambition: **to ensure that every baby, child and young person grows up with the basic social and emotional competencies that will give them the bedrock skills upon which all else is built.** That is the objective set in both the first and second of these Reports. We should never forget that early intervention is already commonplace in the UK. It is probably what readers experienced and what you gave or give to your own children often in an unconscious way through the development of attachment, attunement, empathy, and communication. All that I ask is that those basics that you take for granted are put in place for **all** babies, children and young people so they too can realise their potential.

During the Victorian era, our country faced a daunting challenge in public health, in eliminating cholera and other diseases caused by poor sanitation. People might have carried on with business as usual. Instead, local and national government united with philanthropists and private investors to make the long-term investments needed to create cleaner and healthier cities. I believe that today our generation faces an equally daunting challenge in social health. Will we carry on with business as usual? Or will we match the Victorians in innovatory institutions and investments to overcome deep and costly social problems? Not only our generation but generations to come will pay a heavy price for failing to take action now, when it is most possible, most affordable and most effective.

## Action already taken

I am heartened by the action already taking place as a result of my first Report:

- I recommended that government promotes **evidence-based programmes** for Early Intervention. The Report was welcomed and I am pleased to see the emergence of standards of evidence, independent advice on what works, and costs and benefits of competing investment models.
- I recommended that local authorities and third sector partners pioneer new approaches to Early Intervention. I have been gratified by the response: no fewer than 27 have asked to become **Early Intervention Places** exploring new options, and several have offered to actively support the development of new infrastructure in this field.
- I recommended the establishment of an independent **Early Intervention Foundation**. The Cabinet Committee on Social Justice welcomed my work on setting this up, and the idea has received support from local government, the private sector and from the emerging social investment sector, all of whom are constituting a 'shadow board' and completing a business plan as I write. In this Report, I set out in more detail the role of the Early Intervention Foundation and how it could help to bring in investment into Early Intervention.

It is obvious that a 16-week review cannot deliver all the answers in what is a highly technical field, hence its recommendations to use the immense resources of Whitehall to continue this work and to set up the Early Intervention Foundation. The work we propose on the Comprehensive Spending Review, better co-ordination, a Task and Finish Group, a Treasury review, the long-term studies suggested and the creation of channels for Early Intervention funds both inside and outside government, are all about growing and sustaining this work. It will continue to need the partnership with Whitehall to bring all of the committed partners together.

## Seize the time

This is the perfect moment for national leadership on Early Intervention. Our knowledge base is now strong enough to progress the work. It is a tremendously exciting time with the burgeoning interest in social finance, the strength of the all-party political commitment and some unparalleled opportunities for progress.

There is a unique conjunction of factors that make this the ideal time to move forward on Early Intervention. The evidence of its benefits grows stronger each day. A relatively new government still has the freshness and energy to take on the vested interests and naysayers, while the previous government laid down good work in the field by providing the opportunity for an all-party approach. Private and philanthropic capital is beginning to explore new forms of finance and local authorities and third sector providers are enthusiastically embracing Early Intervention as a long-term sustainable alternative to the permanent firefighting of social ills.

## Thinking afresh

Early Intervention investment has the potential to make massive savings in public expenditure, reduce the costs of educational underachievement, drink and drug abuse, teenage pregnancy, vandalism and criminality, court and police costs, academic underachievement, lack of aspiration to work and the bills from lifetimes wasted while claiming benefits.

Just a small part of these savings will be required to pay back public and private investors for the outcomes they will achieve. This payment is a necessary investment in the nation's human capital. In its lifetime, Early Intervention investment will not only repay all of its investors, public and private, but make **enduring reductions in public expenditure**.

Some of the old conventions and practices that inhibit sensible change, particularly inside Whitehall, need to be examined and challenged when they perpetuate existing difficulties. Implementing this cultural change is very difficult – if it were easy it would have been done long

ago – but essential. Those in Whitehall who say tough economic times are the trigger to innovate and to be creative must ensure that they too are open to new ideas.

### Stock and flow

One of the key concepts used when we are looking at the problems of dysfunction is through that cold business phrase – **stock and flow**. Remedial or late intervention policies address the **stock** of people already suffering from deep-rooted problems. Early Intervention seeks to block, reduce or filter the **flow** of new people (babies, children and young people) entering the stock. The current balance of policy is simply wrong and this Report makes recommendations to address both dimensions with equal vigour.

Many of the welcomed payment-by-results schemes that are currently being pioneered within social finance necessarily relate to the stock. Examples are the payment-by-results scheme being pursued by the Department for Work and Pensions on worklessness, or that being pursued by Social Finance in Peterborough on preventing recidivism. While these can only be said to be influencing the flow of dysfunction in a marginal way, I thoroughly commend and encourage these schemes for the excellent work they are doing. However, our ambition is to spread this good practice into Early Intervention in order to tackle the flow. In this Report, I seek to take many of the pioneering financial ideas, such as payment-by-results for outcomes and social impact bonds, that have been used on the stock and seek to adapt them to the flow. The very nature of flow makes it harder to prove, to fund and to improve, but it is where Early Intervention practice must be located. It is where the personal, social and economic prizes are the biggest.

### Measuring progress

Another key concept is to have measures against which progress can be judged. These measures can either be actual benchmarks or proxy ones. Benchmarks for remedialism (for example, the number of prisoners who do not repeat offend and return to jail) are often easier to find and define than those for Early Intervention (for

example, the number of babies who are not developing social and emotional skills effectively). However, as we outlined in the first Report, it is perfectly possible to have assessments in a 0–5 Foundation Stage that measure social and emotional capability and track the impact of Early Intervention programmes. My first Report and those of the Rt Hon Frank Field MP, Dame Claire Tickell and Professor Eileen Munro alluded to the 0–5 Foundation Stage; I proposed clear assessments for each child at this stage in order to catch and pre-empt any dysfunction which, if left unattended, would potentially result in massive remedial expenditure throughout an individual's lifetime. In this way, we can begin to put monetary values on the consequences of making or not making effective early interventions, which is the crucial task in achieving the massive savings on offer from the right investments in Early Intervention.

### Government and non-government together

Whitehall needs to distinguish between what government can do and what those outside government can do. We need to ensure that both partners respect the value and work of the other so that their activities can be complementary and work towards the same goals. Even if all the aspirations in this Report for non-government involvement are realised, government will still manage 99% of the expenditure in the field, but I am still confident that the 1% of non-government expenditure can have a major benign influence on Early Intervention programmes and practice, and achieve benefits far in excess of its scope. To have spent billions and billions of pounds year after year for many decades and for often only marginal impact (certainly on the social and emotional development of children) is really the central issue that we should question. I propose in the Report how the budgetary and personnel juggernaut of late intervention can be halted. If the elected politicians can keep their departments open to these influences, then there is a real possibility that, over time, the deep-rooted culture of late intervention could begin to rebalance towards cheaper and more effective early intervention. That is why we recommend a careful incremental change focused around the several years of

preparation required for the next Comprehensive Spending Review, and sober incremental change in the balance of spending between late and early intervention.

## Markets

One of the objectives of creating new ways of investing in early intervention is to create a market in early intervention and social investment products. It is fundamental to my mission to do this and to do it as an addition to, and not a substitute for, continued high levels of public spending in this field.

Despite lots of optimism around social investment, such a market has not been achieved anywhere in the world and nor will it be without the right government leadership and institutional arrangements. It requires long-term, all-party commitment from this Government and its successors. The UK leads global thinking on this. Adding private and charitable money to the mix in the early intervention field will of course be a tremendous boost, especially as public money becomes ever tighter. In addition, drawing on the finances and talents of the non-government sector, including philanthropic, local government and charitable interests will make such a market a hothouse for new ideas, invention and creativity, providing it is not suffocated by outdated rules and constraints in Whitehall. This will be good in itself but will also be an incredibly helpful stimulus and challenge to maximise the value of the immense governmental stake in the field.

Finally, before plunging into the detail, I think it is important to repeat the public commitment that I seek from this and future governments: to ensure that all babies, children and young people have the social and emotional skills – the bedrock of all future achievement – to make the best of themselves. It is what you give to your own children, and it should be the life gift for all children in our country.

## A note on style

Many programmes and policies across the world have been given the title and kudos of 'early intervention'. Not all of them deserve status. As in my previous Report, I have sought to reserve the term Early Intervention for the general approaches and the specific policies and programmes which are known to produce the benefits I describe. For that reason, I have generally turned it into a proper name, with capital letters. In some contexts I use 'early intervention' in its everyday sense, without capitals.



# Recommendations

## Chapter 1 Creating a culture change

1. I recommend that government sets out, as its policy ambition for Early Intervention, that in order to reach its social and economic goals, **all babies, children and young people should have the social and emotional bedrock essential for their future development and their ability to make effective life choices.** I further recommend that this ambition should set the tone of the Families in the Foundation Years statement due this summer.

2. I recommend that there is the strongest possible commitment from political leaders **to a culture change from late intervention to Early Intervention,** building on the political momentum generated, not least by the recent Field, Tickell, Munro and Allen reviews. To this end, I recommend that there should be an annual statement to Parliament accounting for the progress made and projected on the policies, programmes in place and expenditure on Early Intervention.

3. I recommend that government, when planning the **next Comprehensive Spending Review, should consider making Early Intervention its theme,** and that work undertaken by a Treasury-led team should signal a decisive rebalancing of central government spending from late intervention to investing in Early Intervention. I believe that steady and incremental migration of funding – I would propose by 1% – per annum would signal government's commitment to do this.

## Chapter 2 Leadership and co-ordination to enable investment in Early Intervention

4. I recommend that **the Families in the Foundation Years statement must include regular and purposeful assessments for the 0–5s,** focusing on measuring social and emotional development to enable all children to attain 'school readiness'. I further recommend that 'school readiness' should be adopted as an intended outcome from Early Intervention and be used as a measure, or basket of measures, of the impact of investment and the extent of savings, and thereby as an incentive for further investment.

5. I recommend that **there should be an Early Intervention Task and Finish Group** reporting to the Social Justice Cabinet Committee. This could be a dedicated team of experts with representatives from major spending departments, the Cabinet Office and HM Treasury. It should also have external secondees from providers and financial organisations. This group should co-ordinate the currently disparate activity on Early Intervention and social investment and communicate lessons learnt to government departments. Working closely with the independent Early Intervention Foundation, it should ensure consistency in the establishment of Early Intervention outcomes that are important to government, jointly agree the standard of evidence needed to measure whether these outcomes have been achieved, and improve data on measures, outcomes and cashable savings to allow Whitehall and local areas to attach payments appropriately to outcomes.

### Chapter 3 A locally driven agenda

6. I recommend that the **systems and organisations arising from the NHS changes give priority to Early Intervention**, with health and well-being boards providing leadership for Early Intervention's contribution to health and well-being in every locality.

7. The Early Intervention agenda is driven by local action. I recommend that **government continues to support the joint working between the local Early Intervention Places and Community Budget areas** which has arisen since the first Report. I further recommend that central and local government players agree how existing Community Budget areas should focus on Early Intervention alongside their work on families with multiple problems as soon as possible. The 27 Early Intervention Places that are not yet Community Budget areas should become part of this work at the earliest opportunity, and all Community Budget areas should be encouraged to focus on Early Intervention as a priority.

### Chapter 4 Building an Early Intervention Foundation

8. I recommend that **ministers take a positive leadership role on the independent Early Intervention Foundation** in encouraging local areas and philanthropic and private institutional investors to continue their exploration of setting up a Foundation to complement, from the outside, the work that is beginning inside Whitehall.

9. I recommend, once the business case is fully worked up, the creation of a **£20 million endowment** to sustain an independent Early Intervention Foundation and that the Prime Minister issues a bold challenge to external funders from the private, charitable and local government sectors that if they create an Early Intervention Foundation to drive progress, government will support them with co-funding.

10. I recommend that, beginning with the 27 existing Early Intervention Places, **local areas should drive the work of the independent Early Intervention Foundation** to start the

process of procuring the services, develop core evidence building, fidelity and outcome measurement functions, and that they should be strongly represented on its board.

### Chapter 5 External finance through outcome-based Early Intervention contracts

11. I recommend that, given the public expenditure situation, we need to be much more creative in finding **additional (not substitute) non-government money**. The social goal of Early Intervention and the design of new instruments should be tightly coupled together so that the instruments do not lose their *raison d'être*, as happened in the past with Private Finance Initiatives. This will require **outcome-based contracts** coupled with external investment. Government and local areas can pay for results from the savings that they will make.

12. I recommended that the Social Justice Committee commissions the Early Intervention Task and Finish Group (see Recommendation 5) to work with the Early Intervention Foundation **to assess the financial and economic value of outcomes**, to inform better decision making by commissioners of services. This should also assess the extent to which cashable savings can be made, to whom the savings would accrue and over what timescale.

13. I recommend that **central and local government agree to pay Early Intervention outcome-based payments** (where savings accrue to them). Specifically, I recommend that:

- HM Treasury and departments develop methods of accounting to ensure that future payments based on successful outcomes will be honoured from their departmental budgets; and
- the Department for Communities and Local Government, and the Chartered Institute of Public Finance and Accountancy (for Local Government) develop a method of accounting to ensure that future payments based on successful outcomes will be honoured, and that incentives are in place for local areas to utilise outcome-based contracts.

## Chapter 6 Early Intervention Funds and bonds

14. I recommend that, through pilots and agreeing to pay for outcomes, government enables private money to be attracted to Early Intervention through **the establishment of an Early Intervention Fund or Funds** in close co-operation with the Big Society Bank, which over time can be developed to offer investors a diverse range of Early Intervention products. This should be driven forward by government, local areas and the Early Intervention Foundation, working with fund managers such as social intermediaries or banks.

15. I recommend that **this initial fund should look to raise around £200 million** of investment, although in the first instance £27 million would enable the Early Intervention Places to begin with pilots over the current Comprehensive Spending Review period.

16. I recommend that central government supports local areas to **pilot different ways of contracting for Early Intervention outcomes**, and that when a fund is available they **pilot the use of this fund**.

17. HM Treasury should encourage councils, in association with financial institutions, to produce **practical yet innovative locally based financing ideas for Early Intervention**. Should economic circumstances allow, this could include putting together an innovative collective bond issue on Early Intervention to kick-start a revived local authority bond market. To facilitate this, ministers would need to issue a Capitalisation Directive to councils that allows up to £(less than 500) million of Early Intervention spending to be capitalised, provided that it is funded through the local bond market.

## Chapter 7 Creating the social investment market and tax incentives

18. I recommend that HM Treasury should commission a **thorough review of Early Intervention growth incentives ahead of the 2012 Budget** to assess what more the tax regime can do to enable all relevant investor groups, including high net worth individuals, social and philanthropic investors, businesses and retail savers to support Early Intervention investment. This should include:

- incentives relating to Capital Gains Tax;
- incentives relating to Corporation Tax;
- lessons learnt from tax credits as part of the Dutch Green Funds Scheme;
- allowing local authorities the right to borrow against cost savings from outcome-based contracts (similar to tax incremental financing);
- Community Investment Tax Relief;
- a cash-limited Early Intervention Tax Credit; and
- accreditation for Early Intervention ISAs and increased ISA allowances for Early Intervention investors.

## Chapter 8 Moving forward

19. I recommend that when the Early Intervention Foundation is in place, it initiates serious **all-party discussions on Early Intervention** to agree on actions to maintain and promote long-term commitment to Early Intervention.



## Executive summary

My first Report *Early Intervention: The Next Steps* made a strong social and economic case for investing in Early Intervention and creating a new and all-pervasive Early Intervention culture. I recognised the great work being done in some pioneering areas, but ultimately concluded that delivery of Early Intervention was patchy and seriously underfunded.

The message for government and UK society is simple, deeply moral and economically sound: we must invest now in neglected children to improve their lives and avoid future costs to society. We cannot afford the alternative of inaction.

This is a message that has found its moment. At a time of straitened public finances, there is near universal acceptance that we, as a society, need to start thinking and acting differently if we are to live sustainably within our means. Everyone I have met in the course of the review agrees that, despite the UK's poor financial position, we should strengthen and not relax our commitment to the most disadvantaged children.

This simple message has received the emphatic support of the leaders of all three main political parties. Twenty-seven local authorities have already come forward as Early Intervention Places in order to take forward my recommendations – either on a pilot or a fully scaled basis. Investment banks and social investors have expressed enthusiasm for the opportunity to invest for both a social and financial return.

We have then, in many respects, a coalition – in the wider sense – of the willing. The challenge is how to turn this support into practical action that can make the greatest difference to children's

lives. *Early Intervention: The Next Steps* set out many ways in which to improve delivery and recommendations to support them. However, we did not address the challenge of how to increase investment in Early Intervention at a time when public resources are constrained.

This Report focuses on how to finance an expansion of Early Intervention through better use of public resources and through the use of alternative routes to attract additional investment. I make recommendations about the structure and function of a new Early Intervention Foundation that will support the expansion of Early Intervention. I outline ways in which agencies can contract on a payment-by-results basis, where they are paid only for successful delivery of outcomes that matter. I then proceed to summarise the main options for financing Early Intervention and incentivising investment.

### Localism drives this agenda

Local agencies are the key actors for Early Intervention practice and culture change. It is usually they who will pull together the evidence-based policies to create a local Early Intervention package appropriate to their area. At a local area level, there are multiple beneficiaries from Early Intervention and local agencies need to expand their work together to maximise the potential flow of savings. The creation of the Early Intervention Grant locally is immensely symbolic and full of potential even when it is constrained financially.

Twenty-seven Early Intervention Places have joined me on the journey of my review. Their enthusiasm and recognition of the potential of Early

Intervention have already persuaded government departments that Early Intervention should be at the heart of Community Budgets, with Early Intervention programmes building social and emotional development in order to help families help themselves, alongside the range of activities focused on addressing their complex needs.

Working together and with government, Early Intervention places can lead the culture change necessary to help all areas and all public sector bodies recognise the value of investing in Early Intervention programmes; they can demonstrate the opportunities for improved outcomes and shared savings available through improved public sector commissioning. An Early Intervention culture can only have real meaning and a proper chance of flourishing if people see with their own eyes the financial and social benefits that it provides. This will then motivate more investment in further programmes.

### Roles for central government

Strong leadership, planning and co-ordination are needed to drive a steady and ongoing migration of expenditure from ineffective late intervention to cost-effective Early Intervention.

I recommend that government, when planning the next Comprehensive Spending Review, should consider making Early Intervention its theme. I believe that HM Treasury should convene a cross-government group of officials to explore the impact of Early Intervention programmes in preparation for the next Spending Review. This will enable all lessons learnt to be incorporated into the Spending Review and the development of a cross-government approach to measuring, and setting aside, future savings. This will reflect a switch in philosophy from expensive and largely ineffective late intervention to one ever more focused on effective Early Intervention and will provide a strong signal to central government departments.

Support from central government also needs to be more accessible, coherent and supportive. It needs to send consistent messages to commissioners, providers and investors alike if we are to make substantive progress. Fragmentation

and competition have little place in any effective administration and are all the more regrettable at a time when the direction at a political level and the imperative at a financial level could not be clearer.

Cultural change of this dimension can only be undertaken with the full authority of the Prime Minister. My evidence suggests that not all government departments are yet committed or geared up for the application of Early Intervention. This problem needs to be addressed at the political level by the Social Justice Cabinet Committee (SJCC), which should be the forum to provide a general sense of direction and to eliminate obvious duplication. It should be supported by an Early Intervention Task and Finish Group, with an independent chair, who would offer an independent eye to promote government change via action reports to the SJCC. This would make regular reports on the objectives and milestones achieved in implementing the new cross-government Early Intervention strategy. This group should also report to the leaders of the other main parties in order to continue to take these issues above day-to-day politics, and to Parliament through an annual statement. This underlines my belief and the generously expressed view of the three party leaders that this has to be an enduring all-party effort.

### Overcoming barriers

For Early Intervention investment to go further, we must overcome key barriers. These include: a lack of funding certainty, which particularly affects local area confidence in being able to repay investors when outcomes are achieved; a lack of incentives to invest where other organisations will benefit; legislative, ethical and political drivers to focus resources on the most serious problems after they have developed; the complexity of identifying appropriate outcome measures and the payments that are attached to them; and difficulties in scaling up programmes (for instance due to a lack of trained workforce) to deliver more widely. I address each of these barriers in this Report and show how **with political will**, and with the support of an Early Intervention Foundation, each can be eliminated or reduced.

## Ensuring value for money of investment in Early Intervention

The traditional model – waiting until problems become apparent, paying for programme delivery and assuming good outcomes will follow – is no longer enough. The public sector knows that it must continue to lead, innovate and be creative in increasing Early Intervention funding. However, the public purse is stretched and so more intelligent public and private investment options are also needed.

I am clear that, given the returns to the public purse of Early Intervention, this should start with the use of **outcome-based contracts** to drive better delivery; we should also seek to attract external investment. External investors will of course expect some form of return. There are a number of ways in which new investment can be mobilised in order to capitalise new Early Intervention programmes, but this immediately raises issues of value for money. We need to ensure that the price paid for this capital is commensurate with the added value offered.

The first principle is that there must be a genuine transfer of risk from purchaser to provider/investor. We need to set up results-based contracts that will only pay a return on delivery of successful outcomes, preferably where cashable savings have been identified, or where reductions to levels of unmet need are observed that will then lead to savings in future years. There is more evidence and support needed for commissioners on the link between social returns and the subsequent decommissioning of services; this is something that I envisage the Early Intervention Foundation would advise on.

I am confident that if the details of contract specification, robust appraisal, terms of trade and capital structure is attended to, then it will be possible to access volumes of capital on a large-scale basis that will be excellent value for money for the Government and wider society. This remains an area where I believe that HM Treasury must do more work as part of its due diligence to prevent the waste of billions of pounds on late intervention. Early Intervention is not an instant cure or a quick fix – it requires patient capital and patient politics. I recognise that this is complex

analytical work and we have only just started but the potential savings are enormous.

## The need for an Early Intervention Foundation

Central government must do all it can, but it cannot do this alone. The principles of Early Intervention can be readily explained, but there is much critical detail that needs to be in place for these proposals to work on the scale envisaged. It is for these and many other reasons that I propose the creation of an independent Early Intervention Foundation that can act as a truly long-term champion of Early Intervention.

I recommend that the Early Intervention Foundation should be: independent from government; guided by the strongest possible evidence base; financially sustainable and scalable; and an intermediary and connector bringing together investors, providers and funders in partnership, in order to inspire a spiral of hope rather than an endless cycle of dysfunction.

The five initial functions of the proposed Early Intervention Foundation might be as follows:

- a. A centre to champion and promote Early Intervention.
- b. Improving the evidence base so that investment is targeted on what works.
- c. Increasing awareness of social investment opportunities in Early Intervention.
- d. Improving fidelity and developing Early Intervention programmes.
- e. Acting as a source of advice on social investment for Early Intervention.

Through these functions and the more detailed set of services entailed, the Early Intervention Foundation will help to build a new, scaled, fully functioning marketplace in Early Intervention, characterised by an ever growing range of approved interventions, more local agencies taking part on greater scale, more competent providers and wider and more scaled sources of finances of all different kinds. Steps are now in progress to create such a Foundation.

For investors' and providers' confidence, it is vital that the Foundation maintains its independence and sustainability. It will do this by drawing modest funds from an endowment. I am asking the Prime Minister to offer a bold challenge to funders from the private, charitable and local government sectors that if they create an Early Intervention Foundation to drive progress from outside Whitehall, the Government will support it with co-funding.

### Investing in evidence-based policies and programmes

A greater focus on evidence-based policies and programmes, measurable outcomes and associated cashable savings is needed to help set up outcome-based contracts and thus to encourage social investment. Central and local government need an agreed and transparent position on the type and quality of evidence sufficient to make investment decisions within the public sector, and on outcome-based payments to the private sector. We need to set the bar high in terms of the evidence of effectiveness required for investing in any particular programme, but this need not mean that the approach be overly restrictive; I therefore challenge providers from all sectors to build the most compelling case for their programmes to be included in the living list of best evidence-based programmes (first published in Annex B of *Early Intervention: The Next Steps*). I also consider that some resource within any investment portfolio should be ear-marked for systematic testing and innovation of new models of delivery.

Given the exciting possibilities and momentum in this area at present, this work needs to be started as a matter of priority. As noted above, the Early Intervention Foundation will have a critical role to play. We are also building on much outstanding work such as that of the Social Research Unit at Dartington and the complementary streams of evidence provided by agencies such as C4EO (Centre for Excellence and Outcomes in Children's and Young People's Services).

### Options for raising finance

Once local areas (and central government, where savings accrue centrally) have agreed to pay for specific outcomes, a number of specific vehicles for raising external investment will follow.

In order to initiate discussion, my team, with an expert finance working group, considered various methods of attracting investment into Early Intervention. We are clear that as long as contracts are specified carefully and there is careful market testing of the terms of trade, there will be a wide variety of financing options open to whoever takes the lead – most commonly a lead provider or a joint venture – at a local level.

The most practical vehicle for the first tranche of investment into Early Intervention was considered to be an Early Intervention Fund. The Big Society Bank should be approached to provide investment, alongside private investors. This model is similar to a social impact bond, but on a larger scale.

Any body regulated by the Financial Services Authority (for example, social intermediaries and banks) could set up a fund, or indeed a number of funds. However, the fund would only attract investment if it could attract or had attracted Early Intervention contracts from local areas. Local areas would have to calculate appropriate outcome payments, considering central government payments where relevant. The Early Intervention Foundation could provide advice.

It would of course be up to both local and central government to decide how to contract with a fund (or rather the intermediary running it). In the first instance, it might wish to contract with just one fund, re-tendering every few years, in order to support local areas to build the infrastructure needed to bring in more investment into Early Intervention. Alternatively, it might wish to leave this to the market and be open to contracting with a number of funds, if local areas felt this appropriate. Whichever route it takes, central government must declare that it is open to the negotiation of such contracts and mindful of local area preferences. Central and local government should encourage the activity of the private sector in this area. Pilots to explore the commissioning process with a fund are recommended.

### Additional funding models

The review team, with the expert finance group, also looked at different models of funding Early Intervention. For example, in the longer term, there might be scope for different providers to pioneer a Junior Individual Savings Account

(ISA) that would link investment in your own children, over the long time period needed for payback on Early Intervention, with investment in less advantaged children. Similarly, investment banks have indicated their enthusiasm to raise a £100 million early investment bond, with a senior and junior equity portion. We have also explored how we might kick-start a local bond market, so that people could invest in the children and future of their areas. These options are currently considered more risky than the Early Intervention Fund by HM Treasury. However, in the longer term, we believe that they should be considered, as the returns expected, although guaranteed, are likely to be less than those expected on an equity based Fund. Alternative models are discussed elsewhere in this Report.

### Incentives to invest

External investment will increasingly drive improved social outcomes and therefore future public sector savings.

My view, and certainly the view of potential social investors, is that this investment into Early Intervention will be stimulated by helpful tax incentives. After careful research, it is my view that HM Treasury should review incentives for

social investment ahead of next year's Budget. This review should include: incentives relating to Capital Gains Tax and Corporation Tax; lessons learnt from tax credits within the Dutch Green Funds Scheme; allowing local authorities the right to borrow against cost savings from outcome-based contracts (similar to tax incremental financing); Community Investment Tax Relief; a cash-limited Early Intervention Tax Credit; accreditation of Early Intervention ISAs and increased ISA allowances for Early Intervention investors.

Finally, investment in Early Intervention, and social investment more generally, could be a beneficiary of broader policy objectives. Government could, for example, look creatively at ways to utilise money, through the tax system, for social good that would otherwise be sent off shore, for example.

An increase in investment in Early Intervention can and should be achieved. It will not be simple, but without this change we will be facing increasing dysfunction, more violent crime, an increasing number of families dependent on the welfare state etc, and we will be subjecting our vulnerable children to more years of underachievement and disadvantage. Early Intervention must be implemented, and politicians should signal their will to see it happen immediately.

In conclusion, then, there are several broad themes that are critical to the improvement and which will be articulated across this review:

- Inside government, **decisive leadership at the political level and effective planning and co-ordination at official level** are required to secure a steady and ongoing shift in spending from ineffective later intervention to cost-effective Early Intervention.
- Outside government, a nimble and effective new partner, an independent **Early Intervention Foundation**, is needed to maintain momentum, challenge the evidence base, support programmes and work with central government, local areas and social intermediaries to facilitate and increase investment in Early Intervention.
- **Localism** will be the primary enabler and commissioner for Early Intervention to create culture change at local level and to prompt behavioural change from central agencies.
- **Outcome-based contracts based on ever improving data** should promote social investment in Early Intervention. Central and local government must work to attach prices to outcomes to facilitate this.
- **A market in social finance** must be facilitated above all by an **Early Intervention Fund** or funds, developed by social investment intermediaries, to offer investors a diverse range of Early Intervention financial products.
- Government needs to lead by **incentivising investment**.



# What they say about what has to happen next on Early Intervention

‘It’s already an exciting time for City involvement in the development of a new and dynamic market around Social Finance in general and Early Intervention in particular. I have been delighted to help support the thinking around these concepts. The Allen review proposals open up more possibilities to develop this relationship even further and an independent Early Intervention Foundation will provide a sustainable source of information, advice and drive which is essential if investors’ confidence is to continue to be built.’

Jim O’Neill, Chairman, Goldman Sachs Asset Management

**‘The two reports from Graham have a wealth of knowledge around Early Intervention. They are a helpful platform for the next stage – to create an institutional champion for Early Intervention to advise, test and facilitate further progress including rolling out best practice and evidence-based policies, and to facilitate investment. With clear leadership from the Government in taking a longer term view, we will aim to create a market which will bring long-term funding to bear on helping babies, children and young people to develop the social and emotional capabilities that will pre-empt so many of the ills that blight their lives and our society.’**

**Richard Collier-Keywood, UK Managing Partner, PricewaterhouseCoopers**

*‘I welcome the idea of an independent Early Intervention institution linking the communities of finance, local government and the social sector. It should play an important role in helping to develop organisations capable of achieving significant social impact in this crucial area.’*

*Sir Ronald Cohen, Chair, Portland Capital*

‘If Early Intervention is to go to the next level, the Private Equity Foundation believes that we need urgent action to make investing in early intervention attractive to commissioners, investors and providers. We need to attract new sources of finance to back the best proven interventions and demonstrate how investing in Early Intervention can deliver real savings to government and greater benefits to society. An institution independent of central government which can promote Early Intervention would promote and support this effort. We would be keen to play our part in transforming the ideas in both Allen reports into action.’

Charlie Green, Trustee, Private Equity Foundation

**‘Early Intervention must take the next steps forward. We would consider working with others to help get an institution off the ground that could act as a broker between the different interests in early intervention, commissioners, investors and deliverers to develop policies and models of intervention, as well as defining and measuring outcomes. Good work is being done in this area by government and others. It now needs to be given additional clout and an extra dimension.’**

**Ian Charlesworth, Commercial Director, The Social Investment Business**

*‘The Allen Report opens up the possibility for City investment schemes to flow into tried and tested Early Intervention programmes forging the link between attractive rates of return for investors and serious benefits for individuals and their families. We need to make the step up from individual philanthropy to sustained private income streams. An Early Intervention Foundation could be the vehicle to make this happen and I hope the Government will allow those who wish to take this further, to do so.’*

*Chris Robinson, Chief Executive, Mayor’s Fund for London*

‘Over the last year, Graham Allen’s review has highlighted the critical importance of Early Intervention. We share the aspirations of the public, practitioners and policy makers to ensure that children are supported from a young age to reach their full potential. Graham Allen’s second report will undoubtedly stimulate further debate about how funding and practice can best be aligned to achieve this aspiration.’

Peter Wanless, Chief Executive, Big Lottery Fund

**‘Views is a new cross-sectoral partnership seeking to raise standards of impact reporting and evidence-based policy and practice. We see Graham Allen’s report as a major step forward – not just for children but for all vulnerable groups in society. This report will set a challenge to decision makers and opinion formers of all hues to spend more on programmes that have been proven to work, stop funding what doesn’t deliver or isn’t needed, and save government a fortune in the process. We are committed to help make the proposed Early Intervention Foundation a reality.’**

**Matthew Pike, Chair, Views Partnership**

*‘An independent Foundation separate from central government, created and led by local councils, supported by private investment, academia, and charitable and ethical partners, could impartially evaluate and make freely available the most cost-effective early intervention policies, help put them into practice and explore new resources from non-government funding. Graham’s review recommendations demand a serious appraisal and an urgent response.’*

*Sir Howard Bernstein, Chief Executive, Manchester City Council*

‘Local government will be delighted if a locally driven Institution of the type floated in the Allen Report is given the job of breaking through on Early Intervention. Rigorous evidence-based policies and strong methodologies, faithfully implemented, are the key to combining localised decision making with the most effective programmes around. At a time of scarce public resources it’s even more important that we implement evidence-based programmes proved to work and tackle the causes of social problems rather than always be forced to deal with their consequences. I would urge government to look further into the Allen Report and enable us to build an independent centre to take this work forward.’

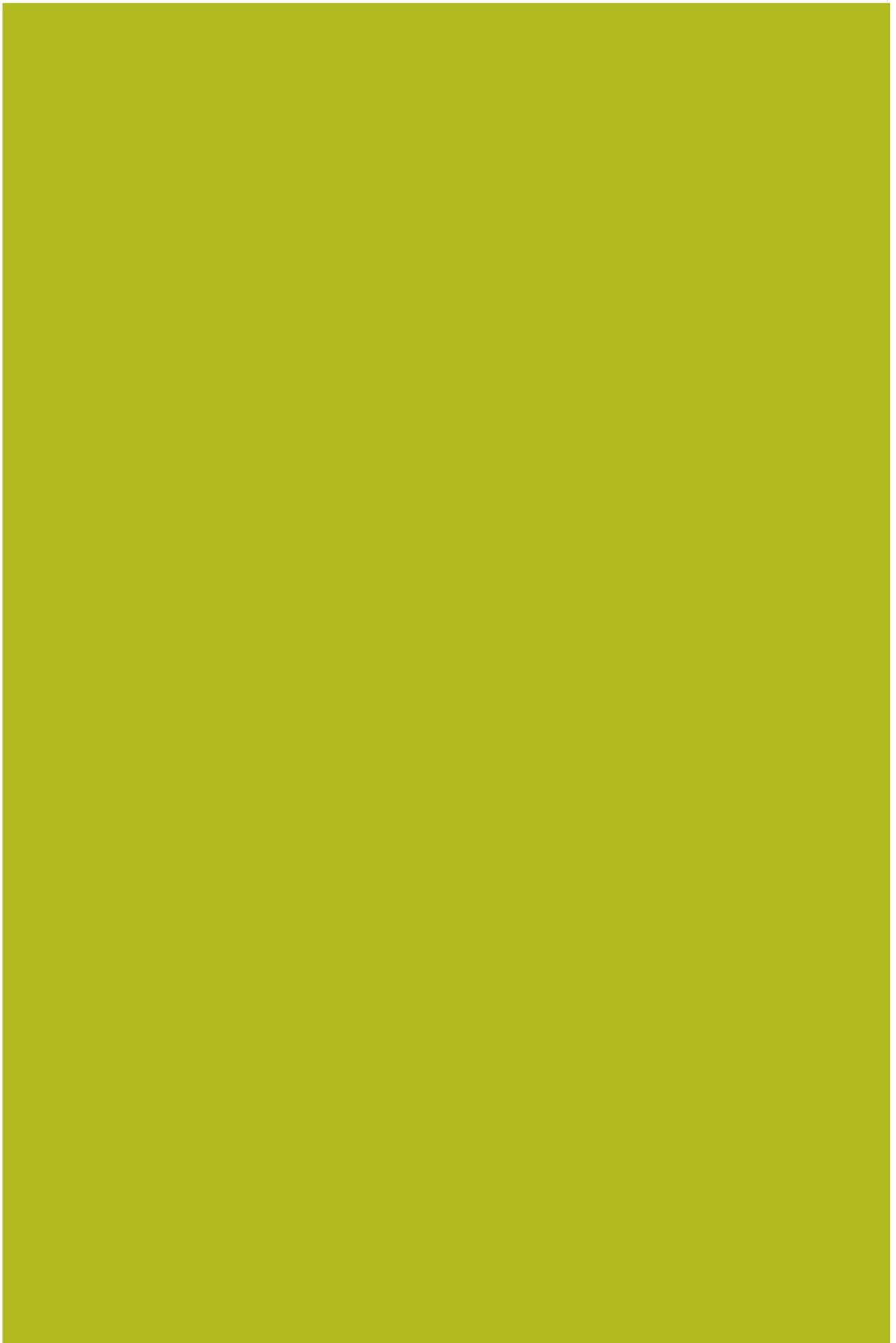
Stephen Hughes, Chief Executive, Birmingham City Council

**‘We’ve known for many years that the right investments in children’s early years pay off handsomely. But nowhere has yet translated this knowledge into a comprehensive system for channelling finance into evidence-based action. The Allen review provides a great opportunity to take the first steps, and I welcome its proposals for creating a properly financed independent foundation, which can bring together government, local authorities, investors and voluntary organisations. The UK hasn’t always done well in providing the best start for all of its children. But we may now have the chance to lead the world towards a radically new model for investing in life chances.’**

**Geoff Mulgan, Chief Executive, NESTA**

‘The police service has much to gain from capable parenting. Raising babies, children and young people who prove to be socially and emotionally capable is important, since this will inevitably mean fewer offenders in later life. Should an Early Intervention Foundation be agreed by the Government we would want to be closely involved with local authority and other partners to help maximise its value and explore the options of investing to pre-empt crime.’

Ian McPherson QPM, Assistant Commissioner, Metropolitan Police Service



# Chapter 1

## Creating a culture change

*We know the challenges. We've heard them. We've talked about them for years. What's stopped us from meeting these challenges is not the absence of sound policies and sensible plans. What's stopped us is the failure of leadership, the smallness of our politics – the ease with which we're distracted by the petty and trivial, our chronic avoidance of tough decisions, our preference for scoring cheap political points instead of rolling up our sleeves and building a working consensus to tackle big problems.*

*Barack Obama, formal announcement for President, 10 February 2007*

1. There has to be a culture change – led by government – from expensive and largely ineffective late intervention to highly effective and inexpensive Early Intervention. My first report, *Early Intervention: The Next Steps*,<sup>1</sup> demonstrated that Early Intervention offers our country a real opportunity to make lasting improvements in the lives of our children: to forestall many persistent social problems, and end their transmission from one generation to the next, and to make long-term savings in public spending. Early Intervention is delivered by a proven set of policies covering the 0–18 age group with special care taken with the 0–3s. An agreed set of policies put in place by local areas could give babies, children and young people the essential social and emotional capabilities they need for the rest of their lives. There are a range of well-established evidence-based programmes that would leave children ready to face the challenges of each stage of childhood and the passage into adulthood – especially the challenge of becoming good parents to their own children.

2. In spite of the merits of Early Intervention, which have achieved increasing recognition by national and local government and the voluntary sector, the provision of successful evidence-based Early Intervention programmes remains uneven and dogged by institutional and financial obstacles. There remains an overwhelming bias in favour of existing policies of late intervention at a time when social problems are well-entrenched – even though these policies are known to be expensive and of limited success. Strong leadership is required to overcome this bias and achieve a **cultural shift** to Early Intervention.

### Early Intervention: good for individuals and society

3. An overwhelming body of evidence now points to the benefits of intervening early in children's lives, before problems develop. The right kind of intervention is especially important in the first three years of children's lives, when children achieve their most rapid development and when Early Intervention can embed essential

social and emotional skills. Dame Clare Tickell,<sup>2</sup> Professor Eileen Munro<sup>3</sup> and the Rt Hon Frank Field MP<sup>4</sup> have also reinforced the powerful case for intervening early to improve the life chances of children and young people in their recent reviews. Sir Michael Marmot, in his *Strategic Review of Health Inequalities*, also noted that 'the foundations for virtually every aspect of human development are laid in early childhood. What happens during these early years (starting in the womb) has lifelong effects on many aspects of health and well-being', including mental health, educational achievement and economic status.<sup>5</sup>

4. Developing attunement, attachment, good communication skills and empathetic behaviour can help babies and children to flourish and reduce problems seen later in life. Indeed, a wealth of research illustrates how early experiences and levels of development can predict later life outcomes. For example:

- A child's development score at just 22 months can serve as an accurate predictor of educational outcomes at 26 years.<sup>6</sup>
- Vocabulary at age 5 has been found to be the best predictor (from a range of measures at age 5 and 10) of whether children who experienced social deprivation in childhood were able to 'buck the trend' and escape poverty in later adult life.<sup>7</sup> The Ministry of Justice shows that 70% of young offenders have communication difficulties.<sup>8</sup>
- Some 54% of the incidence of depression in women and 58% of suicide attempts by women could be attributed to adverse childhood experiences, according to a study in the US.<sup>9</sup>
- An authoritative study of boys assessed by nurses at age 3 found that the boys who were considered to be 'at risk' had two and a half times as many criminal convictions at age 21 as the group deemed not to be at risk.<sup>10</sup>

5. Early Intervention also plays a vital role at other key stages throughout childhood, especially in primary school and during early adolescence. With school-age children, intervention should do more than react to the first manifestations of school failure and antisocial behaviour. It should also equip all children to achieve at school, make effective

choices about their lives, aspire to work and, above all, to become good parents, thus breaking the transfer of dysfunction from one generation to the next.

6. Early Intervention promotes social and emotional development that in turn significantly improves mental and physical health, educational attainment and employment opportunities. Early Intervention can also help to prevent criminal behaviour (especially violent behaviour), drug and alcohol misuse and teenage pregnancy.<sup>11</sup> In addition there is a link to reduced child abuse incidences, reduced first-time offending rates (which of course entails a general reduction in offending) and increased numbers of parents participating in training or employment.<sup>12</sup> All of these have a serious impact on society and cost a great deal of public money to address.

7. Early Intervention works by developing a package of policies to help to ensure that all babies, children and young people develop the social and emotional foundation skills they need to become school ready, life ready and child ready (see box on page 3) and to help parents nurture and develop their children as the excellent parents of tomorrow. For example, by developing empathy, children learn to respect others and this means that they are able to have better relationships and be less inclined to abuse or be violent in later life. By developing self-esteem and confidence, children are better equipped to be able to make positive choices about their life, education, aspiration to work and to avoid drug and alcohol misuse.<sup>13</sup> Early Intervention is, for example, a key component of the successful reduction in teenage pregnancy rates in my own City of Nottingham.

### The economic case for investment in Early Intervention

8. My first report also set out the strong economic benefits of Early Intervention, demonstrating that intervening later is more costly and that the rate of return on remedial, rehabilitative and reactive treatments declines as children get older, and entrenched behaviours become harder, or impossible, to correct.

### Social and emotional bedrock

**School ready** – having the social and emotional foundation skills to progress in speech, perception, ability to understand numbers and quantities, motor skills, attitude to work, concentration, memory and social conduct; having the ability to engage positively and without aggression with other children and the ability to respond appropriately to requests from teachers.

**Life ready** – having the social and emotional capability to enter the labour market; understanding the importance and the social, health and emotional benefits of entering work, the impacts of drug and alcohol misuse, crime and domestic and other violence.

**Child ready** – understanding what it is like to build and sustain a relationship, to have a family and to look after a small child; understanding how babies grow and develop and how parents can best promote this development.

9. The rationale for Early Intervention investment is simple: many of the costly and damaging social problems in society are created because we are not giving children the right type of support in their earliest years, when they should achieve their most rapid development. Without the filters of Early Intervention we set up a tsunami of dysfunction, which overwhelms and degrades the services originally set up to deal with only the toughest cases.

### The financial cost to society and of failure to pre-empt dysfunction

10. Each child with untreated behavioural problems costs an average of £70,000 by the time they reach 28 years old – 10 times the cost of children without behavioural problems.<sup>14</sup>

- The cost of youth crime in 2009 was estimated by the National Audit Office at £8.5–11 billion.<sup>15</sup>
- The average annual cost for a youth offender to be placed in a young offenders institution is £59,000.<sup>16</sup>
- It is even more expensive if a child is placed in a secure children's home (£219,000) or a secure training centre (£163,000).<sup>17</sup>
- The cost of each additional young person not engaged in education, employment or training (NEET) is approximately £45,000.<sup>18</sup>
- The productivity loss to the state as a result of youth unemployment is estimated at £10 million every day.<sup>19</sup> The average cost of an individual

spending a lifetime on benefits is £430,000, not including the tax revenue.<sup>20</sup>

- The costs associated with mental health problems in the UK are estimated at £105.2 billion. This represents an increase of 36% since 2002–03 and an increase in the health and social care share of these costs of over 70%.<sup>21</sup>

11. There is increasing and overwhelming evidence that intervening early is cost-effective. For example, an evaluation by the RAND Corporation of the Nurse Family Partnership (NFP) known as the Family Nurse Partnership (FNP) in the UK (a preventive home visiting programme targeted to support 'at risk' families by supporting parental behaviour to foster emotional attunement and confident and warm parenting) estimated that the programme provided substantial savings to society and for high-risk families by the time children were 15. These savings were over five times greater than the cost of the programme and came in the form of reduced welfare and criminal justice expenditures and higher tax revenues.<sup>22</sup> The costs of the programme were recovered by the time the child was aged 4, with positive benefits for children and mothers in the form of reduced emergency attendances at hospital, fewer subsequent pregnancies and longer gaps between births, improved parenting and fewer months on welfare and more months employed.<sup>23</sup>

12. In addition, an independent review has placed the average economic benefits of early education programmes for low-income 3- and 4-year-olds at

close to two and a half times the initial investment: these benefits take the form of improved educational attainment, reduced crime and fewer instances of child abuse and neglect.<sup>24</sup> Within this overall figure, there is substantial variation, and reviews of individual early education programmes have noted benefit-to-cost ratios as high as 17:1.<sup>25</sup>

13. The investment benefit-to-cost ratio for Early Intervention data in the US suggests that £40 million invested in positive parenting interventions could save £400 million over a 15-year period.<sup>26</sup> All this helps to demonstrate that Early Intervention is fundamental to our economic survival. We cannot continue to carry an unnecessary deadweight of the costs of failure. This is especially true in the fiercely competitive global economy where high levels of education, skills and emotional intelligence are prerequisites for success, and those nations who do not invest in the capabilities that make these possible are doomed to slip back.

14. The social and economic evidence in favour of the beneficial impacts of Early Intervention is now overwhelming. The time has come for all our political parties together to set out the national vision, the policy ambition that will guide our actions over a generation. The Government should demonstrate national leadership on Early Intervention by making a public commitment to provide all babies, children and young people with the social and emotional bedrock they need. The policy statement Families in the Foundation Years,<sup>27</sup> due to be published this summer, provides an ideal opportunity to make the first public commitments, especially to effective assessment of the 0–5s and ensuring that every child is school ready. This must be followed up by clear commitments in the programme of government, when it is reviewed, and departmental business plans, published annually. The business plan for the Cabinet Office should show how cross-government work on Early Intervention will be co-ordinated. Early intervention should replace late intervention in the DNA of government. Better cross-government co-ordination of Early Intervention policy was an important recommendation in my first report; I repeat it with even greater vigour in this my second report.

### Recommendation 1

I recommend that government sets out, as its policy ambition for Early Intervention, that in order to reach its social and economic goals, **all babies, children and young people should have the social and emotional bedrock essential for their future development and their ability to make effective life choices.** I further recommend that this ambition should set the tone of the Families in the Foundation Years statement due this summer.

### All in this together

15. Early Intervention has great momentum at the moment and not only are all political parties motivated to progress it but the independent reviews of Dame Clare Tickell, the Rt Hon Frank Field MP, Professor Eileen Munro and myself have added evidential weight to the case for Early Intervention.

16. Against this momentum stands public policy which has shown a persistent bias in favour of waiting to tackle social problems when they are well-entrenched and more expensive to address, and when many interventions are of limited success. Throughout my time on this report it is evident that this mindset is deeply rooted and strongly resistant to challenge. Of course, we need to deal with the problems created by a lack of support in the past, and indeed in many cases there are statutory duties to ensure that we do. However, failure to stop problems arising is, quite simply, short sighted. The choice between fire fighting or smoke alarms is a wholly false one.

17. Clear political leadership and a rebalancing of expenditure are the way forward. Total public spending has been set for the next four years by the Government's current spending review. This spending needs to be used to build up Early Intervention capability, including research and planning skills inside and outside government. Within this period, local areas led by councils and their partners should be supported to work together to ensure that there is capacity

to respond to the new and symbolic focus of the Early Intervention grant and other Early Intervention expenditure.

18. It is a central tenet of this report that given the constraints on current public expenditure not only must local government and Whitehall spend more wisely but central and local government should also seek to draw on external finance for additional investment in Early Intervention. This will help to provide more sustainability for Early Intervention policies and programmes in the longer term. It will also create new incentives to improve the provision and performance of services for babies and children.

19. Government often says, rightly, that public sector bodies having less money can drive them to be more creative. A thread throughout this Report is that this should apply equally to the Treasury along with the rest of government. Money is scarce, so ideas and creativity should be encouraged, facilitated and promoted. Due diligence should be used at all levels of government to question the comparative costs of wasteful late intervention programmes versus Early Intervention alternatives. Levels of savings to be achieved should be an integral part of all public investment calculations. Short-term cuts that jeopardise massive long-term returns should be avoided. Rules and methods of working established for a different era should be reviewed. President Obama has introduced rule changes so that money can be committed over longer periods than is usual in public contracts (see Chapter 6). Improving the social return on investment decisions and bringing in new sources of investment from non-central government sources, including local government, philanthropic and ethical and commercial sources, should be consciously facilitated.

### Leadership

20. Strong national and local leadership is required to effect the necessary culture change and ensure that public sector resources are steadily refocused on Early Intervention. We all need to see the steps being taken to make this cultural change happen, including the public. This should start by ensuring that there is much greater transparency in making available the data and information that

will demonstrate that change is occurring. I have placed much onus on government to lead this process; however, the legislature – whose function is to hold government to account – should not be an idle bystander but a strong partner in this cultural change. The Parliamentary Select Committees have a key role to play in investigating how Early Intervention can contribute to the work of the departments which they shadow. If Early Intervention is to be a centrepiece of government policy then ultimately a regular annual debate should take place in Parliament to scrutinise progress and support ministerial efforts.

21. The independent Early Intervention Foundation that I recommended in my first report and on which I provide more detail in Chapter 4 of this report should play a key role in championing and supporting a cultural shift to Early Intervention. This should be supported by all those with an interest in Early Intervention, particularly those in the voluntary sector.

### Recommendation 2

I recommend that there is the strongest possible commitment from political leaders to **a culture change from late intervention to Early Intervention**, building on the political momentum generated, not least by the recent Field, Tickell, Munro and Allen reviews. To this end, I recommend that there should be an annual statement to Parliament accounting for the progress made and projected on the policies, programmes in place and expenditure on Early Intervention.

### Shifting resources to Early Intervention

22. Late intervention expends an enormous amount of money each year, yet the Early Intervention budget is miniscule by comparison. This imbalance must be addressed not least to ensure that we can compete in the world market. Early Intervention has a critical role to play in ensuring that we invest in future generations and that those generations can contribute fully as members of society and the labour market and aid our global competitiveness. In doing so, Early

Intervention can support central government's economic objectives in the long term, including future economic growth in particular. Early Intervention can give Britain a more productive labour force. It would reduce the number of workers with low educational achievements, low skills and low aspirations, and of those who are fundamentally unemployable. It would increase the number of workers with the skills and ambitions to succeed, and the ability to innovate and adapt to innovation. Early Intervention can also reduce the scale of costly social problems and allow both public and private resources to be invested more productively elsewhere.

23. Early Intervention programmes can provide significant value for money for the taxpayer, when compared to late intervention programmes that are more expensive to provide and have a lower success rate. Evidence-based investment that is effectively managed can also help to ensure that the taxpayer receives the maximum possible return for every pound of expenditure. These lessons are being learnt and applied across the globe. We certainly should not be afraid of taking the best practice from North America or European countries, for example.

24. Closer to home, colleagues in the devolved governments and assemblies in the UK with greater room for manoeuvre to innovate have also recognised the value of Early Intervention. Visiting Northern Ireland, the new Scottish Government and the new Welsh Assembly, it is evident that they all see Early Intervention as a priority and they are developing their policy and practice on Early Intervention. They are also considering how new financial models might help. Annex C provides further information on their plans.

25. My review has demonstrated a compelling case for investment in Early Intervention which should be supported over time with more long-term certainty of funding. This could best be achieved by making Early Intervention a central objective for the next government Comprehensive Spending Review period and beyond. The spending review should signal a commitment to steadily increase the proportion of total spend devoted to Early Intervention over the next spending review period (and future spending reviews). This would help provide background to making the Comprehensive Spending Review themed around Early Intervention and the value for public money it represents.

26. Preparation for the next spending review should start immediately with HM Treasury and Cabinet Office leading cross-government work to ensure that the appropriate research and evaluation are already in place or are commissioned to allow a comprehensive assessment of how much is currently being spent on Early Intervention by department. This can be the baseline upon which we can judge the costs, benefits and potential savings to the public purse and taxpayer of Early Intervention policies and programmes. This work should include research that will add to the evidence on how to calculate outcome-based payments and how savings should be released.

27. A steady rebalancing of early and late intervention funding has widespread support from people contributing to my review. In one contribution, David Robinson, co-founder and senior adviser for Community Links, said:

'A swift and radical switch of resources from acute services to community building

The new Scottish Government has made a number of manifesto commitments that are relevant to early intervention in the early years.

This builds on a six-month investigation into Preventive Spending by the Finance Committee of the Scottish Parliament in early 2011, which said that there needed to be a shift from reacting to crises to a greater focus on prevention and early intervention. The committee's report also emphasised the need for a consensual approach in moving towards a more preventive approach to public sector spending and investment in early years in particular. And that this will require leadership across all political parties.

and preventive action is impractical but a steady, incremental migration could be achieved. Government's stepped approach to the reduction of carbon emissions with low carbon transition plans is not dissimilar. Government departments and local authorities should draw up transition plans and publish early action milestones. We spend 5% of our budget on prevention and early action. We should aim to increase that proportion by 5% each year for the next three years.'

28. I agree with those who have expressed this view but more modestly and, after discussion with departments, I propose an incremental migration of funding of 1% each year from late intervention budgets to Early Intervention. This would require no additional spending by departments, just a steady internal redistribution managed by departments themselves, hopefully in discussion with local areas. In education for example, one obvious place to manage such a transition would be through the Early Intervention Grant currently spending over £2 billion nationally each year. The Health, Home and Justice departments already have machinery to run prevention programmes which could be steadily increased. The reorientation of internal spending in this way could provide some of the funds to pay investors for the departments' outcome-based contracts recommended in Chapter 5.

### Recommendation 3

I recommend that government, when planning the **next Comprehensive Spending Review, should consider making Early Intervention its theme**, and that work undertaken by a Treasury-led team should signal a decisive rebalancing of central government spending from late intervention to investing in Early Intervention. I believe that steady and incremental migration of funding – I would propose by 1% – per annum would signal government's commitment to do this.

### New investment needs to be effectively targeted at evidence-based policies and programmes

29. My first report also included an illustrative list of the most thoroughly evidenced Early Intervention programmes across the world, which commissioners can confidently use to help give children and young people the social and emotional bedrock they need to thrive throughout their lives. However, the report also underlined that this initial list of programmes needed further development to ensure that there was broad agreement on how effective Early Intervention programmes had been identified and assessed. Further work is also needed to build improved evidence on the cost benefit of programmes.

30. Additional investment needs to be directed to the right Early Intervention programmes, and all who commission them would be advised to focus on those with the greatest evidence base of success.

31. *Early Intervention: The Next Steps* sets out 72 global programmes that have a strong evidence base, of which 19 meet the toughest evidence standards. This needs to be a living list, further developing to reflect the best programmes in the world, with a particular emphasis on what works in the UK. In Annex A, I have included a list of the 25 programmes assessed as having a strong evidence base that are delivered or available in the UK.

32. There are also a great number of Early Intervention programmes that are not supported by the rigorous standards of evidence used for my first report. This is sometimes due to the poor quality of evaluation or evidence, or factors such as low resources that hinder them when gathering further evidence. However, this does not mean that these programmes are ineffective, particularly where they are informed by evidence from research or evaluation of other programmes/initiatives and are still working to develop their own definitive evaluation. I would advise that, where possible, providers and local authorities attempt to improve their evidence base around Early Intervention programmes to aid extension of the list. I believe that this list will help

commissioners to focus their limited resources on services that produce the most effective results in the lives of children and families.

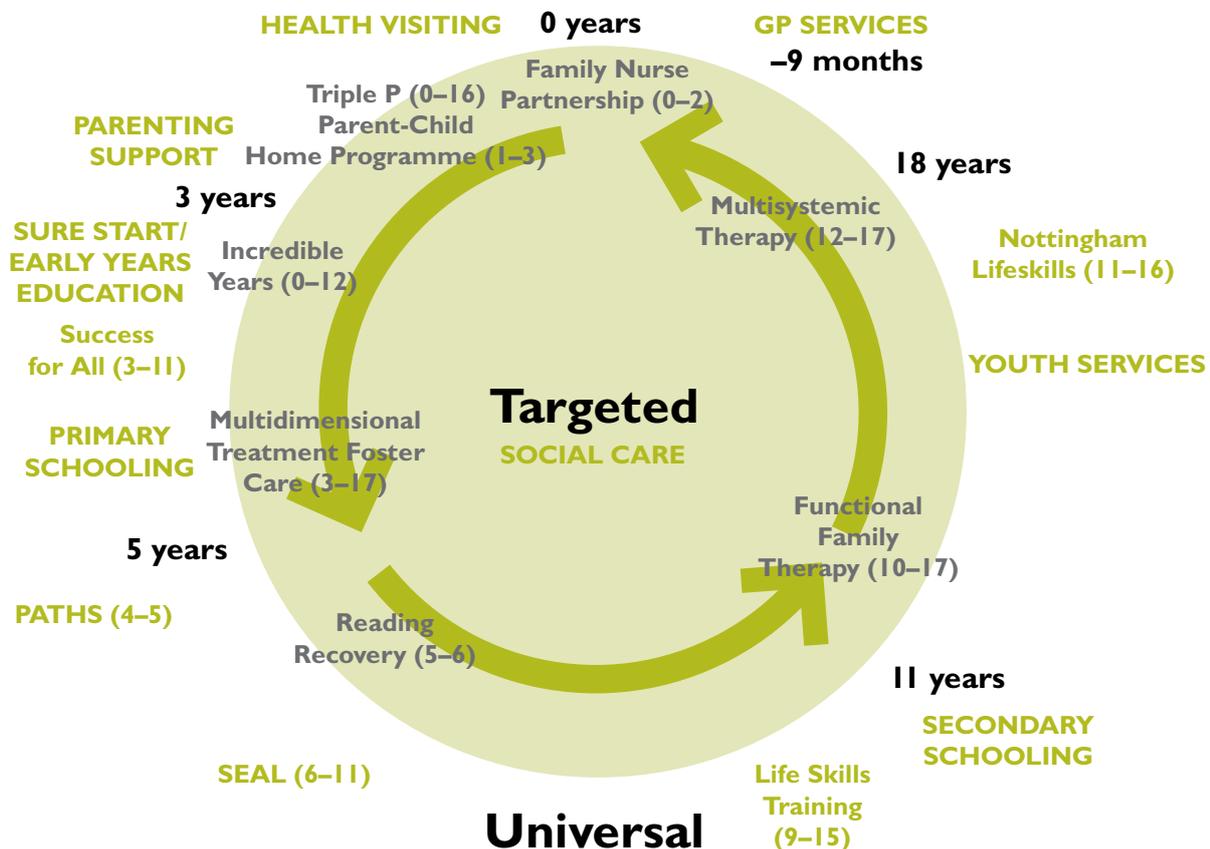
33. Figure I.1 shows how some of the most robustly assessed interventions map across age ranges, target groups and types of provision. This does not purport to show a holistic system of early interventions, but demonstrates that many interventions with proven impact are available and, in many cases, have already been woven into the public service infrastructure of the UK.

34. An important message from my first report was that Early Intervention programmes need to be implemented with fidelity to the original design of their originators. Failure to do this typically reduces both their economic benefits and, more importantly, their contribution to children’s well-being. This has all too often been tolerated in the public sector. Consequences in the non-governmental sector, however, are more immediate and drastic. If programmes are

not implemented with fidelity, potential returns are threatened and investors will lose trust and confidence, which is why I have established a list of the best evidence-based programmes to ensure that confidence from investors is retained. Fidelity is key to the success of Early Intervention programmes. Organisations seeking to deliver Early Intervention outcomes should therefore have access to data on the best programmes and how they should be delivered to maximise their chances of successfully delivering the outcomes and, thus, getting paid.

35. We also need to ensure more effective monitoring of delivery of Early Intervention programmes and more effective evaluation of outcomes and cost-effectiveness, and we need to support the continual improvement of interventions through innovation. I do not make a further recommendation on best programmes in this Report because it was comprehensively covered in my first report and will continue to evolve.

Figure I.1: Effective intervention examples by age



Note: PATHS stands for Promoting Alternative Thinking Strategies and SEAL stands for Social and Emotional Aspects of Learning.

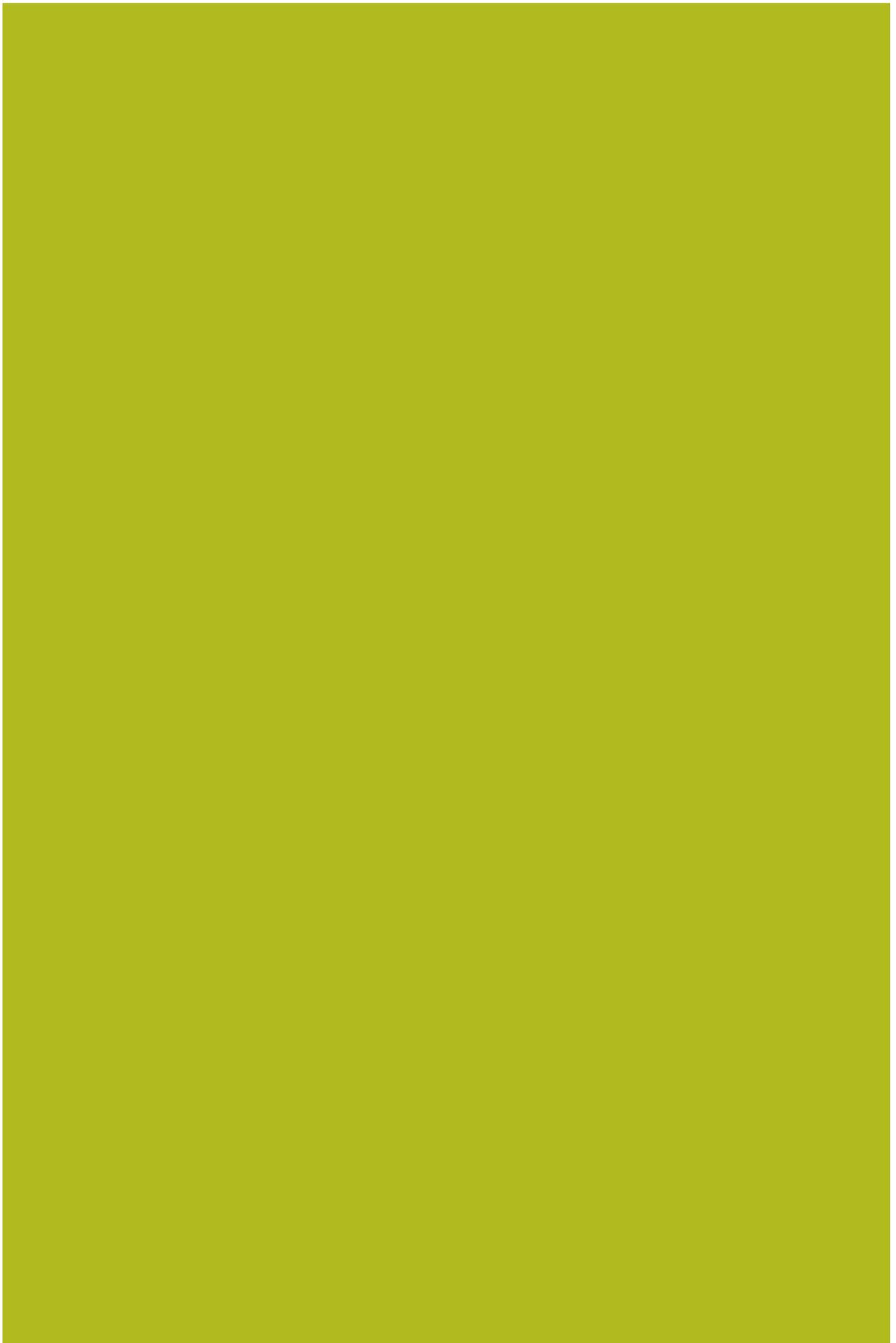
36. Without Early Intervention, this country will face enduring obstacles to economic growth. Without Early Intervention, this country will continue to spend huge sums of public money ineffectively. Without Early Intervention, this country will continue to face major structural difficulties in securing a balanced budget and reducing public debt. Without Early Intervention, these problems will become more entrenched and more severe, both for this government and its successors.

37. For all these reasons, I believe that Early Intervention represents the most fundamental investment in the human capital of our country. However, it is a form of investment that requires some cultural change, and this may have contributed to the institutional barriers against Early Intervention in our country. In Chapter 2, I will examine the barriers to further investment in Early Intervention in more depth.

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## Chapter 2

# Leadership and co-ordination to enable investment in Early Intervention

*The best time to plant a tree is twenty years ago, the next best time is now.*

*Rt Hon Francis Maude MP, quoting an old African proverb*

1. In Chapter 1, and in my first report, I make the case for investment in Early Intervention. Past governments have done excellent work on Early Intervention, including beginning Sure Start children's centres, pre-school hours for 3- and 4-year-olds and introducing the Family Nurse Partnership. The current Government has carried on this good work, for example through the creation of the Early Intervention Grant<sup>1</sup> and through increasing the health-visiting workforce by 4,200 at the same time as doubling the number of places on the Family Nurse Partnership programme from 6,000 to 13,000 by 2015. This is also demonstrated through the new Fairness Premium, which is worth £7.2 billion in total over the Spending Review period to support the poorest in the early years and at every stage of their education, which includes providing 15 hours of free pre-school education a week to 2-year-olds.<sup>2</sup>

2. However, there is more that can be done. It has become clear to me in conducting my two reports that while a great deal of work is going on across the government machine on Early Intervention and on Social Finance, it is not always co-ordinated or shared effectively. This is not a criticism of the commitment of those who work in the field, it is however a call to action for more decisive leadership and more effective co-ordination at official level. Hard as governments have tried, Early Intervention programmes are not reaching all

those who need them. For example, in my home constituency of Nottingham North only a third of those who would be eligible for support from the Family Nurse Partnership scheme receive this programme. There are a number of barriers to increasing investment and this chapter outlines these and how decisive leadership and effective co-ordination are needed to overcome them.

### Multiple beneficiaries

3. The beneficiaries of Early Intervention are multiple and in order to incentivise investment we need to ensure that future savings accrue to those making the original investment, be they public or private investors.

4. The first key challenge is to ensure that **agencies work with each other** to agree to commission projects, share funding and distribute savings. We will explore how Early Intervention Places and Community Budgets can join up to achieve this aim in Chapter 3. In addition, central government is likely to be asked by local areas to distribute savings accruing to them, and to protect local budgets, so that Early Intervention savings can be paid back, in part to external investors. Working out appropriate outcomes and payments will require complex analytical work, which from an efficiency perspective might be best located in one government department rather than many. Local area input and participation in this analysis will also be essential.

5. An example of some helpful existing work in this area is a Department for Education-led project with the Association of Directors of Children's Services and the Centre for Excellence and Outcomes in Children and Young People's Services (C4EO), titled 'Cost-effective Children's Services'. Using this approach, Hertfordshire County Council has worked with a number of local partners and agencies to create a better understanding of the cost of services and how different agencies contribute to better outcomes for children, young people and families. As a result, they are projecting savings of £23 million over four years, through a stronger focus on prevention and Early Intervention, with a multi-agency approach to working with families with multiple problems.

### A lack of detailed data

6. The collection and collation of high-quality data across departments needs effective co-ordination. Given the long-term nature of Early Intervention and the associated high costs of evaluation and cost-effectiveness work, it is sometimes difficult to calculate robust outcome measures and cashable savings, or payment levels calculated on future cashable savings from Early Intervention programmes. Although, as a whole, we can identify that Early Intervention is the right investment to make, because of the accumulation of evidence from around the world, it is more difficult to specify the level of savings that would accrue from implementing a particular programme, or achieving a particular outcome. In addition, where interim measures, at age 3 and 5, for example, are suggested as proxy measures to satisfy investor appetites for shorter investment horizons, we need further data on the degree to which these reliably predict the desired improvements in social and emotional capability in young adulthood.

7. The Social Research Unit at Dartington is translating the Washington State Institute for Public Policy cost-benefit model for use in the UK. The model calculates the return on public investment from evidence-based prevention and intervention programmes and policies and the Social Research Unit will replace the US data in the model with UK inputs. Once the model is developed for the UK, it will be helpful in terms of understanding cost benefits made through Early Intervention. Making

this evidence available for free to all local areas could be one of the first tasks of the independent Early Intervention Foundation referred to in Chapter 4.

8. I recognise that Early Intervention calls for complex work across Whitehall, but strongly believe that the Government and local areas should have a joined-up approach, with an ambition to enable central government to work with local areas in a more timely, unbureaucratic and efficient manner. There is also a role here for local areas to develop their own evaluation frameworks that are relevant to their specific areas, and for local and central government to work together as the 27 Early Intervention Places are now working together as a result of my first report.

9. Equally important is the need for data on children and young people's social and emotional development to be available that allows decisions to be made on their future development needs and also allows the impact of interventions with the child, young person or family to be measured. In my first report I recommended that there should be a commitment to regular assessments of children's development from birth up to and including age 5, focusing on social and emotional development. This would help to ensure that the 0–5s are helped at the most cost-effective point in their lives to develop the social and emotional bedrock that is essential to their future progress and potential. I am even more convinced now that this is essential and that the assessment should include a measurable outcome that will allow the impact of interventions to be monitored and analysed for cost-effectiveness. I further recommend that 'school readiness' should be adopted as an intended outcome of Early Intervention and be used as a measure, or basket of measures, of the impact of investment and the extent of savings, and thereby as an incentive for further investment.

10. As I said in Chapter 1, the Families in Foundation Years statement due this summer should set the tone for the Government's ambition for Early Intervention. The statement should include information on how children's social and emotional development will be regularly assessed.

### Recommendation 4

I recommend that **the Families in the Foundation Years statement must include regular and purposeful assessments for the 0–5s**, focusing on measuring social and emotional development to enable all children to attain 'school readiness'. I further recommend that 'school readiness' should be adopted as an intended outcome from Early Intervention and be used as a measure, or basket of measures, of the impact of investment and the extent of savings, and thereby as an incentive for further investment.

### Savings made are not claimed by central government

11. In local areas there is a fear that central government will restrict savings to be paid back through future budget reductions or through a failure to recognise reduced levels of unmet need as a positive outcome, particularly in this time of deficit reduction. Local authorities need to have the confidence to put in place outcome-based contracts.

12. High levels of unmet need mean that cashable savings can be difficult to identify because while Early Intervention programmes work, prisons and care homes, for example, do not close. This is because someone else takes the place that has been freed up. For cashable savings to accrue, places would not be able to be filled by others. Strict allocation criteria might enable more cashable savings to be identified; however, we have heard of high levels of unmet need. There are ethical considerations in not providing places to those who need them and this needs to be considered in determining the calculation of outcome payments. In the short term I would consider that an over-reliance on the identification of cashable savings to fund payments might restrict future outcome payments.

13. Local areas, non-government and investors alike are concerned about central government involvement given the frequency of policy change

and the need to deal with problems as they arise, and would require guarantees to assure them of the safety of any investment/strategy that involved central government. However, in addition, we recognise that some of our Early Intervention Places wanted no central government involvement at all, even if that meant not being able to benefit from savings made to national funding streams.

14. To ensure that future changes to government spending allocations do not restrict the ability of areas to pay back, we support the following proposals made by London Councils and the Greater London Authority (GLA), after a workshop we developed with them.

15. These challenges should not mean that investors, local and central government wait to invest in Early Intervention until precise data on effects and cashable savings are known for each outcome and programme. While analysts might regard this as a 'safe' strategy, it would in fact be the opposite. In the first instance, we know that the moral and economic case for Early Intervention investment is strong, and secondly, we will never have perfect information. We need to track robust performance measures to pay the returns, however we should not wait another 25 years for follow-up studies on each programme/policy before we start. The effect of a delay in expansion of Early Intervention in our society would ruin more lives and cost billions of pounds. It is important to help facilitate the introduction of investment to public sector bodies delivering Early Intervention programmes.

### Impact over a lifetime

16. The impact over a lifetime of the successful implementation of Early Intervention would be huge. This success would give substantial payback over long periods of time.

'A child's early years form the pattern of their future adult life. However, children are not just adults in waiting, destined to become society's future. We have a duty to give children a 'now' – a present where they are loved, nurtured and cared for within families, not for society's benefit, but because they deserve it and it's their right. Tackling health inequality is a key priority for my department. Given what we

### Some key principles to support external investment in Early Intervention, from London Councils and the Greater London Authority

1. There needs to be reassurance from government and public sector partners that budgets will not change at short notice, particularly in those areas that relate to the Early Intervention work and those identified areas where savings are expected. Both the security of budget and potential for future savings would act as a huge incentive for local partners.
2. Public sector partners must retain an agreed share of the savings that are identified to be released through the programme. They must also agree to a percentage share in advance that will go to any private sector investor as their return on investment. This will require public sector partners to show restraint in order to ensure that savings earmarked for private sector investors are not redirected to resource what is at present 'unmet' need. Of course, any agreed savings retained by public sector partners can be used to meet unmet need as required.
3. An agreement must be drawn up on the division of savings across public sector organisations (e.g. local authorities, health and police services). There must be some flexibility within this agreement to reflect when savings in particular areas differ from the original agreement.
4. Outcomes and milestones must be agreed by all partners and be measured according to an agreed timetable. The timing of any release of cashable savings linked to achieving particular outcomes needs to be agreed upfront.
5. Programmes must reflect local needs and therefore there needs to be recognition of this in the tailoring of programmes at the outset.

know about the foundational nature of a child's first few years for lifelong health and well-being, action to address health inequalities must start from the very earliest stage. I believe early support makes a real difference to families, particularly families who might be slipping into difficulty, and helps them maintain positive family life.<sup>13</sup>

Edwin Poots, Minister for Health,  
Northern Ireland

17. This long-term impact can, however, be a barrier to investment. For example, one might hypothesise that we need to intervene with a family between birth and age 2 of a child to help the child attune and to build empathy. One of the key benefits of such a programme may be to reduce violent crime and domestic abuse and to promote harmonious relationships. The 'big ticket' payback is in young adulthood.

18. This presents two key challenges. The first is that over such a long timescale it will be difficult, and expensive, to attribute a change observed in

behaviour, for example in violent crime, to one particular policy; it is possible, however, if one can control for economic and demographic change and other policies implemented. Tracking individuals over time, with a control group, might be the best way to identify any meaningful effect.

19. The second challenge is that the long timescale makes outcome-based contracts less attractive to investors because of investor appetites for shorter time horizons. One solution is to identify earlier robust predictors of the change that we want to see in the future. For example, some shorter term outcomes that come from successful implementation of Early Intervention can be seen in the time frame of two to four years, where a family in one of the Incredible Years programmes can gain more immediate outcomes in the form of reduction in conduct disorder, reduced antisocial behaviour and a reduction in parenting stress.

20. Investment in Early Intervention therefore requires investors, and commissioners – be they local areas or central government departments

– to take a longer-term view. This requires cross-party support and long-term leadership. This may require incentivising professionals to take a longer term view, through their organisational values and performance management systems. There is a need to make Early Intervention a long-term policy which will need enduring cross-party effort.

### Fragmented provider base and scaling up

21. Issues regarding scaling up Early Intervention programmes and their implementers have been arising throughout the preparation of the Report. If these issues continue, this will limit the ability to invest large sums in the programmes in the near future.

22. Public sector organisations such as local authorities and the National Health Service can often provide evidence-based interventions, such as Incredible Years programmes and Family Nurse Partnership. However, some are small charity providers who may only have capacity to provide services to a limited number of individuals. Smaller providers can help to broaden the provider base and potentially offer greater expertise in Early Intervention to support outcomes. However, there are risks relating to their ability to scale up.

23. Many of the issues that need to be addressed relate to the ability to source, find and develop appropriately trained staff – Early Intervention programmes need to engage with families with complex problems and in challenging circumstances. Competent and skilled practitioners are fundamental to ensuring that programmes are delivered with enough fidelity to aid successful

outcomes and to ensure programme providers can take the step from managing programmes for a small cohort of babies, children or families to setting up a business that can provide services for much larger numbers.

24. It is therefore reassuring to see that a number of organisations on my expert Finance Working Group are, through the use of venture philanthropy, providing support to evidence-based programmes to become business ready, and to help improve the information they have on metrics.

25. Figure 2.1 shows how Westminster City Council is identifying and addressing the barriers.

### Ongoing work to overcome barriers to increasing investment

26. Some work is already under way within central and local government to tackle these issues and to explore, not just for Early Intervention, the possibilities that exist to bring in alternative funding for social policy.

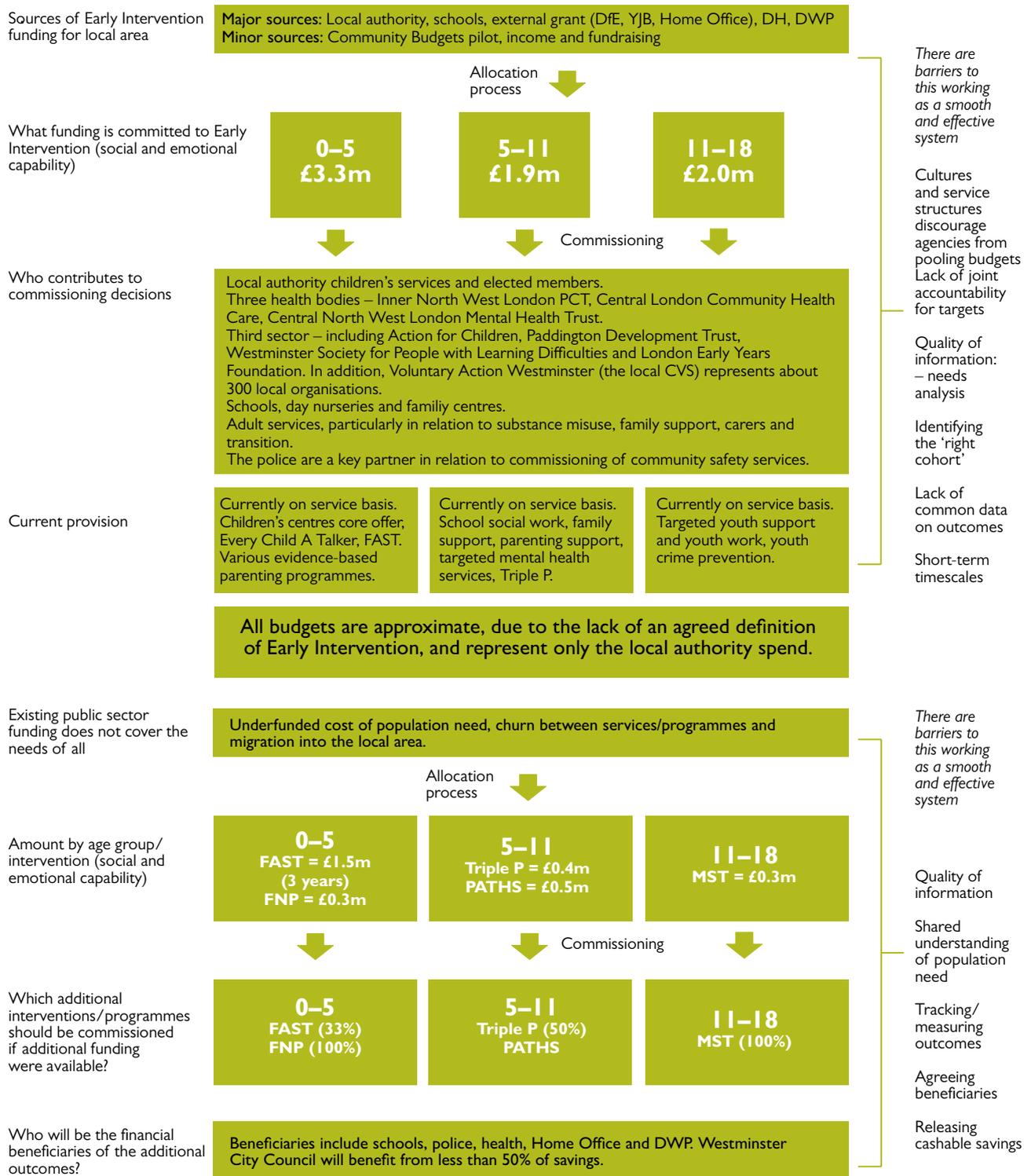
27. Most advanced is the Peterborough social impact bond, developed with the Ministry of Justice, the Big Lottery Fund and Social Finance to reduce re-offending rates, which has already started.

28. A number of government departments have also started work in this area. The Cabinet Office is working with Community Budget areas to develop a social impact bond to help reduce the number of families with multiple problems who place a disproportionately high cost on the taxpayer.

### A social impact bond to help reduce the number of families with multiple problems

The Cabinet Office is exploring, together with a small group of local authorities, how to use social investment to support some of the most troubled families in society. Specifically it is looking at how socially motivated investors can help to finance a new way of commissioning interventions for these families, one that leaves providers free to innovate but only pays for results achieved using money saved in other areas of service provision. Different local areas might focus on different results – for example children at risk of care, teenage pregnancy, a specific town or even a sink estate. If even four to five local areas commissioned interventions to support families in need in this way, demand could be created for £20–30 million of social investment to support these families, which could become a contender for one of the Big Society Bank's first investments.

Figure 2.1: How Westminster City Council is identifying and addressing the barriers



Note: Please see Annex A for full titles of Early Intervention programmes and Annex B of *Early Intervention: The Next Steps* for more detail.

29. The Department for Communities and Local Government is supporting a political leadership group, led by Baroness Hanham, looking at the barriers to using innovative financial models to support Community Budgets. And there are a number of other initiatives led by the Departments of Work and Pensions, Education, Health, and Business Innovation and Skills.

30. While much good work continues inside central government, there is no question that if the culture and practice changes that we have discussed are to take place, the poor lines of account and departmental territorialism that I identified in my first report need to be addressed. Otherwise the tough obstacles in the way of drawing further resources into Early Intervention will not be overcome. I am therefore making the proposal that an independent figure from outside Whitehall is brought in. My further suggestion is that all the relevant Whitehall departments are represented on a Whitehall Task and Finish Group, which should draw together all the work taking place and propose how to move it forward. This high-level group should have an independent chair and report regularly to the Social Justice Cabinet Committee. Such a body should be the driving force of government action as Early Intervention goes into its next phase, unites all departmental interests around one vision and becomes better resourced.

### Recommendation 5

I recommend that **there should be an Early Intervention Task and Finish Group** reporting to the Social Justice Cabinet Committee. This could be a dedicated team of experts with representatives from major spending departments, the Cabinet Office and HM Treasury. It should also have external secondees from providers and financial organisations. This group should co-ordinate the currently disparate activity on Early Intervention and social investment and communicate lessons learnt to government departments. Working closely with the independent Early Intervention Foundation, it should ensure consistency in the establishment of Early Intervention outcomes that are important to government, jointly agree the standard of evidence needed to measure whether these outcomes have been achieved, and improve data on measures, outcomes and cashable savings to allow Whitehall and local areas to attach payments appropriately to outcomes.

## Notes

- 1 Department for Education, Early Intervention Grant, see detail in Annex B. Education Secretary Michael Gove has said that this unringfenced funding will be 10.9% lower than the aggregated funding for 2010/11 (BBC report, quoting Michael Gove, 14 December 2010). The Early Intervention Grant is welcomed but some of the advantages created may be offset by the overall reduction in funding.
- 2 HM Treasury (2010) *Spending Review 2010*. London: HM Treasury, p. 27.
- 3 Speaking at an early years interventions conference in Belfast in May 2011, Northern Ireland Health Minister, Edwin Poots MLA.



## Chapter 3

# A locally driven agenda

*Although social change cannot come overnight, we must always work as though it were a possibility in the morning.*

*Dr Martin Luther King, Jr*

1. The UK is arguably the most over-centralised of the Western democracies. Indeed, in my first report, I recommended the proper codification of the central/local relationship as the only viable long-term settlement to give the localities the sustainability and stability they need. It is often hard for local authorities to make the independent contribution they could be capable of. This uncertainty and short termism impact on Early Intervention even more strongly than other fields. In my first report I also recommended a series of proposals to boost local activity by allowing local areas to be free of central government control and interference, and also to raise money from the private sector. Freeing local authorities to at least the level enjoyed in most Western democracies is key to unlocking the creativity and innovation of local authorities and their partners, particularly those in the voluntary sector.

2. I explore in this chapter and in Chapter 6 (on funds and bonds) how empowered local authorities can make a contribution to our social infrastructure, comparable to that which less restricted councils made to our public health and physical infrastructure in Victorian times, when entrepreneurial local investment in roads, sewers and other utilities put an end to cholera and other epidemics, improved mortality and health, and gave people a better quality of life. Modern local authorities released from central control are just

as capable of doing for our social health what their forebears did for our physical health.

3. Even within the current restricted constitutional position, local elected leaders and senior managers from all public services, working with their partners, are in the best position to improve the outcomes, impact and value for money achieved from existing investment and to promote further investment in Early Intervention for babies, children and young people.

4. I know from my time as Chair of the local strategic partnership in Nottingham that it takes vision, energy and persistence to create the right leadership, governance and partnership arrangements to ensure that Early Intervention is part of an integrated strategy agreed, funded, implemented, evaluated and recognised as delivering the right outcomes for all key partners. However, the fruits of such working are well worth the effort.

5. I am encouraged that many local areas, particularly the 27 areas that stepped forward to say they want to become an Early Intervention Place as proposed in my first report, are building on the lessons learnt through the work of their local strategic partnerships, Total Place pilots, children's trust boards and initiatives on localism and Community Budgets to create a renewed focus on leadership, governance and partnership

at local level in order to improve the delivery of Early Intervention.

6. This chapter examines the possibilities at a local level, and sets out how local partners, supported by central government, can make better use of existing investment in Early Intervention and play a key role in expanding investment in effective Early Intervention provision. These include: building on national initiatives and local experience in order to transform services; making better informed commissioning decisions using a stronger evidence base and using Community Budgets as a vehicle to cut through some of the complexities that hinder investment in Early Intervention and alternative contracting approaches. Behaviours and ways of working need to change.

### Informing national policy and shaping transformed local services

7. I have already said that strong national and local leadership is required to effect the necessary culture change and ensure that public

sector resources are steadily refocused on Early Intervention. Elected leaders, chief executives of local authorities and other local leaders have an important role to play in recognising and endorsing the need for change.

8. Local leaders working with their partners are in the best position to influence new government policy and transform local services. Putting Early Intervention at the centre of local strategic plans is a coherent part of multi-agency working and integrated delivery of services for babies, children, young people and their families.

9. A good example of this is the local delivery of social and emotional capability for the 0–5s. In my first report I recommended ‘the Department of Health and the Department for Education should work together with other partners and interests to produce within 18 months a seamless Foundation Years Plan from pregnancy to 5 years of age, which should be widely understood and disseminated in order to make the 0–5 foundation years a reality. I recommend that this Plan is endorsed by

#### Case study: Early Intervention in East Sussex

East Sussex County Council is leading the development of Early Intervention through:

1. continuing to invest in children’s centre services through the Early Intervention Grant;
2. creating a 0–5 budget, by pooling resources for children’s centres with primary care trust health visiting funding in order to reshape services, increase support for more vulnerable families (including through investment in the Family Nurse Partnership programme) and maintain a good universal offer;
3. as part of that increased support, implementing new protocols designed to stop families from falling through the net – for example, health visitors contacting all families that have been referred to social care but don’t meet the threshold;
4. investing in primary school age Early Intervention (the Parent Support Adviser service), working with key school leaders in order to manage the service for groups of schools and linking it up to social care, again to prevent families from falling through the net;
5. raising awareness of Early Intervention services and how to access them – for example, developing new arrangements for GPs to refer into preventive services;
6. prioritising targeted youth support for individual vulnerable teenagers at the expense of more traditional open access youth provision;
7. leading discussions with other agencies, particularly the police, about a collective approach to Early Intervention in order to generate and build interest locally in combining resources for more up-front investment.

Parliament'.<sup>1</sup> I therefore look forward expectantly to the Government's plans to issue a policy statement on Families in the Foundation Years this summer. I am also hopeful that the statement will be strongly influenced by local leaders from the statutory and voluntary sectors. It should provide an ideal opportunity to develop a coherent strategy from conception to age 5 and beyond, and promote an Early Intervention approach across central and local government. We should never forget that it will be the local commitment of parents, health visitors, nursery staff, teaching assistants and others that will deliver capable 0–5s.

10. Since my first report, Professor Eileen Munro's report *A child centred system*<sup>2</sup> has also emphasised the importance of a co-ordinated approach to services being provided locally, both to maximise the efficient use of resources and to effectively safeguard and promote the welfare of local children and young people. I welcome her conclusions that local areas need to have the freedom to respond to local need, not implement a centrally prescribed service, and that preventive services can do more to reduce abuse and neglect than reactive services. Professor Munro has also proposed a new statutory duty for local authorities and statutory partners to secure the sufficient provision of local early help services for children, young people and families. I believe that if such a duty is introduced it should encompass the provision of Early Intervention services and programmes for social and emotional development.

11. For all our emphasis on Early Intervention programmes, the role of mainstream local health services will always provide the earliest and strongest filters of dysfunction. That is why I said in my first report 'the proposed changes to local health services may present opportunities for health to play an even more important role in Early Intervention than it does now.'

12. The proposed new health and well-being boards must rediscover the preventive mission of public health and drive local strategies and incentivise commissioning for Early Intervention. They must work with and alongside all public sector and voluntary sector partners, including schools, police and crime commissioners, youth

justice services and GP consortia, as key partners on strategic planning and commissioning for Early Intervention.

13. In addition, the proposed Public Health Outcomes Framework must add weight to local partnership arrangements by introducing outcomes that encourage both public health funding for Early Intervention and collaborative commissioning for shared outcomes across all public, voluntary and private agencies funding streams.

14. I believe that it is essential that the proposed Public Health Outcomes Framework includes outcomes related to children's development, focusing on social and emotional development. I note the intention in the consultation document for an assessment at age 2–2.5, but believe that more regular assessments as proposed earlier would be more beneficial for children, their families and the country.

### Recommendation 6

I recommend that the **systems and organisations arising from the NHS changes give priority to Early Intervention**, with health and well-being boards providing leadership for Early Intervention's contribution to health and well-being in every locality.

15. I now move on to how local areas can make better informed commissioning decisions and how Community Budgets could help to cut through some of the complexities that hinder investment in Early Intervention and the use of alternative contracting approaches.

### Using the evidence base to support investment decisions

16. Local leaders and commissioners of public services need to know if their current investments in services and programmes are actually working or whether they would do better to direct funding elsewhere. They also need to know whether programmes are being effectively managed and whether they are achieving the required level of service to their intended beneficiaries.

17. My first report highlighted the difficulties commissioners face in identifying proven models of Early Intervention that will work in their area. A number of organisations have emerged or extended their scope to help commissioners in this area, including: the National Institute for Health and Clinical Excellence, the Social Research Unit at Dartington, the Centre for Excellence and Outcomes in Children and Young People's Services, and the Local Authorities Research Consortium. A number of academic research institutions also publish relevant research and evaluation studies. This is discussed more in Chapter 4, where I set out how support is needed to help local areas better understand the evidence base and the potential role for an independent Early Intervention Foundation including the Foundation's role in working with existing institutions to use evidence-based approaches specifically to promote early intervention and make the best advice and methodologies in the world freely available to all those local areas that want it.

#### Outcome-based contracting could bring benefits at a local level

18. Having examined the evidence, I believe that outcome-based payments can help to encourage delivery providers to focus on programmes or interventions that have a proven evidence base and ensure fidelity in the way those programmes are implemented. I hope that the Open Public Services White Paper underlines this view and that it becomes the Government's expectation.

19. Taking this into account, local commissioners should prepare to go with the flow and consider making more use of outcome-based contracting approaches in order to strengthen the incentives on service and programme providers to deliver Early Intervention outcomes. Outcome-based payments – sometimes described as payment by results – ensure that those delivering services receive certain payments only when they achieve certain agreed and measured outcomes. I have purposely used the term outcome-based payments in order to emphasise the importance I place on outcomes. Some payment by results contracts allow payments to be made when outputs as opposed to outcomes are achieved. For Early

Intervention and the babies, children and young people I want to help, only outcomes will do.

20. Outcome-based contracts can offer an important means of aligning the incentives of those who commission services with those who provide them. They can help to promote innovation through specifying an outcome rather than the exact way of achieving that outcome. In the longer term (through a better understanding of costs and results), I hope that outcome-based contracting will improve the cost-effectiveness of Early Intervention services, ensuring that public money is focused on achieving outcomes and not on activity, reducing demand for expensive later interventions. It should therefore, as a minimum, allow local areas to save money or reinvest it in more Early Intervention, in order to deliver improved outcomes through these kinds of activities. It will also, over time, provide the income stream needed to repay investments in effective evidence-based programmes.

21. A number of contributors to this Report have also commented that outcome-based contracts must be considered alongside the need for better local commissioning decisions in general. To make progress in rebalancing provision away from late intervention and onto new investment in Early Intervention, it will be important to deepen the skills base among commissioners in local authorities, health and well-being boards, and other local commissioning bodies. This is partly about learning to work better in partnership in order to identify local need, partly about developing engagement with a diverse provider base and partly about challenging (often inaccurate) received wisdom about how to set about procurement processes. The task of commissioning innovative provision from a diverse range of providers in the voluntary, mutual and private sectors is one that requires specific skills and attitudes. There are special problems which outcome-based contracting poses for smaller concerns that cannot carry the costs as easily as local authorities or large private providers. It is essential that they are not squeezed out of this developing market.

22. There have been successful efforts in the recent past to develop the skills and effectiveness of commissioners, in particular through the Third Sector Commissioning Programme, which has provided support and training to 4,000 commissioners. The Government is currently considering whether to tender for a further phase of this programme. I believe that would be a helpful development.

### Using the Community Budget agenda to enable system reform and bring benefits to Early Intervention

23. Community Budgets are a central part of the Government's drive to improve services and outcomes across multiple organisations at local level. Community Budgets should enable a more flexible, integrated and cost-effective approach to delivering local services by removing artificial funding or legislative barriers to funding being pooled in order to facilitate the better design and commissioning of interventions. Community Budgets are designed to allow public spending by place (or local area) rather than by individual organisations or services, making it much easier for local leaders, working with their communities, to take an overview of the needs of their community, decide how money should be spent more effectively and provide innovative solutions to difficult problems.

24. Tackling families with multiple needs is the centrepiece of the first phase of Community Budgets. Sixteen areas, covering 28 local authorities, are developing proposals with the ambition to use Community Budgets to deal with at least 10,000 troubled families over four years, by removing obstacles to multi-agency working and joining up funding streams in order to encourage service transformation.

25. I welcome this focus on families with multiple needs, but if we are to break the cycle of disadvantage, it is also right that local authorities work together with other agencies in their areas to offer wider **preventive** support to all children and families that need it. In addressing families with multiple needs, local areas need advice on how to use Early Intervention policies and programmes, which will prevent these issues arising in the first

place and well before they become intractable. The Government has announced the intention for Community Budgets to be available nationally by 2013, drawing on the learning from the first phase areas. I believe expanding Community Budgets to include Early Intervention in order to ensure that all babies, children and young people develop the social and emotional foundation skills to become school ready, life ready and child ready, and that additional help is offered to parents who need it so that they can nurture and develop their children, should become the standard practice for Community Budgets when they become available nationally.

### Early Intervention Places can advance the benefits of Community Budgets

26. Throughout the work of my review I have been encouraged by the level of interest and engagement of local areas. For my first report, 27 local authorities expressed an interest in becoming Early Intervention Places. These areas have continued to engage with the review and want to be part of plans to improve the delivery of Early Intervention across the country.

27. Eight of the local authorities that put themselves forward as Early Intervention Places are also operating Community Budgets already, removing barriers to system reform and providing more co-ordinated and streamlined intervention for the most troubled families. I am keen that all eight areas are given freedom to now extend their service redesign work to include Early Intervention services. These local authorities should have access to the same level of support as the local authorities operating the new Families with Multiple Problems Community Budgets. This should specifically include access to a Whitehall Champion, advances on the future years Early Intervention Grant and other kinds of specialist support in developing evidence-based approaches in order to enable strategy and systems change.

28. My vision is that they should make best use of evidence-based programmes and practice – offering both best possible outcomes for children and young people and value for money. They will want to identify their own focus for this preventive work and identify how best they can reduce the number of families that go on to develop

multiple problems in the future. That could include using Sure Start children's centres as a source of integrated support for targeting disadvantaged families of young children, offering integrated support to children with disabilities and/or special educational needs, local schools offering Early Intervention programmes, catch-up support or support to parents. Manchester City Council, for example, has pooled funding from a number of sources, including its Early Intervention Grants in order to fund more customer-focused preventive services.

29. I want the best practice from the work of the Early Intervention Places to inform the wider roll-out of Community Budgets focusing on Early Intervention and families with multiple problems and would like the other Early Intervention Places to be at the forefront of this wider roll-out. They should start preparing now for Community Budgets so that they too can be at the cutting edge of system reform.

30. The Early Intervention agenda is driven by local action. I would like to see all Early Intervention Places that are Community Budget areas working with the Department for Education and the Department for Communities and Local Government in order to consider how Community Budgets can be used to:

- carry out outcome-based contracts for Early Intervention;
- contract with social intermediaries for delivery of Early Intervention outcomes in their areas;
- incentivise individual organisations to make a contribution to Early Intervention investments, where the benefits accrue to multiple organisations; and
- make it easier to agree contracts over periods longer than traditional budgetary and political cycles, thus supporting a focus on longer-term outcomes.

### Recommendation 7

The Early Intervention agenda is driven by local action. I recommend that **government continues to support the joint working between the local Early Intervention Places and Community Budget areas** which has arisen since the first Report. I further recommend that central and local government players agree how existing Community Budget areas should focus on Early Intervention alongside their work on families with multiple problems as soon as possible. The 27 Early Intervention Places that are not yet Community Budget areas should become part of this work at the earliest opportunity, and all Community Budget areas should be encouraged to focus on Early Intervention as a priority.

### Supporting and enabling the voluntary and community sector

31. The evidence provided for my first report reinforced my view that voluntary and community sector (VCS) organisations play an important role in supporting and delivering Early Intervention policies and programmes.

32. Local areas will want to draw on the strengths and experience of the sector as partners in understanding the needs of communities and in designing the right Early Intervention policies for their area. They will also want to ensure that their commissioning arrangements enable VCS partners to be effective delivery providers, where appropriate. VCS providers already play an important role in delivering Sure Start children's centre services in many areas. But I received lots of evidence to demonstrate there is much more they can do.

33. The VCS community both benefits from and is challenged by its diversity, with some major organisations that will wish to be involved in the design and delivery of Early Intervention programmes across many areas of the country and others that provide important services for one local authority or even one community or ward within a local authority.

34. Local areas should consider how their local Compact arrangements<sup>3</sup> support capacity building for small VCS organisations and promote collaboration between organisations that wish to be involved in Early Intervention delivery. They should also consider how they can work in partnership with neighbouring local areas or regional partners in order to maximise the potential of VCS partners to contribute to Early Intervention. VCS partners have a key role to play in helping to realise the Government's vision of strengthening civic society.

35. Government departments with an interest in Early Intervention should also use their influence and strategic partnerships to help to build capacity at a local and national level; the Department for Education, for example, uses 4Children as a strategic partner for early years.

36. I also believe that there is a role for the Early Intervention Foundation discussed in Chapter 4 to broker effective partnership arrangements between VCS partners and the private and public sectors at national level.

#### Empowering public service employees

37. Early intervention should also benefit from plans to expand employee ownership of public services by increasing the number of new structures, including mutuals and co-operatives.

38. There is increasing evidence that, where staff are given a real stake in the ownership and governance of the organisations they work for, productivity is increased, innovation encouraged and absenteeism reduced. Staff turnover is lower when employees feel they can influence the way their organisation works, and productivity can be up to 19% higher in organisations where staff feel they have a stake in success.

39. Ownership also empowers employees to redesign services around the needs of their users and communities, and can ensure that services are more efficient.

40. Groups of public sector staff working on Early Intervention could be encouraged to form organisations that challenge the current delivery model and deliver better outcomes. Public Service Mutuals, as promoted by the Mutuals Task Force,

could be spun out of Early Intervention services and provide existing and innovative services in newly efficient and effective ways. Ideas developed within these mutuals could then help the overall development of Early Intervention services via adoption back into public, private and voluntary organisations.

41. The governance, and some elements of ownership of these new Public Service Mutuals, could engage stakeholders other than employees with, for example, representatives of community or user groups on boards, or some direct ownership by these groups, thus encouraging greater co-production of services.

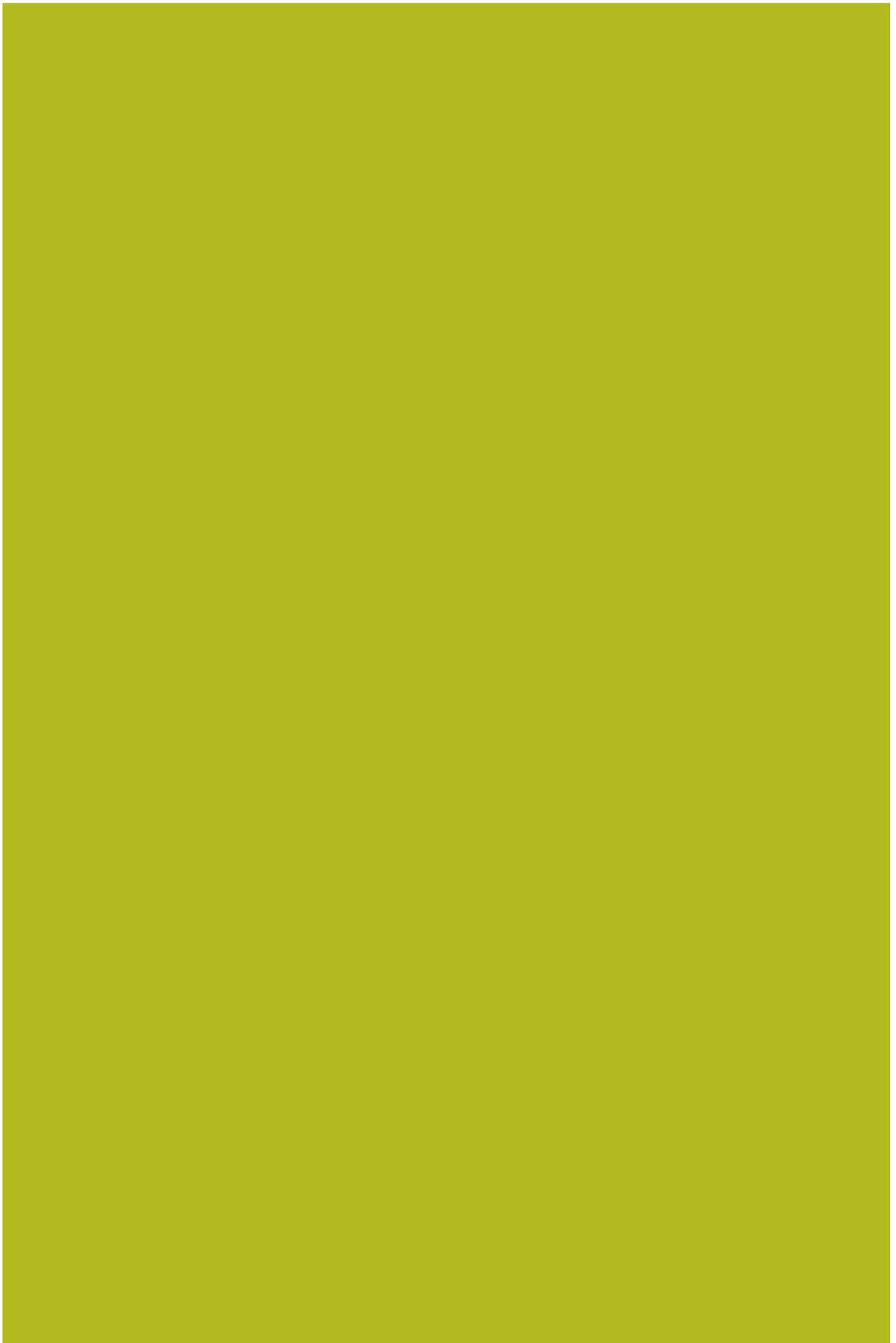
42. For some areas where there are particular investment needs, and/or managerial improvements, Joint Venture Mutuals could be formed, which the evidence suggests would not have all of the innovation benefits of the Public Service Mutuals, but would allow smaller and medium-sized independent providers to contribute to the delivery of public services and to the development of a diverse range of providers that can improve quality through effective competition.

43. Mutuals give genuine autonomy and room for innovation to frontline public servants. They can foster effective partnership working more easily than when constrained by silo working and bureaucracy. Because of their autonomy, capacity for innovation and better partnership working, they are well placed to attract inward investment, especially under outcome-based contracts.

44. While measures considered in this chapter could help to increase investment in Early Intervention and help to deliver more outcomes from the same level of investment, they could not alone provide the additional investment required to achieve a major increase in the benefits on offer from Early Intervention. Chapter 5 therefore examines options to increase the levels of privately funded investment.

## Notes

- 1 Allen G (2011) *Early Intervention: The Next Steps*. London: HM Government, p. 48.
- 2 Munro E (2011) *The Munro Review of Child Protection: Final Report – A Child-centred System*. London: Department for Education.
- 3 HM Government (2011) *The Compact* ([www.cabinetoffice.gov.uk/sites/default/files/resources/The%20Compact.pdf](http://www.cabinetoffice.gov.uk/sites/default/files/resources/The%20Compact.pdf)).



## Chapter 4

# Building an Early Intervention Foundation

*I cannot fix on the hour, or the spot, or the look, or the words, that laid the foundation. It is too long ago. I was in the middle before I knew that I had begun.*

*Jane Austen (Pride and Prejudice)*

1. I have outlined how, with decisive political leadership, government can change its own culture and create some new institutional frameworks internally to make a tremendous impact on rebalancing late and Early Intervention. However, government even then should not seek to do all that is required to take Early Intervention to the next phase on its own. It can be so much stronger by looking beyond central departments and using independent partners to make Early Intervention a success. There is a case for decentralising research and support functions from departments and their surrogates that can be done efficiently and independently elsewhere. The Government is not best placed to build the new market that is required in social finance, for instance, or to take a role in measuring progress against outcomes or determining when outcomes have been achieved. This would deter investors, who would infer that government has a vested interest in not paying returns. Like it or not, government's record and reputation on entrepreneurialism, flexibility and nimbleness precedes it, and external partners can easily develop those qualities.

2. My first report recommended the establishment of an Early Intervention Foundation to support local people, communities and agencies. I set out that the Foundation would have an important role in leadership, campaigning

and motivation, help to expand and improve the provision of services, and encourage new investment for Early Intervention. I have looked further at the case for these functions to be carried out, and am now even more convinced of the need for an independent body to drive forward this important work.

3. Since the recommendation to create an independent Early Intervention Foundation appeared in my first report, the Social Justice Cabinet Committee has welcomed my analysis of the issues. Subsequently, a group of heavyweight opinion formers in the field – in effect, a shadow board – have met to discuss taking this further. They include individuals from the Big Society Bank, the National Lottery, the Metropolitan Police, two large City Councils, the Mayor's Fund for London, private financiers and others. Proposals are now at an advanced stage, with a concepts paper circulating among interested parties and a business plan being prepared.

4. The existence of 27 Early Intervention Places, forward-looking local areas that wish to increase investment in Early Intervention, and the existence of potential investors will not alone be enough to facilitate the creation of an Early Intervention market. A wider supporting infrastructure is needed first in order to both provide evidence on programmes and champion Early Intervention.

5. Quite simply, without the right independent support, it will not be possible to unlock the massive savings from Early Intervention, create the conditions for attracting external investment to Early Intervention or for local areas and central government to agree suitable outcome-based contracts. Most importantly:

- Evidence needs to be available to commissioners and investors in order to show that programmes work and can make a return. For example, the Social Research Unit at Dartington is already engaged in discussions to make freely available to all local areas involved with the Early Intervention Foundation all the state-of-the-art research and advice from globally renowned experts such as Steve Aos in Washington State and Dell Elliott in Colorado. There is a role to ensure that the UK translation of this work is sufficient to meet the robust evidence needs of commissioners.
- There is a role to promote Early Intervention. Many providers, commissioners and potential investors are unaware of the broader social investment opportunities. There is a range of ways available to commissioners for increasing awareness, and it is important they understand all their options for harnessing the higher social and financial returns to be generated by Early Intervention.
- Support needs to be available to assure commissioners and investors that the roll-out and delivery of programmes can be managed effectively.
- In order to allow investors and commissioners to reach outcome-based agreements, they need to know that outcomes are being independently and robustly evaluated.
- Central government and local areas need to be able to agree commercially robust outcome-based agreements. Many will have limited experience in agreeing similar contracts, and would require information or commercial support.

6. I have considered the extent to which all of these functions could be carried out by existing institutions, including government, and believe that a new independent Early Intervention

body is required to carry out at least some of these functions. It is important that the political leadership makes it clear that advice and help from outside Whitehall should be viewed as an opportunity and a complement to departmental activity and not a threat to it.

### Recommendation 8

I recommend that **ministers take a positive leadership role on the independent Early Intervention Foundation** in encouraging local areas and philanthropic and private institutional investors to continue their exploration of setting up a Foundation to complement, from the outside, the work that is beginning inside Whitehall.

### Functions of an independent Early Intervention Foundation

#### A: A centre to champion and promote Early Intervention

7. This review has found that there is a massively dominant late intervention culture that needs to be better balanced with Early Intervention. Early Intervention needs a voice, and a national campaigning and motivation capability.

8. There is no single authoritative voice in the Early Intervention market on what works, particularly in a user friendly format. The Foundation could promote a consistent approach to evaluating the effectiveness of Early Intervention policies and programmes, and promote consistent support to commissioners of Early Intervention services. For example, while the review has found that the Centre for Excellence and Outcomes in Children and Young People's Services (C4EO) is currently providing important evidence building and capacity building services to local areas, and the National Institute for Health and Clinical Excellence is producing guidance on social and emotional well-being in early years, there is no single focus on Early Intervention. In my view, the existing bodies alone will not be able to provide all the evidence that is required for commissioners, providers and investors. Neither will they be able

to provide a single framework to co-ordinate and disseminate that information. The information the Foundation will capture will be used to support local areas in making investment decisions, and support locally agreed outcome-based contracts.

9. As the complex world of contracting and investing develops, the Early Intervention Foundation could act on behalf of the broader Early Intervention community to highlight obstacles, and bad and good practice, and speak up for local people and areas, not least to central government, so that Early Intervention can be more easily facilitated.

### B: Improving the evidence base so that investment is targeted on what works

10. As was set out in Chapters 2 and 3, improving the evidence base is critically important in order to drive improved social and emotional outcomes for babies, children and young people, and to give local areas the information they need to make the case to invest. It would be expensive and impractical for every single local authority to individually reinvent the wheel in order to create or access the information they need when one Foundation could pull it together for all the key evidence building and disseminating functions that need to be in place. Some of the key functions are set out below:

What does it involve?	Detail
Collect information from programmes (and other evidence building bodies) of key historical output and outcome data, and of characteristics of the specific programmes.	Evidence of which programmes are best at delivering outcomes is currently limited, and existing evidence is currently held by a range of different bodies. There are also significant gaps in the evidence covered. There is a case for evidence to be brought together and to improve the quality.
Agree a methodology and analyse that data. This would inform the creation of a list of high-quality programmes that meet the agreed methodology.	Analysing data against a set methodology, which would be tailored towards providing commissioners with the information they need, in the form of a list, to make outcome-focused investment decisions.
Publish that data in an accessible format.	Publishing information that is freely available to commissioners, investors and delivery bodies. This could be done as a virtual tool, with evidence on programmes provided, using a Kitemark system, with the Foundation confirming that certain programmes deliver an agreed standard.
Provide minimum standards for investment criteria to investors who wish to have evidence of programmes that are not in the list.	In some circumstances an intermediary may wish to invest a proportion of its funds in programmes that are not on the list, where it believes untested programmes could have a real benefit. In these circumstances it may look to an institution to provide evidence on whether those programmes meet a minimum standard (rather than the 'list standard' which would require further testing to assess).

What does it involve?	Detail
<p>Develop and maintain a directory/database of research and evaluation on Early Intervention. Commission or advise on further research to support investment in Early Intervention.</p>	<p>Research and evaluation evidence will provide important information to influence policy makers and to inform commissioners and investors. Making all relevant research and evaluation available in one place will enhance the ability to influence and inform. There is also a case for centralising how new research and evaluation is commissioned using common standards and criteria. There is a range of studies on the cost-effectiveness of programmes, but they often use different methods and criteria, which makes comparative analysis difficult. The evidence base for Early Intervention would also benefit from additional longitudinal research; the Foundation would develop the best expertise to advise on or commission such research, for example on complex problems, complex measures, and comprehensive longitudinal evaluation of Early Years Intervention on the lives of our children.</p> <p>There is also a case for the intermediary/ Early Intervention body to be able to draw on funding from existing research budgets, for example the Economic and Social Research Council and the Medical Research Council.</p>

11. It is important that both the contracting body (local areas or local areas and central government) and the intermediary have confidence in the evidence available, including the strength of any list of programmes. The intermediary particularly needs to be sure that the information is accurate in order for it to make sound investment decisions. An independent body would be best suited to support this objective.

12. It is important that the evidence base is provided in a clear and accessible format, drawing together rather than duplicating existing evidence. Duplication would not only create inefficiency, but could create an unco-ordinated picture of Early Intervention. The Foundation will work closely with existing research institutions already examining evidence across a range of social programmes, not least the Social Research Unit mentioned earlier. In addition, C4EO already gathers national and

regional data for a number of Early Intervention programmes, and a number of local areas have come together to form the Local Authorities Research Consortium (LARC), increasing the evidence base through a locally led solution.

### C: Increasing awareness of social investment opportunities in Early Intervention

13. Chapter 6 sets out some of the limitations on introducing investment for Early Intervention, including the fact that the social investment class is still being developed and is not widely understood. Many potential investors would not proactively consider investing in Early Intervention. It may therefore be necessary to provide information in order to increase awareness of the benefits of social investment in Early Intervention.

What does it involve?	Detail
Help to make potential investors aware of the range of investment opportunities available in early year interventions.	Increase awareness to potential investors (for example, high net worth individuals) of the range of investment opportunities available.

#### D: Improving fidelity and developing Early Intervention programmes for roll-out

14. Best practice evidence can focus on how efficiently services are delivered across a range of providers, and demonstrate the case for focusing on fidelity of programmes.

15. While information alone of what works could have significant benefits, additional benefits could be achieved through giving providers support to

introduce and roll out programmes, and ensure that comprehensive packages of Early Intervention policies are installed, not just individual 'magic bullets'. A franchising model could support the wider implementation of Early Intervention programmes within the UK by boosting fidelity, generating innovation and providing a financial incentive to succeed.

What does it involve?	Detail
Provide evidence of best practice in order to show how positive outcomes can be best delivered by a specific programme.	Would require the collection of specific delivery practice, including evidence on its effectiveness. Would allow individual providers to make improvements by drawing on the successes of others. It would also support commissioners and investors in demanding higher standards of delivery from providers, both supporting value for money and the overall level of outcomes.
Provide support to providers in order to allow them to implement best practice in existing programmes, or roll out new programmes with a focus on fidelity.	This would involve providers accessing a package of support that assists with implementation and delivery of programmes. This could be based on a franchise model.

#### E: Acting as a source of advice on social investment for Early Intervention

16. It would be possible for local areas and central government to reach their own outcome-based agreements with an intermediary or provider, with no wider brokering role needed. However, this may not on its own create the optimal

outcome for both parties. Local areas may not have sufficient information, including information on the terms agreed from wider outcome-based contracts from Early Intervention, to drive the best deal for the taxpayer. A potential brokerage role could involve the following:

What does it involve?	Detail
Support investment agreements made between the public sector and the private sector by providing information on what efficient costs are; and what a realistic and sufficiently challenging set of outcome based targets are.	Establish what economic and efficient delivery costs should be for a specific set of programmes in a specific area and what outcomes are realistic, so an investment agreement can be based on robust evidence. This could involve providing an assessment of whether proposed agreements are economic and efficient, and take a value-for-money approach to risk transfer.

17. There is a pressing need for a specific independent Early Intervention body to provide information on efficient costs, best practice and the types of interventions that could be specified in a contract. This needs to develop over time and be led by what local areas and commissioners demand. I am conscious of learning the lessons from the history of private finance initiative/public private partnerships, which demonstrated that the need to keep privately financed deals transparent for the public and to test whether private finance offers value and suggests an accessible independent resource to backup contracting is essential.

18. Existing local government bodies or sponsoring departments could provide support to local areas. For contracts where Treasury approval

is required, there may be a case for the Major Project Authority to provide scrutiny over the exact contracting arrangements. Such an approach would utilise existing expertise and capability, with the ability to draw on wider expertise across outcome-based or payment by results contracts.

#### F: Confirming whether outcomes have been achieved

19. Investors have informed this review of the need to have independent validation of outcomes in place. Local areas would also need to know that they are only paying for outcomes that have actually been achieved. The table below sets out the specific functions that would need to be carried out and in which investors would need to have confidence.

What does it involve?	Detail
Assess whether outcomes have been achieved as agreed in outcome-based contracts.	This would involve measuring outcomes (for example, child attendance record at school) and assessing whether the outcomes achieved meet the targets agreed in contracts.
Trigger outcome-based payments.	This would involve informing the Government or local authority of the payments and timing of payments that are contractually committed. The public sector entity would be committed to making the payments confirmed by the institution.

The Early Intervention Foundation could consider taking this role in the longer term.

#### G: A franchise function?

20. There are a number of proven Early Intervention programmes that are currently delivered outside of the UK. Introducing those programmes to the UK would require them to be developed according to a UK context, reflecting different social and cultural norms. It is also the case that a number of existing UK programmes only operate in particular areas of the country, and rolling them out more widely may require support. An independent body could introduce a franchise model to help to both make programmes UK ready and support effective roll-out. Further detail on a franchise option is provided in Annex D.

#### H: Providing support to enable the voluntary and community sector to contribute to Early Intervention delivery

21. I have already mentioned the important role voluntary and community sector (VCS) organisations play in supporting and delivering Early Intervention policies and programmes. While the primary responsibility for supporting the VCS community must lie with local areas and government, there is a need to support VCS organisations to play a crucial role – passing on the latest information to the field; and brokering partnerships, locally, regionally and nationally, offering them a forum to directly influence evolving policy on Early Intervention.

22. In the first instance, the Foundation will concentrate on Functions A, B, C, D and E of the analysis provided earlier. This will provide evidence to commissioners of which programmes work towards outcomes for children and families – with the aim of continually updating the list attached at Annex A, and agreeing the methodology by which this is done.

### Creating the Foundation

23. Subsequent to my first report, the Social Justice Cabinet Committee has welcomed my analysis of the issues and has outlined that this work should be developed independent of government. As I set out in my first report, a long-term and sustained focus on Early Intervention will be crucial in order to break down inter-generational cycles of dysfunction. It is therefore important that an Early Intervention Foundation is for the long term and is sustainable. I believe that an Endowment Fund is the best way to provide that certainty and provide year-on-year funding for staffing, research, training and dissemination of information.

24. Serious work has started on a business case to deliver an independent Foundation, and I recommend that, once the business case is fully worked up, a £20 million endowment is created to sustain an independent Early Intervention Foundation. I will therefore be approaching non-government institutions, foundations, charities and the private sector to support up to £10 million of funding, with the proviso that government co-fund it in order to kick-start the endowment Fund. A stable and secure future for the Foundation will have a significant impact on the ability of local areas to effectively drive forward additional Early Intervention investment. Its financial independence will make it less vulnerable to those who might be challenged by it carrying out its functions. As the Foundation becomes established and trusted by investors and commissioners, it will be able to attract further contributions to the endowment and develop income streams from services that will give it even stronger financial independence.

25. At this early stage in the development of Early Intervention, it is clear that central government

requires greater information in order to support outcome-based payments made out of savings. The Foundation would wish to work in close partnership with central government and I would be happy for central government departments to also utilise the information capabilities of the Foundation in order to drive forward external investment in Early Intervention through outcome-based contracts. Given these benefits, there is a case for government to procure the services of the Foundation over time, as it demonstrates its effectiveness in supporting Early Intervention outcomes.

### Recommendation 9

I recommend, once the business case is fully worked up, the creation of a **£20 million endowment** to sustain an independent Early Intervention Foundation and that the Prime Minister issues a bold challenge to external funders from the private, charitable and local government sectors that if they create an Early Intervention Foundation to drive progress, government will support them with co-funding.

### Meeting local needs

26. It is evident throughout this chapter that local areas will drive the agenda of, and be the main beneficiaries of, the new Foundation. It is important that a bedding-in period takes place. I do not propose that an Early Intervention body would need immediately to have a direct financial role, or direct contractual relationships with local areas or government. However, I do want to keep the options open in a rapidly developing situation, hence I have considered the scope for a specific Early Intervention body to provide a wider support and brokering role, not least with local areas. This role could include:

- Providing information to local areas to support specific contracting decisions, including the specification of contracts.

- Providing specialist Early Intervention resource that individual intermediaries or providers could buy. For example, that could include expertise on specific programmes or Early Intervention delivery, including the tailoring of them to local contexts.
- Helping to attract investment into funds, managed and owned externally, of the Early Intervention body.
- Over the longer term, using its own funds, raised from investors, to invest in intermediaries or providers delivering Early Intervention outcomes.

27. It would be for local areas exercising their influence as Early Intervention places, or through their representatives on the Foundation board, to decide whether they want support from such a body to help with contracting. It would also be for individual intermediaries to decide whether they wanted to purchase additional resource from the Early Intervention Foundation, or provide it themselves. However, I believe the availability of that resource could help to provide local areas and intermediaries or providers with the confidence they need to enter into contracts.

28. If the Early Intervention Foundation were to carry out these roles, alongside its core evidence and championing role, it could create a conflict of interests. One option to consider here would be to create a clear separation between the evidence building and outcome measurement role, and the direct financial role.

29. It would be perfectly possible to create a **core Early Intervention body** responsible for building the evidence base, providing support to areas on fidelity, and having an overall championing role:

30. Separately, there could be a **subsidiary body** with a commercial focus, responsible for helping to broker contracts, advising on investment decisions and managing relationships with investors. This is an issue that will be driven by the demands of the local areas, investors and commissioners, and it can be addressed by the Early Intervention Foundation board as and when necessary.

31. Crucially, local areas need to understand all the finance options they have in order to secure investment in these programmes. Given the long-term nature of Early Intervention, there's a critical role to play in maintaining momentum for this work over time. This will secure the best outcomes for the children and families in their area, and deliver savings.

32. By being wholly independent of government, an independent body will have greater credibility and certainty of funding than relying solely on existing bodies that have closer links to government. Central government will also benefit from the evidence-based investment, but any Foundation must have local support and be locally driven. I consider that central government has an interest in enabling local areas to procure these services and to access the information provided by an independent Foundation.

### Recommendation 10

I recommend that, beginning with the 27 existing Early Intervention Places, **local areas should drive the work of the independent Early Intervention Foundation** to start the process of procuring the services, develop core evidence building, fidelity and outcome measurement functions, and that they should be strongly represented on its board.

33. The following chapters look at the potential for investment in Early Intervention to form part of the UK social investment market and different financial models for attracting investors and structuring their investments.



## Chapter 5

# External finance through outcome-based Early Intervention contracts

*Disruptive behaviour disorders, including conduct disorder, affect at least 10% of children and are the most common reasons for referral to children's mental health services. The long-term economic impact on society of unresolved conduct disorder can exceed £1 million for one individual over their lifetime.<sup>1</sup>*

### Outcome-based contracts

1. In Chapter 3, I noted the opportunities to improve the commissioning of Early Intervention, through better use of evidence-based programmes and through tighter management, with the introduction of an element of outcome-based contracting.

2. Paying providers only when successful delivery has occurred also transfers risk out of the public sector. It should also help to stimulate greater innovation and competition, and will also strongly incentivise delivery bodies to focus on outcomes in order to receive payments.

3. Outcome-based contracts require a transformational shift in the way public services are commissioned and designed. The model is desirable because:

- it limits the need for public services to continue to pay for poor quality services that fail by linking payments to demonstrable improvements in outcomes;
- it recognises that other providers working with disadvantaged young people might be better at delivering the desired results;

- it reduces the need for government to be directly involved in the delivery of social outcomes and increases the scope for social ventures and charities to become more directly involved; and
- incentives are strengthened – no result, no payment; the better the result, the greater the payment.

4. It is clear to me that paying service providers for the social outcomes they deliver is a core component of service delivery if we want to take the Early Intervention agenda forward. It fits in with the Government's public service reform agenda, and offers scope for new programme providers to help deliver 'better for less'.

5. I have seen that a number of departments are already pioneering outcome-based contract models (i.e. the Department for Work and Pensions' Work Programme for longer term benefit claimants; Ministry of Justice pilot for reducing re-offending; and the Department for Education's business plan to explore the introduction of greater outcome-based contracts for Sure Start children's centres). If the co-ordination that I have recommended in Chapters 1 and 2 takes hold, this will be just a start.

6. Although the rebalancing of late to Early Intervention within existing budgets is entirely practical, it is highly improbable in the current economic climate that additional expenditure through traditional public spending routes will occur.

7. I believe that outcome-based contracting could also be used for services and programmes funded through external investment in Early Intervention. However, it will not be appropriate for delivering all public services or social goals. This may be because we do not know enough about current performance to be able to work out how to pay for success or the outcomes we seek may be too complex and diverse. Nevertheless, outcome-based contracts, as a model, are a significant step forward and underpin the suggestions in this Report. Early Intervention needs to be at the front of this new learning curve.

8. This method poses some limitations for smaller delivery bodies that might not be able to wait for payment in order to provide their services, or who are less confident at winning public sector contracts against larger providers. It may also be harder for smaller organisations to raise working capital through other means (such as bank loans), and often more costly for them to do so than it is for larger organisations.

9. Building on the social impact bond (SIB) model may offer a possible alternative solution. This still enables commissioners to pay for outcomes, and therefore to transfer risk outside the public

sector. But rather than placing the risk on those delivering Early Intervention, this model could potentially draw on external finance from investors to take the delivery risk. Investors, through use of an intermediary, provide the working capital for the delivery providers, and receive their money back (plus a return) only where delivery has been successful.

10. More detail on building up outcome-based contracts for Early Intervention can be found in Annex F. We describe two models: in one local and central government pay providers the return; in the other they pay an intermediary the return.

### The case for external finance

11. Given the tight constraints on public expenditure, the plain truth is that only reprioritisation of public spending within current limits or the introduction of external finance will make it possible to increase Early Intervention investment to anything like the required level.

12. While bringing in external finance will diversify income sources for Early Intervention and hopefully create a future private market for social investment, ultimately the decision to use external finance needs to be based on rigorous value for money testing. That being so, it is important to maximise the additional benefits which external finance can achieve for Early Intervention when structured round outcome-based payments. These are summarised in Table 5.1.

**Table 5.1: Summary of key benefits of using external finance under an outcome-based contract model with an intermediary**

Potential benefit	Detail
Public sector pays only where successful outcomes delivered	External investors could take risk associated with poor administration or management of Early Intervention programmes away from the taxpayer. Investors pay the penalty for failure to achieve the intended outcomes, rather than the taxpayer.  By entering into a risk-for-reward agreement, external investors may be incentivised to ensure that the interventions chosen and the actual provision achieve positive outcomes.
Better resources for management of risk. Greater due diligence and monitoring of programmes and interventions	An intermediary may have greater time and resources to support outcome-based decisions and to monitor whether success is on track, and the incentives to find alternatives where this is not the case.
Greater funding certainty	External finance could provide greater funding certainty beyond existing public sector budgetary horizons. This could help to improve performance and give the sector confidence to take decisions to scale up.
Higher standards of delivery	Outcome-based payments also provide incentives to the intermediary to ensure that the programmes achieve the agreed objectives in a cost-effective way.
Innovation and competition	Through an outcome-based contract, the commissioner can leave the intermediary free to choose what are the most effective programmes and ways of delivery, hence increasing the scope for innovation.

13. External finance (by which I mean money which comes from outside the public sector) has been used by the present and recent previous governments across several different areas of public expenditure, particularly through the Private Finance Initiative and other forms of public private partnerships. Important lessons must be learnt from those examples.

14. Investors will require a return for their investment, and will usually expect their principal investment back. Where there is a reduced chance that they will receive their principal amount back, they will require a higher return. At first glance this seems more expensive than the public sector borrowing options, were these allowed. However, there are a number of additional benefits that can be gained through using external finance. For instance, through use of outcome-based payments the public sector is reducing the chances

of having to pay out the full amount, which may mean delivery ends up being cheaper. It can mean that risk is transferred to those who have better resources and the skills to manage the risks, which in turn should result in a more effective delivery of outcomes than would otherwise have been achieved. However, the private sector investors will accept risk transfer only in areas they have control over, where they can influence the outcome and manage their exposure.

15. In some cases the introduction of external investment in public provision has indeed given good value to the taxpayer, with an appropriate balance between risk transfer and payment of reward. However, when the correct balance is not struck it can provide poor value for money, because private investors receive high rewards and may assume little or no risk. If the public sector knows what to do and how to achieve it, then if

it were possible, it would usually be cheaper for them to borrow the money through the usual routes. The issue of risk is crucial in making the case for external finance for Early Intervention. Would external investors accurately assess the risks associated with Early Intervention? Would they assume an appropriate share of them? Above all, would external investors manage the risks expertly and efficiently so that Early Intervention can achieve its promised benefits for children and families and produce value for money for the taxpayer? All these issues need to be worked through with the government machinery, the Early Intervention Foundation and the developing Social Finance markets already mentioned.

16. I believe that external finance can deliver despite these difficulties, providing that appropriate information and evidence are available to investors and intermediaries. I set out later the role of the Early Intervention Foundation in helping to provide that information and evidence. Early Intervention is largely unknown territory for external investors and the role of the Early Intervention Foundation will be important in raising awareness and confidence.

### Recommendation 11

I recommend that, given the public expenditure situation, we need to be much more creative in finding **additional (not substitute) non-government money**. The social goal of Early Intervention and the design of new instruments should be tightly coupled together so that the instruments do not lose their *raison d'être*, as happened in the past with Private Finance Initiatives. This will require **outcome-based contracts** coupled with external investment. Government and local areas can pay for results from the savings that they will make.

### Requirements for an effective outcome-based commissioning agreement

17. It will be vital to get the details right in any outcome-based payment agreements for Early Intervention. Hence my proposals in earlier chapters about the governmental and

non-governmental institutional arrangements necessary to provide the preparatory work. Five issues will require particular attention:

#### Measurable outcomes

18. The outcomes specified in an outcome-based agreement need to be easily quantifiable and measurable, in order to be able to demonstrate whether an outcome has been achieved and a payment should be made. An outcome-based contract could focus on one specific outcome or a broader basket of outcomes.

19. As I have already mentioned in Chapter 2, there may be a long time between an intervention and its outcome. So, for instance, it may take some years to establish whether an Early Intervention programme has successfully prevented a child from being excluded to a Pupil Referral Unit (PRU). However, on the other hand, the 0–5 assessments suggested earlier would enable statistics on school readiness to be more easily collected, measured and monetised; in addition, other interim indicators could be measured to check whether the child is on track or not. So at primary school it could be possible to measure whether additional non-teaching assistant time has been required, while at secondary school truancy rates and incidence of antisocial behaviour could be measured as interim proxies prior to exclusion.

20. Care would need to be taken to ensure that any measurements chosen did not enable providers to be rewarded on the basis of achieving easier outputs, which do not have a long-term positive effect on breaking down inter-generational cycles of dysfunction. It would be especially important to avoid rewarding providers in a tick-box fashion simply for achieving a certain level of activity (for example, so many visits to families in a certain time) regardless of whether that activity achieved any useful result. Table 5.2 sets out examples of the type of potential outcomes that existing Early Intervention programmes can deliver. We have used Family Nurse Partnerships (FNP), Functional Family Therapy (FFT) and Incredible Years programmes. I am not suggesting that these outcomes are prioritised; they are merely examples of what positive outcomes can be delivered by Early Intervention programmes.

**Table 5.2: Some examples of Early Intervention outcomes from three programmes.**

	FNP	FFT	Incredible Years
Improvements in mothers' mental health and/or self-esteem	✓	✓	✓
Reduction in children's attendance at emergency departments	✓	✓	✓
Reduced incidence of child abuse	✓	✓	
Improvement in parenting competencies	✓	✓	✓
Vulnerable parents' attendance at antenatal classes			✓
Reduced sadness and depression in children		✓	✓
Reduced hyperactive behaviour		✓	
Increased child well-being in several aspects	✓	✓	✓
Reductions in conduct problems		✓	
Reductions in the use of tobacco, drugs and alcohol		✓	
Fewer marital or relationship breakdowns by age 25	✓		✓
Positive effects on child behaviour and parenting in specific areas	✓	✓	✓
Reductions in domestic abuse		✓	✓
Increased participation in positive activities and volunteering		✓	
Increased participation in education, employment or training		✓	✓
Reduction in teenage pregnancies and repeat pregnancies. FNP – also reduction in subsequent pregnancies and births as well as longer interval before birth of next child	✓	✓	
Reduction in first-time entrants to justice system and re-offending		✓	
Fewer arrests		✓	
Reductions in antisocial behaviour		✓	
Improved cognitive development	✓		
Improved behavioural, social and emotional development	✓	✓	✓
Fewer mothers experiencing postnatal depression within the first three months after giving birth			✓
Improvements in school attainment		✓	✓
A good early home learning environment	✓		✓
Fewer children living in households that are dependent on out-of-work benefits or Child Tax Credit		✓	✓

21. It is important that both the public sector and investors have confidence that outcomes will be measured accurately, and that steps will be taken to mitigate the risk of data manipulation. Importantly, investors have made it clear to the review team that independent verification of outcomes delivery will be essential in encouraging them to invest. The review has examined existing arrangements for monitoring and measuring outcomes, and I believe there are currently gaps in the provision of these important functions. These issues and a way forward to resolve this shortfall are explored in more detail in Chapter 4.

### Well-defined target population

22. A target population will need to be defined in a way that cannot be manipulated by either of the parties. For example, in the Peterborough prison pilot (see below), the contractual arrangement defined the target population as all offenders in the prison with a sentence of less than 12 months. A tightly defined population will reduce the potential for unwanted 'creaming' and 'parking', or, where variations in the target population are observed, can provide tiered incentives to ensure that those children who are going to be most difficult to support are given all the help they need.

### Causal link and perverse incentives

23. A clear link between the Early Intervention in place and the result needs to be established to ensure that the contracting parties are:

- paid for the outcomes they are responsible for; and
- not paid for positive outcomes that are not directly related to the intervention (deadweight).

Deadweight should be minimised but it is unlikely that a contractual arrangement could eliminate all. This will need to be factored in the price the commissioner is willing to pay for the outcomes.

24. The causal link could be established through randomised controls and longitudinal data where there is a clearly defined and appropriate control group and an agreed baseline. For example, it would be possible to measure the proportion of young people who have received a final warning or referral order, both within a cohort who receive an intervention and a cohort who do not. Effectively targeting the right cohort of children is essential in achieving long-term future savings.

25. Targeting a variety of Early Interventions to the same population is likely to achieve the desired impact on social and emotional capabilities yet may make the establishment of a causal link more difficult, and could create perverse incentives for investors to rely on other interventions being undertaken elsewhere. Where there are a number of programmes aimed towards the same outcome for the same cohort, there could be a case for a single intermediary/delivery provider to deliver all those interventions. This would involve a larger intermediary/delivery provider with responsibility for investment and delivery across a range of ages.

26. Commissioners will have regard for a wide range of outcomes, not all of which will be explicitly included in an outcome-based agreement. By rewarding only the achievement of particular outcomes, there is a risk that other important objectives are jeopardised.

### Definitions of 'creaming' and 'parking'

Providers are increasingly being paid by results, rather than a flat fee. There are two particular risks associated with this approach. The first is that of 'creaming', or cherry picking, where contractors who are paid by results are likely to concentrate their efforts on those people who are most easily 'cured'. The second is that of 'parking' where participants who are deemed most difficult to 'cure' receive a bare minimum of services and are unlikely to make any progress while participating in a programme. In this way providers seek to maximise their profit, focusing on customers who will earn them outcome payments, while spending as little as possible on customers who will not.

27. There is a potential conflict of interest between investors who want to make investments over, say, a period of between five and seven years, and the beneficiaries of Early Intervention who benefit over a longer time period. This could lead to investors pushing for programmes with shorter-term measurable outcomes, rather than programmes that maximise outcomes. The use of interim proxy measures will therefore be crucial.

### Establishing the right price for outcomes

28. To enter an outcome-based contract, commissioners will need to be able to calculate the value that they place on the agreed outcomes. The price of the outcome can, but not necessarily, be linked to the amount of cashable savings that the interventions generate. We need to ensure that outcomes are improved for a sufficiently large cohort of the population in local areas to enable the decommissioning of services to ensure future cashable savings are achieved. However, positive outcomes can also deliver social benefits that may not necessarily deliver cashable savings. I accept that the need to link outcomes to cashable savings may be critical in the current financial climate, but it is important to avoid focusing exclusively on outcomes which offer immediately quantifiable savings to current budgets. The rewards of Early Intervention are long term and long lasting and typically outlive all of the holders of current budgets. As mentioned in Chapter 2, government and local areas should be working together to attach prices to the outcomes that they wish to achieve. This work should be the responsibility of the Task and Finish Group referred to earlier which should be held to account for progress.

### Recommendation 12

I recommended that the Social Justice Committee commissions the Early Intervention Task and Finish Group (see Recommendation 5) to work with the Early Intervention Foundation **to assess the financial and economic value of outcomes**, to inform better decision making by commissioners of services. This should also assess the extent to which cashable savings can be made, to whom the savings would accrue and over what timescale.

### Cashability of savings and affordability

29. Local areas or central government may enter Early Intervention outcome-based contracts on the basis that they would generate sufficient cashable savings to pay the contracting parties. Payments are, however, linked to the achieved outcomes and not to whether local or central government manage to realise any cashable savings from them. Hence, local or central government take a budgeting risk and will need to ensure that funds are available to honour the contract even if it does not generate additional cash resources to make the payments. The actual cost of dealing with a particular issue may rise for reasons which have nothing to do with Early Intervention. Indeed, late intervention, in not reducing the flow of problems, has to address this all the time. For example, Early Intervention should reduce the requirement for children to be taken into care, but a local authority may still find itself taking more children into care after an Early Intervention programme is completed, simply because more children from dysfunctional families have become part of its population. It may take a number of interventions, over a number of years, to reach a point where unmet need is reduced sufficiently to close a care home down, for instance. This indicates that, in the short term, it may not be possible to rely entirely on cashable savings being delivered before an outcome is paid for. Nevertheless, there is strong and mounting evidence to suggest that Early Intervention can deliver significant cashable savings for local areas in the longer term.

30. For commissioners to be able to generate cashable savings, the following conditions are required:

- the savings generated need to be part of a budget controlled by the commissioner, hence reinforcing the need for pooling all relevant budgets;
- costs respond to the decline in demand (i.e. they are variable as opposed to fixed); and
- no additional demand on resources (for example, if social services no longer have to deal with family X, they would need to be able to pull that resource away rather than redeploy that resource to another family lower down the priority list).

#### An effective Early Intervention contract

31. An effective Early Intervention contract should be focused on delivering a number of important and measurable outcomes. Table 5.3 sets out how these outcomes will be seen over a number of years.

32. There is therefore a choice as to how the local and central government attach a financial value to the delivery of specific outcomes. Those values could either be based on shorter-term outcome measure, over say a seven-year period, but that would restrict the financial value of outcomes to a more limited set of cashable savings. Alternatively,

the financial value could reflect savings over a much longer period, but investors would also need to change their expectations relating to the period over which they receive a return.

#### Paying returns: would agreements be reached at the local or national level?

33. In the short run, benefits will accrue to central government departments as well as to local areas. So central government will need to play a role in co-commissioning or co-paying the outcomes set by local areas.

34. Central or local government could take the lead in contracting to make payments at a local, regional or national level with the aid of a social intermediary and the Early Intervention Foundation. The approach required may differ. For example, while a locally driven arrangement seems preferable, and better for smaller-scale projects, a larger scale national approach could be needed to help kick-start work and for contracts where economies of scale are required to make a contract viable.

35. There is currently only one SIB in existence (Peterborough), which involves central government contracting with an intermediary, although Social Finance, which developed the SIB idea, is developing more. For local areas, the accounting will be different. Local areas have used

**Table 5.3: Some examples of the savings from Early Intervention aiming to support children to be school ready and life ready**

	Cashable savings 1–5 years	Cashable outcomes 6–11 years	Cashable outcomes beyond 11 years
Intervention X (school ready)	Reductions in special educational needs (SEN) statements	Reduction in SEN statements and numbers entering fostering and care	Reduction in violent crime and mental health expenditure
Intervention Y (life ready)	Reduction in expenditure on child abuse, fetal alcohol syndrome and drug-dependent babies	Reductions in SEN statements and numbers entering fostering and care	Reduction in costs of alcohol and drug misuse, crime and domestic violence; higher tax receipts from labour market activity; reduced welfare payments

outcome-based contracts. However, while the current accounting rules remain, local authorities need to 'score' the future payments to the point at which the services are received, as opposed to when payments are made. This leaves little to attract local areas to local SIBs. The Department for Communities and Local Government (DCLG) would have to change regulations (secondary legislation) to alter this. This should be examined by the Task and Finish Group proposed earlier, and DCLG and the Chartered Institute of Public Finance and Accountancy (CIPFA) should ensure that incentives are put in place so that local areas can maximise the potential of social investment and that a method of accounting exists to enable local areas to honour future payments based on successful outcomes.

36. The key point is that both local and central government need to have a way of paying for outcomes. I have examined the option of creating a cross-departmental Early Intervention payment pot top-sliced from departmental budgets and held by the Treasury or DCLG; however, for now this will be through making provision within local and departmental budgets. This should be reviewed by the Social Justice Select Committee if it proves ineffective. HM Treasury and departments will need to work up a method of accounting to ensure that future payments based on successful outcomes will be honoured. In the longer term, it could also be done by getting local finance pooling working effectively.

### Recommendation 13

I recommend that **central and local government agree to pay Early Intervention outcome-based payments** (where savings accrue to them). Specifically, I recommend that:

- HM Treasury and departments develop methods of accounting to ensure that future payments based on successful outcomes will be honoured from their departmental budgets; and
- the Department for Communities and Local Government, and the Chartered Institute of Public Finance and Accountancy (for Local Government) develop a method of accounting to ensure that future payments based on successful outcomes will be honoured, and that incentives are in place for local areas to utilise outcome-based contracts.

### Getting local finance pooling working.

37. In Chapter 3 we talked about the potential of Community Budgets. This is the avenue through which many of these contracts can be made. Initially, however, we need to ensure that local finance pooling will really work in the longer term so that local areas can make the payments. This will enable local areas to contract more effectively for services that meet their needs.

38. In the first instance we need to remove existing barriers to local finance pooling for Early Intervention. For example, a number of budgets are tied to particular late intervention activities, for example the police main grant, is paid under s.46 of the Police Act 1996 which states that the grant is made for 'policing purposes'. Similarly, money made available to the Department for Work and Pensions for benefits is linked to that purpose.

39. As a second stage, we need to ensure that those delivery agencies who stand to benefit from Early Intervention policies co-pay for the outcomes. At present it is a choice to pool. Legislative routes could be looked at to ensure that local agencies pay up.

40. Once finance barriers are aligned there may be other non-finance barriers, such as statutory provision, service protocols and different assessment frameworks. Government needs to look at deregulating or suspending some of these, so that the benefits of pooling finance can be felt.

41. Finally, once these have been rectified, then we need to replicate the lessons learnt across all areas, perhaps by the Foundation, highlighting and spreading best practice.

42. As set out in Chapter 2, my consultations with the local government community demonstrated concern about the extent of control which local authorities have to meet future payments for outcomes. While local authorities are keen to have as much control as possible over entering into local contracts that meet their local needs, there is concern that central government could, at any point, announce further future cuts which would absorb any savings set aside for paying for outcomes. Central government must resolve this problem and give certainty to local areas, especially where planning for long-term policies such as outcome-based payments and Early Intervention are concerned. A long-term cross-party approach is also needed to ensure the stability that means future outcome-based payments are honoured at local level.

### Central government accounting: the Peterborough example

43. Central government also needs to be able to account for payments made through outcome-based contracts. The Peterborough example can be used to demonstrate how this currently works. The Big Lottery Fund co-commissioned the SIB with the Ministry of Justice and is contributing £6.25 million to a total of £8 million, which is made up of infrastructure and development costs (£1.25 million) to run the SIB itself and outcomes payments (up to £5 million). This makes both the Big Lottery Fund and Ministry of Justice responsible for paying for successful outcomes. Although described as a bond, the SIB has more characteristics of a traditional equity vehicle. Under this model the intermediary was classified to the private sector, and the outcome-based payments did not need to be accounted for because there is no certainty that the outcomes will be achieved. Nonetheless, the Ministry of Justice and the Big Lottery Fund need to be confident that that can meet their contractual commitments to provide a return to the intermediary if the interventions are successful.

#### How the Peterborough social impact bond is structured

Under the Peterborough model the outcome-based contract specifies that:

- the intermediary targets services exclusively on 3,000 adult offenders sentenced to less than 12 months in custody discharged from Peterborough prison;
- the services are provided to three cohorts of 1,000 offenders, one after the other over up to six years;
- the intermediary will raise around £5 million of finance from investors;
- the Ministry of Justice will pay the intermediary a fixed unit outcome payment for each reconviction avoided within a cohort, providing reduction within cohort equals 10% (using a control group to measure reconviction impact);
- outcome-based payments will be adjusted for economic shocks;
- returns will be capped at £3 million (above the original £5 million investment); and
- should the intermediary fail to deliver at least a 10% reduction in any cohort but still reduce reconvictions by 7.5% across all three cohorts, the Ministry of Justice will make a smaller payment to the intermediary.

### Moving on from the Peterborough social impact bond

44. It is likely that similar outcome-based contracts would not require the Government to reflect the intermediaries' activity in the national accounts or for local or central government to reflect the contingent revenue claim in future years' accounts (although this would currently be assessed on a case-by-case basis). However, if a greater number of SIBs are going to emerge, more thought needs to be given as to how this could work on a broader cross-Whitehall level. In particular, there is need to incentivise cross-Whitehall commissioning of contracts, given how diverse the benefits of Early Intervention are.

45. A key point also involves releasing cashable savings, as mentioned earlier. The Government cannot afford to continue to fund both legacy services and payments for outcomes; however, it has a number of long-term commitments to the in-house provision of services that typically have high fixed costs.

46. Central government must look to decommission services which are reduced due to Early Intervention to be able to pay for outcomes. It needs to get to a position where it is 'fleet of foot'; where commissioners can adjust budgets more rapidly to the emerging problems of today and not the legacy services that address the problems of yesterday; where government, and the spending allocations to it, are linked to the objective of improving the social and emotional capability of children, and not to the delivery of 'what they have always done' through departmental silos. These are issues that the forthcoming Public Services White Paper should also address.

### Models for local/central contracting

47. While the Peterborough approach outlined above is based on central government paying for at least a proportion of the outcomes, this does not detract from the fact that most Early Intervention agreements will be locally led.

48. There are a number of different options which could be used by local and central government when contracting with an intermediary on an outcomes basis. These are set out in Annex F. The Early Intervention Foundation could help to test and improve the contracts which are used for Early Intervention.

### Note

- I Muntz R, Hutchings J, Edwards RT et al. (2004) Economic evaluation of treatments for children with severe behavioural problems. *Journal of Mental Health Policy and Economics* 7(4): 177–89.



## Chapter 6

# Early Intervention funds and bonds

*An investment in knowledge always pays the best interest.*

*Benjamin Franklin (1706–90)*

1. This chapter sets out the ways in which finance could be raised for Early Intervention.
2. I focus on an Early Intervention Fund, resourced from private investors and institutions such as the Big Society Bank, as the best way to raise the first tranche of external investment in Early Intervention.
3. Our initial objective, and that of central government, is to create a platform for the development of the social investment market in Early Intervention, and to do this we are building on the social impact bond idea.

### Terminology

The term 'social impact bond' is misleading. It is not a traditional bond.

We are recommending a broader product, like a social impact bond, that will invest in a wide range of Early Intervention projects.

We call it the **Early Intervention Fund**.

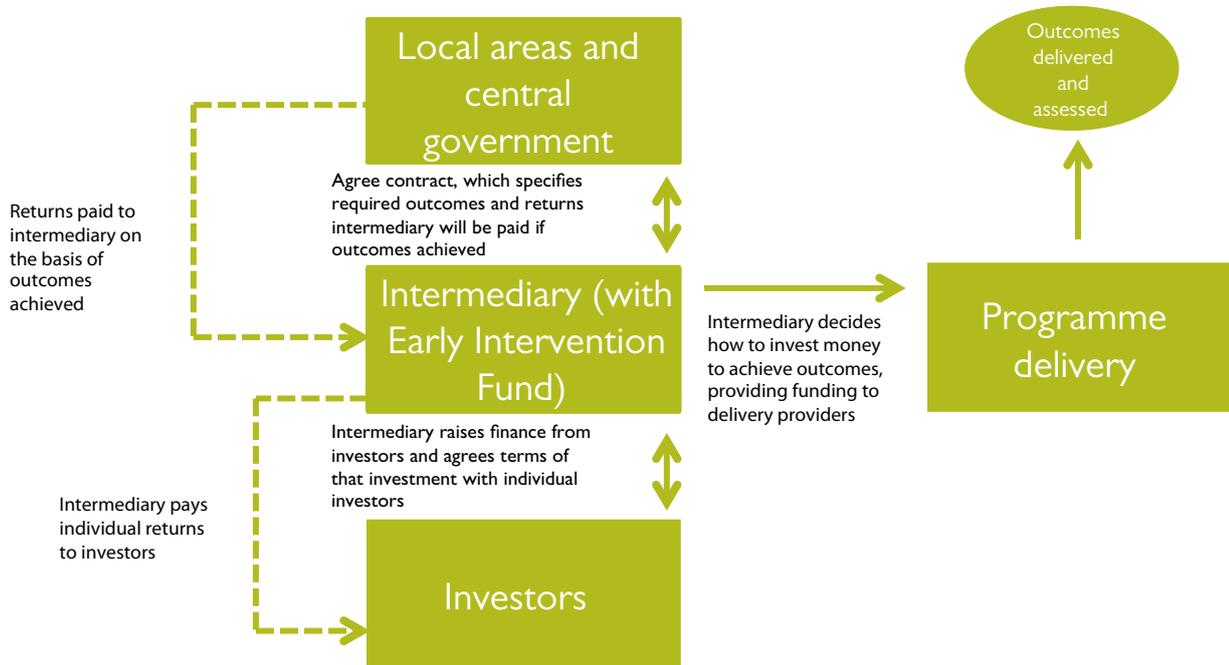
4. The concept of how the fund works is simple: local and central government choose to contract with an intermediary (who chooses delivery providers) to deliver Early Intervention outcomes for a price. These outcomes could, for example, be improved 'school readiness', attainment levels or measures of social and emotional competence.

The social intermediary holds a fund with money raised from external investors that will pay delivery providers for their delivery costs as they are incurred, and according to performance. If the outcomes are met, investors are paid by local and central government. If the outcomes are not met, there is no return.

5. The fund could be run by any intermediary that has appropriate Financial Services Authority clearance, for example a social intermediary or bank. However, a social intermediary would add value to this system by assisting providers to become investment ready, helping to structure the deal, pulling together and negotiating with the parties, bringing in investors and pushing the service provider to deliver success. Contracts could also be drawn up to share some risk with providers. While investors could still contract directly with providers, the attraction of having a managed fund is one of risk mitigation, which is particularly important to investors in new markets. For the expansion of Early Intervention, it would be a powerful force, driving the demand for better data on outcomes, driving better service delivery and supporting the development of new and promising programmes.

6. This fund is not the only model. Indeed, as set out in Chapter 5 and Annex F, local and central government could choose to contract directly with a delivery provider,<sup>1</sup> and they would then be free to seek finance from whichever source they

Figure 6.1: How an Early Intervention Fund would work



felt most appropriate. The creation of an effective market could see all sorts of variants taking off and being tailored to meet the needs of differing clients.

7. In addition, I also expect alternative financing mechanisms to be developed in the longer term, and these are explored further in this chapter and Annex H.

### Developing the market

8. In the first instance, I talk about the creation of one Early Intervention Fund, run on an equity basis, to reassure government that payments will be made only for effective delivery. This is to provide a model. There could, of course, be many funds, and I would encourage the market to develop them. One of the key factors would be to ensure that products have a strong visible brand. Some of the investors would be happy to work with just one brand, others would like a choice, and local delivery organisations would want to ensure that they still have some flexibility to contract directly with external investors if the opportunity arises. This is for the market to decide and for government and the Early Intervention Foundation to support.

9. The market is already developing, and a number of propositions are being developed. For example, the Private Equity Foundation has a proposition to raise funds, with elements of an Early Intervention focus.

10. The Private Equity Foundation (a registered charity) has developed a proposition for a Social Investment Fund for Disadvantaged Children which would draw new private investment to programmes for disadvantaged children that they believe generate cashable savings.

11. This Social Investment Fund would initially be commissioned to raise numeracy for primary school children who are struggling, reduce truancy and improve behaviour of children who are disengaging at school. The fund would raise investment from private investors to pay charities with a proven track record to deliver the outcomes. More details on this proposition can be found in Annex H.

12. RippleZ, a newly created social enterprise that houses the Derby City Family Nurse Partnership programme, is already attracting investment. Impetus Trust, a pioneer venture philanthropy organisation, is finalising its decision to invest in

### Pay for Success Bonds in the US

President Obama's 2012 budget announced \$100 million for Pay for Success Bonds, the US's version of social impact bonds.

The money will pay for pilot schemes to test Pay for Success Bonds. The guidelines on suitable projects include:

'Early childhood interventions that reduce costly long-term special education placements of children whose mild learning disabilities or behavioural problems could be better treated early on.'

In addition, President Obama has introduced rule changes so that money can be committed over longer periods than is usual in public contracts, with repayment contingent on performance. The rule changes will also allow for much less detailed terms on the methods to be used than is typical. Public money can also be set aside for evaluation of whether the targets have been met.

The US is learning from us, as we must learn from it.<sup>2</sup>

the organisation. The aim of the investment would be to deliver on its ambitious growth plan over the next three to four years. Impetus provides an average £400,000 of funding to investees over the investment period. They are particularly attracted to RippleZ, given 'the undoubted strengths of the FNP programme, the track record of the RippleZ team and the opportunities for further expansion available to it'.

13. However, there is more for local and central government to do to price outcomes and develop the market. It is perhaps worth noting here that this would not be a novel thing for the British government to undertake, and that it could also look to international examples. For example, the US government has recently announced that it is to set aside funds to test Pay for Success Bonds (see box above).

### The Early Intervention Fund

14. An Early Intervention Fund should be created as a vehicle to make investments into Early Intervention programmes. It could be informed by its close partner, the Early Intervention Foundation, in the identification of the best evidenced-based programmes with a track record in the UK that are most likely to deliver positive outcomes.

15. The fund would be used as a vehicle for raising money from investors and for investing in Early Intervention programmes in local areas. A social intermediary or commercial fund manager could be asked to run such a fund, in addition to seeking the best providers to deliver Early Intervention programmes. The key to success would be to identify some contracts that it could help to finance.

16. The fund itself would be independent from central government, which would pay for outcomes arising to central budget streams from money set aside in departmental budgets (see Chapter 5) into the fund once success has been achieved. Local areas would also pay back on outcomes once success has been achieved. This would separate them from investors, who would put in upfront investment (although central and local government could choose to additionally invest upfront if they wanted).

17. As the US has done, it is important to recognise the need to invest in the evidence base. Some of the money raised should be used to develop promising Early Intervention programmes into investment-ready propositions. For example, a fifth could be set aside to help promising programmes conduct better evaluations and deal with scaling-up issues. This would also drive innovation in the market and improving outcomes.

## Why a fund would be suited to Early Intervention

18. A fund could have a number of benefits for raising crucial finance for Early Intervention and represents a scalable and flexible option:

- **A fund can transfer a greater level of risk to investors** It can be structured so that it consists wholly of equity investment in the first instance, with any dividends based purely on the performance of funds. If the funds investments fail to deliver the expected outcomes, then the investor stands to lose their money.
- **A fund can be established quickly and with a relatively small amount of investment** It can then be adapted for different scales of investment as the market grows. While it might start off with a smaller amount of money, it can be easily scaled up into a much larger vehicle as investor confidence and markets grow.
- In the longer term **different types of finance, including both debt and equity, can be included**, which can again help to bring down the overall cost of finance. For example, the fund managers could develop bonds at a later date.
- **A fund can attract different types of investors** A fund can easily be divided up into different 'tranches' for different types of investor. It might therefore be a better model to attract philanthropic and social investors, and to help bring down the overall cost of finance.

## Scalability

19. The next chapter explores the amount of money that we might wish to raise. In the first instance we would envisage that the fund might helpfully raise £27 million for pilots, with a potential to rise substantially to around £200 million in this spending review period and higher in the future. The Task and Finish Group recommended earlier that government should do further work to get more accurate figures on the potential for the market and work with the Early Intervention Foundation on this when it is up and running.

20. One of the many benefits of a fund would be that it could operate at different levels. The Peterborough social impact bond model, which is like a small fund rather than a traditional bond (see Chapter 4), demonstrates that it is possible to establish a fund of this nature at the smaller end of the spectrum. The intermediary, in this case Social Finance, effectively acts like a fund manager, which gives money to providers to deliver outcomes.

21. It is possible to imagine how a larger intermediary could invest across a greater number of programmes and with a greater number of providers. This would begin to look more like a traditional fund, where an investor's money is invested across a diverse portfolio, rather than in one place and one project, as is the case with the Peterborough social impact bond.

22. Over a longer timescale, the fund managers could also potentially incorporate debt finance and issue bonds to investors. This would require a more established track record and is likely to be a longer term aim. It would have the advantage of helping to bring down the overall cost of finance (debt finance is cheaper because the investor takes less risk). If the local areas have been able to make the sort of progress outlined in Chapter 3, there could be much helpful learning and market development to share.

## Investing in the fund

23. Consultation with our expert finance group has led us to believe that a fund would attract the right mix of investors. While a traditional fund would consist of financial investors whose sole motivation is to maximise their return, our research indicates that an Early Intervention Fund could **also attract social and philanthropic** investors who are interested in contributing to social and economic outcomes.

24. **Would investors want to diversify the portfolio over a number of cohorts?** Even if a good programme is funded and delivered effectively, performance could be impacted by a number of external factors. These may balance themselves out over a number of years, and there

may therefore be a case to invest over a number of years. A more diverse and larger cohort or group of babies, children and young people could also allow government to agree a programme with a more challenging set of outcome-based targets.

**25. Would investors provide all their funding upfront or could their investment contributions be staged?** If investors want to spread their investment over a number of cohorts, this would mean their money would not necessarily be required for two or more years. It may be preferable for individual investors to make their money available to the fund on an annual basis. This could also help to reduce the cost of finance for government.

**26. Would all investors have an equal stake in the fund?** A simple fund would provide all investors with an equal stake in the fund, which would mean every investor would receive the same proportionate return for every £1 invested. The alternative would be for some investors to take a greater share of risk. For example, one tranche of investors could purchase a lower risk stake with the characteristics of a 'preference share'.

**27. How long do investors wait until they receive a return?** Outcome-based returns by nature mean that an investor needs to wait a period of time before they receive any return on their investment. Investing for a period of more than five to seven years is likely to be less attractive to investors who may also demand a higher premium from government. Therefore it may be more suitable to tie payments to outcomes that can be measured between two and five years, in addition to longer term outcomes. It could therefore be possible to stage any payments to investors over time – with a proportion or returns based on output indicators being made at interim milestones.

**28. Which sort of organisation runs the fund?** A fund could be established and run by an existing social intermediary or bank. Such an organisation would already have the required skills, infrastructure and licences in place. This means that it could introduce a fund more quickly and run the fund more efficiently than through the creation

of a new organisation. Alternatively a new entity could be created to hold the fund. The Early Intervention Foundation may also wish to consider whether or not it would be able to take this role in future years.

**29. How will the fund exert influence over the providers?** The fund managers would only provide capital to providers and prime contractors where they are confident that they can successfully deliver. The agreement could include an element of performance management and the fund managers are likely to want to be part of the governance arrangement if it is a significant contract. It is up to the market to develop the fund in relation to these points and this will influence the fund structure. Some options for structuring a fund are explored in Annex H.

#### Recommendation 14

I recommend that, through pilots and agreeing to pay for outcomes, government enables private money to be attracted to Early Intervention through **the establishment of an Early Intervention Fund or Funds** in close co-operation with the Big Society Bank, which over time can be developed to offer investors a diverse range of Early Intervention products. This should be driven forward by government, local areas and the Early Intervention Foundation, working with fund managers such as social intermediaries or banks.

#### Recommendation 15

I recommend that **this initial fund should look to raise around £200 million** of investment, although in the first instance £27 million would enable the Early Intervention Places to begin with pilots over the current Comprehensive Spending Review period.

## Local and central government – working with the fund

30. Local and central government will need to attach a price for outcomes and, when these are met, honour their obligation to the fund, so that it can pay back investors and pay for the delivery costs accrued by the providers. There are many ways that local and central government could do this, and these will differ according to a number of factors; for example, whether local or central government takes the lead, whether any minimum service requirements are required and the nature of the intermediary.

31. A number of the Early Intervention Places would be open to discussing the possibility of a

pilot. For example (see box below), the Greater London Authority (GLA) is working in partnership with London Councils to build a consortium of London boroughs, voluntary sector agencies and social investors with the aim of piloting an approach to financing Early Intervention in London.

### Recommendation 16

I recommend that central government supports local areas to **pilot different ways of contracting for Early Intervention outcomes**, and that when a fund is available they **pilot the use of this fund**.

### The GLA – keen to pilot an approach to Early Intervention financing in London

There is a strong case for Early Intervention in London. The number of children up to the age of four is set to increase more rapidly in London than in any other region in England over the decades ahead. At the same time London children are more likely than other children in England to experience problems such as poverty and poor health, which will impact upon their lifelong well-being if left unaddressed. The GLA, together with London Councils, the Association of Directors of Children's Services, the Metropolitan Police and the Regional Public Health Group, has been leading work to increase the level and impact of investment in Early Intervention in London.

This includes:

- publication of an economic case for investment (Early Years Interventions to address Health Inequalities in London – the Economic Case);
- part funding Dartington social research unit to translate a model developed by Washington State Institute for Public Policy enabling public bodies to select, deliver and predict the returns of evidence-based interventions that match local needs; and
- the development of a London-wide framework for measuring impact (Oracle).

The GLA is now working in partnership with London Councils to build a consortium of London boroughs, voluntary sector agencies and social investors to pilot an approach to financing **Early Intervention in London**. This will aim to develop and promote investment opportunities in London's public, voluntary and community sector with the proven potential to bring about improved outcomes for London's children. The consortium approach will support voluntary sector agencies to become 'investment ready'. And it will build on the potential of Community Budgets in London to simplify the investment landscape for public sector bodies.

32. In line with the national policy context set by government in Recommendation 1, I expect that the fund would invest in the best programmes available to improve the social and emotional bedrock of babies, children and young people. Investing in the best evidence-based policies would be essential to maximise the chance of a good return for investors. For example, local and central government could ask the fund to concentrate on delivering the best programmes, such as those listed in Annex A and to work with the Early Intervention Places to meet the national ambition on Early Intervention. The Early Intervention Foundation could advise local areas on those programmes best suited to meeting the needs of their populations and creating packages for them to be school ready, child ready and life ready. Existing schemes could be invited to develop proposals building on the work already done. Local areas expertise and that of the foundation would add value over and above commissioning singly for programme delivery. The potential for joining up these first investments might bring economies of scale that would make this an even more appealing proposition to investors and commissioners.

### Attracting cornerstone investment

33. Attracting large-scale investors to kick-start the Early Intervention Fund would help to create a market for the fund and allow funding for Early Intervention programmes in local areas to begin quickly.

34. The Big Society Bank has been set up especially to grow the social investment market. This welcome addition to the social investment infrastructure cannot however invest in frontline organisations, as we would expect with the fund, but only in social finance intermediaries that in turn provide frontline organisations with investment and other support. This means that it could be appropriate for a new Early Investment Fund to approach the Big Society Bank for a tranche of investment, along with other institutions such as the Big Lottery and private investors. Ensuring that the Early Intervention Fund is independent from government will be important in helping to secure such investment.

35. The Big Society Bank concept has been widely publicised, but as yet it is unclear how to apply for funding. This clarity is needed and should be communicated widely, well before the Big Society Bank is open for business. Rather like the Early Intervention Foundation, it will need to be accessible and user friendly to potential customers if it is to help build and populate new markets.

36. When this clarity is available, I believe that this would be an ideal opportunity for the Big Society Bank and other investors to be approached to supply a first tranche of investment for any new Early Intervention funds, which in turn would invest in outcome-based contracts.

### Phase 2: other financing mechanisms

37. Any new fund would initially need to be set up on an equity basis. However, there is a challenge of building scale in the market. Other forms of financing exist, and could be considered, that might raise more money for lower, yet more guaranteed returns. The financial sector is keen on some of these products, but the Government is more cautious. I document some of these options below and the opportunities that exist for when local and central government are ready to provide guaranteed returns on Early Intervention.

#### Early Intervention bond

38. Where sufficient market confidence exists, it could be possible to incorporate debt into products and thereby create bonds. This means that fund managers could issue bonds, as described in Annex H. This could help to bring down the overall cost of finance as investors take on much less risk through debt financing, which in turn means that they require less of a financial return.

39. Early discussions with leading investment banks suggest that there would be considerable appetite for helping to place a £100 million Early Intervention bond on a tranching basis. The model that is being discussed would have a junior equity portion and a senior equity portion with a very low risk coupon.<sup>3</sup> The result would be to turn the social impact bond, as deployed in Peterborough as a special results contract, into a genuine bond issue. This should be pursued by the Early Intervention Foundation and government as appropriate.

40. A thematic approach to issuing a bond could help to attract genuinely interested investors, who might not otherwise have put forward their money. I believe that there is strong potential in an Early Intervention bond which enables investors to specifically put their money into the social and emotional development of babies, children and young people. Once an Early Intervention Fund has been established, I believe that the use of Early Intervention bonds should be considered as the market develops, investor confidence grows and appropriate opportunities arise.

41. We have also considered a range of options for bonds that could be issued through other means. These include the following options, which are discussed in more detail in Annex H:

- options for a government retail bond for Early Intervention;
- the use of capital protected bonds;
- use of bond issuance once the fund is established; and
- a community bond.

#### Options for local government to raise finance

42. Chapter 3 outlines some of the contribution that the localities can make, and Chapter 4 shows the leading role for them in a foundation. I have also considered whether additional investment in Early Intervention could come from local authorities. Until local authorities are allowed to raise their own resources or retain some of the taxation raised locally, they are left with borrowing. There are three reasons why borrowing from the capital markets makes sense as a way of financing Early Intervention. First, it helps to overcome the basic problem that council budgets are already fully committed to dealing with immediate spending on fixing problems rather than preventing them. Second, it allows councils to match the maturity of the funding to the payback period needed for the savings from Early Intervention to appear. Third, it creates transparency about the balance between upfront costs and long-term savings: in effect, through matching the bulk of the repayments with the time when the outcomes and cashable savings are achieved by the Early Intervention programmes; the structure

of a bond reflects the financial business case for Early Intervention. It is simultaneously a discipline, performance measure and demonstration of the need to focus on Early Intervention.

43. There are currently a number of important barriers to using local authority bonds to finance Early Intervention. However, I have considered how important they are and how they might be addressed.

44. First, all bonds must be the most economical way of borrowing available. Until recently, this argument was a show-stopper because the Government distorted the lending market by offering heavily subsidised long-term loans through the Public Works Loans Board (PWLB). PWLB debt was always the cheapest option and the local government bond market has been dormant as a result. This is unlike the multi-trillion-dollar US local government bond market. However, this argument no longer has the same force because the Government has brought PWLB lending much closer to market rates. Many in local government and the financial markets consider that local authorities can sell bonds at a cost below the current PWLB rate, even after taking into account the risk margin and the additional expense of legal and underwriting fees associated with raising private finance. The Treasury-led team preparing for the next, hopefully Early Intervention-themed, Comprehensive Spending Review should explore these possibilities with local government and the foundation.

45. Second, all bonds have a cost of issuance – in banks and legal fees, for example – over and above the interest coupon which may make them unattractive in value for money terms to councils. This can, though, be addressed by:

- a Issuing bonds at a sufficiently large scale that the issuance costs do not play such a large part in the total cost. Many countries solve this by issuing municipal bonds through an intermediary which packages the borrowing needs of several councils in one issue. A number of market players have proposed models along these lines and I understand that the Local Government Association is pursuing discussion with councils and the financial sector about the possibility

of establishing a new intermediary. Early Intervention would be an obvious policy area that could pioneer this approach.

- b Creating a standard set of products and documents that can be used to make smaller scale investment models more practical. This does of course require someone to initially pay for the standard documentation and this would certainly be of interest to the 27 Early Intervention Places and the Early Intervention Foundation.

46. Members of my financial working group have said that option a) may be more practical where capital is being sought from the wholesale market. Option b) may be more suitable where capital is being sought from the retail market, pension funds or philanthropic investors, who will be less worried by the scale of the borrowing. This may also open up an opportunity to allow investors, including local individuals of high net wealth, to invest in a local area, which may be attractive to some investors.

47. The third issue is specific to using bonds to finance Early Intervention by councils. Under the statutory prudential borrowing rules that govern council financing, local government can borrow only for capital purposes (for example equipment, buildings, etc). This would mean that many of the elements of programme spend, such as staff or training costs, could not be covered out of additional borrowing.

48. The capital requirement under the prudential borrowing rules is much more restrictive than the rules used by most private sector accounting; it could also bear comparison with the practices in other democratic countries. I have been told that it is designed to protect the taxpayer, because the capital project itself (for example a school building) offers security in the event of default and can be sold on. There are also a limited number of capital projects that will be needed at any one time (for example, there are only so many roads or schools you can build in an area), meaning that the risk is further limited by only allowing borrowing for capital. Finally, it prevents Council Tax payers of the future having to pay for services consumed now, because they will still benefit from the school or road that will remain in existence for many years.

Conversely, borrowing for current budgets means that future Council Tax payers will pay for services that have already been consumed. I believe that all these traditional arguments need to be reappraised and tested. As I have pointed out in Chapter 2, a similar argument applies to the benefits of Early Intervention, which will be experienced by future Council Tax payers long after the initial spending on the relevant programmes. If one accepts, as all of Government now does, the general proposition that Early Intervention represents essential investment in human capital for future generations, then there is a case for allowing local authorities to finance it by borrowing in the same way that they can borrow to finance a bridge or a building. This is especially true if measurement of cashable savings that are intended to be used to pay back the coupon continues to improve over time.

49. There is a simple mechanism for extending local government's capitalisation rules. The Secretary of State is able, with Treasury consent, to issue Capitalisation Directives. These statutory regulations can govern both the definition of what can be scored as capital – and so be financed by borrowing – and how much borrowing within a particular category the Government is willing to allow.

50. The case for using a Capitalisation Directive to kick-start a new local authority bond issue to finance Early Intervention has a compelling financial and policy logic. However, any relaxation of the rules on local authority borrowing would add to the overall public sector borrowing requirement, because this form of local authority borrowing is currently included in the deficit measure which the Treasury targets in each budget. It would be important to ensure that any change did not compromise the Government's deficit reduction target. At the same time, a central message from this review is that Early Intervention generates savings for the taxpayer, and borrowing to that end now makes a significant and continuing contribution to reducing the structural deficit in the long term by massively reducing the costs of failure and dysfunction.

51. I consider that there is a strong case for a limited relaxation of the local government capitalisation rules linked to an effort to place

an Early Intervention bond. I consider that any risks to the deficit reduction target would be negligible in the short term. In the longer term, if local authorities were allowed an amount of new borrowing, through bonds, for specific investment in Early Intervention, this could be limited to a figure that would round to zero against today's £759.5 billion deficit.

### Recommendation 17

HM Treasury should encourage councils, in association with financial institutions, to produce **practical yet innovative locally based financing ideas for Early Intervention**. Should economic circumstances allow, this could include putting together an innovative collective bond issue on Early Intervention to kick-start a revived local authority bond market. To facilitate this, ministers would need to issue a Capitalisation Directive to councils that allows up to £(less than 500) million of Early Intervention spending to be capitalised, provided that it is funded through the local bond market.

52. Whitehall can and does do a great deal on Early Intervention. If we now ensure that our localities are freed up to be an effective partner, the ambition set in Recommendation 1 becomes realisable.

### Notes

- 1 A delivery provider could include, for example, an individual provider, prime contractor or special purpose vehicle.
- 2 [www.whitehouse.gov/omb/factsheet/paying-for-success](http://www.whitehouse.gov/omb/factsheet/paying-for-success)
- 3 Senior investors generally receive a modest return, but are paid back first. Junior investors take more risk, are paid later, but for a higher return.



## Chapter 7

# Creating the social investment market and tax incentives

*Unless the investment in children is made, all of humanity's most fundamental long-term problems will remain fundamental long-term problems.*

*UNICEF, 1995*

1. So far I have looked at why we should invest in Early Intervention and some of the barriers to investing more. I have set out how this could work for local areas, how we need to contract on a payment-by-results basis, and how the Early Intervention Foundation will support local areas, and keep the momentum on Early Intervention going to effect a real and sustainable change in society. I have also suggested that one or more Early intervention Funds should be created to bring in the first tranche of external investment.

2. However, we will be unable to create a fund if external investors are not attracted to investments into Early Intervention. In this chapter, I explore the potential for Early Intervention to form part of the growing social investment market, specifically:

- the scale of funds sought;
- the types of investor we are trying to attract;
- the level of risk attached to outcome payments; and
- the tax incentives that might incentivise investment.

3. It will of course take time to grow such a market, and the use of pilots will be needed to test the appetite of investors and the most appropriate models for attracting them, as stated in Chapter 6.

Establishment of an Early Intervention Fund and the Early Intervention Foundation should help to give further momentum to these developments.

### The scale of funding required

4. The scale of funds required will increase as the evidence base for programmes and the social investment market grow. It is difficult to predict the total amount of investment needed; however, we have provided some examples to illustrate how much might be necessary.

5. As a local authority, Nottingham has invested heavily (around £17 million per year) in a comprehensive Early Intervention package of support for 0–5-year-olds and their parents/carers. This has boosted Nottingham's Foundation Stage results to above national average. Despite budget cuts it is keen to deliver as much work as possible, but it will not have enough money to deliver Early Intervention services to all those who need them.<sup>1</sup>

6. If Nottingham City Council were to roll out Family Nurse Partnerships to all those teenage parents who were eligible for the programme in Nottingham, this would require an additional £1.6 million per year but, as demonstrated in Chapter 1, it would save three to five times that by the time the children were 15.<sup>2</sup> The Nottingham Communication, Language and

Literacy programme would require an additional £92,000 in order that it could be rolled out city-wide over the next two years. In addition, it would cost an additional £77,000 to extend the DrugAware programme, which is saving £756 for every education-referred young person, to the next cohort of schools.<sup>3</sup>

7. In total therefore, Nottingham City Council could benefit from an additional £1.8 million on the basis that it was able to maintain current levels of investment – which might not be possible given the budget cuts.

8. Of course, when trying to attract additional money in innovative ways, we should perhaps start on a smaller scale, with pilots as required. Spread across the Early Intervention Places, a figure in the region of £27 million (£1 million for each of the 27 Early Intervention Places mentioned in *Early Intervention – The Next Steps*) would be plausible.

9. However, over the current Spending Review period I believe that the potential levels of investment required could be grown to around £200 million, if local and central government get behind these opportunities for Early Intervention and some of the big cities become as involved as they wish to be. Rolling out services across three different age cohorts in at least five large local authority areas, targeting 10,000 individual families, children and young people a year will require somewhere in the region of £200 million of investment over three years.

10. For example, as set out in its 2009 Business Plan, Birmingham City Council is investing £41 million in its Brighter Futures programme, referred to in *Early Intervention – The Next Steps*. Most of the spend has been set aside for the first six years of the programme, although the programme is expected to last 15 years, with an expected cashable return of £102 million.<sup>4</sup>

11. In the longer term, once a greater track record of programmes has been developed in the UK and these approaches spread to all areas, I believe that up to £1 billion of investment could be used across the UK. This is a ballpark figure, and, as I have made clear in earlier chapters, government needs to improve the data it has on expenditure on Early Intervention programmes

and coverage if it is to predict the size and growth of this market accurately.

12. Another way of looking at how much money we might need is to ask programme directors. Success for All, a programme that delivers literacy and maths from Foundation Stage through to Key Stage three, for example, is another of the programmes with a strong evidence base. Some £22 million would be required to expand provision from 100 primary schools across England to 1,050 by 2015/16.<sup>5</sup>

### Social investment and the range of potential investors

13. My ambition in the longer term would be that investors could consider Early Intervention investment alongside any mainstream investment. However, this is a new investment area and the first priority will be to strike the right balance to ensure value for money for the taxpayer (through outcome-based payments) and a reasonable level of return for investors.

14. I have consulted widely and have been aided by an expert finance group. It has become clear that there are many different investor groups that may be interested in putting their money into Early Intervention, such as large financial institutions like investment houses, insurance companies, banks, and high net worth individuals.

15. Individual and institutional investors sometimes have two 'pots' of money – one for investing with the aim of maximising financial return, and another which they are prepared to put into good causes (such as supporting a charity). Here we are largely talking about investors being able to combine both, to receive a financial return for putting their money into producing good social outcomes. This is social investment. It is a relatively new area for investors, and one which the markets are starting to test out. The Government is supportive of developing a new social investment market, and I believe that Early Intervention products should form a key part of this. Without such a focus, the market could just develop in remedial areas of social finance. Government and investors have wisely started with remedial areas, as these are easier to measure – for example reducing re-offending rates and drug rehabilitation. My

ambition is for social finance to go further and invest in pre-emptive action, not least around the social and emotional development of babies and children and young people.

16. Additionally, there is emerging evidence to suggest investor interest in such 'social' products, particularly in the case of very high net worth individuals. A recent report commissioned by NESTA<sup>6</sup> describes, for instance, how 'many of the more affluent wealthy individuals (over £100,000 of investment assets) can be motivated to try social investments'.

17. For social investors, even the small amounts previously set aside for charitable donations can be put to work to produce income while still having social benefits. Additionally, if an outcome-based payment system is used, investors are able to see

very clearly the impact their money has had. It therefore provides, for those who seek it, a greater level of engagement than a simple donation would normally do.

18. Discussion with those in my expert finance group indicates that the Early Intervention Fund, presented in Chapter 6, which focuses on babies, children and young people, will be of particular appeal to social investors – more so than other themes that are less fundamental to our future. As the social investment market grows, it is likely that a more segmented thematic focus will emerge.

19. Understanding the different motivations of investors will help to ensure that the design of a product can be structured most efficiently according to their different preferences.

**Table 7.1: Social investors and their motivations**

Types of social investor	Motivations and types of product sought
Retail investors (excluding high net worth individuals)	Retail investors will usually seek a safe means of building up their savings. They will usually have limited amounts of money to invest (average monthly savings are around £170) and will be wary of unfamiliar products. While they may be interested in investing in good causes, they will have a much lower risk tolerance than other institutional investors. Research suggests that they will be unlikely to accept lower interest rates for ethical investments. Additionally, there are a myriad of regulatory protections for retail investors, which limit the amounts of risk transfer they can assume.
High net worth individuals	Very wealthy individuals will be likely to have a greater amount of disposable income to put towards good causes. Research suggests that they may be motivated by a desire for their wealth to achieve social good as well as seeking a financial return, and that they will be keen to have an impact on society.
Corporate institutions	These are companies or businesses that will have established corporate social responsibility programmes. They may have particular local interest in investments that have an impact near their offices, or that relate to their core business. However, where social purpose is not the primary objective for the investment, higher returns will be sought. Depending on size and stage of development, they may be more used to complex financial products.
Financial institutions	These include banks, insurance companies and pension funds, among others. They may be used to investing in a range of complex products and can be prepared to take risks, given the appropriate financial incentives. Liquidity will be important to this type of investor.

**Table 7.1: Social investors and their motivations (continued)**

Types of social investor	Motivations and types of product sought
Public sector	The public sector will continue to have grant funding available for Early Intervention, and there may be a case for it to invest some of that funding alongside that of other investors, to either leverage in additional external finance or bring down the overall cost of capital (it takes less of a return than other investors). It could be possible for parts of the public sector, such as a local authority or a Community Budget, to invest in an Early Intervention Fund. This would involve the local area receiving a financial return upon successful achievement of outcomes. That return would not necessarily have to come from savings accrued in the same area, particularly where outcomes and savings are spread across both central and local government. Because of its social purpose, the public sector will place a high value on the social outcomes achieved through investing in Early Intervention. It will also be a relatively risk-averse investor, given the range of statutory duties that it is required to perform. In addition, the public sector will be likely to prefer less complex financial products, given its risk aversion and the need to protect taxpayers' money.
Charities and foundations	Charities and foundations will have a social aim at the heart of their strategies. They may decide to invest in Early Intervention philanthropically if this meets their aims. In addition, many will have substantial reserves. They may choose to invest their reserves in social investment products.

Source: Joy I, de las Casas L, Rickey B (New Philanthropy Capital) (2011) *Understanding the demand for and supply of Social Finance: Research to inform the Big Society Bank*. London: NESTA.

20. While there is likely to be a more limited amount of investment to be found from investors who are prepared to take a lower return for a higher social outcome, they can play a crucial role. By accepting a lower return, they can help to push down the overall cost of raising the finance through the taxpayer. They may be more willing to take on the first 'tranche' of risk in an investment vehicle, which will help to draw in a greater number of investors from other sources who would not otherwise have put in their money. It is likely, therefore, that a product which is able to accommodate a combination of different types of investor will be the most cost-effective.

### Risk

21. Investors will have different levels of appetite depending on the risks associated with their investment (i.e. what the chances are of getting their money back), the timing and amount of any interest or dividend payments, the length of time

their money is tied in for and how easy it is to access, and what their investment is used for.

22. In the case of Early Intervention, issues of timing and risk will be particularly tricky and will need to be adequately addressed so as to build investor confidence and develop the market. As discussed in previous chapters, there is a need to ensure that any new Early Intervention mechanism is focused on measurable outcomes that are independently validated. Additionally, pilots should help to demonstrate the means of measuring the impact of specific programmes and the length of time required for the real impact of interventions to take shape. The Early Intervention Foundation will have a key role here.

23. In addition, the novelty of the market will make it seem risky. As the scale grows, the perceived risk will fall. This is another good reason for incentivising investment in the first tranche of investment, to get the ball rolling.

24. The Foundation, intermediaries, philanthropists and venture philanthropy organisations can all play a key part in reducing risk. One of the main ways they can do this is to ensure that the Early Intervention service provider is investment ready. They can help find finance, as a gift or as a percentage of a fund, to build up capacity and to help with evaluation costs and workforce training.

25. Intermediaries can also help to reduce risk through assisting in structuring the deal, pulling together and negotiating with the parties, bringing in investors and pushing the service provider to deliver outcomes. These are roles that the Early Intervention Foundation could fulfil, working with existing social intermediaries as required.

### Tax incentives

26. There are two principal ways of incentivising investors. The first is to offer a financial return that is paid to them on the back of their investment, in the form of interest payments, dividends, etc. This has been explored elsewhere in Chapter 6. The second is to offer tax incentives, which encourage investors to put their money into certain types of investment so that it costs them less tax. The two are not mutually exclusive – it is possible to offer both a return and a tax incentive, or either one on its own. Investment in Early Intervention, as we have demonstrated, can produce massive savings for the taxpayer. However, tax incentives may initially mean a relatively small loss in revenue for the Exchequer, and therefore need to be factored into the overall cost of the finance. Investors may also be happier to receive less of a financial return were their investment to be treated more favourably by the tax system, showing that the two are intrinsically linked.

27. All governments try to simplify the tax system, so there is never a good time to develop innovative tax relief. However, the returns on Early Intervention for the taxpayer and the Exchequer more than justify it. I have focused my thinking on the incentives and potential for change surrounding Early Intervention specifically but social investment more generally. I believe that the issue of tax must be addressed if the social investment aims of government are to be met.

28. Tax incentives are of crucial symbolic relevance in the case of social investment, and a key psychological factor in determining whether or not investors choose to invest. For example, an individual who was interviewed as part of NESTA's project that looked at wealthy individuals' response to investing for the good of society said: 'Tax relief or tax incentives would encourage me to make an investment.'<sup>7</sup>

29. I am by no means suggesting that investors should be able to profit from Early Intervention investments on a fully tax-free basis. However, if government wants to maximise the opportunity of social investment as a new means of delivering social outcomes, then it needs to ensure that the relevant tax incentives exist, otherwise there is a risk that investors simply will not put forward their money.

### Wider context

30. Government has been extremely positive about the role of social investment in today's society. The Social Investment Strategy,<sup>8</sup> launched recently by Francis Maude and Nick Hurd, sets out the overarching framework for encouraging a social investment market. The Big Society Bank, a key initiative of the Coalition Government, will look to stimulate the social investment market through wholesale funding of intermediaries. Hopefully the Public Service Reform White Paper will include a commitment from government to support new forms of social investment. All of these recent policy announcements demonstrate a serious commitment from government to advance the role of external finance in supporting the delivery of social outcomes. It therefore seems timely and important to launch a thorough review to consider whether the current tax system is fit for the purpose of increasing social investment (outlined further in the recommendation at the end of this chapter).

31. I am mindful of the current work of the Office of Tax Simplification (OTS), whereby the Government intends to abolish 43 tax reliefs, the rationale for which is no longer valid. This has the objective of reducing compliance burdens on both businesses and individual taxpayers. Any revisiting of the tax system should be undertaken within this context and make relief relevant to current policy objectives, not least Early Intervention.

32. Investors pay taxes in a number of areas that could be relevant for consideration here. Taxes on income from investments are as follows:

- **Income Tax.** Individuals below age 65 pay Income Tax on their taxable income above £7,475. This includes interest on savings, and dividends from holding shares. The tax rate depends on the total amount of taxable income and the type of income, but ranges from 0–50%.
- **Capital Gains Tax.** Individuals pay Capital Gains Tax when they sell or dispose of an asset. This includes selling on shares. There is an annual exempt amount of £10,600 (2011/12), after which an 18% or 28% rate is paid, depending on the total amount of taxable income.
- **Corporation Tax.** Corporations pay tax on the total profits of their company, including profits from investments. The main rate of Corporation Tax is currently 26%.

It could be possible to offer a relief, additional allowance or credit to social investments under any of the above schemes.

### Dutch Green Funds Tax Credit

33. The new ideas from the Obama administration and some of the innovations in Australia deserve particular attention in our proposed HM Treasury review. In addition, the Dutch Government offers investors a tax credit for investing in funds which promote socially responsible outcomes. There are currently three schemes in place, offering tax incentives to invest in:

- green funds;
- microfinance; and
- arts and culture.

34. Investors receive a tax credit to the value of 1.9% for investing in approved funds. This credit is applied both to Income Tax and to the Dutch Assets Tax that individuals pay in Holland. While investors will accept a lower rate of return than they would on other investments outside the scheme, it provides comparable returns once the tax credit has been applied.

35. Qualifying funds are established by existing banks and must meet certain criteria. In addition to being approved by the relevant financial regulatory body, the fund must be able to demonstrate that at least 70% of its investments are going into programmes that qualify for the scheme. Preference is given to particularly innovative programmes. The Government sets the criteria for qualifying programmes and thus is able to ensure that additional investment is being channelled towards areas of the greatest policy importance.

36. Those organisations delivering programmes that relate to the preferred policy areas apply to their preferred bank for a loan. The bank will apply to the Government for a certificate for the programme or project, confirming that it qualifies for the scheme. The bank is then able to offer loans from the fund at a lower return than would otherwise be available.

37. The scheme has been of significant impact in raising social investment. By 2008, investors had contributed more than €6.8 billion since 1995 for the financing of 5,000 projects that may not have existed otherwise. Because of the tax scheme, the market in green funds grew from €10 million to €7 billion in this timespan of 13 years. Many more countries are now investigating the implementation of similar schemes because of the strong success in Holland.

38. I believe this is the scale of ambition that the UK Government has to explore to be serious about Early Intervention. While I do not intend for the Early Intervention Fund to provide loans, it could be possible for the Government to offer a tax incentive to investors who put their money into Early Intervention programmes through the fund. This could be one of several funds approved by government in terms of providing investment to achieve social outcomes.

### Incentives in Australia

39. Tax incentives in the area of social investment are now well established in Australia. The tax system allows companies who pay dividends on their profits to get a tax credit on those dividends to say that tax has been paid. So tax is paid only once, rather than the company paying both Corporation and Income Tax. By making

social investment tax efficient in the UK, it should encourage businesses/individuals to get involved in eligible schemes. Crucially, it would also help to attract many smaller investors.

### Early Intervention Tax Credit

40. It is possible to apply the notion of a tax credit to Early Intervention to incentivise and top up the contributions of local agencies – named an Early Intervention Tax Credit (EITC). The EITC could be made available on a cash-limited basis, to qualifying Early Intervention programmes. The EITC could be made available as a 5% tax incentive over a five-year period. This would mirror the terms available for the current Community Investment Tax Relief – discussed below – for forms of social investment, but would be administered separately and in a way that would lend itself to a bond issue. The EITC would be drawn down on a pro-rata quarterly basis and used to ease the cash-flow pressures experienced in the first one to two years of investing in specific Early Intervention programmes in a locality.

41. An EITC model could be beneficial compared with a model whereby different central government departments offer top-up grants to different localities, which are often layered in unknown ways on top of new local funding arrangements.

42. The new EITC model could produce clear positive benefits:

- Investors are presented with a much reduced risk that they will receive their return.
- Funders and providers face a much lower cost of capital.

- The cash-flow pressures on providers are greatly reduced, meaning that most, if not all, of their capital requirements can be addressed through private capital markets.
- Tax credits can be deployed in any locality and benefit any provider, as well as be applied to a range of forms of financing.
- In this way we can maximise the potential for a fully scaled, diverse Early Intervention marketplace to evolve.

43. There could also be scope to make EITC available only in cases where two or more local agencies have agreed to work together. In this way, only those localities that pooled budgets would be able to seize the opportunity to make their budgets go much further.

### Community development finance institutions and the Community Investment Tax Relief

44. Many of those with whom the review team has spoken have pointed to the local tax incentives available in the US and the impact that these have on raising social investment. In the US there is an established system of municipal bonds, which in many cases are exempt from both Federal and State Income Tax. While we do not have a similarly devolved tax system in the UK, it is important to consider the potential for local tax incentives here.

45. I was pleased to see that Budget 2011 signalled the Government's intention to retain Community Investment Tax Relief (CITR). It is important that all tax relief opportunities are used to encourage and support investment in Early Intervention delivery.

#### Example of tax credit

A company makes a profit of £100 and pays Corporation Tax at 28%. It then pays out dividends on the remaining £72 to its shareholders and attaches a franking credit of £28, which effectively states that tax has been paid. The individual then pays tax on the notional amount of the dividend (£72 cash + £28 tax credit) at the prevailing rate of 10% for standard rate taxpayers, giving an actual tax rate of -18% (i.e. they would get a tax refund of £18 at year-end). For higher rate taxpayers it is 32.5%, giving an actual tax rate of 4.5%; and for top rate taxpayers it is 42.5%, giving an actual tax rate of 14.5%.

46. CITR is a tax relief available to individuals and corporate bodies that invest in accredited community development finance institutions (CDFIs), which in turn provide finance to qualifying profit-distributing enterprises, social enterprises or community projects.

47. The tax relief is available to individuals and companies and is worth up to 25% of the value of the investment in the CDFI. The relief is spread over five years, starting with the year in which the investment is made.

48. CDFIs lend money to businesses, social enterprises and individuals who struggle to get finance from high street banks and loan companies. They help deprived communities by offering loans and support at affordable rates to people who cannot access credit elsewhere.

49. CDFIs provide finance for a range of purposes, including:

- start-up capital;
- working capital; and
- business purchase.

50. Such finance could play an important role in supporting new or existing providers of evidence-based Early Intervention programmes, either through a franchise model as described in Chapter 4 of this report, where programmes are being developed by a programme developer, where an existing programme provider is expanding or to support a new mutual organisation.

51. CDFIs and CITR could provide useful funding for Early Intervention. I understand that many people in the Early Intervention field are not necessarily aware of CITR and the funding through CDFIs along with the tax relief opportunities and the Early Intervention Foundation would clearly have a promotional role in this area. I believe that options to improve the effectiveness of CDFIs and CITR should be considered as part of the review of the tax regime that I recommend at the end of this chapter.

### Additional tax incentives

52. Another alternative in relation to individuals could be to ensure that specified social

investments are taxed for capital gains rather than Income Tax purposes, thus increasing the incentives for the majority of the types of investor we are likely to be targeting.

53. There are also a number of additional tax incentives that could be relevant here:

- **Gift Aid.** This enables charities to reclaim basic rate tax on gifts that are made to them. Higher rate taxpayers also receive an additional relief on charitable donations, as do corporations. Extending Gift Aid (or creating a similar new scheme) for social investments could be an option. Research shows that this would encourage 41% of individuals to invest. This idea is particularly attractive to those with children at home.<sup>9</sup>
- **Enterprise Investment Scheme (EIS).** This is a tax relief for investors who purchase new shares in smaller high-risk companies, which is necessary for economic growth. While not directly applicable to social investment, it is possible to envisage how a similar scheme could apply to Early Intervention – i.e. if government believes that social investment is important for the growth of the economy, then a tax relief could be offered to those purchasing stakes in relevant funds, including an Early Intervention Fund.
- **Venture Capital Trust (VCT) scheme.** The VCT scheme is designed to encourage individuals to invest indirectly in small higher-risk companies whose shares and securities are not listed on a recognised stock exchange. They enable investors to spread the investment risk over a number of companies in a VCT, and offer various tax reliefs, including on Income Tax, Capital Gains Tax, and Corporation Tax. A similar mechanism could be designed to offer tax breaks for Early Intervention investors, and to help grow the social investment market.
- **Individual Savings Accounts (ISAs).** Over 20 million people in the UK currently have an ISA, which works out at 40% of the adult population. The total value of these assets sits at £350 billion. Over 12 million people in Britain with incomes below £20,000 currently hold an ISA. ISAs offer individual investors a specified tax-free 'wrapper' on savings investments. I believe that there are many people who would

use ISAs available on every high street to invest in better outcomes for babies, children and young people. In addition to developing Early Intervention products that could form part of an ISA investment package, another option would be to increase the tax-free allowance on ISAs for Early Intervention social investments. These options are considered in more detail in Annex I.

- **Junior ISAs.** The rules on Junior ISAs are due to be published in summer 2011 and Junior ISAs are expected to be available by autumn 2011. They will offer parents a new, tax-free way to save for their own child's future. It cannot be beyond our ingenuity to put these savings to work to offer a way to secure the future for other children too. However, unlike the Child Trust Fund account (which has been closed to children born on or after 3 January 2011), the Government will not make any payments into the new accounts. A Junior ISA could provide one 'patient capital' option for helping to finance Early Intervention on a longer-term basis. Further information on Junior ISAs can be found at Annex I.

### Broader aims relating to tax incentives

54. My expert finance group had some more innovative suggestions that we have not considered in depth, but which warrant a mention. These suggestions tended to look at the taxation of wealthy individuals. One example provided centred around non-domicile tax status. It was suggested that if individuals did want to bring money into the UK from tax havens, then this could be permitted, but only after the money had been used for a number of years for social investment purposes in the UK. This – and no doubt other possibilities – should be fully explored by the review recommended below.

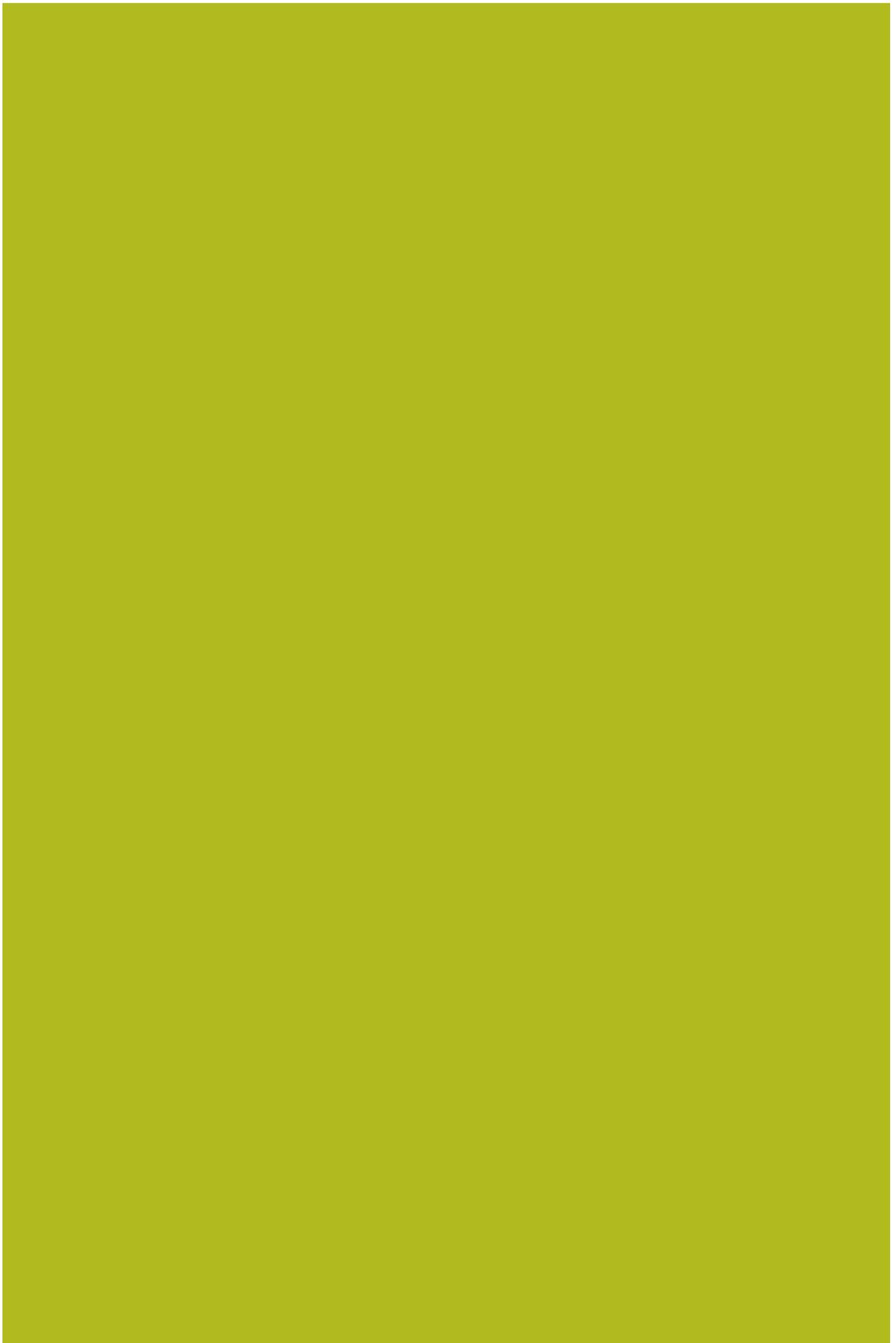
### Recommendation 18

I recommend that HM Treasury should commission a **thorough review of Early Intervention growth incentives ahead of the 2012 Budget** to assess what more the tax regime can do to enable all relevant investor groups, including high net worth individuals, social and philanthropic investors, businesses and retail savers to support Early Intervention investment. This should include:

- incentives relating to Capital Gains Tax;
- incentives relating to Corporation Tax;
- lessons learnt from tax credits as part of the Dutch Green Funds Scheme;
- allowing local authorities the right to borrow against cost savings from outcome-based contracts (similar to tax incremental financing);
- Community Investment Tax Relief;
- a cash-limited Early Intervention Tax Credit; and
- accreditation for Early Intervention ISAs and increased ISA allowances for Early Intervention investors.

## Notes

- 1 Personal communication to the review team from Ian Curryer, Corporate Director of Children and Families, Nottingham City Council, 9 March 2011.
- 2 Department for Children, Schools and Families (2007) *Cost Benefit Analysis of Interventions with Parents*. Research Report DCSF-RW008. London: Department for Children, Schools and Families.
- 3 Personal communication to the review team from Ian Curryer, Corporate Director of Children and Families, Nottingham City Council, 9 March 2011.
- 4 Birmingham City Council (2009) Business Plan.
- 5 Evidence submitted to the review team by Marilyn Jones-Hill, Managing Director, Success for All – UK 30 March 2011.
- 6 Elliot A (2011) *Investing for the Good of Society: Why and how wealthy individuals respond*. London: The FairBanking Foundation, NESTA and Ipsos MORI.
- 7 Ibid.
- 8 HM Government (2011) *Growing the Social Investment Market: A vision and strategy*. London: HM Government.
- 9 Elliot A (2011) *Investing for the Good of Society: Why and how wealthy individuals respond*. London: The FairBanking Foundation, NESTA and Ipsos MORI.



## Chapter 8

# Moving forward

*Culture eats strategy for breakfast, every day.*

*Peter Drucker*

1. In *Early Intervention: The Next Steps* and in this Report, I have set out a number of recommendations – political, cultural, institutional, financial and economic. If followed for a generation, they will allow for a shift in spending from late intervention to Early Intervention, and a subsequent improvement in the outcomes for young people and for society as a whole. The need for Early Intervention is not just confined to those in poverty, nevertheless this move to an Early Intervention culture should enable greater social mobility and a significant rebalancing of economic resources.

2. A way forward is mapped out clearly in places, necessarily vaguely in others, but always with a clear sense of direction. We will need to leave the path to explore opportunities, but must always keep the destination in sight, to ensure that all our babies, children and young people have good, safe and happy lives now and build the social and emotional competencies they need to make the most of their futures.

3. There are huge expectations about Early Intervention. These two Reports are a contribution. They are not the answer; we all now need to continue the move towards a culture of Early Intervention.

4. The responsibility for improving the lives of our children is shared. Central government, local areas, the voluntary sector, parents and investors all have

roles to play in improving society. I expect the Early Intervention Foundation to drive this change, with government support. Of course, there is a risk, as with any venture, that the Foundation might not come into fruition in time. Because it represents such great value for money to society, I do not envisage this, however I would not want to fail the children for lack of a contingency plan. If, for whatever reason, the Early Intervention Foundation is not set up by December 2011 as I have recommended, then central and local government must step in to fulfil the functions which I have earmarked for it.

5. I have recommended that central government: considers prioritising Early Intervention in the next Comprehensive Spending Review; enables local areas to work flexibly with their resources; and provides timely support on the outcomes that it would share payment for, and at what price. I recommended that better co-ordination of Early Intervention policy between the Department of Health and the Department for Education would facilitate this, with a focus on having a Foundation Years Plan. In addition, it is clear that the Cabinet Office and HM Treasury must take roles in co-ordinating activity in government on social investment. They must ensure that, where government departments benefit from the savings generated by Early Intervention in later years, that there are systems in place to ensure that these savings are recycled to investors through outcome-

based contracts so that further investment can be made for future generations.

6. Without vision and commitment to change, however, nothing will happen. We could get to a position where progress is halted in the quest for perfect data. We do not need to get to this position and we cannot wait 25 years for longitudinal data on the effect of every programme in the UK – we might not be able to afford such data collection, and it may not be relevant to the problems 25 years hence when we have it. Central government needs to trust the accumulation of evidence that we do have, on many programmes and from many countries, and so model outcomes and likely cashable savings from what we know now. It needs to agree a price that we will attach to children **not** being in care, to young people **not** being in the criminal justice system, and to young people having the social and emotional capabilities to hold down good jobs, so that we can reward those companies and investors who deliver this for us. Central government can also hedge its bets by transferring the risk onto providers and investors who, if they want to be paid, then need to make sure that the programme works. This is not to say that data should not be improved; it should, as it will help to develop the market, but it should not hinder progress.

7. We need to recognise the lead of other countries like the US, where President Obama has endorsed the use of Payment for Success contracts for Early Intervention programmes. We need to look at our maternity and paternity systems and see if there is something positive to learn from Scandinavian countries. In short, central government needs to be open to change, to shake off old systems and to accept that these ways of working and decades of massively funded late intervention have not created the fair and equal society that they have strived for.

8. To facilitate these changes, central government needs to set aside money for outcome-based payments, co-ordinate social investment activity and consider whether HM Treasury's spending formulas really are fit for purpose in a society where it is evident that preventive policies provide the best long-term value for money. It needs to be mindful of local area work. Where local areas

are implementing payment-by-results contracts for Early Intervention, they need to be assured that they can pay these back in later years. Central government cannot claw back savings made by local areas before they go to investors.

9. Local areas need to identify their needs for Early Intervention and to have systems in place which will direct support at the earliest stage to those families and children who need it. Some resources will be available from the Early Intervention Grant, and others from the public health budget and other sources. However, where this is not sufficient, local areas should look at where they will make savings from Early Intervention and, with central government where applicable, seek to put a price on these outcomes. This can then enable external investment to be sought through outcome-based contracts.

10. The Greater London Authority has kindly offered to co-ordinate the 27 Early Intervention places and to forward change at a local level. These areas will be the first to be able to access the resources of the Early Intervention Foundation and we will ensure that some are on the board of the Foundation, to ensure that the Foundation is sector-led.

11. The Early Intervention Foundation will champion and drive change. With government, and other research partners, it will continue to improve the evidence base on what works and ensure that it is disseminated to commissioners and providers of services. This information will also be made available to social investors in order to encourage an increase in investment in Early Intervention. The Foundation will work for local areas in order to enable them to make the best use of data and funding opportunities. It will provide advice on contracting and outcome-based payments, help to negotiate deals with central government and work with investors to develop an Early Intervention Fund.

12. While I have been writing this Report, a group of endorsers of the Foundation have been working hard to develop a business plan. Obviously, some money will need to be found for set-up costs and it is for this reason that they are advocating an endowment fund to enable this to happen. The Foundation will monitor

progress on my recommendations and ensure that change is delivered and sustained. The Early Intervention Foundation will have a central role in driving forward the government agendas on Early Intervention. It is for this reason that in this Report I am requesting funding from central government. This represents good value for government because the remaining start-up cash is expected to come from charitable foundations and philanthropic gifts.

13. The voluntary sector has a role in ensuring that it delivers effective programmes, and in disseminating information regarding what works. In my first report, I recommended that there should be a national parenting campaign led by charitable groups, parents and employers. This campaign would help to educate parents about the importance of their children's early years, with practical examples to enable them to better support the social and emotional development of their children.

14. *Opening Doors, Breaking Barriers: A Strategy for Social Mobility*, which set out the first high-level response to my first Report, agreed with this recommendation and agreed that government would help to move this forward.

15. Finally, I would like to thank again all those who helped on my two Reports, especially my wonderful review team. I would also like to apologise to those whom I annoyed, offended or, in the case of my family, neglected. You should all be confident in the knowledge that as we achieve what we set out to achieve for our children, it was, and is, worth it.

### Recommendation 19

I recommend that when the Early Intervention Foundation is in place, it initiates serious **all-party discussions on Early Intervention** to agree on actions to maintain and promote long-term commitment to Early Intervention.



# Annex A

## The 25 best Early Intervention programmes in the UK

The following programmes identified in *Early Intervention: The Next Steps* are implemented and/or available in the UK. The programmes are colour-coded according to the three levels defined in Annex B of that report:

**Level 1**, **Level 2**, **Level 3**

### Conception to school

Curiosity Corner (as part of Success for All)

Incredible Years

Multidimensional Treatment Foster Care

Nurse Family Partnership

Success for All

Parent Child Interaction Therapy (PCIT)

Breakthrough to Literacy

Community Mothers

High/Scope Perry Pre-School

Parents as Teachers

Triple P

### Primary school

Incredible Years

Promoting Alternative Thinking Strategies (PATHS)

Reading Recovery

Success for All

Parent–Child Interaction Therapy (PCIT)

Breakthrough to Literacy

Caring Schools Communities

Cooperative Integrated Reading and Composition

Good Behavior Game

Olweus Bullying Program

PALS

Quick Reads

The Reading Edge

Roots of Empathy

Triple P

### Secondary school

Functional Family Therapy

Incredible Years

Multidimensional Treatment Foster Care

Multisystemic Therapy

Success for All

Olweus Bullying Program

Parenting Wisely

Read 180

Roots of Empathy

Triple P

This is a living list which has evolved even since my first Report and it will continue to do so. There are many – even hundreds of – excellent programmes (including many which I helped to bring to Nottingham) not currently listed. As further evidence becomes available, this list will develop.

## Annex B

# What government departments are already doing for Early Intervention

I asked my review team to collate information from government departments on the Early Intervention work occurring across Whitehall in order to give readers some background.

<b>Sure Start children's centres</b>	The Government has said that it wants to retain a network of Sure Start children's centres, accessible to all families but focused on those in greatest need.
<b>Health visitors</b>	The Government has committed to funding an extra 4,200 health visitors, who will work closely with Sure Start children's centres and other early years practitioners.
<b>Outreach and family support</b>	Sure Start children's centres provide outreach and family support services, which have a critical role to play in reaching vulnerable families. They work alongside health visitors, social workers and other early years professionals.
<b>Family Nurse Partnership</b>	The Government is committed to doubling the number of places on the Family Nurse Partnership programme by 2015.
<b>Early Years Foundation Stage framework</b>	All early years settings – schools, children's centres providing childcare, childminders, nurseries, pre-school playgroups – have been required since September 2008 to meet the standards set out in the Early Years Foundation Stage (EYFS) for all children aged 0–5 in their care.
<b>Early Years Foundation Stage review</b>	The Government asked Dame Clare Tickell (Chief Executive of Action for Children) to carry out a review of the EYFS. The review looked at how best to protect young children's safety and welfare and support their development and learning, particularly the most vulnerable and disadvantaged children. Underpinning this, the review also looked at how to reduce burdens on providers, recognising their professionalism and that they deserve professional freedom.
<b>Free entitlement to early education for 3- and 4-year-olds</b>	The Government has increased the 3- and 4-year-olds entitlement to 15 hours a week of free early years provision for 38 weeks per year. This applies until they reach compulsory school age (the term following their fifth birthday). Some 95% of 3- and 4-year-olds access some or all of their entitlement. Free places are delivered by a range of providers from the maintained schools sector and private, voluntary and independent sectors.

<b>2-year-old entitlement to early education</b>	Since September 2009, all local authorities have been funded to deliver up to 15 hours a week of free early education to 15% of their most disadvantaged 2-year-olds. Approximately 20,000 children currently benefit from this.
<b>Early Intervention Grant</b>	The new Early Intervention Grant (EIG) brings together the funding for Early Intervention and preventive services. It is a substantial pot of funding allocated to local authorities which is not ringfenced so that it can be used more flexibly to address the particular issues affecting local communities. In its first two years, £2,222 million (2011/12) and £2,307 million (2012/13) is being allocated to local authorities in England via the EIG. As I have said, this is a helpful and symbolic statement of intent, but its purpose and use must be seen to advance Early Intervention as proposed by my review.
<b>Payment by results</b>	The Department for Education's (DFE's) Business Plan commits it to working with local authorities to explore the introduction of payment by results for Sure Start children's centres. A trial with a number of local authorities should begin later in the year, running until March 2013.
<b>Special educational needs (SEN) Green Paper – early years</b>	The DFE's Green Paper <i>Support and Aspiration: A new approach to special educational needs and disability</i> , published in March 2011, emphasises the importance of effective identification of SEN and disabilities if children are to thrive, be ready for school, make good progress in their education and, as adults, live independently and make as positive contribution to society as is possible.
<b>Pupil Premium</b>	The Pupil Premium will make sure that the most deprived pupils, including those most able, receive the support they need to reach their potential and will help schools ensure that all their pupils have the same opportunities. It will be for schools to decide how the Pupil Premium is spent since they are best placed to assess what additional provision should be made for the individual pupils within their responsibility.
<b>Every Child</b>	Funding previously held centrally for the Every Child programmes, targeted at those children in the bottom 5% in early reading and mathematics has now been made available to schools through the Dedicated Schools Grant.

<p><b>National campaign to support families with multiple problems</b></p>	<p>In December 2010 the Prime Minister announced a new national campaign to support and help turn around the lives of all families with multiple problems, including reducing costs to public services. The national campaign will include:</p> <ul style="list-style-type: none"> <li>• DfE's Early Intervention Grant of £2.2 billion;</li> <li>• the roll out of Community Budgets (all local areas can access support to redesign services to provide more integrated and cost-effective help to troubled families);</li> <li>• £10 million investment in national voluntary and community organisations with expertise in supporting families with problems;</li> <li>• Working Families Everywhere – a new national charity developing ways to support families into work; and</li> <li>• £200 million European Social Fund investment to support families who have been stabilised by family intervention services to move towards work.</li> </ul>
<p><b>Family Support Services telephone and online helplines</b></p>	<p>The Government is looking to build on the experience and understanding gained in recent years from funding a wide range of services to support parents and families in England by procuring a new set of services, delivered through the internet and by telephone.</p>
<p><b>Multisystemic Therapy</b></p>	<p>Multisystemic Therapy is a community-based treatment for antisocial behaviour in young people that started in the US and is now being delivered in the UK. A randomised control trial has been set up to measure the impact of Multisystemic Therapy on outcomes for young people and families.</p>
<p><b>Youth crime</b></p>	<p>The Home Office has announced a total of over £18 million of ring-fenced funding over two years for police, local agencies and the voluntary sector to tackle teenage knife, gun and gang violence and to prevent young people from entering a cycle of crime. The funding will support enforcement work by police in three police force areas, alongside positive activities for young people across England and Wales, and local work to bring about long-term changes in attitudes and behaviours. Activities aimed at youth crime prevention may also be funded from the Early Intervention Grant, which provides local authorities with an unringfenced funding stream to fund Early Intervention and prevention activity.</p>
<p><b>Munro Review</b></p>	<p>Professor Munro concludes that preventive services will do more to reduce abuse and neglect than reactive services. Helping early delivers better outcomes for children, young people and families and is more cost effective.</p>
<p><b>DfE Business Plan</b></p>	<p>Milestone 5.C: First annual data released on number of families that have been through an evidence-based Early Intervention programme by local authority (exact measure to be agreed after publication of this report from Graham Allen).</p>

# Annex C

## Early Intervention in Northern Ireland, Scotland and Wales

### Northern Ireland

The Northern Ireland Department of Health, Social Services and Public Safety has a number of strategies that promote and support prevention and early intervention.

At an operational level, the Public Health Agency (PHA) is convinced that investment in early years interventions brings significant benefits later in life across a range of areas such as health and well-being, education, reduced violence and crime. The PHA's approach is informed by the dynamic growth of scientific, neurological and economic knowledge which clearly demonstrates that creating the right conditions for early childhood development is likely to be more effective and less costly than addressing problems at a later age. In particular, the PHA supports prioritisation of investment in services that provide intensive support during pregnancy, the first five years of life and later childhood. Such investment will bring an important return for the individual and society as a whole.

There is close collaboration between government agencies and the voluntary and community sectors in this area.

The PHA has introduced two evidence-based early intervention programmes to Northern Ireland: Family Nurse Partnership and Roots of Empathy.

Other initiatives include:

- An increase in the current level and efficacy of the Incredible Years parenting support programme.
- Increased access for professionals and all organisations to bespoke infant mental awareness training. This includes promoting increased uptake of training such as that provided through the Solihull approach model.
- An antenatal 'care bundle' aimed at maximising interventions with parents who have risk factors.
- Active consideration through research of incentive-based smoking cessation aimed specifically at young expectant mothers.
- Enhancing links between the implementation of existing PHA Action Plans, e.g. breastfeeding, mental health and well-being, community development and so forth.
- Developing local models such as the South Eastern Health and Social Care Trust parenting programme and the New Parent Project which targets intensive health visitor support at vulnerable young pregnant women.

<p><b>Northern Ireland</b> (<i>continued</i>)</p>	<ul style="list-style-type: none"> <li>• Department of Education support for 32 Sure Start projects located in the most deprived areas in Northern Ireland, providing a balanced mix of services to an estimated 34,000 children and their families.</li> <li>• Consideration is being given to a new strategy to increase the rates of breastfeeding.</li> <li>• An updated child health promotion programme to ensure that universal services delivered to all families by maternity services, GPs, health visitors and school nurses is based on the latest evidence of what is best for children.</li> <li>• Hidden Harm, which provides support for children whose carers have significant problems with alcohol and/or drugs.</li> <li>• The Parenting Helpline Family Support hubs provide needs-based family support services.</li> <li>• A web-based Regional Family Support Information System providing access to local information on the range of family support services available.</li> <li>• Independent philanthropic funding from Atlantic Philanthropies, which has supported a number of new evidence-based early years intervention programmes both in Northern Ireland and in the Republic of Ireland. There is a commitment to sharing the learning from these models and to the systematic dissemination of best practice in their implementation.</li> </ul>
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<p><b>Scotland</b></p> <p>The new Scottish Government has made a number of manifesto commitments relevant to early intervention in the early years.</p> <p>This builds on a six-month investigation into Preventive Spending by the Finance Committee of the Scottish Parliament in early 2011, which said there needed to be a shift from reacting to crises, to a greater focus on prevention and early intervention. The Committee's report also emphasised the need for a consensual approach in moving towards a more preventive approach to public sector spending and investment in early years in particular, and that this will require leadership across all political parties.</p>	<ul style="list-style-type: none"> <li>• The Scottish Government has allocated an additional £50 million in a change fund to support projects designed to deliver effective early intervention in a child's life, including a new generation of family centres. This includes: <ul style="list-style-type: none"> <li>– creating an early years task force to co-ordinate policy and ensure that early years spending is prioritised by the whole public sector;</li> <li>– ensuring that every council in Scotland reflects the early years and early intervention agenda in its Single Outcome Agreement;</li> <li>– continuing to roll out the Family Nurse Partnership programme across Scotland;</li> <li>– developing a national parenting strategy, providing parents with access to a guaranteed level of support;</li> <li>– further developing the highly successful PlayTalkRead campaign to highlight the importance of parents' input to a child's development; and</li> <li>– continuing to develop the Early Years Early Action Fund, which supports projects in the third sector that deliver early intervention.</li> </ul> </li> <li>• The Scottish Government is also considering how social impact bonds might be used in a variety of contexts, including childcare, and recognises the need for further development.</li> </ul>
<p><b>Wales</b></p> <p>The new Welsh Government is taking forward a number of commitments that recognise the importance of early and effective interventions in the lives of children and young people.</p>	<ul style="list-style-type: none"> <li>• The Flying Start programme has been doubled so that more children and families can benefit. Flying Start is a programme for families with children aged 0–3. It is targeted at Wales's most deprived areas and encompasses free childcare, parenting support, intensive health visitor support and support for early literacy and delivers quality experiences for children in those areas. International research shows that support in the early years is vital to a child's emotional, social and cognitive development and Flying Start is the Welsh Government's flagship programme for providing that support.</li> <li>• The Families First programme is being maintained throughout the period of the next Assembly, with a distinct focus on the circumstances of disabled children as part of the programme.</li> </ul>

<p><b>Wales</b> (<i>continued</i>)</p>	<ul style="list-style-type: none"> <li>• Families First seeks to drive improvements to the systems and services that support families, particularly those with children living in poverty. A key message of Families First is that, in order to prevent escalation of need and its associated costs, prevention, early identification and early and appropriate interventions are key. The programme, currently at pioneer stage, seeks to reduce the numbers of families developing more complex needs, with their associated more intensive and costly interventions, at a later date.</li> <li>• Other actions include: <ul style="list-style-type: none"> <li>– the adoption of a programme focusing on the importance of health in the early years, drawing on experience from health professionals, family support services, education, social care and others;</li> <li>– prioritising new models of working with families with complex needs by rolling out the Integrated Family Support Services across Wales;</li> <li>– the continuation of the Free Breakfast programme, with free school milk for pupils under 7 years of age; and</li> <li>– continued support for Incredible Years Wales.</li> </ul> </li> <li>• Alongside these commitments the Welsh Government also has continued with the implementation of the Foundation Phase, a holistic developmental curriculum designed to meet the needs of the individual child and to support their development whatever their abilities. Its skills-based curriculum places greater emphasis on experiential learning and the use of the outdoors. Roll out of the curriculum will be completed from September for all 3- to 7-year-olds. Its prime objective should be to produce high levels of ‘school readiness’ for all children regardless of family income.</li> </ul>
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## Annex D

# Introducing a franchise function

There are a number of proven Early Intervention programmes that are currently delivered outside the UK. Introducing these programmes to the UK would require them to be developed for a UK context, reflecting different social and cultural norms. It is also the case that a number of existing UK programmes operate only in particular areas of the country, and rolling them out more widely may require support. An independent body such as the Early Intervention Foundation could introduce a franchise model to both make programmes UK ready and to support effective roll out.

A master franchise agreement allows individuals or organisations to buy the rights to sub-franchise within a specific territory or another country, such as the UK. This model could be applied in respect of Early Intervention programmes. A single entity (an independent body or the Early Intervention Foundation) could act as the master franchisor, purchasing the franchise agreement for a range of the best Early Intervention programmes and acting as the sole owner and manager of individual franchises. The entity would then have a role to help develop programmes to be more UK ready, so that they could be rolled out more widely. The entity could raise finance for these purposes, paying back investors once the franchises had been bought by local authorities etc. This could help to address any capacity issues. The entity could also offer direct support to local areas which purchase the franchise, therefore improving fidelity and increasing the chances of success.

The additional benefits of a franchise model would be:

- To incentivise providers to deliver as best they can with fidelity (otherwise the franchise goes to another local provider).
- To incentivise innovation, as new models could be sold for development under the franchise model (i.e. by a local authority which develops a new programme). The entity could help the local authorities to implement and develop a new model if the entity deems it a possible success through its rigorous evidence-based testing. This could be particularly beneficial in the case where a single academic institution or local authority has developed a new programme, but may not have the resources (time or financial) for rolling out more widely.
- To minimise the risk of many external contractors throughout the UK, as there will only be one entity buying the programmes.

Using a single entity to run the franchise would reduce the need for a programme owner to organise multiple contracts for rolling out across the UK. The economies of scale would also help to generate greater cost savings.

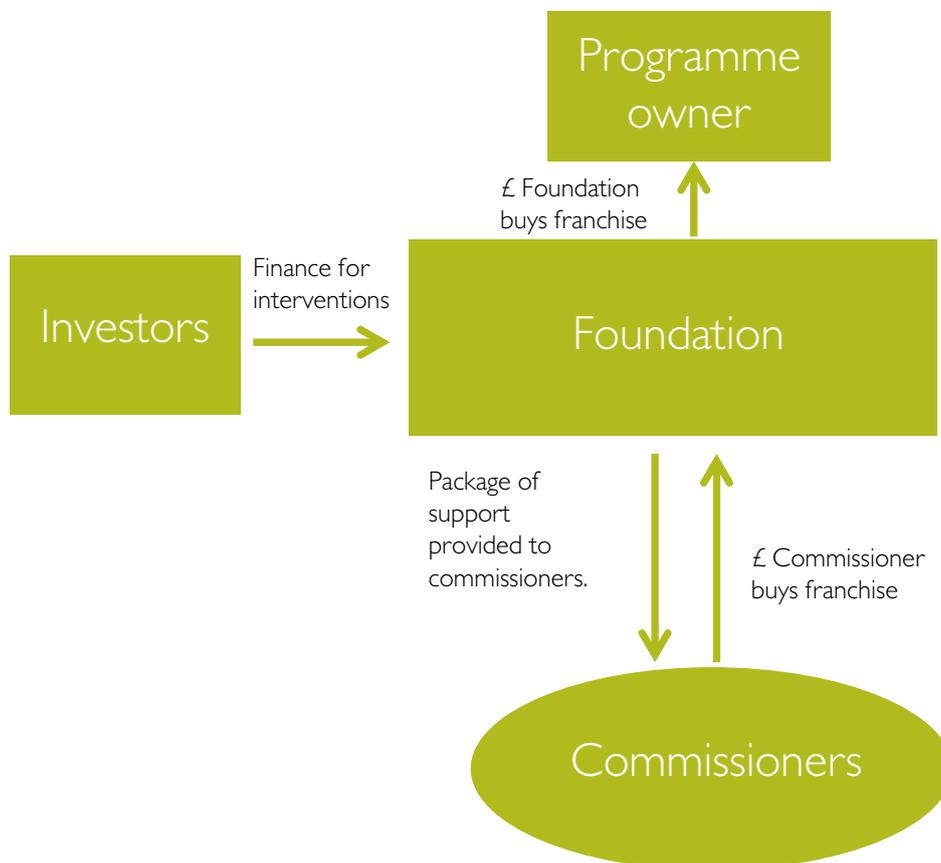
The entity could also enable the programme owner(s) to provide additional support to those who have purchased the franchise for particular programmes. The entity would have responsibility for 'recruiting' relevant local authorities and possible charitable organisations to roll out relevant programmes in their areas.

In order to develop the programme for wider roll out, the entity could consider taking a loan from private sector organisations. Once the local authorities have bought a franchise from the entity this money can pay back the loans. This means there would be a guaranteed stream of finance coming back to the private organisations, which is a potentially economical option as loans are typically cheaper. This is something that the Big Society Bank could be approached for.

### Guide for the franchise model

- An Early Intervention programme developer would sell the rights to use their programme to an independent body or the Early Intervention Foundation. The developer would be the 'franchisor'.
- The Foundation would be the master franchisee and would have responsibility for running, managing and developing the Early Intervention programmes.
- The Early Intervention Foundation would seek private sector and charitable funding to help develop the programmes and provide support to local authorities/commissioners implementing the programmes. This could be in the form of a loan or through the Early Intervention Fund.
- The Foundation would provide a package of support to the local authorities to help them implement the Early Intervention programme with fidelity.
- If the local authorities/commissioners implement the programme successfully then they could buy the franchise agreement from the Foundation.
- If the programme is not implemented successfully and with fidelity then the franchise agreement would be taken away from the local authorities/commissioners.

Figure D1: The franchise model



# Annex E

## Concept paper: The Early Intervention Foundation

### Summary

The Allen Report has proposed the creation of an independent Early Intervention Foundation (EIF) that would promote a major shift towards investment in proven approaches that can break the cycle of childhood abuse and neglect. The EIF would perform four critical functions: to build and champion the evidence base for investment in Early Intervention; to support local agencies to draw up new results-based contracts; to help providers to build their capacity to deliver Early Intervention services; and to assist providers to access new sources of capital.

The proposal is that EIF is founded with £10 million of funding from central government, in recognition of the major savings that will accrue to government over the longer term. This sum will be matched by private and charitable sources. An endowment will be used to invest in research and to allow the EIF to generate income on a results basis through services to local agencies, providers and investors. Twenty pilot EIF programmes would be developed in the first 18 months of operation, with potential for up to two additional programmes to support a scaling up of interventions in pioneer authorities.

### Introduction

Thousands of children's lives are blighted needlessly each year. Disadvantage and harm are passed on from one generation to the next. Only 0.1% of the £55 billion spent by government on services targeted at children is directed towards prevention. And yet we now know with remarkable clarity

which interventions would break this cycle and, indeed, we can make sound predictions about how different young lives are likely to turn out.

We can cost the major, ongoing savings that would be made by government and wider society if we funded the best, most powerful approaches to break this cycle. Furthermore, there are now new sources of investment that can be mobilised to make these interventions happen in towns and cities across the UK. There is, in short, no longer any excuse for inaction: we need to make a large-scale and long-term investment in Early Intervention now.

This is the conclusion of the Allen Report on Early Intervention, which has set out a vision that is shared by the leaders of all the main political parties, by leading investors and funders, international experts as well as provider organisations from across the sectors. We have a coalition of willing partners: the next step is to move from talk to action. What we envisage is akin to the major investment in public health made in the 19th century that produced a permanent, population-wide change in life experiences and expectations. We envisage a shift over the coming decade to a position where 5% of public funding rather than the current 0.1% is directed to prevention rather than cure.

The Allen Report has argued that a new institutional engine is required to ensure that the right investment is made in the right actions, in locations across the UK. This new engine is

the Early Intervention Foundation. The Report proposes that such an institution must be:

- independent from government;
- guided by the strongest possible evidence base of what works;
- financially sustainable and scalable;
- responsive to the voice and experience of young people; and
- **an intermediary and connector:** bringing together money, providers and funders in partnership, in order to inspire a spiral of hope rather than an endless cycle of dysfunction.

In what follows, I outline the key functions of the proposed Early Intervention Foundation:

- Its mission in building and disseminating the evidence base regarding what works.
- The contracts it will help to broker between local authorities and providers.
- How it will help to build the capacity of a wider supplier network.
- The ways in which capital will be raised.
- How it will be organised in terms of legal structure, governance and staffing.

**Note:** This is a concept document only and much further business planning – including detailed financial modelling of the proposed investment fund – will be required over coming weeks. Your comments are invited on all aspects of these proposals, which remain at an early stage of development. Our intention is then to move to a more detailed business plan that can be taken formally to partners and investors over coming months.

## Interventions to be supported by the EIF

**Aim: The EIF will help to build the evidence base for the most effective early interventions in children's lives and champion these interventions as widely as possible.**

### a) Support for portfolio management

Central to our approach is a focus on investing

in proven models. We will recommend to local agencies that they invest in well-balanced portfolios of interventions, where at least 80% of programmes meet the standards of evidence outlined in the Allen Report. Other funds should be directed to programmes geared to systematic innovation, where a proper process of evidence gathering, evaluation and peer review is in place. In this way, local communities can realise the long-term benefits of both replicating and scaling proven successes and innovating new and potentially better interventions for the future.

### b) Evidence standards

A summary of some of the key interventions can also be reviewed in the Allen Report – *Early Intervention: The Next Steps*. The report also summarises the standards of evidence that we consider should be applied to any intervention targeted for increased investment. It is critical that the EIF should stand for an especially high rigour of evidence-based investment. Its model of performance management needs to be both exhaustive and maximise knowledge building for the future.

### c) Evidence-building systems and standards

The EIF will not itself manage performance of different local interventions, but it will recommend standards and systems for ensuring that performance data is captured in order to support effective delivery, manage contract compliance, protect investors' interests and also build the wider evidence base. Granular, real-time data will be required of providers and contract managers: some, but not all, of this data will be required to serve other purposes, hence EIF will have a close interest in and a role in enabling all concerned to answer critical questions, such as the following, on a real-time basis:

- Are the prescribed interventions being delivered in the right way? We are looking for the greatest possible fidelity to the known critical success factors for successful action.
- Are the expected outcomes being delivered? We are targeting the smallest possible deviation from the norm for a specific intervention and a specific target group.

- Are the outcomes being delivered at the right cost? We need provision to be as cost-efficient as possible, without compromising quality.
- Are there new hallmarks of successful practice that we should learn from?

#### d) Building the research literature

A central function of the EIF will be to continue to review and build the evidence base for all kinds of early intervention that break the cycle of disadvantage. Some research may be carried out in-house, but the default mode will be to commission research from leaders in the field internationally and indeed encourage fruitful collaborations between experts in this area.

#### e) Dissemination of knowledge and championing of Early Intervention

Significant investment will also be made in research dissemination in the form of expert advice to funders, providers and investors, as well as dissemination of research findings through mainstream and social media channels. Another critical role will be to popularise the cause of Early Intervention by working with Civil Society and other partners – to build the groundswell of support at a community level. We aim to transform the understanding of and commitment to far-reaching investment in the future of disadvantaged children so that over a generation we move from spending 0.1% on prevention to closer to 5%.

### Partnering with local authorities

**Aim: The EIF will act as a key partner for local public agencies wanting to invest in Early Intervention.**

The most important actors in making Early Intervention a reality are local public agencies – led by local authorities, supported by primary care trusts/GP commissioning bodies, the police and schools. Unlike models such as the Peterborough social impact bond experiment, we consider that the commissioning role of local agencies should not be delegated to investors, but it should be supported so as to be as collaborative and as effective as possible. The Allen Report has argued that local agencies should be given the greatest

possible freedoms and incentives to invest in Early Intervention on a truly ambitious scale.

The EIF will have a critical role in helping local agencies to invest in Early Intervention with confidence, offering advice and consultancy in the following areas:

- Championing Early Intervention locally and helping to build commitment from different agencies.
- Building the evidence base for different interventions.
- Baseline assessment of needs.
- Diagnostic screening to assist review of current support entitlements.
- Constructing a balanced portfolio of investments, so as to optimise short and longer term impacts and costs savings.
- Modelling of social and financial returns for different Early Intervention portfolios i.e. defining which results and cost savings will accrue to which funder over the course of a programme.
- Definition of outcome metrics for both interim and longer term outcomes, together with evidence-gathering standards and suggested payment schedules.
- A legal template for results-based contracts between a group of purchasers and providers – locking in the agreed portfolio, key outcomes and metrics, the monitoring and evaluation methodologies to be employed, resource contributions, target cost savings and agreed exit points.
- Facilitating additional contributions to results contracts from central government, for example from benefits bill savings and reduced cost burden on the Ministry of Justice – dependent upon the adoption of the Allen Report recommendations by central government.
- Offering advice and support for procurement on a value for money basis.

The EIF will also add value through the activities outlined in the following sections, helping to build the capacity of the provider community and facilitating access to capital.

Joint working will be critical to the success of Early Intervention at a local level and the EIF will thus have a critical role in facilitating a model of co-purchasing of outcomes that is based on known benefits and savings to different stakeholders and follows a standard process. As a result of EIF support and advice, each local agency will be clear which outcomes it is prepared to fund, how these will be measured and validated, what price it is prepared to pay for each of these outcomes, and over what timescale. Where possible, the terms of trade will include some payment on account by local public agencies for early outcomes achieved. This will have the effect of decreasing the cost of capital for both parties, without compromising the risk transfer from funder to investor/provider. Similar measures have been taken with the Government's Work Programme, for similar reasons.

The business case for local agency support will be as follows:

- transfer of risk from purchaser to investor and provider;
- paying for results out of cashable savings;
- co-purchasing of results without complex budget pooling arrangements;
- accessing the best available interventions;
- accessing the most capable providers;
- rigorous evidence-building systems and standards; and
- a financing model that seeks to cap financial returns and where possible reinvests profit in further investment in Early Intervention.

The EIF would not charge for these services upfront, but would add a proportion of the costs – perhaps in the region of £60,000 – to the overall value of a three-year results contract, such that the associated costs could be repaid as the contract reached the agreed targets. The EIF's founding endowment will allow it to take these risks and manage the associated cash flow pressures.

## Building the supply side

**Aim: The EIF will help to build the capacity of providers of Early Intervention.**

The EIF will be devoted to building an effective marketplace in Early Intervention. Work with funders to maximise knowledge about the relative benefits of different interventions will thus need to be matched by measures to build supply-side capability.

Providers will need to implement different interventions with maximum fidelity to known critical success factors. In the end, however, responsibility must sit with providers to ensure that they are able to evidence their ability to do this and no one funding stream can hope to cover all the costs of training, accreditation, introduction of new systems etc that will be required to bring many providers up to the required standard.

What the EIF can do is to provide strategic funding and support for specific capacity building services. The preferred approach will involve funding agencies who can then offer cost-effective support services to providers to deliver specific interventions on an accredited, licensed or social franchise basis. A second approach would involve investing in new supply chain managers who could provide shared services and support for a supply chain of providers. A budget of £300,000, tapered to £150,000 per annum, has been earmarked for this purpose.

## Access to finance

**Aim: The EIF will maximise providers' access to appropriate capital, above all by applying its unique depth of understanding of the social and financial risks and returns associated with investment in Early Intervention. The EIF will perform a role that combines expert analysis with access to a privileged pipeline of investment opportunities.**

### a) The capital requirement

If the EIF were to support Early Intervention pilot programmes in 27 localities, around £27 million would be required to finance this, over a three-year period. The involvement of local authorities such as Birmingham or Manchester, however,

would greatly increase the capital requirement, with a potential requirement for a single large authority of more than £100 million. Clearly, as other local agencies move to pilot and pilot sites move to mainstream programmes over a three-year period, the capital requirement could exceed £1 billion. Given the timescales involved and the risks – especially the perceived risks at the outset – it will be essential for a blend of both socially-minded and commercial capital to be made available.

### b) Towards a syndicated model of development

The easiest way for the EIF to begin to help marshal the amount and blend of capital required will be to develop a club of interested investors – an arrangement that could evolve over time into a formal investment syndicate. The EIF could assist with many of the due diligence requirements of different parties, while leaving autonomy for each investment committee to allocate its capital as it sees fit. It would also offer an ongoing reporting service to investors on the performance of the portfolio.

**The initial ambition would be to build agreements in principle up to a total value of at least £27 million** to invest in 27 localities in its first programme, with a typical investment of £1 million in each case. In recognition of its role in facilitating access to capital, the EIF would make a small annual percentage charge – perhaps between 0.5% and 1% – on the gross value of capital invested.

The short-term aim will be to build strong relationships with a core group of different kinds of investors including the following:

- social investors able to inject patient or equity-like capital;
- trust and high net worth individuals, using balance sheets rather than grant revenues to invest (so-called mission connected investment);
- banks e.g. through the Merlin programme; and
- institutional investors – pension funds and insurance companies.

### c) Bond finance

Under a scenario in which a mature local authority wishes to develop a much larger scale results

contract, the £27 million target for agreements in principle will be rapidly exhausted. One attractive option would be to work with a partner – the Big Society Bank is the obvious candidate – to launch a bond issue for up to £100 million on a proper commercial scale – most probably with a five-year term. The partner would assume a first loss position. Additional credit enhancement would also be required to make the issue more appealing to mainstream capital markets. The Gates Foundation and others have performed this role in other forms of complex securitisation for social investment programmes. Another option would be to seek a guarantee from the European Investment Fund, enabling the EIF to command an automatic AAA rating. The effect of such a guarantee would be to allow providers to borrow on very favourable terms – around 10 basis points above gilts, i.e. just above the price that government pays for capital.

### d) An affinity Junior ISA

As the market matures in Early Intervention, a further exciting option would be to develop a new affinity social investment product that would build on the creation of the Junior ISA. The EIF could partner to help launch and co-brand the product. Parents and grandparents would be encouraged to invest in either a cash or equity Junior ISA that would offer a double benefit: at the age of 18 the young person would get a tax-free lump sum; and in the intervening period of up to 18 years, a proportion of the capital would be put to work, extending support to many other children.

The great advantage of this model is that capital could be raised on attractive terms for truly long-term investment of the kind required. Rather than the EIF creating a product, it would build on the market reach of an existing high street bank. The marketing campaign would also serve to boost the profile of and appetite for early investment. The EIF would generate revenue by acting as a trusted fund adviser and deal arranger.

### e) Direct investment by the EIF

There is also an opportunity for the EIF itself to invest directly in Early Intervention programmes, as it builds its endowment. In all cases it would be investing in only a portion of the total capital

requirement and would be able to manage its exposure by access to the management and evidence building systems and data flows outlined above.

### f) Early Intervention marketplace

In the first two to three years of operation it is inevitable that the EIF will need to be highly proactive in building the foundations of an Early Intervention marketplace – both with purchasers and investors. What is critical is that these early efforts do not have the effect of crowding out alternative sources of investment, but rather seek to encourage as many competing and complementary sources of capital as possible. The EIF should thus avoid building its own fund and develop a distinct intermediary role that leverages its core strengths of specialist intelligence and deep relationships.

### The EIF: business model and structure

**The EIF as envisaged in this proposal is a unique new kind of intermediary and change agent. It will bring investors, funders and suppliers into a new set of contractual relationships and it will manage the risks and optimise the blend of social and financial returns for each party, so that children's lives are transformed.**

#### a) The need for an endowment

Pioneering any new field, especially one as complex as that of Early Intervention will inevitably result in non-recoverable costs. Research is a public good that requires public investment. Capacity building is required so as to maximise the number of competent providers from which funders and investors can choose. Dissemination and general championing of the cause of Early Intervention are again long-term activities for which it is hard to develop income streams. Furthermore, these are all activities that will need to be carried out on a long-term basis so as to achieve substantive system change. It is for this reason that the creation of an endowment is critical to the development of the EIF as a permanent fixture at the heart of the Early Intervention marketplace. The Allen Report is calling for £10 million of central government capital to lever in a matched £10 million from other private sources.

#### b) Revenue streams

Even if the EIF secures an endowment, that capital will need to be made to work as hard as possible in order to sustain and grow the critical functions outlined above.

Three main revenue streams are envisaged for the EIF:

- Charging for services to local agencies on a results basis, i.e. the costs of support are added to the value of the contract and paid to the EIF upon successful delivery of a contract.
- A management fee for services offered to investors and investees, i.e. an annual % charge on the value of capital invested.
- A return on direct investment in Early Intervention programmes.
- A process of business modelling will commence shortly to investigate these potential revenue streams in greater depth.

#### c) Operating costs

The EIF endowment fund will allow the EIF to build up a small, outstanding team capable of developing and promoting Early Intervention programmes across many localities.

The approximate costs of maintaining the core functions of the EIF will be in the region of £1.4 million, as set out below.

Staffing	620,000
Office/services etc	65,000
Marketing	40,000
Research	350,000
Training/dissemination	300,000
<b>Total</b>	<b>1,375,000</b>

Note: Staffing to include CEO, head of research, head of investment, communications director, four business directors – working with local agencies – and an administrator.

#### d) Structure

The EIF would be constituted as a charitable trust. The EIF board would include a range of stakeholders with an interest in and commitment to Early Intervention.

The Early Intervention Foundation would be responsible for delivering the key functions outlined above. Research and capacity-building functions will commonly be contracted out.

#### **e) Early Intervention Places**

Twenty-seven local authorities have identified themselves as Early Intervention Places, with a corporate commitment to pioneer investment in Early Intervention and support the development of the Early Intervention Foundation. It is proposed that these sites provide the focus for the first five years of the EIF. Ideally, in addition, up to two local authorities – Manchester and Birmingham – will commit to a scaling up of their existing pilot programmes in this area. The addition of these mature sites will have the advantage of moving Early Intervention from being a pilot or demonstration programme to an effort to combine the best current practice, research intelligence and financial innovation to transform mainstream commissioning behaviour.

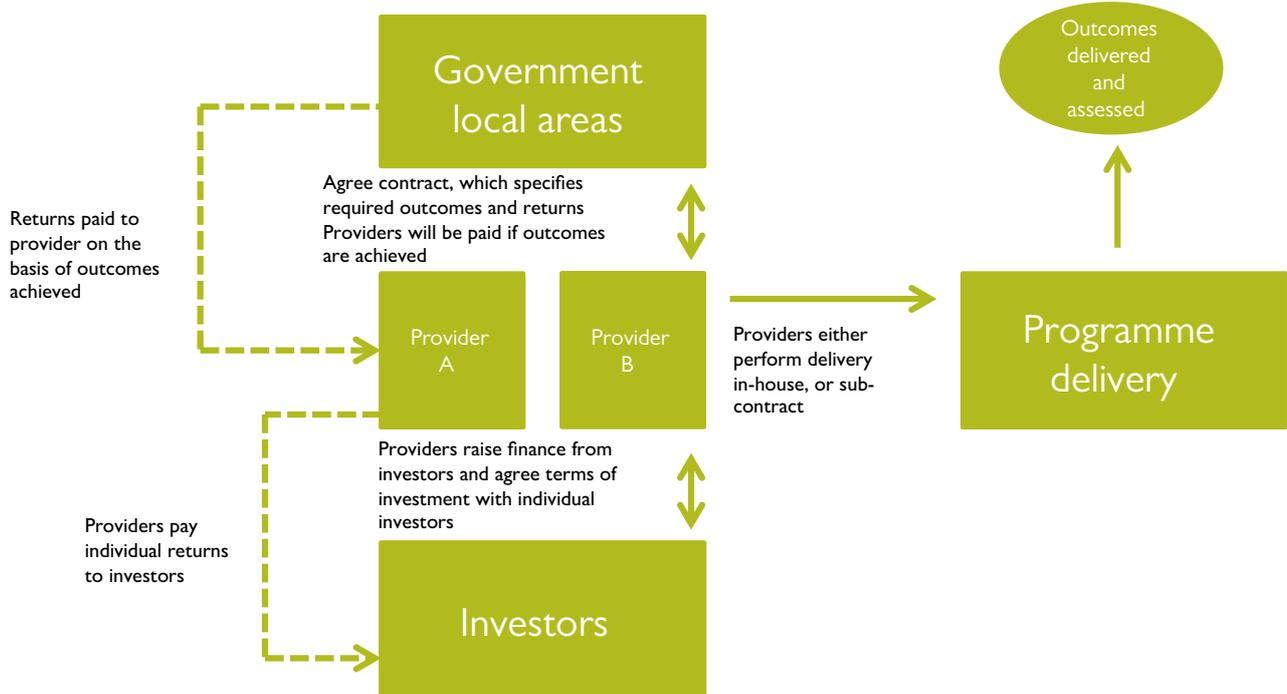
Graham Allen and Matthew Pike  
19 May 2011

## Annex F

# Outcome-based contracts and Early Intervention

There are two ways of contracting: with a provider or with a social intermediary. These are set out below.

**Figure F1: An outcome-based contract with individual providers:**



Under this model local areas and government could choose to contract directly with individual providers or with one single large provider that sub-contracts to other providers. Providers would need to be able to raise finance in order to fund their upfront investment to deliver services. For example, a local authority might choose a children's charity in their local area to deliver an Early Intervention programme. They will agree to pay the charity once successful outcomes have been delivered with children on the programme.

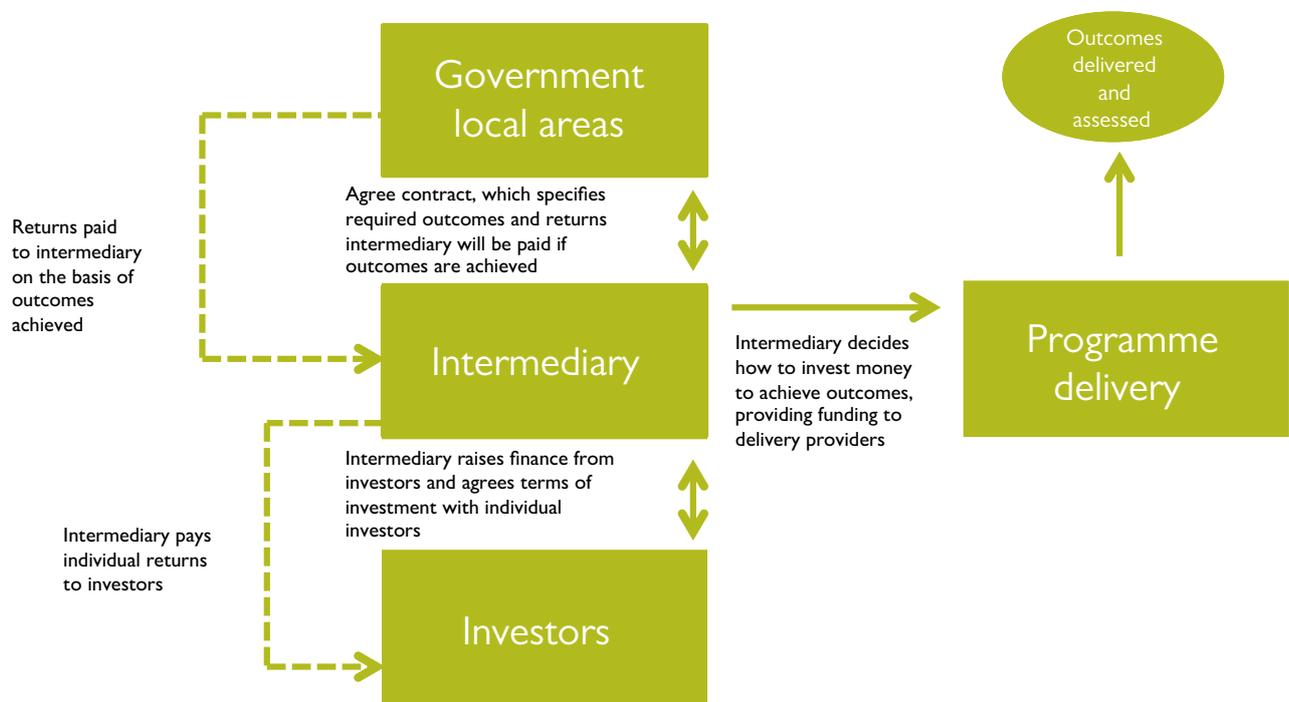
This means, however, that the charity needs to have sufficient upfront funds to be able to deliver the programme in the first instance, as they will not get paid until afterwards. This may present challenges for some smaller providers. It does, however, offer local areas more freedom over whom they choose to deliver their services.

Groups of local organisations or groups of local authorities should consider using such an approach for commissioning their Early Intervention work.

The Early Intervention Foundation could provide support to local areas in this respect, helping to:

- broker agreement between different local organisations in order to facilitate better joint commissioning;
- support local areas with identifying the best evidence-based programmes to contract for; and
- support development of such outcome-based contracts and spread good practice.

Figure F2: An outcome-based contract with an intermediary



This model alternatively involves the use of an intermediary, who raises finance from external investment. As Figures F1 and F2 show, there are four key players in such a contract. The key roles for each player are:

- **Local areas and national government (commissioners):**

- decide the type and level of outcomes that they want to be delivered;
- tender for the contract for delivery of those outcomes; and
- pay the intermediary upon successful delivery of outcomes.

- **Intermediary:**

- can agree a number of separate contracts with a number of different local areas;
- holds and manages the outcome-based risks and acts as the hub between local areas/ government and the investors;
- raises finance for the ongoing financing of interventions from a variety of sources; and
- sub-contracts to providers and closely manages the provision of services.

- **Providers:**
  - deliver programmes directly to target population; and
  - can be private sector, charitable or public sector bodies.
- **Investors:**
  - provide ongoing capital for the provision of interventions;
  - could use finance from a variety of sources, including internal working capital, grants, loans, debt and equity; and
  - receive a return from the intermediary once successful outcomes have been delivered.

These are just two potential models; there may be others that the social investment industry can develop. Another model, not explored here, would be for government to pay returns directly to investors. This would prevent an additional premium being paid to an intermediary. We have not explored how practical this would be, but this might, in any case, be a useful provision for payment of returns in the eventuality that a social intermediary closes for business.

### Developing a contract for Early Intervention outcomes

The content of an outcome-based contract could be structured in a number of different ways, largely depending on the approach taken to three key variables:

- **Whether the contract focuses purely on outcomes or also specifies further requirements as to the method of delivering those outcomes.** A simple outcome-based contract will require the contracting party to deliver a particular level of outcomes, with no regard to how that is done. This enables the intermediary to control the levels of risk involved (for example, they can change providers if delivery is not up to scratch). Alternatively, local areas may also wish to specify that certain interventions or programmes are delivered. There could be a case for local areas to do this in order to ensure consistency with existing provision, to help plan and manage

interdependencies between investment and wider capacity or to support requirements at a local authority level. However, this is less likely to sit well with social intermediaries, who will have less control over delivery risks if the delivery mechanisms are specified.

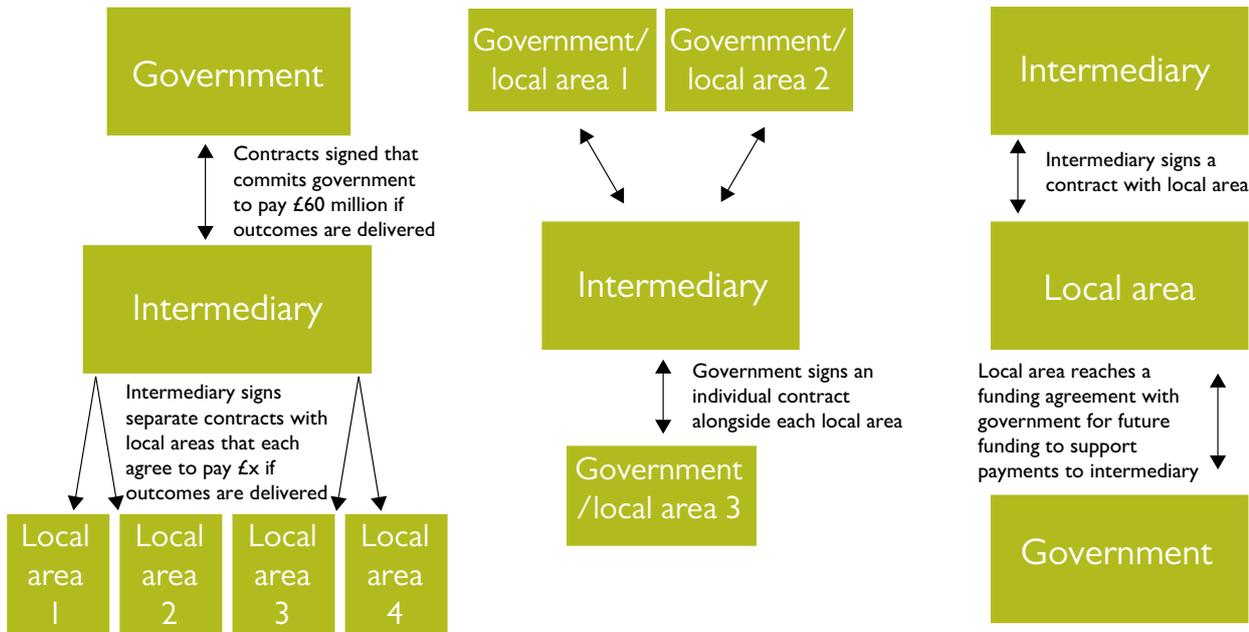
- **Whether the contract ties future payments solely to final outcomes or also ties future payments to interim metrics or outputs.** The more closely a contract ties payments to long-term outcomes, the more certainty there is that the intervention will deliver cashable savings. The Department for Work and Pensions work programme is an example of contracting on the basis of both outcomes and minimum requirements for service delivery.
- **How future returns are structured.** Under a model such as the Peterborough social impact bond, returns are only paid once a certain level of outcomes is achieved. If that level is not achieved, no return is paid. An alternative approach would be to step the levels of returns based on incremental levels of outcomes achieved. The exact structure of returns is important because it impacts on the levels of risk transferred to investors and the propensity of different types of investors to provide finance.

Figure F3: Different models of contracting between local and central government

**Model 1:** Government signs an initial contract with an intermediary for outcomes, with the intermediary left to agree specific contracts with local areas.

**Model 2:** Each local area, with government, signs an individual contract with the intermediary.

**Model 3:** Local areas agree individual contracts with an intermediary, but agree separate agreements with government for support to make future payments.



#### Model 1:

- Government agrees that it is prepared to pay a capped amount of say £60 million for successful delivery of a set of agreed Early Intervention outcomes. This is on the basis that a proportion of benefits accrue directly to government departments and government also benefits from local-level savings over time. It also offers greater protection for local areas that may be worried about additional cuts being required by central government.
- Government signs an outcome-based contract with an intermediary.
- Intermediary agrees specific individual contracts with a number of local areas, with local areas committing to payments if outcomes are achieved.

#### Model 2:

- Local area decides that it wants to sign an outcome-based contract.
- Puts that case to government and agrees terms.
- Intermediary signs a single contract with local areas and government.

#### Model 3:

- Local area decides that it wants to sign an outcome-based contract.
- Reaches agreement with government that the local area will receive future funding to support payments if outcomes are achieved.
- Intermediary signs a single contract with local areas committed to making those payments.

	<b>Pros</b>	<b>Cons</b>
<b>Model 1</b>	<p>A single contract for government.</p> <p>Would provide government commitment and help encourage local areas to reach their own agreements.</p>	<p>Centrally led as government would determine the outcomes intermediary delivers.</p> <p>Intermediary may not be willing to sign a contract with government in absence of local areas.</p>
<b>Model 2</b>	<p>Easier for government to tailor commitments to specific areas – given benefits will vary area to area.</p> <p>Solutions driven at a local level.</p> <p>Allows more incremental development of contracts.</p> <p>Intermediary has certainty on payments at time of contract.</p>	<p>Could be slower for local areas and government to reach agreement through a single contract.</p> <p>Less certainty to local areas on what government support will be.</p> <p>Government has to enter into more contracts.</p>
<b>Model 3</b>	<p>Single contract between two parties.</p> <p>Local area contract best reflects that Early Intervention predominantly delivered at a local level.</p>	<p>Funding agreement could be reopened by government, providing limited certainty for local areas.</p> <p>Involves government entering into longer term funding agreements with local areas, potentially setting a precedent.</p>

## Annex G

# Case study: Private Equity Foundation proposal for a Social Investment Fund for Disadvantaged Children

The Private Equity Foundation (a registered charity) has developed a proposition for a Social Investment Fund for Disadvantaged Children which would draw new private investment in programmes for disadvantaged children and generate cashable savings.

The Social Investment Fund would be initially commissioned to raise numeracy for primary school children who are struggling, reduce truancy and improve behaviour of children who are disengaging at school. The fund raises investment from private investors to pay charities with a proven track record to deliver the outcomes. The fund would run for seven years.

The commissioner pays when successful outcomes are delivered; if successful outcomes are not delivered, the commissioner does not pay. The risk of failure of the intervention is solely born by the investors and responsibility for managing the programme sits with the fund. The delivery of outcomes will be independently audited.

The Private Equity Foundation has selected **Numbers Count** (the intervention provided by Every Child Counts) and **School Home Support** as the first interventions to be provided by the fund. The details of the programmes are included below.

	Numbers Count	School Home Support
Intervention	Numeracy tuition for children who are struggling	Support for children disengaging or acting up in school and their families
Target outcomes	Increased numeracy in KSI tests	Increased attendance, reduced bad behaviour and reduced exclusions
Target cohort	Bottom 5% of children in Year 2 (aged 6–7)	Primary and secondary pupils referred by teachers for non-attendance, disengaging or being disruptive
Cohort size	£5 million upfront investment and annual payments for success of approximately £5 million a year would allow the programme to reach approximately 31,000 children	£5 million upfront investment and annual payments for success of approximately £5 million a year would allow the programme to reach approximately 27,700 children
Timescale	September 2011 to September 2018	September 2011 to September 2018
Composition of cashable savings	Special educational needs (SEN) provision, exclusions (alternative places) and truancy. Longer term tax/benefit savings due to numeracy links with employment	Behaviour (teacher assistants, welfare officers' time, behaviour programmes), exclusions, truancy and NEET (Not in Education, Employment or Training) costs

These interventions were chosen because they:

- provide very clear, objective metrics that allow success, failure and distance travelled by a child to be measured easily and independently;
- have a proven track record of delivering in the UK context, which will be necessary to attract investors; and
- provide cashable savings to the public purse, for example by reducing SEN provision and exclusions, which are greater than the cost to central and local government of making payments for success to the fund.

Independent modelling (by KPMG Foundation and Matrix Evidence) estimated that with a fund comprising £5 million upfront investment from private investors and annual payments for success in the region of £5 million a year:

- Numbers Count will deliver cashable savings to government in the region of £100 million over 10 years; and
- School Home Support will deliver cashable savings to government in the region of £37–79 million over eight years depending on the profile of children.

The cashable savings to government increase over time as these young people stay on the path of attainment, achievement and employment rather than follow the path of failure, truancy, exclusion and becoming NEET.

This proposal provides a simple and easily scalable model for attracting private investment in programmes for disadvantaged children. The fund can easily expand to other early interventions that deliver cashable savings to government, a proven track record of delivery and clear objective metrics. Competing funds could be developed, run by different social intermediaries, creating choice for commissioners and investors.

## Annex H

### Funds and bonds

#### Options for structuring a fund

One of the key questions is the type of investor a fund is open to, and how this impacts on both the rate of return and the ability to transfer risk. Figure H1 sets out three broad investor models:

**Figure H1: Three options for structuring a fund**



- Simple model
- Accessing philanthropists and social investors would be a more expensive approach, as they would expect the same returns as normal investors

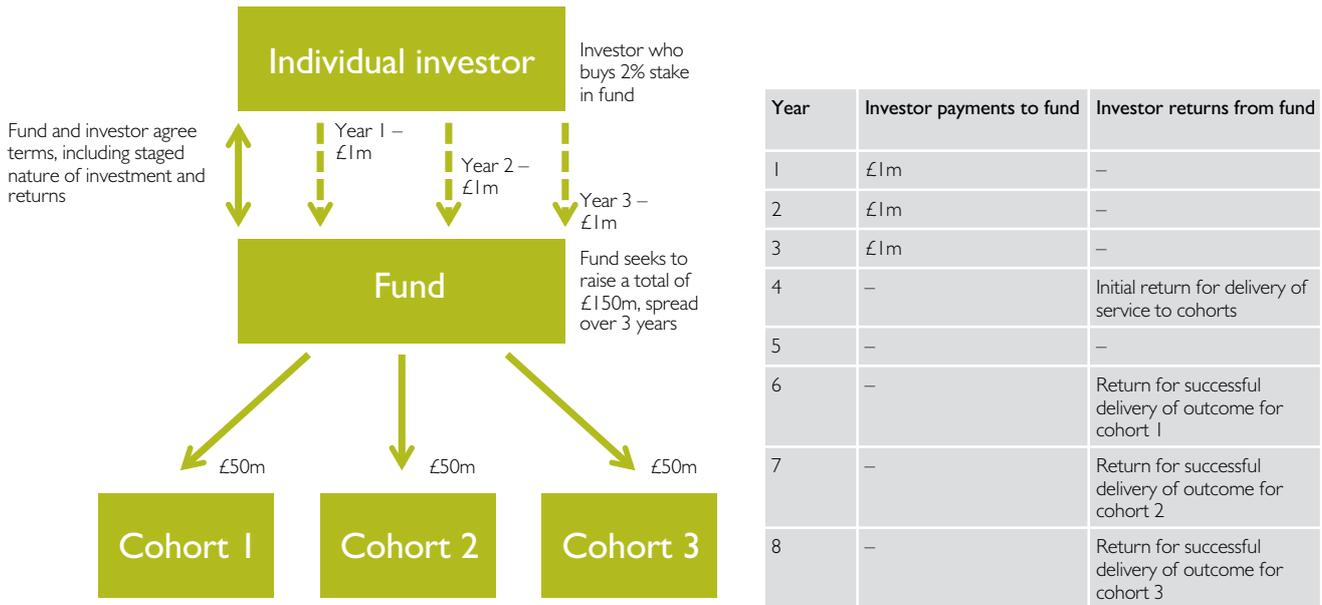
- Adds complexity
- Could bring down the overall cost of finance
- Might not be sufficient investors willing to take greater level of risk

- A more complex model
- May only be suitable for a larger fund
- Would bring down the overall cost of finance
- Could help to leverage in equity investors
- Would reduce risk transfer or lead to greater risk for other investors

It is likely that the third option, which includes the possibility for debt finance, would be developed over the longer term once the market has established itself.

Key to any agreement between local/central government and a fund will be when returns will be paid, which in turn will impact on the type of investors that will be willing to invest. Figure H2 sets out one way that investments and returns could be structured:

**Figure H2: How investments and returns could be structured**



**Options for a government bond – little or no risk transfer**

The Government raises finance for public spending through a range of means, including:

- issuing gilts to the financial markets through the Debt Management Office (government bonds, whereby investors such as banks and pension funds loan the Government money over a specified period);
- issuing retail gilts to individual investors through National Savings & Investments (NS&I); and
- taxation (funds raised through Income Tax, Corporation Tax, etc).

Taxation cannot be hypothecated for specific purposes. The Government says this is for a number of reasons, including:

- ensuring that funds raised from taxation can be allocated according to the priorities of the Government of the time;

- enabling greater flexibility to address any unexpected spending pressures or crises; and
- ensuring that taxpayers know that their payments are funding expenditure as part of a fair and democratic process.

Given the public expenditure regime currently in place and the resistance to the raising of money by local authorities, it may be that the traditional taboo of hypothecation should be reconvened as part of the Treasury-led budget review recommended in Chapter 7.

Gilts (government bonds) are issued by HM Treasury, and listed on the London Stock Exchange. They are seen to be extremely low risk by investors, in part due to the fact that the Government has never defaulted. Part of the main appeal to investors (which are typically banks or insurance companies) is the liquidity associated with gilts. Ensuring that gilts are as broad based as possible means, therefore, that the Government can maximise liquidity and keep the cost lower than would be the case if the Government issued

specific Early Intervention gilts, as these would be less liquid and therefore more expensive. In addition, there are strict rules governing the hypothecation of funds raised through government gilts. A better alternative would, therefore, be for the Government to simply issue conventional gilts, but then to prioritise spending on Early Intervention programmes.

An alternative to a government Early Intervention bond, however, would be for the Government to issue bonds to retail investors, where liquidity is less of an issue and there is a greater case for thematic appeal. This could be distributed to investors through NS&I, using entities such as the Post Office. It could be argued that the thematic nature would attract additional investors that otherwise would not have purchased government bonds. This may in fact be more appealing than issuing additional gilts. While issuing additional gilts would impact the cost of raising money through gilts (by increasing supply to the market), issuing a niche product to new investors through NS&I would not have a commensurate impact on gilt pricing. Hence, it can work out as a more cost-effective means of raising money overall.

It could be possible for NS&I to issue a specific Early Intervention bond, or a bond with a wider focus (for example, a babies and children futures bond), in order to raise additional finance for government to invest in programmes. NS&I retail products can represent a cost-effective means for government to raise funds, as they enable diversification of the investor base and have a large amount of credibility associated with their name. The specific theme could be of particular appeal to some retail investors that want to improve outcomes for babies and children in the UK. However, the same hypothecation issues would remain, and legislative change would be needed to allow this.

There are many examples of governments having raised finance through retail savings products, and these are of comparable scale to what is needed to eradicate social dysfunction in the UK:

- **War bonds.** These have been issued by governments for the purposes of funding military operations when a country is going through war, offering civilians the opportunity to contribute towards the war effort. Appealing to the patriotism of investors enables governments to offer the bonds at a below-market yield, thus making it cheaper for government at a time when it will struggle to borrow. Declaring war on underachievement has obvious parallels.
- **Irish solidarity bond.** In 2010, the Irish Government launched a retail savings bond in order to raise additional investment for infrastructure, stimulating economic recovery and creation of employment. These 10-year bonds offered a 50% gross return to investors, 40% of which was offered as a tax-free lump sum for incentivising savers to keep their money invested until maturity. Given the very attractive terms of the bond, in five months the bond succeeded in raising 255 million euro. However, there should be some caution when considering the Irish example – while it helps to raise finance cheaply in the first instance, it makes the cost of finance upon payment of the final coupon very high.
- **IFFIm bonds.** The International Finance Facility for Immunisation (IFFIm) raises finance for international immunisation programmes in developing countries through public bonds, on the back of government pledges for aid. This enables longer term government pledges for aid to be used to repay the bonds, creating immediately available cash for investment in vaccinations. A number of governments around the world support the bonds. So far they have succeeded in raising US\$3 billion. The IFFIm model, therefore, is a means of front-loading money that would have been spent by governments anyway, and hence has similarities to Early Intervention work whereby a small percentage of long-term savings are invested in order to create them.

#### How would a government retail Early Intervention bond work?

An Early Intervention government retail bond could be distributed through NS&I, and would have potentially less of an impact on gilts pricing through attracting a different investor group. The investment would also aim to generate future savings for government.

Under this model, government would retain outcome-based delivery risk. While investment could generate future savings for government, the absence of risk transfer means that returns to investors would be fixed and would need to be accounted for through future taxation or borrowing income. Because government would issue the bond and create a liability, raising money through this route would under the current rules, despite significantly reducing future public sector expenditure on the cost of failure, be said to increase public sector debt levels. Clarity of focus on how the money raised will be used to achieve specific outcomes, for example to help a baby to thrive to avoid costly support later, would increase the attractiveness to many high street investors.

#### Introducing outcomes into a bond

An alternative is to consider whether the Early Intervention Fund or an alternative organisation could issue bonds. In this context, it is worth considering how a performance-related element could be added to such a product. There are a number of different ways of structuring a bond so that it includes a performance element. These different models depend largely on the scale of the money sought, and can be structured so that there are different amounts of risk transferred. A capital-protected bond, for instance, can provide investors with reassurance that they will receive a certain amount of their principal back, no matter what. The remainder can then be invested on a performance basis. The investor would receive interest, either as a variable coupon at intervals throughout the term of the bond or as a final coupon at the end. The certainty of repayment can be provided by:

- a guarantee (either central government or another entity that might benefit from the outcomes delivered); or
- if the underlying fund is large enough, the fund structures (i.e. if there is a tranche of equity investment in the fund).

The capital-protected part of the bond can be invested in very safe-rated investments (likely to be outside of Early Intervention).

#### Providing a guarantee

Government or other parties could guarantee to investors that they will receive a certain proportion of their principal amount back. A guarantee would help to significantly reduce the cost of finance, as investors would be taking less of a risk. This would attract institutional investors, and would help to achieve a model of larger scale. However, shifting the balance of risk onto central government is unlikely to appeal in the current fiscal context, whereby a guarantee will be seen, not as a way of reducing future spending on failure, but as an immediate additional spending pressure. Thinking these issues through may help to drive the necessary change in default behaviours in Whitehall described earlier in this Report. Additionally, it could mean that the barriers of state aid implications would need to be addressed.

It is possible, however, that instead of the Government, other organisations that benefit from the investment could provide a guarantee. For instance, a social housing authority or police service might benefit from a local Early Intervention programme on their area, and might therefore be prepared to provide a partial guarantee. This would, however, need to be negotiated on a case-by-case basis, according to each individual contract.

#### Using the fund structures

In a larger scale model, it could be possible to use tranches of the underlying fund in order to help to provide greater certainty to investors, for instance using the existing equity as a 'cushion'.

#### Capital-protected bond

Capital-protected models are likely to be less applicable to larger sized investments. They could, however, provide some options for raising smaller amounts of money.

It may be the case that starting from scratch and issuing a fully thematic Early Intervention bond is a difficult starting point, although there is a growing ethical sector market. Before making an appeal to a wider group of investors, it may be more practical to consider options that involve piggybacking on the investor base for an existing product, where a track record and investor base already exist.

### Options

One option would be to offer a bond that promises the investor a proportion of their original capital back. For instance, 80% of the investor's funds could be put into highly rated investments (not necessarily related to Early Intervention). When these investments are paid back with interest over a longer period (say 10 years), the investor receives an amount that equals their original capital. Meanwhile, the remaining 20% is invested in Early Intervention programmes, and a variable coupon paid back when their investment has resulted in successful outcomes for babies and children. It could be possible to provide a capital-protected Early Intervention bond where 80% of the investor's money is used for loans to organisations that deliver Early Intervention (via an ethical bank or community development finance institution). The investor would receive their money back from the bank, once the bank had received the loans (and interest) repaid from the commissioners. The remaining 20% of the principal amount could be invested in a performance-related Early Intervention Fund, which would be used for programme delivery (including the public sector). This model would ensure that all the money is directed at Early Intervention, but only 20% of it would be outcome focused. Of course, these instruments would be tradable and that in itself would be a market measure of how well Early Intervention was doing.

An alternative to this would be for 100% of the original investment to be used for safe highly rated investments. The investor knows that they are going to get back their principal investment, plus interest. The investor could agree to the additional interest being reinvested in Early Intervention programmes throughout the term of the bond. This latter amount would be invested on an outcomes basis, enabling the investor to increase

the value of their interest payments (or potentially lose it if no outcomes are successfully delivered). The disadvantage, however, would be the time delay before investment could be made in Early Intervention.

However, it is worth being aware that the more complex the structure of the model, the less attractive it will be to the majority of investors. In particular, it could blur any message that this is a social investment for Early Intervention. It is also hard to scale up such options, given the proportionately small amount of the total investment that is used for the social cause.

### Full risk/reward model

An alternative option would be to offer a product whereby the investor takes on more of the overall risk themselves. Models used in Islamic finance may have some application here, whereby the investor's money is put into an underlying investment fund or joint venture. Therefore, an Early Intervention bond could be issued, and then either:

- the recipient of the monies acts as an investment manager, investing funds in projects in order to seek a return. Some or all of these could be Early Intervention; or
- a joint venture is established between the issuer and its customers on a profit and loss sharing basis – both contribute capital. Central or local government could therefore take a tranche of risk in the joint venture.

These options start to look more like equity, however, and are likely to be more expensive.

### Who would issue the bonds?

In considering who takes on the majority of risk transfer, there are a number of options as to who could issue Early Intervention bonds. These include:

- creation of a new not-for-profit entity;
- use of an existing entity; and
- government (distribution through NS&I or institution such as the Post Office).

### Creating a new entity to hold the Early Intervention Fund and issue Early Intervention bonds

A new institution could be created to issue the bonds, on behalf of Early Intervention programmes. The main challenges of this approach, however, are as follows:

- The time taken to establish a new institution will mean it will take much longer before any bond could be issued.
- A new institution would not have the existing client base to draw upon. Investors would not have the same levels of confidence in a new entity, meaning potentially higher costs of finance.
- A new issuing body would need to meet a number of complex regulatory and legal standards, which again would be extremely time-consuming to achieve.

However, establishment of a new entity could help in developing a trusted 'brand' for investors, particularly if local/central government pays for outcomes.

### Medium term note programmes

Medium term note (MTN) programmes provide flexibility for issuing notes quickly and accessing wholesale debt investors easily at reduced documentation cost. The documentation process is simplified because many of the arrangements (including agents and listing) are already in place and allow a wide range of products to be issued. The conditions of the notes establish certain legally sensitive ('non-pricing') provisions upon which notes are based – these typically tend not to be varied for the duration of the outstanding programme. Estimated set-up costs are material and, in the context of £150,000, largely comprised of legal costs; it would typically take between two and three months for a new 'financial' credit to be realised.

Some of the key documents of an MTN programme are as follows:

- Base prospectus – sets out clearly the terms and conditions of the notes that will eventually be issued under the MTN programme. The base prospectus also contains financial information and a general business description of the issuer and is required to contain all necessary information that will enable investors to make an informed assessment of the credit.
- Programme agreement – forms the contractual agreement between the issuer and the dealers and sets out the basis on which the dealers will buy the notes issued by the issuer. It also contains the representations, warranties, undertakings and indemnities to be given by the issuer to the dealers, and the conditions precedent which must be satisfied before any issuance takes place. This document usually contains the pro forma subscription agreement used for syndicated notes issues.
- Paying agency agreement – forms the contractual agreement between the issuer and the appointed paying agent(s) and sets out the process by which interest and principal are paid to noteholders. It further sets out certain other formal matters that may require attention, such as safekeeping of notes and the publication of notices.
- Listing documents – in addition to the principal documents listed above, there are various standard administrative documents that will be required in order to obtain full listing for the MTN programme on the London Stock Exchange, for example the application for listing.

Facilitating investor participation and achieving a scalable issuance architecture from day one will be critical to the success of the scheme and to achieving cost-effective access to wholesale debt investors.

# Annex I

## Individual Savings Accounts

### Junior Individual Savings Accounts

Junior ISAs have the positive aspect of long-term savings, which is good in respect of longer timescales associated with Early Intervention, but investing ISA funds in Early Intervention does carry the risk of loss of savings because of the performance element of return. Children's savings may not be something parents are willing to take a risk of return on, so a Junior ISA which encompasses the element of investing in Early Intervention may not achieve enough interest. However, this is for the financial market to investigate.

A tiered fund could create a more viable option for Junior ISAs. A tiered fund can be divided into different tranches of investors, for example charities, ISA investors, etc. A fund designed to attract investment for Early Intervention could be tiered into different risk tranches. These tranches could have different levels of risk associated with them, whereby some tranches could take on more risk than others. The ISA investors could be placed in a tranche with less risk, so they would be 'safer' if successful outcomes were not reached.

However, we have also found research that shows that individuals who have children at home become less likely to invest socially/ethically as they get older. 'For those with children at home, it is possible that a desire to invest socially/ethically when younger is overtaken by other factors as their children's age. The amount of investment assets is not particularly substantial among this group, especially when taking into account

educational, accommodation and other needs of children as they become older.'<sup>1</sup>

This may suggest that Junior ISAs that invest in Early Intervention may not be attractive enough for individuals, who are less likely to invest their assets socially/ethically as they get older.

- The new features of the Junior ISA are:
  - children living in the UK who do not have a Child Trust Fund account will be able to have a Junior ISA;
  - people will be able to put money into a cash account or 'stocks and shares' account;
  - each child will be able to have one cash and one 'stocks and shares' Junior ISA at any one time;
  - there will be a total yearly limit of £3,000 for all payments into these accounts; and
  - accounts will become ISAs when the child is 18.
- As with Child Trust Funds, the following will apply to Junior ISAs:
  - the accounts will belong to the child and they will not be able to withdraw money until they are 18;
  - any money the accounts make will be tax free; and
  - a range of banks, building societies, credit unions, friendly societies and stockbrokers will offer Junior ISA accounts.<sup>2</sup>

## Early Intervention/ethical ISA

An ISA provides a tax-free wrapper under which a range of investments can be made. This enables individuals to save money on a tax-free basis, up to a certain allocation annually. An ISA could give investors the option to link their tax-free savings to Early Intervention. This would be an option to consider in order to encourage further investment in Early Intervention once the Early Intervention Fund has been developed. There are two types of ISA available:

- **cash ISA:** offers an individual allowance of £5,340 per annum. Once the investor's money is deposited, the bank decides how this money is invested, seeking to maximise returns. The money is not ringfenced for particular purposes by the bank when it invests, and the bank takes on the risk of being able to deliver a specified interest rate to its customers; and
- **stocks and shares ISA:** offers an individual allowance of up to £10,680 per annum. The investor can choose the portfolio of investments for their savings to be invested in, meaning the value can go up or down. While the ISA account manager will try to establish the best package of investments, the investor takes on the risk, diversified across their package of investments.

A thematic ISA could provide a tax-free vehicle for attracting investment for Early Intervention. Ethical ISAs provide a potential model of how an

Early Intervention ISA might work, and demonstrate that there is a market for investors that want their money to be used in a more socially responsible manner. There is a proven range of investors within this market that are interested in investing their money in a good cause with a fairly competitive rate of return.

A thematic Early Intervention ISA could therefore be structured either as a cash ISA or as a stocks and shares ISA.

### Encourage the market to develop Early Intervention-specific ISAs

To do this we will need to prove that they are a worthwhile investment for the banks and government, and that there would be a sufficient market for those looking to invest in babies, children and young people. There are different ways we could do this. One proposal would be to offer an accreditation associated with the ISAs that could present an official endorsement in this field. This would be a market-only solution, without government paying returns for outcomes. So, for instance, the ISA might invest on a commercial basis in charities and organisations that deliver services to babies, children and young people (through best evidence-based policies listed by the independent Early Intervention Foundation).

However, there would not be any direct link with specific outcomes as a result of programmes under this model.

### Case study: Charity Bank

Charity Bank has recently introduced an ethical cash ISA where investors' money is loaned to charitable organisations. These ISAs were created in response to both demand from customers and the banks' social remit in setting up something like this.

The money from this currently goes into a general pot and is loaned out to these various charitable organisations. They will only lend money to the charities if it is used for a charitable purpose. Charity Bank is looking to make these ISAs more thematic as it has identified a market demand and wants to support that demand.

The fact that Charity Bank loans the money to charitable organisations means that it will always receive interest, which will create enough of a return for its customers. Its rate of return is fairly competitive, which would make it worthwhile for the investors and provide the incentive that their money will have a positive social impact.

### Develop a model that includes an outcome-based payment element to the ISA

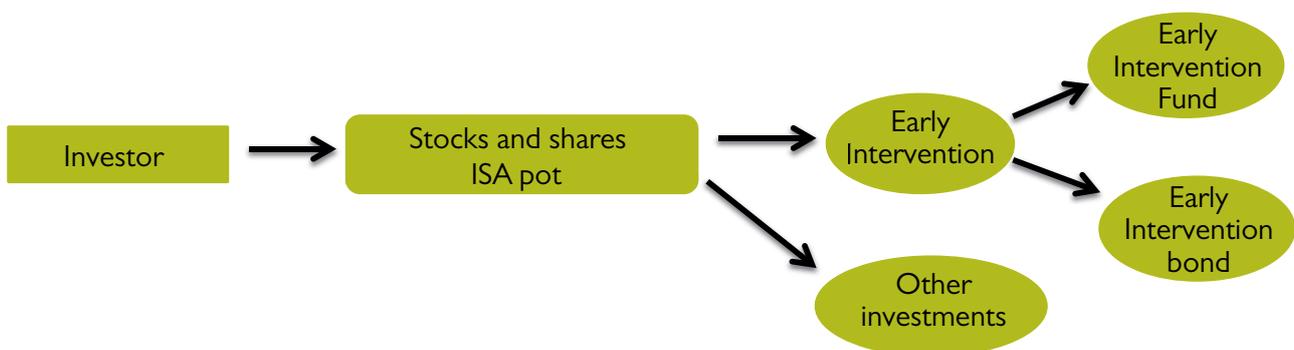
- **Cash ISA with an ethical bank**, whereby a proportion of the pot of money is used to invest in Early Intervention on an outcome-based basis. The incentive for the bank would be a potentially higher return than that provided for the remainder of the investment, some of which would be passed on to the investor.

Figure 11: Ethical cash ISA model



- **Stocks and shares ISA with any bank**, whereby Early Intervention products could provide an option for part of the portfolio of investment (probably as part of an ethical ISA). The investor could choose to invest a proportion of its funds in an Early Intervention Fund or bond. If the investments are successful in producing outcomes, a return is paid. The investor therefore takes on the risk itself, as it does with the remainder of its portfolio of investments. There is less of a risk though, as only a small percentage of investment will go into Early Intervention and the remainder will be invested in more proven reliable investments chosen by the investor.

Figure 12: Ethical stocks and shares ISA model



When the Early Intervention Fund is developed, it could include a tranche of Early Intervention investments for the ISA retail investor:

- **Increase the ISA allowance for these types of investment**, given the benefits for government. An investor would be allowed an additional £200 allowance, for instance, where that additional money is used for Early Intervention investments. This could include the option

of using the allowance for social investment generally, or for specific investments, such as in the field of babies, children and young people. For this option, future savings to government need to outweigh loss of revenue from tax.

The centrally co-ordinated team could initially research the case for increasing the ISA allowance for individual investors that invest in Early Intervention or social investment more generally. They could then advise HM Treasury on the best approach for this.

There has been research carried out in the Ipsos MORI report – *Investing for the Good of Society* – on a Social Investment Fund idea where the ability

to hold the investment in an ISA was viewed as the most positive aspect by 47% of individuals interviewed. The option given was to be able to offset any capital losses on the Social Investment Fund against the tax bill up to a certain limit, which was appealing to more than a third of individuals interviewed.

**Table II: Pros and cons of what best meets the needs of Early Intervention**

	<b>Early Intervention-specific ISAs</b>	<b>Ethical cash ISA</b>	<b>Ethical stocks and shares ISA</b>	<b>Increase ISA allowance</b>
Pros	<p>Positive social impact that could attract more investors.</p> <p>Government wouldn't need to pay a return for successful outcomes.</p>	<p>Safer for investors, which will always receive a return.</p> <p>Positive social impact that could attract more investors.</p> <p>Already a proven market and range of investors.</p>	<p>Investment is still made in other potentially more reliable investments in order to gain a significant return.</p> <p>Positive social impact that could attract more investors.</p>	<p>Would ensure money is being invested in social investments.</p>
Cons	<p>May be too specific, therefore leading to fewer investors.</p> <p>No direct link yet to specific outcomes as a result of successful implementation of programmes.</p>	<p>Not as high a return as some other cash ISAs.</p>	<p>Slightly more risky, given that investing in an outcome-based model.</p> <p>Need to establish Early Intervention products for portfolio.</p>	<p>Treasury may find that there is a loss in revenue and it may not be worthwhile for government if the product is not attractive enough.</p>

## Notes

1 Elliot A (2011) *Investing for the Good of Society: Why and how wealthy nations respond*. London: The FairBanking Foundation, NESTA and Ipsos MORI.

2 [www.direct.gov.uk/en/MoneyTaxAndBenefits/index.htm](http://www.direct.gov.uk/en/MoneyTaxAndBenefits/index.htm)

# Annex J

## Consultation

### List of organisations and people who spoke to Graham Allen MP and/or the Review Team during the preparation of this Report

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Department for Education

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Hutchings, Judy, Incredible Years, University of Bangor

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Taylor, Mike, Metropolitan Police  
and representatives from UK government departments

**Graham Allen and the Review Team are also grateful for the help and support of members of the Report's Virtual Finance Working Group**

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Blakebrough, Adele, Social Business Trust

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 Hopkins, Cheryl, Birmingham City Council  
 Houseley, Matthew, RBC Capital Markets  
 Hughes, Richard, Capgemini  
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 Raynes, Paul, Local Government Association  
 Ridge, Michael, Frontier Economics  
 Robinson, Chris, Mayor's Fund for London  
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 Ross, Anthony, Bridge Ventures  
 Rutherford, Tom, JP Morgan

Salz, Anthony, Rothschild  
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 Sloan, Alan, JP Morgan  
 Sloan, Duncan, Royal Bank of Scotland  
 Stevens, Ben, GH Capital  
 Tsui, Aaron, Barclays Capital  
 Turner, James, Sutton Trust  
 Vaccaro, James, Triodos  
 Waite, Matthew, Greater London Authority  
 Watts, Bevis, Triodos  
 Weber, Martin, Goldman Sachs  
 Welppe, Ralph, Deutsche Bank  
 Wilcox, Richard, Co-Operative Financial Services  
 and representatives from UK government departments.

#### Early Intervention Places

Birmingham City Council  
 Blackpool Borough Council  
 Bradford City Council  
 Brighton and Hove City Council  
 Croydon, London Borough of  
 East Sussex County Council  
 Gateshead Council, City of  
 Gloucestershire County Council  
 Haringey, London Borough of  
 Harrow, London Borough of  
 Havering, London Borough of  
 Hertfordshire County Council  
 Hounslow, London Borough of  
 Hull City Council  
 Islington, London Borough of  
 Kingston-Upon-Thames, Royal Borough of  
 Lambeth, London Borough of  
 Lancashire County Council

Manchester City Council

Nottingham City Council

Portsmouth City Council

Somerset County Council

Staffordshire County Council

Stoke-on-Trent City Council

Wakefield Council

Warrington Borough Council

Westminster City Council

## The three major party leaders support action on Early Intervention

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### Rt Hon David Cameron MP

Prime Minister and Leader of the Conservative Party

'Graham Allen's second report on Early Intervention provides an important step forward in the fight to eradicate poverty in this country. He convincingly argues the economic, fiscal and moral case for switching public spending from dealing with the causes of social failure towards investing in programmes that prevent that failure in the first place, and provides some practical steps to help government make this transition. But just as importantly, he has demonstrated that this is a mission that belongs not just to the state alone – the private and voluntary sectors must play a role in the financing of Early Intervention for it to be successful, especially when the public finances are constrained. I welcome this Big Society approach towards our shared goal of making British poverty history, and I am grateful to Graham for his excellent work.'

---



### Rt Hon Nick Clegg MP

Deputy Prime Minister and Leader of the Liberal Democrat Party

'Early intervention is vital for social mobility, as Graham's first report confirmed. We have always known that Early Intervention is cheaper and more effective than waiting to tackle problems after they have taken root. The difficulty has often been finding the right mechanisms to draw in the necessary investment early enough in the life cycle, as well as reliably predict and capture the savings. Graham's second report provides a wealth of ideas on how to plug this financing gap, and will be a spur to action both inside and outside government.'

---



### Rt Hon Ed Miliband MP

Leader of the Labour Party and leader of the Opposition

'I warmly welcome this report and Graham Allen's thinking on the funding of Early Intervention. Early Intervention to reduce the risks of passing disadvantage from generation to generation is a long-term project. It requires not just "patient capital" but patient politics – including the commitment of all parties to realise the vision of an approach where we consistently help early enough in life to prevent problems in the first place. Graham's independent report, its proposals and its call to action must be heeded by us all. It is right to argue that, alongside public funding, the private sector, philanthropic foundations, mutuals, charities and individuals must also play their full part in funding successful Early Intervention programmes. In the coming years we will need to place greater emphasis on creative thinking to use funding better and doing this must start with government itself being open to new ideas.'

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Any enquiries regarding this document should be sent to us at: [eifinancingallenreview@cabinet-office.x.gsi.gov.uk](mailto:eifinancingallenreview@cabinet-office.x.gsi.gov.uk)

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