

West London Zone Collective Impact Bond

An indepth review

Produced as part of the
Commissioning Better
Outcomes Fund
Evaluation

1 Summary

The West London Zone (WLZ) Collective Impact Bond (or Social Impact Bond, henceforth 'SIB') proposes to bring together public, private and social-sector agencies to better commission and deliver early intervention services within a targeted area in West London. 'Collective impact' is at the heart of the WLZ intervention; this is the aspiration that, through a shared partnership and vision, multiple agencies can work effectively together to solve a complex problem.¹

The shared vision in WLZ is to improve the outcomes of children identified to be at risk of poorer life chances, but who are not currently well supported by existing services. The SIB summarised in Figure 1 presents a way to test a long-term and financially sustainable solution for catalysing systems change. It enables WLZ to involve a range of mostly local delivery partners, and to combine a number of new, or cautious but interested, commissioners to fund the approach – by combining repayable investment with public and private philanthropic co-commissioning – in order to build a collective focus on the needs of the children and their outcomes.

Why use a Commissioning Better Outcomes (CBO)-funded SIB?



Share the financial risk of commissioning an innovative collective impact intervention with a social investor until outcomes are proven, when starting out with limited pilot evidence on efficacy for the proposed outcomes and new relationships between the management organisation (WLZ) and delivery partners (25 Voluntary and Community organisations and Social Enterprises, VCSEs).



Engage different public (and philanthropic) commissioners to fund the successful outcomes of the intervention, with the incentive that part of the payments will be shared with the other commissioners and topped up by CBO funding.



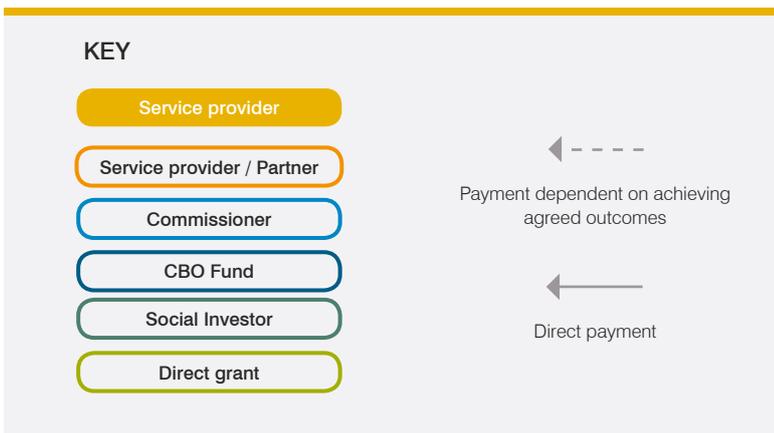
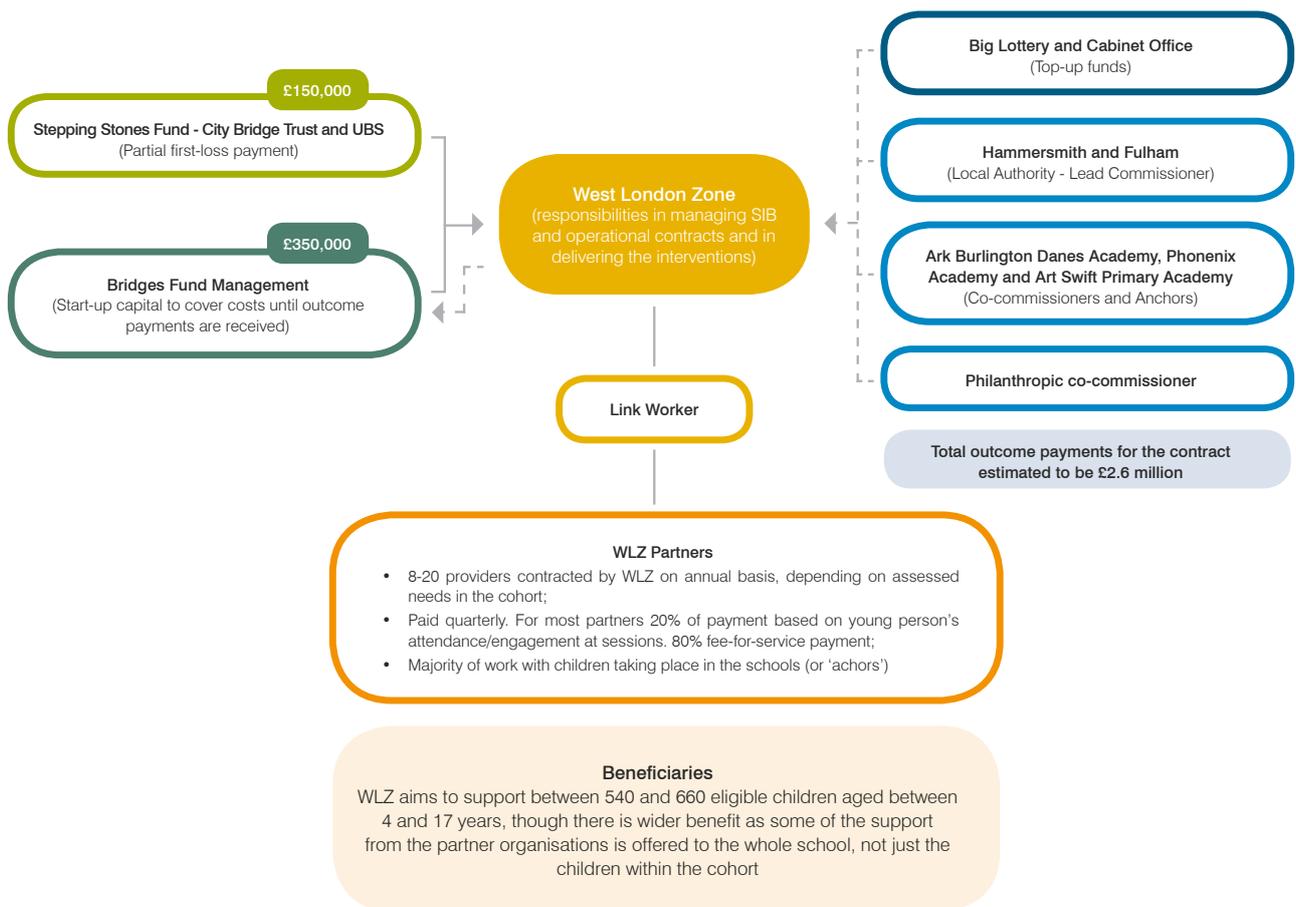
Access to immediate funding (£350,000) for local voluntary and community sectors to pump-prime their work with a group of at-risk children not receiving support from other services, until payments for outcomes start to flow from commissioners.



Increase the value for money and accountability within both the funding and delivery of early invention by unlocking resources and making the most of shared interests in social impact in an area of London that has access to both public and philanthropic sources of money.

¹ Accessed at: www.collaborationforimpact.com/collective-impact

Figure 1. The WLZ SIB contract



What is interesting about this SIB?

- **The WLZ executive team holds a dual function in the SIB.** It is responsible for managing the financial contract with the investors and commissioners as well as the operational elements, including coordinating the Link Workers, implementing the data analysis to identify the cohorts and maintaining relationships with local partner organisations. This dual approach in managing the financial and operational elements is less common in SIBs. In other 'managed' SIBs, an organisation managing other service providers in the delivery, as in the WLZ, is the prime contractor and would typically appoint an intermediary to manage some of either the financial or operational activities.

However, WLZ was able to demonstrate that it could fulfil all essential requirements of this role (as the prime contractor managing the delivery organisations), as well as holding direct responsibilities in the delivery, so decided not to include a separate Special Purpose Vehicle or appoint an intermediary to fulfil specific tasks. Once the investors were confident in the WLZ executive team, the simple set-up was attractive to them. From their perspective, it was efficient to work directly with WLZ rather than through a third organisation and to support the building of ongoing capability within the local community which can ultimately further scale impact. Unlike in other SIBs, where the prime contractor is fully liable for the financial risk of the contract, WLZ is protected from the outcomes contract through the combination of first-loss capital (see below) and the non-recourse element of the investor loan (a part of the loan from the investors, which WLZ would not need to repay).

- **Piloting the operational model prior to the SIB.** WLZ was able to test its intervention in its zone prior to launching the SIB. The pilot, funded through philanthropic grants, generated relevant evidence to support the WLZ SIB proposal, which was important in the absence of a robust evidence base to support the proposed outcomes from the intervention, as well as WLZ's limited track record as a new service.
- **Opportunity to learn from the model during the first year.** The investors, commissioners and WLZ signed the SIB contract; however, it was agreed that the outcomes framework, including the engagement targets within that framework (detailed on p.12) could be reviewed and refined if necessary, as part of the first year of implementation. This was also possible and useful because the model needed to expand in the borough, including additional schools as co-commissioners for the later cohorts. This flexibility allowed stakeholders to improve the model, as they learnt from practice, and generated evidence of the relationship between the intervention and the measured outcomes.
- **Involvement of private philanthropists as co-commissioners.** The WLZ SIB was an opportunity to capitalise on the range of existing public and philanthropic funding available in the targeted area of West London. Combining the financial sources meant there was more money available for the service than would have been available if only drawing on one source, and therefore also helped create a long-term and more sustainable financing mechanism for this early intervention service.

What are the successes?

Successful multi-commissioner engagement.

WLZ has successfully engaged multiple commissioners, where other SIBs have faced challenges or failed to do so. The multi-commissioner element was attractive to the local authority as it meant they could share the expense of a service they were interested in. The investors were attracted to the idea of including a local authority, schools and philanthropists in the funding model, especially as it offered a chance to explore the interests of schools as commissioners. Part of the success in engaging the different stakeholders was to do with the promise of the top-up funding from the CBO Fund. Several influential stakeholders in the sector, who were connected with the WLZ project and able to promote the idea amongst key stakeholders in education and the community, also helped with the successful engagement in the project.

Enabling a form of micro commissioning of 25 local community organisations to provide holistic early intervention.

The multi-provider element of the intervention was essential to WLZ's vision to support young people, who were vulnerable because of a range of needs, but mostly not currently picked up by local services or not having all their needs met by existing services. The investors and local authority also saw the potential of mobilising existing resources around this group of at-risk children. The local authority in particular saw WLZ's coordinating role in the service as a benefit to them. It meant that the local authority could engage with a range of voluntary services without needing to hold their own shorter-term contracts.

First-loss² capital provided as a grant.

City Bridge Trust and UBS awarded WLZ a grant to be used as partial first-loss payment for the investors, if the intervention was unsuccessful against its targets in the first year. This safety net within the model meant that the investors could essentially commit to a model with a number of innovative, and untested, elements. Importantly, though, if the SIB model was successful in the first year, then WLZ could use the grant from City Bridge Trust and UBS as additional money in their service. This therefore meant WLZ was still motivated to ensure the intervention was a success and only use the money as first-loss payment if necessary.

² First-loss capital is allocated in a manner that, in case of a loss, the money can be used to cover the losses.

What are the challenges?

Choosing the right outcomes and metrics

It took a long time to decide the outcome framework for the SIB contract. In part, the challenge reflected the tensions between WLZ's aspiration to demonstrate holistic improvements in the 'whole child' with their commitment to include indicators that were robust and reliable measures of change, as well as needing to balance the priorities of the different commissioners. From the local authority perspective, the outcomes needed to be aligned with the Troubled Families Programme as some of the same children would be eligible for both.

Including engagement targets in the SIB

The decision to include engagement targets as early payment triggers contributed to the challenges in deciding the outcome framework for the SIB. The local authority preferred a payment model that was based only on outcomes from the service, whereas WLZ was confident that the engagement targets were ambitious, untested and, therefore, engagement payments would be essential to achieving the outcomes. In the end, WLZ reached an agreement with the local authority by staggering the proportion of payments made based on engagement, so that by the third year, over 50 per cent of the payment per child was based on the outcomes from the service.

Awareness of contracting requirements

One of the delays in the process related to the service contract, which was issued by the council as a standard contract rather than the approved contract template for a SIB designed by the Cabinet Office. A legal firm working with the investors was recruited to adapt the contract to make it fit for purpose for payment by results (PbR). Although this caused delays, it ultimately ensured the procurement process was still followed correctly.

Capacity

Many of the processes involved in developing the SIB were new, challenging and demanding on WLZ's capacity, which was set up to be a small and innovative organisation. This related to both the extensive partnership and relationship building involved in the SIB design, but also the technical elements in deciding the outcome framework, the procurement process and service contracting.

What are the lessons learnt?

- 1 Flexibility on the part of the provider is important.** To navigate the complexity and challenges in the project, WLZ needed to accommodate requests from stakeholders and be both flexible and tenacious to maintain momentum on the project.
- 2 Investors are interested in SIBs' potential to impact on service structure as well as social impact.** In this project, the aim was not in the first instance to release immediate or even long-term savings to any one service as this is early intervention work, but rather to bring together key groups to better commission and deliver support, involving schools, local authority and private philanthropy. But there was a belief that the project will generate savings in the much longer term and that will be reviewed over time.
- 3 Influential stakeholders can be effective in promoting the need for a service as well as building the necessary relationships for a SIB.** WLZ had a strong executive team, including the chair of their organisation (former CEO) and other high-profile individuals (such as Sir Paul Marshall, Chair of Ark Schools), who had useful connections with stakeholders in education and the community.
- 4 Local authority commissioners still need help to understand (and effectively commission) SIBs.** This relates to awareness of the language and terminology used in SIBs, as well as the necessary processes and contracts needed to implement a SIB.
- 5 Service providers, like WLZ, still rely heavily on advice from other organisations, particularly for the technical elements in a SIB.** This includes designing an outcomes and payment structure and navigating the contracting process.
- 6 There are implications for involving community organisations in the SIB.** The data requirements or payment structures may be more complicated than other contracts and subsequently require additional time to set up. WLZ helps with this by offering direct support to its partners and ensures that the data required in the monitoring is as simple as possible.

Conclusions

Overall, the scope of the WLZ project was ambitious. Part of the success in contracting the project as a SIB reflects the shared vision and drive amongst the stakeholders to introduce efficiency and accountability within the early intervention sector and to support children at risk of poorer life chances who are mostly not currently accessing services. Stakeholders also recognised that WLZ was in a unique position to test the unusual multi-commissioner, multi-provider approach, given its growing organisational networks within an area of London where the idea of blending private and public money was feasible.

From a SIB perspective, the WLZ project is interesting because it shows that it has been possible to set up a SIB contract without a long track record of evidence underlying the outcomes and the intervention and with targets which therefore stretched performance beyond levels that had been experienced previously. In this case, investors felt comfortable investing directly in WLZ with these challenging targets because the WLZ executive team had demonstrated its ability to manage operational and financial aspects of delivery to a high standard during the grant-funded pilot, which tested WLZ's complex operational model in the local area. The investor confidence was also helped by the availability of 'first-loss capital' from another funder through the life of the SIB, which could have absorbed some of the losses if the outcomes were not achieved, and thus reduced the potential investor losses as well as WLZ's exposure to the outcomes contract. However, it should be noted that in the event of weak performance of the service (with losses exceeding those covered by the first-loss capital), a portion of the investor loan is 'non-recourse', meaning WLZ does not have to repay it. If losses from the service exceed both the first-loss capital and the non-recourse component of the investor loan, then WLZ, in its role managing the financial contract, would need to repay part of the loan. This is unusual as, in most SIBs, the prime contractor is fully liable for the finances of the contract. However, WLZ is similar to other SIBs in that the service providers are shielded from the risk of the outcomes contract and therefore cash-flow risk will not represent a distraction to service delivery.

The WLZ SIB model demonstrates several innovative features in its design: it is one of the few SIBs to focus on education outcomes, amongst others, but is one of the first to focus on primary-aged children; it has expanded the range of commissioners involved in SIBs in the UK to include schools and philanthropists; and it has successfully fostered new co-commissioning within the SIB set-up process. However, the innovative aspects of the design also posed significant challenges in the SIB development process. Most notably, the range of stakeholders needed to execute the model complicated the processes and increased the amount of time and resources needed in the decision-making for the SIB. The issues in WLZ highlight again the relational and technical challenges involved in setting up a SIB – and the need for external support for the process and to resolve potential issues. However, in this project, it was also the openness and flexibility of the WLZ executive team that was integral to the success of signing the SIB contracts. The WLZ team's responsiveness and willingness to adapt not only helped the SIB development process, but also enhanced WLZ's profile and relationships as an organisation within the community in which it wants to have greater impact.

A further interesting point regarding WLZ is the investor's decision to leave the initial SIB model open for review during the first year, as WLZ engaged additional schools as co-commissioners in the model. Although commissioners would need to agree to any such changes, this flexibility offered by the open contract meant that the commissioners, investors and WLZ had the opportunity to collaborate to find something that suits in practice, rather than being dictated by a fixed contract. This reflects the support amongst the stakeholders, particularly the investors, for the broader aim of the intervention to test an innovative relationship structure amongst the delivery and commissioning partners that could create systems change, rather than focusing on a targeted outcome or short-term cashable savings.

2

What is the SIB model?

The West London Zone (WLZ) Collective Impact Bond (or Social Impact Bond, henceforth 'SIB') proposes to bring together public, private and social-sector agencies to better commission and deliver early intervention services within a targeted area of West London. The focus on one area – the 'zone' – is so that over time, through better intervention with a specific group of at-risk children and cohesion amongst the local services, a community will change, leading to longer-term collective impact from the model.

'Collective impact' is at the heart of the WLZ intervention. This is the aspiration that, through a shared partnership and vision, multiple agencies can work effectively together to solve a complex problem.³ The shared vision in WLZ is to improve the life chances of children identified to be at risk, but who are not currently well supported by existing services. Specifically, WLZ aims to identify children in the bottom 20 per cent in terms of academic attainment and then to support them holistically, by coordinating support from local services, to a point where they are 'flourishing' (that is, developmentally at a point no longer considered 'at risk').

The SIB presents a way of testing a long-term and financially sustainable solution for catalysing systems change. It enables WLZ to involve a range of local delivery partners and to combine a number of new, or cautious but interested, commissioners to fund the approach – by combining repayable investment with public and private philanthropic co-commissioning – in order to build a collective focus on the needs of the children and their outcomes. WLZ also believes that the SIB presents an opportunity to increase the level of formal monitoring and accountability within provision and funding arrangements for local early intervention. The chair of WLZ, and former CEO during the SIB development, explained that it had always been his aspiration to include social investment as a way of funding the WLZ intervention initially, while embedding longer-term support from private and public funding. The Commissioning Better Outcomes (CBO) funding offered a chance to explore the option of a SIB properly.

In the first year of the SIB, WLZ operated in three academy schools in the northern part of the London Borough (LB) of Hammersmith and Fulham, and almost all of the mostly local partners offered their early intervention support in these schools. During the course of the current SIB contract, additional schools in the locality will come on board as commissioners in the subsequent cohorts of the intervention. This is essential for the success of the project as WLZ needs to identify enough children for the cohorts such that the investors receive return payments on their investment.

In keeping with the aspiration to achieve long-term and collective impact in the area, there are plans to expand the WLZ model to deliver to a wider area, covering parts of the Royal Borough of Kensington and Chelsea, Westminster and Brent local authorities. Over the course of a decade, the aim is to have had an impact on up to 11,000 at-risk children and young people, which is the proportion (approximately 20 per cent) of school-age children and young people living in this area deemed to be at risk. Part of the CBO funding will support the first step in this expansion. WLZ also received a public health grant from Royal Borough of Kensington and Chelsea to deliver a pilot project in the north of that borough from 2017 to 2020.

³ Accessed at: www.collaborationforimpact.com/collective-impact

The intervention

The WLZ intervention brings together a number of key stakeholder groups within LB Hammersmith and Fulham involved in the local delivery or funding of early intervention support. These stakeholders can be subdivided into those involved in delivering the WLZ intervention and those involved in the funding the intervention.

Stakeholder groups involved in delivering the WLZ intervention

WLZ, or the 'backbone' organisation.⁴ Within the intervention and SIB, WLZ's small executive team⁵ has a dual management and delivery role.

- **In its management role**, the WLZ team is responsible for managing the relationships with the commissioners and the investors in the SIB to ensure that the financial elements of the intervention are met. It is also responsible for the contracts and relationships with the mostly local partners involved in the delivery of the intervention. Finally, the WLZ team conducts work that, currently, falls outside of the SIB-funded delivery, for example delivering work in Early Years (pre-school) settings.
- **In its delivery function**, WLZ employs five Link Workers (Box 1), four of whom work as part of the SIB (the other one is a Link Worker within Early Years), a data analyst to collect and analyse data from schools to identify the cohorts of children eligible for support, and a partnerships officer to manage delivery by the mostly local partners. The WLZ delivery function is a crucial dimension of the overall operational model; it positions the WLZ team as part of the intervention rather than as a separate management entity, which is more typical in SIBs where partners are being coordinated centrally by a single organisation.⁶

1 The role of the Link Workers in WLZ

The Link Workers are considered a key part of the WLZ intervention. They are responsible for planning and coordinating the early intervention support from the local delivery partners, as well as meeting and working with children and their parents/carers directly to co-design and develop their support plans and maintain their engagement with support, in some cases for many years.

Link Workers have a base at the target schools where almost all of the partner organisations deliver their services. This base gives the Link Workers access to the students receiving support and allows them to meet on a regular basis and manage the sessions with the local partners on the ground. This close working is seen as helping the Link Workers to form relationships with the children and their parents/carers and, subsequently, develop and directly manage appropriate support plans with the delivery partners as part of the individually tailored interventions. In turn, this increases the prospects of achieving positive life chances for the children in question.

Local delivery partners. WLZ's relationship with local community organisations (see Box 2) is an essential component of the WLZ intervention because the knowledge and expertise shared amongst these partnerships ensures that they collectively offer support through WLZ that is appropriate for the children. At the start of the first year, WLZ contracted a smaller number of services to reflect the children's needs in that year's cohort (for its first year, WLZ held a contract with 12 services).

⁴ Defined as a separate organisation dedicated to coordinating the various dimensions and collaborators involved in the initiative. Supporting backbone infrastructure is essential in ensuring the collective impact effort maintains momentum and facilitates impact. (Accessed at: www.collaborationforimpact.com)

⁵ Established in 2014, there are six members of the WLZ executive team, excluding the Link Workers.

⁶ In the majority of other SIBs involving multiple service providers, the providers are managed by a separate, intermediary organisation, contracted by a Special Purpose Vehicle.

2 Essential partner relationships with local organisations in West London

Currently, WLZ has a relationship with 25 charity and social enterprise organisations operating in Hammersmith and Fulham. A few examples of organisations within the WLZ intervention include Place2Be, London Sports Trust and The Clement James Centre. WLZ identified these partners as key agencies working in the local area who offer support for relevant developmental issues for children with complex needs. The majority of the support is child-focused, with Link Workers proactively seeking to involve parents wherever possible; a small amount of the support is targeted directly at parents.

The portfolio of partners is deliberately varied, ranging from large, established organisations to smaller social enterprises – some of which support a range of needs, whereas others are focused on one area of expertise, such as building certain skills. The type of intervention offered by the organisations is also varied, including one-to-one tutoring on numeracy and literacy, counselling and sports activities.

Schools

There were three schools involved in the WLZ model in the first year, all based within LB Hammersmith and Fulham, though more will be involved in the subsequent cohorts of the SIB contract. The schools have several important functions in the SIB, and in supporting the partnership between the local organisation and WLZ:

- Schools provide data on the students' attainment, attendance and demographics, and act as an access point for WLZ to collect additional data, and help to identify the children to be involved with the support.
- Schools support the delivery by providing a space for the local partners to work with the children, and an office for the WLZ Link Workers.
- Professionals working at the schools facilitate feedback loops between the partners and WLZ and provide key professional opinions on the students.
- Schools are one of the commissioners paying for WLZ through the SIB (see below).

Stakeholder groups involved in funding the WLZ intervention

Three types of 'commissioners' currently fund the WLZ intervention through outcomes-based payments. All of the commissioners are local, which is central to the WLZ place-based strategy, to achieve long-term change within a targeted zone in London. The current commissioners for WLZ are:

- **LB Hammersmith and Fulham** (lead commissioner)
- **Three academy schools** (Ark Burlington Danes Academy, Ark Swift Primary Academy and Phoenix Academy) (co-commissioners)
- **Private philanthropists** (co-commissioner)
- **CBO Fund** (top-up payments).

Since the project's inception, the WLZ team was determined to pursue a long-term diversified and therefore more sustainable funding model for intervention, which reflected both the funding available for early intervention and the existing delivery assets in the community. Involving multiple 'commissioners' was an innovative way to do this, as it would consolidate the public and philanthropic funding sources and therefore increase the money available for the intervention. The multiplicity of commissioners also encouraged sustainability for the intervention as it minimised the reliance on one area of funding from government or on short-term philanthropic grants. The SIB structure also meant that the funding could be allocated in a highly targeted and transparent way around an individual and specific child identified with a need.

WLZ felt that including a philanthropic element in the SIB was important because it was an opportunity to trial a new collective and coherent local approach to commissioning early intervention. It could see that the targeted area in West London comprised some of the richest and most deprived wards in the UK, creating an almost unique combination of affluence and poverty and, with it, a long history of philanthropists contributing to services in early intervention. WLZ posits that private philanthropic money has an important role in funding services in its community and the SIB presented an opportunity to 'blend' funding from private and public sources. In terms of setting up the SIB, combining the public and private money was particularly attractive to the investors as an innovative idea; investors could see that the model presented a sustainable source of paying for the outcomes, but was largely untested as a way to structure funding for a service.

The eligibility criteria and cohorts

To identify the cohort, WLZ collects data on a range of indicators of risk from all of the children at the target schools.⁷ WLZ uses this data as part of its eligibility process – it also consults with professionals from the schools and partner agencies to choose the cohort. WLZ defines an eligible child as:

6 *A child who attends a primary or secondary school within the geographical focus and who is deemed to be at risk of undesirable circumstances in later life, as determined by West London Zone, using analysis of existing information held by schools, new information collected by West London Zone, the professional judgement of school staff, and recommended referrals from Hammersmith and Fulham Early Help and other statutory agencies operating locally, provided such referrals are made within the timeframe given for identification.*

From WLZ SIB documentation

3 Three cohorts in WLZ

- The first cohort of eligible children (identified between 1st September and 30th November 2016) were signed up to the intervention by 31st December 2016. The confirmed size of this first cohort is 132.
- The second cohort of eligible children (identified between 1st September and 30th November 2017) were signed up to the intervention by 31st December 2017. The estimated size of this cohort is 200 (range: 180–220).
- The third cohort of eligible children (1st September and 30th November 2018) will be signed up to the intervention by 31st December 2018. The estimated size of this cohort is 280 (range: 252–312).

⁷ The risk factors in the identification processes include: Poor engagement with school; anxiety and depression; offending behaviour (11+ only); smoking/alcohol/drug use (11+ only); hyperactivity/attention deficit hyperactivity disorder; gang involvement; bullying/victimisation; poor family management; poor attachment to parents; parents' lack of involvement in education; insufficient exercise; lack of a significant adult; and overcrowded accommodation.

Contracting model

The SIB contracting model is summarised in the infographic at the front of this report. The key points are:

- **WLZ acts as the prime contractor.** It holds the contracts with the commissioners and investors in the SIB model. The SIB contract is for three years (with outcome payments over five years). This includes three cohorts supported over three years, with seven potential payment points throughout the year, including outcome payments scheduled at the end of each school year (July). If successful, WLZ will receive payments from the commissioners for achieving engagement and sign-up targets and the service outcomes. In the event that the service significantly underperforms against its targets or outcomes, WLZ will need to repay part of the original loan to the investors. However, in contrast to other SIB contracts involving a prime contractor, a portion of the investor loan is non-recourse and will be written off first. In the event of performance above an agreed 'break-even' point, WLZ will share in the success of the service, through payments for the targets and outcomes, while also meeting the ongoing returns for the investor (see below). However, if losses exceed this non-recourse amount then WLZ will need to raise funds to repay some of the investor loan. This arrangement aims to balance both the potential gains and risks in the SIB for WLZ so that it is fully incentivised to maximise on its delivery and to encourage it to monitor the service performance and react before it reaches a point of extreme losses.
- **Bridges Fund Management (BFM)** is the social investor. BFM was involved in the design of the SIB model and has provided up-front total investment of £350,000 for the three cohorts. This capital is to cover the start-up costs for WLZ before it receives the outcome payments from the commissioners. WLZ will then repay the investors through engagement and outcome payments received from the commissioners (if the targets are met). In the event of strong performance against all targets, there is the possibility that the investors will receive a return, on top of repayment of capital, based on a share of revenue from the outcome payments (and from sign-up and engagement targets). The return will be determined by the level of WLZ's success in meeting the outcomes, and will only occur above the agreed break-even point for WLZ. There is no guaranteed rate of return if, for example, if an insufficient number of schools sign up to the project over the three-year lifespan then the volume targets, and subsequently the outcome targets, will not be achieved. Although WLZ shares some of the financial risk of the service delivery, BFM will lose some of its capital first.
- **City Bridge Trust and UBS** paid £150,000 from their Stepping Stones Fund as a direct grant to WLZ. This additional grant was awarded as a partial first-loss payment. This means that, in the event of underperformance and the risk of the investor losing its capital invested, £150,000 of this amount can be repaid using the grant, reducing some of the initial risk in investing in the project. However, if the intervention achieves the planned targets, the grant can be retained by WLZ and used as additional money for its service. This set-up meant there was additional motivation for WLZ for the intervention to be a success and to use the money as a first-loss payment only if it was necessary. If potential losses from the service exceed £150,000, then BFM is at risk first to lose money invested in the service. Once that non-recourse loan has been written off, any further losses will have to be covered by additional funds from WLZ (as above).
- The commissioners in the SIB are **LB Hammersmith and Fulham** as the lead commissioner, with three academies (**Ark Burlington Danes, Ark Swift Primary and Phoenix**) and private philanthropists as the co-commissioners. These academies are the schools for the initial cohort, but additional schools will be involved in subsequent cohorts. In particular, the repayment of investment and returns will only be possible if the model is grown in the area with more schools as co-commissioners.
- The SIB contract includes sign-up, engagement and outcome targets linked to the payments. WLZ refers to these payment points collectively as 'milestone payments' to reflect the weight given in the contract to targets that are not outcomes from the service. For the first cohort, the commissioners pay a higher proportion on the sign-up and engagement targets; by the third cohort, the commissioners pay a higher proportion on the outcome targets (see Figure 2 p.18).
- The base case for the outcomes payments from all commissioners combined is capped at £2.6 million. This covers provider costs and a level of return to the investors if the outcomes are achieved. The local authority has also included a cap on its payments to allow it to realistically budget for the service.
- The Big Lottery Fund is paying up to 30 per cent of the all payments through the CBO Fund and the commissioners then pay the remaining amount. Sharing the outcome payments across several commissioners is an attractive model for individual commissioners as the cost of the outcomes is spread amongst several parties (while all still benefit from the success of service).

In addition to the main SIB contracts, WLZ manages a **network of delivery contracts with local community organisations** (12 were contracted in the first year). The contracts between WLZ and partner organisations are not outcome-based contracts. WLZ explained that, at the point of setting up the SIB, it was not appropriate to contract these organisations based on outcomes for a number of reasons (see Box 4).

4 Reasons WLZ chose not to contract partners initially based on outcomes

- The WLZ intervention offers holistic support to children by coordinating provision from a number of partners (who vary in how much they work with each child and the areas they focus on). Therefore, it is not straightforward to attribute the chosen outcomes in the SIB to any single organisation, and progress is likely to be the result of collective support from a number of organisations which is part of the collective impact approach.
- Schools will also provide a key enabling mechanism for the intervention to work, in their role as the anchors (as well as being co-commissioners of WLZ). Therefore, the precise nature with which the intervention is implemented in each school may vary within the core model structure.
- WLZ knew that it needed to establish its own organisation and develop good working relationships with the local services to be most effective. The priority in the first year, then, was to test its approach, with the Link Workers coordinating the partner support for the cohort, supported by the additional monitoring and targets involved with the SIB.
- WLZ wanted to be able to work with a range of community services, and not just 'cherry pick' the larger, better-known services. For the smaller services in particular, WLZ felt the transition from pure grant funding towards some payment linked to attendance/engagement was enough.

Nonetheless, WLZ thought it was important to introduce the idea of targets for the service that would drive payment (rather than offering straight fee-for-service funding). Therefore, for the majority of partners, one-fifth of their payment is based on each child attending a minimum of 75 per cent of the sessions offered.⁸ WLZ thought that this approach would communicate to the partners how important it was to support every eligible child offered the service, as well as encouraging them to prioritise each child's attendance. From the perspective of the service providers, the arrangement with WLZ is similar to other contracts that they hold. The main difference is in the delivery: in WLZ, the partner organisations worked with the WLZ executive team as a third party alongside the schools, whereas in the majority of their other contracts partners work directly with the schools.

WLZ considers this non-outcome-based approach to commissioning the partners to be the most appropriate for now, given the relatively small scale of their work and the current volumes that the partners are supporting as part of the intervention. However, in the long term, when the partners are supporting higher volumes of children and having a bigger impact, WLZ may explore contracting the partner organisations with outcome-based contracts as a way of 'sharing' the risk associated with its own payment-by-results contract with the commissioners.

⁸ Currently, two of the contracted providers do not include this engagement element: the first, because part of the service is being offered to the whole school, rather than just a targeted intervention for the cohort; and the second, because the service is delivered in the community rather than based at the schools. In both cases, WLZ decided that contracting partly on engagement would be too complicated or not appropriate.

Outcomes and Payment by Results (PbR) structure

The WLZ executive team believes that it was already an outcomes-focused organisation, but the link to payments in the SIB ensures that it is now 'laser focused' on outcomes, especially as it shares some of the financial risk that is dependent on the success of the service. To support this outcomes focus, WLZ has implemented rigorous data methodologies as part of its identification and monitoring processes for each child in the cohort.

WLZ also reports on individual named children to schools and the council, with their parents' permission, which it considers a unique and fundamental component of its partnership with schools and commissioners. WLZ sees the individual focus in the payments as an important element of the SIB model. It encourages its team and the Link Workers to give their full attention to every child signed up, which limits the possibility of children 'falling through the net' over the three years (an important aspiration of facilitating a coordinated approach from local delivery services). While it is a strength of its model, WLZ reflects that the focus on the individual child is also a challenging element of the SIB, as the organisation is paid based on the progress of each individual child.

From BFM's perspective, it is normal to attribute outcome payments based on an individual's progress rather than on assessment of a cohort as a whole. However, the pressure on WLZ in this SIB to measure progress at the individual level may be perceived as all the greater because WLZ has to name the children to the schools and the council once they have been identified at the start of the year and cannot then add additional children throughout the year – if a child drops out because they move away or for some other reason, WLZ cannot add a different child and start claiming payments for that new child. Moreover, WLZ is still developing how it works with the local partners and the relationship between the intervention and measured outcomes is largely untested.

Definitions and thresholds

The WLZ SIB model links payments to targets in the following areas:

- **Sign-up:** signing up children to the intervention
- **Engagement:** attendance at one-to-one sessions with a WLZ Link Worker⁹ and Scheduled Specialist Delivery Partner sessions¹⁰
- **Continued engagement:** sustained attendance at one-to-one sessions with a WLZ Link Worker and Specialist Delivery Partner sessions
- **Progress along the 'flourishing scale':** the main outcome for the intervention, defined as when the child is developmentally at a point no longer considered to be 'at risk' of poorer life chances.

Continued engagement is defined as the child's attendance at two one-to-one sessions with a WLZ Link Worker and a minimum of 75 per cent attendance at the Scheduled Specialist Delivery Partner sessions per quarter. The commissioners pay the continued engagement targets quarterly throughout the first year of delivery.

⁹ WLZ defines these sessions with a Link Worker as: 'an interaction between the Link Worker and a child or young person, their parent/carer, or child and parent/carer together. The content of the conversation is about the child or young person's strengths, needs, their personal goals or the WLZ support. Engagement can be a scheduled 1:1 face-to-face, an unscheduled 1:1 face-to-face or a phone call.'

¹⁰ WLZ defines these as: 'the support each child is scheduled to receive from WLZ Delivery Partners each year based on data, professional knowledge of the child, and the child's own interests. Normally, each child will receive a bespoke package of support from between 1 and 3 Partners, allocated in January and jointly reviewed in March, July and September. If all agree that a child has progressed at a review point, the child may not have further sessions scheduled, may change delivery partners or engagement may continue via sessions with the Link Worker only.'

Progress along the flourishing scale is based on evidence from the child’s school attendance, academic attainment and emotional well-being. The thresholds (summarised in Table 1) in each of these areas were defined by WLZ, either based on a UK Government standard or recommendations from academic literature. Where nationally held data are unavailable, for example on attainment for some of the younger aged children supported in the intervention, WLZ draws equivalency between the measure a school uses and a measure that can be placed in the national attainment distribution to ensure there is a high level of rigour to the measurement.

Table 1. Areas of outcomes linked to payment and their proposed thresholds

Area of outcomes	Data source	Threshold
School attendance	School records	Above 96%
Academic attainment	Best available attainment data from an individual child’s school	Not in the bottom 20% of the national attainment distribution
Emotional well-being	Score on Strength and Difficulties Questionnaire (SDQ), Goodman 1997	Below a score of 15 on the SDQ well-being measure (child or parent report)

WLZ measures a baseline assessment for each child at the start of the school year, including evidence from each of the three areas (attendance, attainment and emotional well-being). WLZ then uses the baseline as reference point to monitor the child’s progress over the three years in the model towards achieving a defined threshold in each area. Achieving the threshold then contributes to achieving a target goal on the flourishing scale. Therefore, the outcome model in the WLZ SIB combines a relative measure (progress from baseline) and an absolute measure (achieving a defined threshold on the flourishing scale). The reason for having both an absolute and relative measure is that WLZ wanted its model to reward progress made with children who started well below the baseline but made positive improvements as a result of the support (even if they did not reach the threshold goal).

Calculating payments for outcomes

Payment in WLZ is made based on an average score of the child’s progress from baseline: progress is calculated for each area of outcome from baseline and then an average across the three is calculated for each child. This then represents the child’s progress towards flourishing. During the intervention, there are three possible outcome payments (see Box 5) for each child, scheduled at the end of each of the three academic years.

5 Three outcome payment points in WLZ SIB

- **Outcome 1 (paid at the end of school year one)**
The child has progressed on average 30 per cent or more from each of their baseline measurements by the end of the first year.
- **Outcome 2 (paid at the end of school year two)**
The child has progressed on average 60 per cent or more from each of their original baseline measurements by the end of the second year.
- **Outcome 3 (paid at the end of school year three)**
The child has progressed on average 80 per cent or more from the original baseline measurement by the third (and final) year.

WLZ can only receive a payment for Outcome 1, 2 or 3 once during the three years of the cohort and cannot receive a payment earlier than the stated time for that outcome. However, a payment can be made late in recognition that some children take longer than others to achieve the progress milestones (see Box 6). Late payments can be in addition to, or instead of, the outcome payment scheduled for that time point, as long as the milestone has not been paid previously.

6 Reasons outcome payments may be paid late in WLZ SIB

- If **Outcome 1** was not paid at the end of the first year, then the payment can be made at the end of the second or third year, if by this point the child reaches the 30 per cent progress point from baseline.
- If Outcome 2 was not paid at the end of the second year for a child, it can be paid at the end of year three if the child reaches the 60 per cent progress point from baseline.

It is also possible that eligible children (as described on p. 11) may be above the threshold in one or more of the evidence areas. In these cases, WLZ continues to monitor progress for all outcomes, but only the outcomes that were below the threshold at baseline are included in the calculation that links to the payment. In the rare even that a child may be eligible for support but above the threshold for all three outcomes, WLZ includes the child in the monitoring, but no payment is possible for the child from the commissioners.

Payment scheduling

In total, there are seven possible payments in the WLZ SIB over three years (summarised in Box 7). These seven payments are then made three times, once for each cohort.

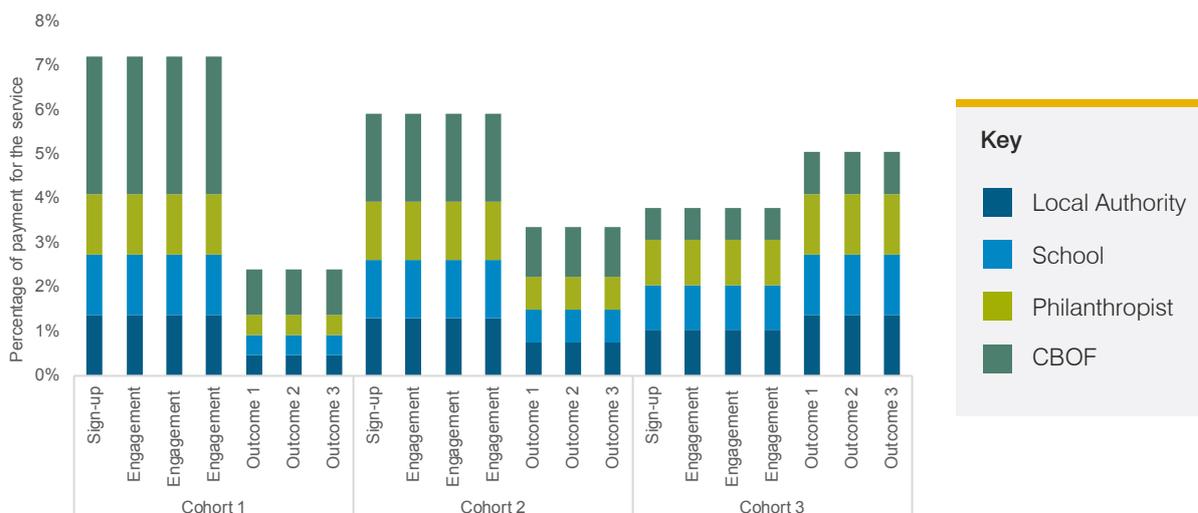
7 Reasons outcome payments may be paid late in WLZ SIB

- The **first payment** (sign-up) is paid based on WLZ signing up children by December in the first delivery year.
- The **second, third and fourth payments** (engagement) are paid based on each of the individual children's attendance at sessions with the Link Worker and offered by the delivery providers. The three engagement payments are scheduled for the second, third and fourth quarter of the first year of support.
- The **fifth payment** (Outcome 1) is paid based on each individual child achieving at least 30 per cent progress by the end of the first year of support (at the earliest).
- The **sixth payment** (Outcome 2) is paid based on each individual child achieving at least 60 per cent progress from baseline by the end of the second year of support (at the earliest).
- The **seventh payment** (Outcome 3) is paid based on each individual child achieving at least 80 per cent progress from baseline by the end of the second year of support (at the earliest).

In deciding this payment structure, the investors worked with WLZ to develop a financial model that was fair to all parties, including mitigating the risk of a new intervention, involving multiple stakeholders and new partnerships, while creating a model that they could communicate to different commissioners.

Mitigating the risk came in part from the decision to weight the payments for the initial cohort on the sign-up and engagement targets. For the three years of the first cohort, the commissioners pay a higher proportion of the payment up front for signing up children and the engagement targets, but by the third cohort, the payment from the commissioners is over 50 per cent for the outcomes. Figure 2 shows the scheduling of the payments over the three cohorts and the proportion paid by each of the four commissioners and CBO.¹¹

Figure 2. Payments scheduled for the three cohorts in WLZ (expressed as a proportion of total outcomes payment for the intervention)



There were also important discussions and modelling about the level of repayments to the investors if the intervention was a success, as well as the proportion of risk that was appropriate for WLZ to share with the investor if the service did not meet its outcomes. While the overall financial risk of the project is reduced by the available first-loss capital from City Bridge Trust and UBS (who will cover losses up to £150,000 for the contract duration), for losses greater than that amount, BFM and WLZ are both at risk of losing money. The structure in the model for how the risk is shared in WLZ was co-designed between WLZ and BFM, reflecting a partnership between the two organisations in developing the SIB model. Balancing the reward and risk, from the over- and underperformance scenarios, aimed to ensure that the payment mechanism incentivised WLZ to achieve its planned outcomes and maximise the potential from its service delivery.

First, in the event that the service performs well, above an agreed break-even point, WLZ will benefit as it will receive an ongoing share in the outcome payments while being able to pay the returns expected by the investor. This is in addition to the incentive of the Stepping Stones grant from City Bridge Trust and UBS, which can be used as a direct grant to the service if it is not needed to cover first losses during the lifetime of the contract. From the investor’s perspective, ensuring that WLZ understood what it would achieve if the service exceeded break-even expectations was as important as explaining its role in sharing the risk in repaying the original loan.

Second, the repayment arrangement for WLZ is set up so that BFM is at risk of losing part of its investment first. This part of the loan is the ‘non-recourse’ element. Therefore, WLZ will only need to repay the loan if the service significantly underperforms against its success targets, i.e. where the losses are greater than those covered by the first-loss grant and non-recourse elements. The staggered structure was designed to align incentives across all parties, so that WLZ would be incentivised to address any operational underperformance quickly, meaning that it would avoid the poor performance scenario in which it would need to repay the loan. This arrangement also meant that WLZ, in its operational function, is shielded from the initial risk of the outcomes contract and therefore cash-flow risk will not represent a distraction to service delivery.

The aspiration was that, before reaching the point of needing to make any repayments to the investor, the WLZ executive team would have adapted the intervention to improve the service, or it will have curtailed its delivery. All of the potential scenarios of strong or weak performance were included as part of the modelling for the SIB, which was an important element of co-designing and agreeing the SIB contract.

¹¹ Payment amount is not included in the tables as this information is commercially sensitive while WLZ plans to expand its service.

SIB development

The SIB development process took 18 months from being awarded the CBO development grant (key stages summarised in Table 2), longer than the stakeholders expected. The reason for the slow development process reflected in part the complexity of deciding a SIB model in this area of collective early intervention, with a limited evidence base to support the shared impact, but also the amount of time WLZ needed to complete its pilot and the time needed for the local authority procurement and contracting processes (discussed below). However, the SIB contracts were signed shortly after the investors became involved, in September 2016. WLZ started delivery in January 2017 and, in February 2017, received the first payment on exceeding the sign-up target of 132 children.

Table 2. Key milestones in developing the WLZ SIB

Year	Month	Activity
2014	September	Louisa Mitchell became Managing Director of WLZ.
	December	First WLZ steering group set up with local partner organisations to decide the operating model for WLZ.
2015	February	Awarded the CBO grant (£150,000) to develop the SIB as a long-term and sustainable funding solution for the intervention.
	March	Bates Wells & Braithwaite Company Impact and Advisory appointed to advise on the SIB model (funded by CBO development grant).
	May	WLZ steering group closed. A separate steering group opened to formally develop the SIB model (involving representatives from LB Hammersmith and Fulham, local delivery partners). Nigel Ball joined WLZ as Chief Development Officer to lead the SIB development.
	September	A philanthropically funded pilot year started in two schools and nursery/children's centre in White City.
	October	SIB steering group met five times up to October, although it did not reach a final decision on the model.
2016	January	City Bridge Trust and UBS awarded the project grant funding (£150,000) through their Stepping Stones Programme.
	June	Two schools and the philanthropists expressed provisional support to be part of the SIB. LB Hammersmith and Fulham procured for an 'Early Intervention Link Worker Service', which WLZ competitively tendered for.
	July	WLZ pilot year ended.
	August	WLZ awarded the contract by LB Hammersmith and Fulham for the Early Intervention Link Worker Service.
	September	Commenced work with BFM to develop the SIB investment model. Received pro bono legal support from Freshfields Bruckhaus Deringer to agree contract with the LB of Hammersmith and Fulham.
	October	First year delivery starts.
	December	SIB contracts signed between WLZ and LB Hammersmith and Fulham, the schools and the philanthropists.
2017	January	Contracts signed between BFM and WLZ. First payment received from City Bridge Trust and UBS Stepping Stones as first-loss capital.

The number of stakeholders involved in the multi-commissioner and multi-provider elements of the model made setting up the SIB a complex process. In short, it proved more challenging than anticipated for WLZ to develop a model that the different commissioners would accept and one that was also attractive to a social investor. However, from the investor's perspective, a key motivation was the multi-commissioner element of the WLZ SIB. The investors were interested in the broader aim of the intervention to test an innovative relationship structure that would create systems change across both delivery and commissioning partners. The investors explained that they could see the potential of trialling an approach that brought together a range of organisations with a shared interest in achieving social impact and they were interested to the extent that they were willing to be part of the project without needing all of the specifics worked out.

“Here, you are trying to do something really different – the reasons why these kids are not getting the best outcomes is precisely because they don't fit within anyone's policy area. So, bringing together a whole range of people who are contributing a minority commissioning amount, is the big job.”

Representative from BFM

Here, you are trying to do something really different – the reasons why these kids are not getting the best outcomes is precisely because they don't fit within anyone's policy area. So, bringing together a whole range of people who are contributing a minority commissioning amount, is the big job.

From the local authority perspective, the relationships that WLZ had made in the intervention were also an attractive component of the WLZ offer, particularly WLZ's relationships with the range of community organisations. There was an element of co-design in developing the overall WLZ SIB model – through the discussions at the SIB steering group meetings, as well as wider consultations with philanthropists and private investors. It was acknowledged, though, that the majority of the model's design, including the operational elements and the important relationships between the local community agencies, were developed by WLZ. However, WLZ coming to the commissioner with many of the arrangements and relationships for the service already in place, presented procurement challenges for the local authority who then, as a result, followed a competitive procurement process for the contract (described in Box 8).

8 The competitive procurement process for WLZ's contract

The local authority thought that, following legal requirements and usual best practice, it needed to competitively tender the contract for the intervention – named an Early Link Worker Service. The local authority thought that, while mobilising local delivery partners was in this instance down to WLZ's initiative, a Link Worker coordinating support around a child was not in itself unique, and it was therefore right to procure through a competitive process to ensure best value for money.

All stakeholder groups recognised that competitively tendering the contract meant there was a chance that another organisation could win it, and therefore a risk that WLZ would not. In any event, WLZ was successful (after facing competition from other providers in the process). The process took seven months and all those involved, including WLZ, spent resources on the process.

Investors commented that commissioners tended to follow the normal procurement process, as they believed it to be the only way to commission the service fairly; however, they thought commissioners could be encouraged to enter into *Innovation Partnerships*¹² for SIB projects, or use other commission methods such as voluntary ex-post ante transparency (VEAT) and prior information notice (PIN), as described in the *HCT SIB deep dive report*,¹³ particularly where there has been a high level of co-design between a commissioner and provider of a service.

From the schools' perspective, WLZ reported that there was growing awareness amongst school representatives through the project of how the SIB operated, but that the payment structure was not the main motivation for schools to be involved. One of the ways WLZ secured buy-in from the schools was to promote the shared expense of the service, for example 'You put £1,000 in and we'll bring £3,000'. Interviews with schools in this review broadly confirmed this by explaining that WLZ offered a solution to a current gap in provision:

“ We're always very conscious that we stretch our most able really well as a school, but I was worried about the most vulnerable children in the bottom 25 per cent [...] we really wanted to do something for our low achievers [...] the WLZ team gave a presentation on how WLZ connects all the different services in a vulnerable person's life to give them the maximum chance of success. So we got on board from that scheme. ”

Head teacher from a secondary academy

12 <http://publicsectorblog.practicallaw.com/innovation-partnership-does-it-offer-a-genuine-breakthrough>
13 www.biglotteryfund.org.uk/research/social-investment/publications

3

What are the interesting elements of this SIB?

The WLZ executive team holds a dual function in the SIB

A key decision taken by BFM (the investors) and WLZ was to implement a SIB delivery model without a Special Purpose Vehicle, which would typically separately manage the contract from the service delivery. Instead, in this model, WLZ holds a dual role, directly managing both the contracts with the commissioner and the investor, as well as holding core responsibilities as part of the intervention offered to the children (by employing the Link Workers and contracting community service providers).

WLZ's dual role, combining the management of financing and operational decisions in the project, is an interesting element of the SIB. It shows an independent, non-government entity leading a partnership of providers, LA commissioners, schools and private individuals towards support for a closely defined cohort, while also providing a key role in supporting the children and how they engage with the support. Essentially, this approach reflects the collective impact ethos of WLZ, which provides a framework for different agencies to work together to solve an existing complex problem (and one that could not be solved effectively by any single agency). It also builds on the aspiration to implement a local, scalable and sustainable model within the targeted area of West London.

Investors agreed to this model, with WLZ holding the dual function, in part because they liked the simplicity of the set-up where WLZ both managed the finances and the operations within the service. This was perceived as an effective and efficient approach to manage the investment, without needing to complicate it further with a third organisation to manage the project. Added to this, BFM believed that WLZ was in a position to build long-term knowledge and commitment within the community, with both the relevant commissioners and local partner organisations.

To feel confident in the arrangements in the direct model the investors conducted in-depth due diligence to understand the WLZ team, its management costs and details of the intervention. While the due diligence process is standard prior to investing in a SIB, in the case of WLZ, it was especially important given its dual role in the finances and operations within the model. Representatives from BFM explained that they needed to be able to rely on WLZ if an issue arose, as well as ensuring that WLZ understood the importance of engaging additional schools in the first year (to be able to recruit enough children), as well as supporting the existing schools to be an effective base for the intervention and maintaining their relationships with the partner organisations.

Piloting the operational model prior to the SIB

WLZ received funding through philanthropic grants to deliver a pilot of its intervention for a year in White City from October 2015 to July 2016. This was an opportunity to engage the organisations involved in the delivery – namely schools (the pilot involved a nursery, a primary academy and a secondary school) and a number of local partner organisations – and test the operational model. The evidence from the pilot year was critical in engaging the commissioners for the prospective SIB; it showed that the idea was viable and supported with recent evidence of working on the ground in a similar community.

The investors found evidence from the pilot helpful, but they still needed to refine with WLZ the definitions of the outcomes and cohort while developing the SIB model, as they needed full clarity on its operations. The investors wanted to gather further evidence in particular about the outcomes that the children would be achieving from the intervention since lack of evidence was a barrier to their investment. Moreover, from the investor's perspective, the need for WLZ to engage additional schools in subsequent cohorts represented another risk in the model and so the loan agreement included targets for doing so. Hence, the investors reflected that in order to be able to invest in new projects with a limited evidence base, it is a priority as part of the implementation phase to generate evidence to understand the relationship between the outcomes, the intervention and the payment.

Opportunity to learn from the model during the first year

A condition of the investment from BFM was to leave the SIB model open during the first year so that stakeholders could refine the details of the SIB model as more was learnt about what worked within the model and of the relationship between the intervention and the outcomes: ‘we need to see it in action, to decide how appropriate it is’ (representative from BFM). This was possible because WLZ needed to engage additional schools to be co-commissioners in the later cohorts. With this expansion, there was opportunity to refine the outcomes in the model with the new co-commissioners. The aspiration was that these would be small changes, agreed by the other commissioners as well, rather than encouraging the model to be changed extensively.

Representatives from BFM reflected that it was relatively unusual to include flexibility as new commissioners joined a contract. However, they could see that there was value in signing the contract with the model as flexible as it was, and in using the opportunity to scale the model and further test the relationship between the intervention and outcomes in the first year. This was because they could see the merits of this approach in testing the multi-commissioner element in the PbR model, rather than WLZ simply seeking grant funding for another year without the multi-commissioner element to gather more evidence for an outcome structure and fully test the multi-provider operations alone. The grant from City Bridge Trust (provided as partial first-loss capital – discussed below) made it easier for the investors to take the risk of proceeding in this way. However, it was not unusual for BFM to use its social-sector funds in this manner to invest in ideas with limited evidence as a way to test them properly.

4

What are the key successes of this SIB?

Successful multi-commissioner engagement

For the executive WLZ team, involving multi-commissioners was key to its vision to better structure early intervention support within the targeted area of London. Achieving this is a key success of the SIB set-up, particularly when other SIBs have faced significant challenges, or failed to engage more than one commissioner. The local authority liked the multi-commissioner component, as it meant that it could support an intervention that it was interested in, while sharing the expense for the service. A representative from the local authority that attended the SIB steering group was specifically interested in local and sustainable solutions for their community, which they could see was evident in the WLZ proposal.

Representatives from LB Hammersmith and Fulham reported that WLZ was in a good position in many ways to work up an innovative idea, and be entrepreneurial in developing a concept. The local authority reported that it was interested in SIBs because it offered an opportunity to test a new way of working and therefore the SIB component in the project was attractive, helped by the CBO Fund contributions towards the payments, which would reduce the risk for it.¹⁴ However, these representatives recognised that SIBs are a new approach to financing for them and, even with the WLZ experience, their knowledge of SIBs is still developing.

WLZ observed that schools mostly seemed more interested in how the intervention fits within their overall service offer, rather than focusing on achieving specific outcomes. However, the dimension of a school's involvement as a commissioner was a significant draw for the investors to the WLZ idea. They thought that involving schools as co-commissioners was an interesting dimension of this SIB because schools were often involved in the delivery of early intervention if less so in outcome-based contracts.

Mobilising community organisations to provide holistic early intervention

At the heart of WLZ is a management framework to coordinate the existing community work taking place in the targeted area of West London, in order to mobilise support to children that were not currently receiving any. The success of this element relates to the WLZ team carefully striking a balance between the approaches of its partner organisations, its own approach (and the requirements of the SIB) and keeping the needs of children front and centre. WLZ saw itself as a newer and less knowledgeable service within a community in which it wanted to stimulate significant CI. To be successful, then, the first stage was to respectfully form and navigate the relationships and engage partners – many of whom had long track records in the community – in the ideas of the intervention and its operational model.

The multi-provider element of WLZ was of interest to the investors and commissioners, who saw the potential of mobilising existing resources around a group of at-risk children that current provision had not identified. The local authority also recognised that this was an opportunity to build links with the community organisations; it saw the coordinated support by WLZ as a benefit, as the local authority could engage through it with a range of services without needing to manage a number of shorter-term contracts. The service will increase the capacity of third-sector organisations through additional funding and develop better models of partnership work across the third sector thus increasing the potential for collaborations for future service delivery.

For the schools involved in the SIB, WLZ could offer an 'umbrella' of high-quality services for the children, while also being responsible for management of the services (such as completing background checks).

¹⁴ The top-up funding is another way to reduce the direct risk to the commissioner as the costs of the outcome payments are shared.

First-loss capital provided as a grant

WLZ secured £150,000 grant funding from City Bridge Trust and UBS in March 2016 through the Stepping Stones Fund. One of the aims of the Stepping Stones Fund is to support organisations exploring the social investment market to help them make use of the range of financing options available. A stakeholder from City Bridge Trust explained that he had attended an investment meeting and was impressed by the model proposed by WLZ. However, he realised WLZ would benefit from the fund in the form of a grant, as WLZ was not quite ready for social investment. To receive the grant, the WLZ team needed to update its social investment model, complete its pilot year in White City and have the support from the commissioners and the social investors in writing. All of these were satisfied by January 2017, when the grant was paid. The grant from the Stepping Stones Fund gave WLZ confidence that there was some 'investability' in its model and gave more weight to its discussions with LB Hammersmith and Fulham as a potential commissioner. Furthermore, the grant was important in securing the social investment from BFM, as it gave BFM some comfort in mitigating the risk of securing successful engagement with a number of partner organisations, schools and commissioners while there was limited evidence between the intervention and the proposed outcomes, and because scaling in the first year would be essential for their investment to be repaid with the return. Without the grant from City Bridge Trust and UBS to be used as a security deposit, it would have been likely that the investors would have recommended a further pilot year to gather evidence on the outcomes.

5

What are the main challenges of this SIB?

Choosing the right outcomes and metrics

The time to reach an agreement on the outcomes for the SIB delayed the whole development process. WLZ, the commissioners and the investors all commented that it took a long time to reach an agreement on which outcomes to include in the SIB and how to measure them. Even the SIB steering group set up to develop the model did not reach agreement on its own. One stakeholder described the process as being like 'pushing a boulder up a hill'. A stakeholder from the local authority thought that the time taken reflected the importance of the decision, as the outcomes are linked to the payments in the model.



We were very keen that the Payments by Results model was fit for purpose. It was about getting the outcomes just right. The benefit of the Payments by Results approach is that we are not paying the bulk contract [...] WLZ actually needs to work for it and evidence the outcomes for children and young people.



Representative from Hammersmith and Fulham

One of the challenges was deciding what to measure. WLZ wanted to include outcomes that reflected the holistic aspirations of the intervention, to support the 'whole child' to a point of flourishing, while keeping the model simple enough to be able to engage other stakeholders. However, WLZ found that some of the more interesting outcomes were harder to measure or measure reliably (such as using Body Mass Index as an indicator of health/obesity). WLZ also wanted to include outcome measures where it could monitor progress towards a threshold (a continuous variable) rather than simply reaching a threshold or not (a dichotomous variable). Again, this restricted the outcomes that could be included in the model, as not all relevant measures included validated change in this way.

A further challenge was the need to satisfy the interests of the multi-commissioners in the model. The local authority reported that one of its main priorities was aligning the outcomes with those in the Troubled Families Programme, as the children eligible for WLZ would likely be some of the same children eligible for the Troubled Families service. To meet this requirement, WLZ adapted its data monitoring processes and aligned part of the outcome framework to the Troubled Families Programme. However, it was important to WLZ that the overall model remained focused on the child outcomes only, without including any measures relating to adults unless they directly related to child outcomes (for example, parental involvement in a child's education). The investors thought that schools were the bigger unknown, as it was not common for them to be involved as commissioners for specific outcomes. The investors expected that schools would mainly be interested in academic attainment and attendance – although the project was an opportunity to test what other outcomes schools may be interested in buying.

Despite reaching an agreement to launch the model, in our review, WLZ reported that it was still looking to refine its outcomes and measurement approach. In practice, WLZ has found that the current approach is, first, difficult to explain fully to stakeholders because it is so complex, making it more challenging to secure buy-in for the model. Second, the approach of monitoring actual progress from baseline (rather than any amount of change or passing a threshold) does not work that well in practice and there are limitations in how appropriately this links with payments. WLZ will use this learning from implementation to date to inform the outcome selection for the next phase.

Including engagement targets in the SIB

The decision to apportion a significant amount of the payment to engagement was a main point of challenge in developing the model. The local authority reported that it would have preferred a model that focused more on the outcomes from the first year; however, WLZ felt this was too much of a risk as the evidence around the specific outcomes and the intervention in relation to referral volumes was limited. WLZ also reasoned that engagement was a key part of its service and an area of added

value, since it related to identifying and engaging children and families previously not supported and 'hard to reach' and to its close collaboration with delivery partners. WLZ also explained that engagement was essential to achieving the outcomes and that the steering group had repeatedly identified that a key challenge in working with the target cohort was that they were difficult to engage in support. The investors supported the relationship between engagement and achieving the outcomes. The investors could see that by including targets for engagement and outcomes in the structure then data could more rigorously be collected as evidence of the underlying relationship between the intervention and the outcomes. However, investors were cautious about a model that required payment of a large amount on engagement. They noted that during the pilot year, WLZ had not included an engagement goal. However, their due diligence helped the investor to understand the significance of engagement within the intervention. The due diligence showed that the stipulated level (75 per cent) of engagement in partner sessions would likely be a challenge for WLZ to achieve during the first year, as it was still testing its arrangements with the different service providers in the schools, but gave investors confidence that this target, despite not existing in the pilot, was achievable going forward.



The first few months is showing that they are being effective on that, but it's definitely not a soft or easy outcome to achieve. That is how we got comfortable with it in the end. It's not just a payment for turning up; it's quite a hard hurdle to reach, to get those engagement payments.



Representative from BFM

The agreement in the end between the local authority and WLZ was to structure the model so that, by the third year, over 50 per cent of the payment per child was for the measured outcomes (as shown in Figure 2, p. 18). Further to this, the SIB model included higher engagement targets than those tested in the pilot, which ensured that the targets were ambitious for the service.

Awareness of contracting requirements

A further challenge related to the procurement process, which involved the contract issued by the local authority for the intervention. Once the local authority had awarded the contract to WLZ, the investors realised that the local authority had not used a template designed for SIBs from the Centre for SIBs within the Department for Digital, Culture Media and Sport (DCMS).¹⁵ This posed a significant issue for the social investors, as many of the key clauses that would enable them to invest the money (and provide protection to WLZ to ensure that outcomes payments would actually be made if the outcomes were achieved), as well as stipulations around the governance structures and other legal entities was missing from the contract. The investors were able to resolve the issue with the support of a legal team that they frequently worked with on their SIB projects, who added clauses to the existing contract to make it viable. However, this took a lot of time and caused delays in the original timescales. It meant that the delivery of the project, which needed to start in September because of the school year, started without contracts signed with the commissioners or investors, which WLZ reflected was high risk and undesirable. It also had implications for the additional grant from the Stepping Stones Fund, which could only be released once there was support from all the commissioners in writing.

Capacity

WLZ commented that, despite the range of skills in its organisation, the process of trying to agree the contracts for the SIB was particularly challenging. WLZ reflected that its organisation is set up to be 'small and innovative' and some of the legal and financial decisions they needed to make in the SIB were extremely difficult. The main point during the set-up of the SIB where the capacity exceeded the skills of the WLZ team was during the contracting process with the local authority. Without the pro bono legal support offered to them through the investors, it is very likely that the SIB would not have gone ahead at such a late stage in the process. Also, even though the processes of applying for money from the CBO Fund presented a learning opportunity for them, this process too was not easy, as at the time, WLZ was a new charity and the Big Lottery Fund was a new funder for them.

¹⁵ www.gov.uk/government/uploads/system/uploads/attachment_data/file/199890/GUIDANCE_SIB_Template_Contract.pdf

6

What are the lessons learnt?

1 Flexibility on the part of the provider is important

Especially because this was a provider-led SIB, stakeholders thought it was important that the parties remained flexible and responded to advice given to them. Many stakeholders reflected that the success in setting up this SIB was testament to the rigour and commitment of the WLZ executive team to work through the various issues. Although other factors played a part, ultimately, it was WLZ's flexibility to adapt the model on the advice of the commissioner and investor, which kept momentum on the project going and successfully maintained the multi-commissioner, multi-provider and investor engagement in the process. Commissioners and investors reflected that the demeanour of the WLZ team, and its flexibility, meant that they felt comfortable to raise and discuss issues that they had during meetings, which meant that quite complicated challenges could be resolved during the set-up of this SIB.

2 Investors are interested in the potential for SIBs to impact on service structure as well as social impact

Investors found this model interesting because it presented an opportunity to test outcome payments in an educational context, with a focus on social impact rather than clear cashable savings. More generally, investors were convinced by the concept of bringing different 'commissioners' (including schools and private philanthropists) together to solve a problem that was complex and not aligned to any one service area. The investors also recognised the opportunity to test an innovative approach to commissioning early intervention services by incorporating a blend of public-sector and philanthropic revenue.

3 Local authority commissioners still need support to help them understand (and effectively commission) SIBs

Representatives from the local authority recognised that the language of SIBs was new to them, as they had limited experience of SIBs and PbR prior to the project. In addition to understanding the specifics of the different types of contracting as technicalities, the local authority reported that there needed to be a culture change within the public sector to better understand the terminology and principles of SIBs. The local authority estimated the costs involved in setting up the WLZ model were comparable to the costs of setting up other interventions (in that it did not require much extra resource to engage the necessary partners for the intervention in the initial phase). However, direct comparison was difficult because WLZ was also establishing its own relationships with community organisations to support the model and therefore a lot of the engagement that was needed for the service was undertaken by WLZ directly, rather than by the local authority.

4 Influential stakeholders are key to building necessary relationships for a SIB

Stakeholders involved in setting up the SIB remembered the chair of WLZ (who at the time was its CEO) championing the vision of the intervention, and then the drive and professionalism of the WLZ executive team, as reasons they were initially attracted to the WLZ idea. This effective communication was essential in successfully setting up the SIB, given the multiplicity of the commissioners, service providers, investors and grant funders (City Bridge Trust and UBS) that were needed to ensure the SIB went ahead. The local authority commissioners also reflected that WLZ had a strong presence in Hammersmith and Fulham at local events and had effectively developed a network with key community services. From this networking, they could see that WLZ was a valuable organisation to be involved with and were keen to build on this through supporting the intervention. From WLZ's perspective, it experienced a good level of support and interest from local charities to be part of a collaborative effort to tackle social issues. This was a pleasant surprise, but essential, as WLZ needed to engage and coordinate many different parties within the SIB model. Initially, it felt the enthusiasm from partners and other stakeholders came from the promise of funding when, in fact, the main drivers for them were, first, the potential to reach the children who most need support but with whom existing organisations struggle to engage and, second, the prospect of holistic support professionally coordinated for every child.

5 **Service providers still rely heavily on advice from other organisations**

In developing its SIB model, WLZ received help from a number of organisations. Stakeholders acknowledged that aspects of this process were still resource-intensive and would not have been possible if some of it had not been given in kind by the organisations involved. Key contributions during the set-up phase came from:

- Development Grant from CBO
- BWB Impact and Advisory (received £87,170 through the Development Grant) who worked with WLZ and the steering group to develop the first model of the SIB
- Dartington Social Research Unit, who worked with WLZ to identify the risk factors that they wanted to include as part of the processes to identify eligible children from schools and design the process for doing so
- Pro bono support from Freshfields Bruckhaus Deringer, the legal team known by the investors who helped adapt the contract to the Cabinet Office standard and ensured that it included appropriate provisions to protect WLZ over the life of the contract.

6 **Implications for involving community organisations in the SIB**

Partners had to be careful about the contracts that they signed. For example, they needed to update their existing data-sharing agreements and ensure there were processes for WLZ to seek parental consent where it was needed. This was relevant where the data that the partner was already collecting was relevant to the metrics included in the SIB model, and to be able to share data collected as part of the support. Several partners reflected that the process of contracting with WLZ was longer than usual and they wanted to be clear about what was expected of them before they signed. For larger organisations, this approach was less of an issue because they had resources available to manage the process. However, a small organisation commented that the process could be made simpler if the contract itself was separate from the handbook or manual that gave detail about the intervention; although this made the process more challenging, it was not a barrier to their involvement. The partners liked the sustainability that the contract offered. One organisation reflected that they were used to working for shorter durations, but WLZ offered a longer contract (up to 12 months). WLZ explained that it recommissions at the start of each year and during the year too, depending on what the needs are of the children in the cohort.

7 **Some of the issues experienced are not specific to a SIB**

Some of the experiences associated with the SIB are more common to setting up a new service, particularly one that involves multiple stakeholders. In this context, the SIB was a useful vehicle in supporting the complex relationships between different stakeholder groups. The chair (former CEO) reflected that a lot of the strengths of the model were due to the team managing in a strong way and the ability to form working relationships with a range of services and stakeholders.

7

Conclusions and areas for investigation at the second in-depth review visit

This concluding section explores some of the key factors that made the WLZ SIB project possible, but also why it may not be typical of other SIBs.

The scope of the WLZ proposal was ambitious. The aim of the project was not in the first instance to release immediate or even long-term savings to any one service, but to bring together key groups to better commission and deliver support. At the centre of the intervention model was an innovative delivery structure to coordinate early intervention services in order to better support a group of children at risk of poorer life chances, who may not otherwise be supported by services. The specific area in West London was an interesting opportunity to test the mixing of public-sector funding, from schools and a local authority, with private philanthropic money, creating a sustainable way to commission and fund early intervention support.

Part of the successes in contracting this ambitious project as a SIB was the shared vision underpinning the WLZ idea that was clear to many – namely introducing efficiency and accountability within the early intervention sector, as well as needing to better support children at risk of poorer life chances in the community who have historically been difficult to identify and hard to reach. WLZ and other supportive stakeholders effectively promoted this vision and helped to engage the range of commissioners and investors needed in the model – with the social investors in particular being interested in the opportunity to test the innovative blending of public and private revenue in the PbR funding structure, as well as the multi-provider operations. Stakeholders across the different groups also recognised that WLZ was in a unique position to test the whole approach, given its growing organisational networks within the specific area of London. Overall, the fact that the SIB has successfully contracted with a number of commissioners and delivery organisations is testament to the determination of the stakeholders involved in the project to agree the model and then mobilise the contract.

From a SIB perspective, the WLZ project is interesting because it shows that it has been possible to contract a SIB without some of the more common key ingredients in the current SIB market, most obviously a robust evidence base underlying the outcomes and the intervention. This is important because, as our research into the 'LOUD model' showed, many SIBs are not established because they lack a credible evidence base. The investors felt comfortable to take on the risk in this SIB however, partly because the complex operational model had been tested to some degree on the ground in a comparable local area through a pilot funded by local philanthropists. Crucially, further risk to the investor was reduced through partial 'first-loss capital' offered by another funder and because a proportion of payments were linked to engagement targets instead of all being linked to progress outcomes, providing comfort to the investor while further evidence of progress outcomes being achievable was generated. This was especially important because WLZ needed to engage additional schools in order to be able to recruit enough children to their cohorts to make it possible to work at sufficient scale to repay the investment. Therefore, this SIB demonstrates that using a pilot and accessing first-loss capital offers two potential solutions to other SIBs that may be struggling to launch because of a limited evidence base. Unlike most SIBs, where the prime contractor (an organisation managing another organisation who is involved in the delivery) is fully liable for the financial risk of the contract, WLZ achieved protection from the outcomes contract through the combination of first-loss capital and the non-recourse element of the investor loan. However, even with these protections, the risk associated with losses arising over and above the protected levels is significant from WLZ's perspective, as a small and new organisation. Therefore, this arrangement in WLZ's first SIB contract increased the pressure on it for the service to be successful.

The WLZ SIB model also demonstrates how the contemporary SIB market is developing with several other innovative features. First, it is one of the first SIBs to focus on education outcomes amongst primary-aged and younger secondary school-aged children (Key Stage 3, aged 11–14), in the form of school attendance, attainment and emotional well-being. The DWPs Innovation Fund and Youth Engagement Fund SIB programmes have outcome payments linked to educational outcomes, but they are ultimately NEET-prevention SIBs, and focused on young people aged 14 and above. Second, the WLZ SIB has expanded the range of commissioners to include schools and philanthropists, whereas most other locally commissioned SIBs in the UK (that we are aware of) have exclusively involved local authorities or Clinical Commissioning Groups. Third, this SIB has successfully fostered new co-commissioning in the model. Most of the SIBs we have reviewed to date have generally struggled to engage co-commissioners at all and, where this has been done (e.g. Reconnections), it has tended to build on pre-established co-commissioning practices rather than fostering new ones. More generally, there is learning from involving a range of commissioning stakeholders in the SIB, and about their motivations to be involved, including: the offer of value for money; fit within broader priorities; and the attractiveness of an intermediary organisation to coordinate the delivery and management of the partner organisations.

However, the innovative aspects in WLZ's SIB also posed significant challenges in the SIB's development process, most notably due to the complexity, amount of time and resources involved in supporting the range of stakeholders. Challenges ranged from deciding the outcome structure and engaging and managing a range of local partners in the model to finalising the terms of the contract in a manner acceptable to both the commissioners and the investors. WLZ needed technical support from consultants and the social sector along the way to support these challenges, as well as extensive time in meetings with the key stakeholders to resolve any potential barriers. This experience in terms of effort is comparable to other SIBs set up through the CBO Fund thus far. It highlights the relational and technical challenges involved in setting up a SIB, and specifically the challenges related to procurement and contracting, which are complicated in SIBs that are led by a provider. The occurrence of these issues suggests that independent support is important to help providers and commissioners be aware of, and navigate, the issues, particularly as more organisations are exploring SIBs as a way to trial their service and involve public-sector commissioners.

In addition to the technical assistance, the openness and flexibility of the WLZ executive team were essential parts of navigating the discussions and challenges leading up to signing the SIB contracts. This included adapting so that the intervention would fit within wider priorities for the commissioners (such as the Troubled Families Programme). It also required pitching the idea in a way that was appropriate to the target audience, for example tailoring the pitch to schools who may be interested in buying the service but who don't have experience in the area of outcomes payments. The WLZ team's responsiveness and adaptability in these contexts, and others, has not only helped the SIB development, but it has also enhanced WLZ's profile and relationships as an organisation within a community in which it wants to stimulate significant impact. For WLZ, this was its main priority; it needed its relationships with the community intact, not least after setting up the financing for the model, as these relationships were integral to the overall vision of the project.

A final interesting point is the investor's decision to leave the initial SIB model open for review during the first year, supported by the first-loss capital over the life of the SIB, with the opportunity to refine the outcomes framework and payment structure once more was known from the delivery. Although commissioners would need to agree to any changes, the flexibility offered by the open contract means that the key groups can work together to find something that works in practice, rather than being dictated by a fixed contract. From the investor's perspective, the collaborative dialogue and iterative approach was important and useful in this context, as they saw there was a bigger priority to trial the involvement of different commissioners buying into the model. This is again a reflection of the broader aim of the intervention to test an innovative relationship structure that could create systems change across services (including both delivery and commissioning partners), rather than focusing on a targeted outcome or short-term cashable savings.

Areas for further investigation

The CBO evaluation team will revisit the WLZ SIB again in the autumn of 2018. The next phase of the review will focus on the operations and delivery of WLZ as a SIB. Some of the key areas proposed for this review are suggested here.

The views and reflections from the key stakeholder groups on their experiences of:

- The SIB model in practice, including the feasibility of a relatively small VCSE organisation managing the contracts for the SIB and the Link Workers, rather than a more formal Special Purpose Vehicle ; the potential benefits of this arrangement for all the stakeholder groups (including commissioners); and ways the original SIB model has been refined during the first year (including any adjustments to partnership working, contracting or payment structure).
- Sharing the risk and the potential upside with the investor, and developments in the plan to move towards outcome-based commissioning with the community organisations (rather than only based on engagement targets).
- The Link Worker role and of WLZ as intermediary in managing this coordinator role and the impact it has on delivery in schools (by WLZ and the partner organisations).
- The influence of demeanours, relationship dynamics and levels of understanding of SIBs, that continue to help (or hinder) this SIB.
- Involving schools as both commissioners and anchors in the SIB model, their role in verifying the identification of children and whether the set-up suits the range of delivery organisations.
- The monitoring required in the SIB and perceptions about impacts on delivery including: the processes involved in the verification of data leading to outcomes payment; managing the conflict of interest with schools as commissioners and anchors for the service; satisfying the interest of co-commissioners – including Big Lottery Fund – in looking for evidence of dead weight or attribution of impact to the intervention; and considering any perverse effects of the threshold model.
- The support from Big Lottery Fund in grant management and lessons for the support offer.

Testing the aspirations of the SIB and the collective impact approach, through evidence of:

- The outcomes achieved.
- The benefits from the SIB and the impacts (positive/negative) of new forms of contracts with delivery partners, such as improving quality or encouraging services to focus on the individual child.
- The effectiveness of referral/eligibility identification processes in schools, WLZ's role as the manager of the data to support the SIB, and as a data intermediary who ensures that the data required of delivery partners is as simple as possible.
- The potential impact (positive/negative) of including the Troubled Families criteria in the selection of children for the programme.
- Any additional effect/benefit a SIB delivers to the Troubled Families agenda (in the opinion of WLZ stakeholders) compared with successor programmes to Troubled Families work, which do not involve SIBs.

Looking forward to the remaining period of the contract, including plans to:

- Expand the model to other areas within the zone (i.e. the West London/Harrow Road area) and any proposed differences in the approach and how learning from the first contract informs this expansion of the WLZ model (including the planned expansion into the Royal Borough of Kensington and Chelsea).
- Ensure the sustainability of the project – particularly how the service will be fully funded once the 30 per cent contribution from CBO finishes.
- Support the continued involvement of schools and private philanthropists as co-commissioners and their impact on the sustainable funding footing for the intervention in the long term.

About this report

This in-depth review is the fifth of a series being produced as part of the CBO Fund Evaluation, commissioned by the Big Lottery Fund and undertaken by Ecorys UK and ATQ Consultants. Catie Erskine, Senior Research Manager at Ecorys, wrote the report.

The CBO Fund aims to encourage the development of SIBs and similar financial mechanisms. The report is based on a review of documents provided by stakeholders and consultations with key stakeholders involved in the SIB, including representatives from WLZ, BFM, Hammersmith and Fulham Council, BWB Impact and Advisory, Phoenix Academy, Ark Burlington Dames Academy, two service providers and a representative from the philanthropy donations. Consultation took place during 2017, during the first year of implementation for WLZ. The report will be updated in subsequent years to provide an account of the SIB's progress.

In total, the evaluation will produce in-depth reviews of ten SIBs part-funded through the CBO Fund. More information about the CBO Fund evaluation, including other in-depth reviews, can be found at www.biglotteryfund.org.uk/research/social-investment/publications.