2016 Q3 Briefing

The Social Investment Case for Early Intervention

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Foreword

Through extensive research and project work within the field of education, it has become evident that whilst there are many programmes and areas that require and are suitable for external investment, early childhood development (ECD) programmes have the potential for the greatest impact on disadvantaged pupils. Early interventions can be much more effective and worthwhile than later interventions because the cost of supporting those with problems increases with age whilst interventions are less effective when they do not build on earlier investments, so value is lost exponentially.

Cost-benefit analysis routinely estimates the returns at between 7-12% in the long-run, higher than the historical annual rate of return for the stock market during similar periods. What is surprising then is that despite the widely available summary of evidence showing that high-quality ECD interventions are impactful and an effective use of finance, there has been an historical reluctance to fund such programmes, partly because of its *assumed* long-term nature.

This research piece briefly sets up the current landscape of the education sector and explores some of the innovative financial instruments routinely being used by social investors, their benefits and limitations. The research then focuses on the commissioning landscape for ECD programmes, highlighting how despite the extensive evidence available, they are typically underfunded.

We hope that in addressing how social investment can bring the education sector forward, we can also help facilitate change across other social areas and issues. Accordingly, set forward as a series of discussion questions, this research concludes on what we think are the challenging questions that need to be answered so that more disadvantaged and vulnerable young children can be delivered effective support.

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Landscape of the Education Sector

The 'Attainment Gap' – that is, the difference in the achievements of disadvantaged children (those receiving Free School Meals (FSM)) and others – is still significant and is noticeable from the time of children's first assessment, only to widen as they continue through formal education. Significant and continued investment in effective interventions throughout the school years can help to reduce the gap.[1]

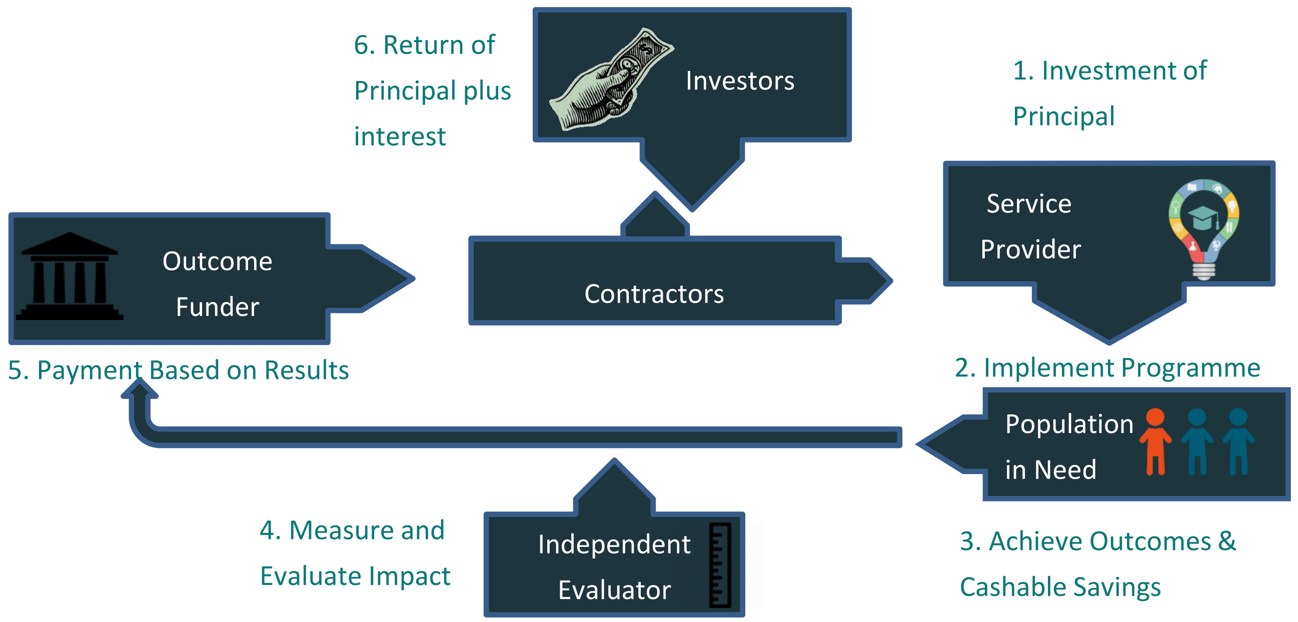
A new budget has been allocated towards early years providers that contributes £300 towards every 3-4 year old eligible for FSM in addition to the 15 hours of free childcare in place. Despite this increase in budget, the overall cut in the value of support for early intervention services is £900m per year, a 27% reduction between 2010 and 2015.[2] Additionally, the increased demand for services means funding, especially tax-funded capital, is further strained. Early years intervention is considered a high-priority for local authorities, however as the figures demonstrate, they do not have enough funding to adequately commission these services.[3]

On the other side of the issue, charities, who need to be capable of balancing financing costs and risks specific to their business plan, must often accept whatever capital is being offered.

TSIC's 2011 Report, 'Financing Social Enterprise in the UK', reviewed the opportunities for social enterprises when they were recipient to the right type of capital. Over the past 5 years since then, an increasing amount of capital and new financial instruments have been brought to the third sector, enabling more social visionaries to take on risk and innovate to achieve better outcomes for their beneficiaries.[4] In particular, new financial instruments adopted by the social investment community have the potential to enable those vulnerable and hard-to-reach groups that are at greatest risk – but who are typically under provided for – to be reached.[5]

Take Social Impact Bonds (SIBs), contracts set-up with a public sector commissioner or foundation who commit funding conditional on achieving results. So whilst investors provide the upfront capital, taking on the project risk, they only get a return if the service providers achieve pre-agreed milestones. This structure creates an environment that is conducive to achieving outcomes, yet, the unrestricted nature of the capital means service providers have flexibility to explore innovative projects and less evidenced methods. Social investors can offer unrestricted funds to social organisations; they are often more lenient than grant funders so money might be used to cover operational costs, vital to the project, so long as their social and/or financial return benchmarks are met.

Typical Mechanics of an SIB[6]



Case Study: SIBs in the Education Sector[7]

What makes any particular social area ready for SIBs is where the savings accrued to the 'outcome funder' are tangible, the measurement of impact can be consistently and accurately computed, and there are known benchmarks that investors can compare the outcomes being achieved with. Investors should consider the limited guarantees of a programme's continued success since each intervention plays with uncontrollable factors, moreover they should not underestimate the importance of impact measurement and the structure of contract.

This payment-by-results (PBR) model has been freshly implemented in high frequency in early intervention programmes. Consider the case study situation where the PBR pre-school programme was delivered to 600 children in the Granite School District in the Utah area. The main investor, Goldman Sachs (GS), would provide the upfront capital, and get paid for each person who didn't have to subsequently use special education services – at a rate of 95% of the cost-savings.

This was one of the first SIB's to launch in the US and the first SIB to pay-out on the success of the programme, which was confirmed in November 2015, with only one out of the 110 students previously identified as "at-risk" of needing special education in grade school, subsequently using such services. With fewer children requiring special education and remedial services, school districts and governments *supposedly* saved $281,550 in a single year, with GS was getting paid $260,000 in what is expected to be the first of many payments to them.

The results are controversial though. Nine early-education experts claim the 99% effectiveness of the programme GS helped to fund is over-stated because of the faulty assumption that all 110 children were "at-risk". when this characterisation was based on little evidence. Most programmes typically have a 25% reduction in "at-risk" pupils, even those that are much better funded.

"It is a step in the right direction, but this is not the criteria I hope we hold ourselves to ultimately,"

says Kenneth A. Dodge, a professor at the Sanford School of Public Policy at Duke University, customarily an advocate for SIBs.[8]

Financial instruments such as SIBs aim to achieve social outcomes that are not possible by either government, other funders or grant makers. The primary value of SIBs model is in interventions that work with vulnerable groups where there are multiple, complex underlying factors that are causing or influencing the problem and where investing in prevention is more efficient than remediation.

This payment-by-results model is a step in the right direction because it is creating social impact by funding programmes that wouldn't have been otherwise. Yet, most of the successful SIBs to date have been procuring impact that's already well-funded and short-term (e.g. supporting young people that are Not in Education, Employment, or Training (NEET)) and not necessarily services where the impact created is long-term.[9]

Despite the challenges, highlighted by the case on the left, the UK has a number of funds launched to back SIBs. These include the Department for Work and Pensions (DWPs) Innovation Fund I & II (2012), Department for Communities and Local Government (DCLGs) Fair Chance Fund (2014) and DWPs Youth Engagement Fund (2015).

Thinking about the end game for SIBs, for example, 'Will SIBs be a permanent tool in the contracting landscape, or will they evolve as a tool to help government transition towards administrating outcomes-based programmes directly?' brings many perspectives.[9] Focusing on taking forward the values promoted by the model will be more fruitful.

Ensuring programmes are creating positive impact is the most important; advancement of the various financial instruments that align stakeholders interests with outcomes for beneficiaries, similar to SIBs, must remain an on-going process.

Underfunding High Impact Interventions

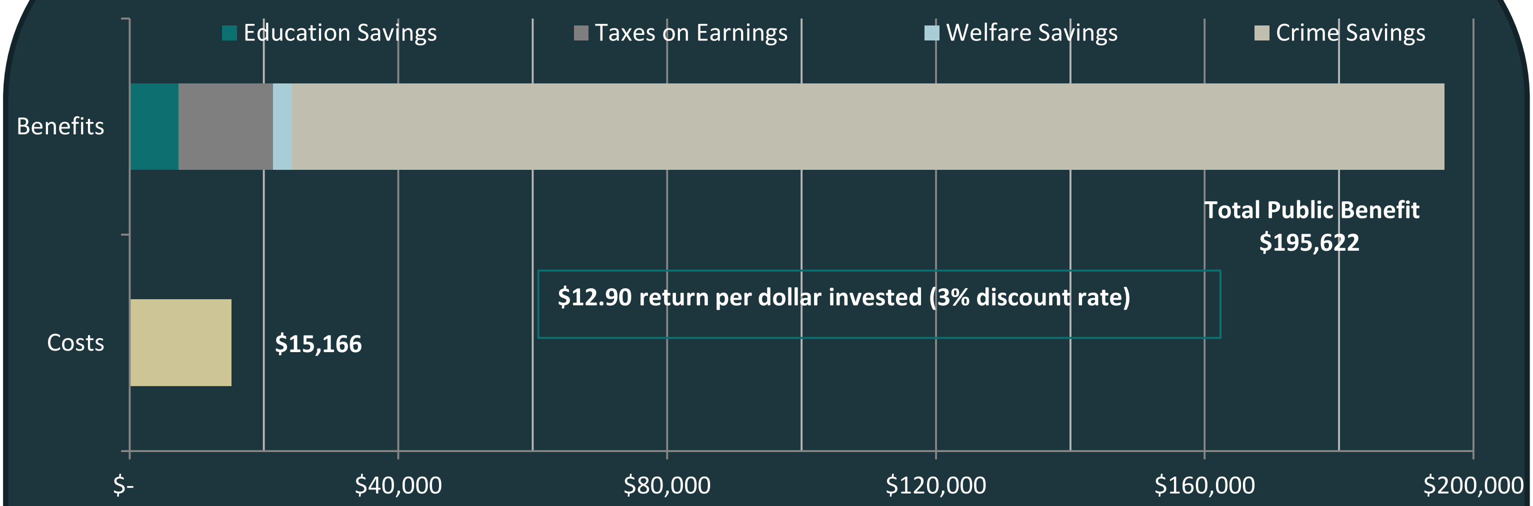
The Education Endowment Foundation 's (EEF's) 'Teacher and Learning Toolkit', an accessible summary of educational research, ranks 'Early Childhood Development' interventions joint 3rd out of 34 measures for impact, after 'Feedback' and 'Meta-cognition and self-regulation'. On *average* it results in five additional months' of progress and this evidence is robust. High-quality provision is essential with well-qualified and well-trained staff to achieve such results. The costs of delivering these programmes are estimated to be very expensive, at £1,000-£2,000 per pupil – putting this in context reveals it as approximately equivalent to the cost of 4 months of schooling – in line with the impact it creates.[10]

Early intervention programmes, however, are often not implemented widely and are under funded.[2,3] This is partly because their impact is spread out over many years and many sectors, for instance, education, health, crime, etc. making identifying and attributing impact complicated.

Commissioners, accordingly, are less inclined to employ such measures: they are not able to look that far ahead as the current model dictates a need to procure impact and see returns in the immediate future. Other traditional sources of financing, such as grants, are often used on conventional, local interventions and given to the largest VCSEs in the sector but there still remains a dearth of capital.

Impact investment needs to emerge to fill this gap that neither commercial investors nor government seems to be able to address on their own. This type of financing will help drive innovation as money is diverted from the symptoms of the social problem to their actual causes.

Social Return to Pre-School Programmes[11]



A case-in point of the high returns to high quality pre-school programmes, which are under-funded particularly in deprived communities, is illustrated in the bar chart above. It evaluates and compares costs to benefits in a longitudinal study finding a huge return of $12.90 for every dollar invested in the programme.

Crime savings account for a majority of the programme's benefits and were found to come from, for example, reduced number of overall arrests and arrests for violent crimes as well as reduced subsequent prison or jail sentences over a participants' lifetime.

Further research, carried out in 2010, by University of Chicago economist James J. Heckman, a Nobel laureate, pointed to a long-run social return on investment in high quality pre-schools of between 7- to 12%. This is above the historical return to equity.[12] The research shows that despite no long-term improvements to IQ, the concrete character skills developed through early childhood interventions have the greatest impact on life outcomes.[13] Strikingly, such a finding is not singular. The Wave Trust in collaboration with the DfE found in a meta-analysis that the benefits range from 75% to over 1,000% higher than costs.[14]

Next Steps: Thinking Points

This interesting implication has stimulated further questions that we look to discuss and would like to see further research developed around.

Firstly, we would like to develop a better understanding around: What impact the various types of social investors want to see prior to funding? What determines whether they focus on quantitative benchmarks, more qualitative feedback from beneficiaries or proxies to provide performance context? Furthermore, how do they decide upon the criteria to benchmark the impact data?

Leading on from this discussion, we are concerned with: How interventions with long term social benefits, such as reductions in crime, can result in public/social savings being calculated and accrued to those providing the upfront capital? What changes in government policy and investment practices need to be implemented for this to happen?

ECD is a highlighted case of how even programmes with high social returns are not being funded widely enough – this is just one example of several cases. Working through this 'misallocation of resources' issue within the ECD context will likely inform what needs to change in other social contexts. Ultimately, this would result in resources being put to their most effective use, and beneficiaries will be better off.

We look forward in the near future to answering and hearing some answers to these questions - we think addressing these concerns will be pivotal to improving perceptions, availability and uptake of social investment.

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About Us

The Social Investment Consultancy

The Social Investment Consultancy (TSIC) operates at the intersection of the for- and non-profit worlds, dedicated to helping charities and businesses maximise their social impact. The latest models of social enterprise, revenue generation and social investment, and the integration of skills and expertise from across the public, private and third sector form the basis for our work.

Our consultants have **in-depth experience** of working in-house for and consulting to many of the **world's leading private and charitable organisations**. The integration of skills and expertise from across the **public, private and third sector** forms the basis for a range of professional services that drive **social impact** and **organisational change**. We work across the whole spectrum in social change.

Our services to charities & social enterprises include:

- Exploring revenue-generating opportunities and incubating new business ideas
- Preparing for successful investment and fund-raising through strategy and communications planning
- Evaluating and communicating the impact of charitable programmes

Our services to businesses include:

- Building flagship corporate community engagement programmes through the TSIC Fuse process
- Identifying high-impact cause areas and partners, performing due diligence
- Developing external marketing campaigns and reporting on impact
- Engaging employees and internal stakeholders

We also work with **philanthropists & foundations** through our partner brand, Ten Years Time.

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