

# The use of social impact bonds in children's social care: A comparative analysis of project justifications and design considerations in the Life Chances Fund

**Main research report**

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## Glossary

Black box commissioning	When procuring a service or intervention, the commissioner can specify the intervention required or leave this up to the organisation providing the service. The latter approach is called a ‘black box’ approach because the commissioner doesn’t specify what the intervention should be; they simply agree to pay for outcomes if they are delivered. Service proposals and specification are left to the discretion of the provider and investor (as long as they meet outcomes).
Business case	The business case provides justification for undertaking a project or programme. It evaluates the benefit, cost and risk of alternative options and provides a rationale for the preferred solution.
Capital recycling	A situation whereby investors provide upfront funding and in case of periodic outcome payments, they can recycle those payments as investment capital. Capital recycling allows the size of the investment capital needed upfront to be only a fraction of the total investment required to fund the intervention within an impact bond.
Care (‘in care’ in relation to children who are ‘looked after’)	A child who is ‘looked after’ (CLA) is a child whom the local authority accommodates and/or for whom it cares. Local Authorities either place children in local authority administered placements and other placements provided by the public sphere, or in placements with private agencies or voluntary organisations.
Cashable savings	A change in an outcome or output which will result in a reduction in spending, such that the expenditure released from that change can be reallocated elsewhere. This should result in a tangible financial benefit for the organisation.
Cherry picking	This is a perverse incentive whereby providers, investors or intermediaries select or target service users who are more likely to achieve the expected outcomes and de-prioritise the most challenging cases
Children in Care (CIC)	Children in care (similar to ‘looked after children’). A child is looked after by a local authority if a court has granted a care order to place a child in care, or a council’s children’s services department has cared for the child for more than 24 hours. On reaching the age of 18, children cease to be considered looked-after by a council.

Children in Need (CIN)	A child is considered to be “in need” if they are unlikely to achieve a reasonable standard of health and development without the provision of local authority services. This includes children who are disabled, have learning difficulties, come from families which require financial assistance and/or young carers. Being designated as ‘in need’ is a necessary but not sufficient standard for further involvement of the authorities. Within this category children and their families may well be able to cope without more intense help.
Cohort	Description of the targeted population of beneficiaries or service users.
Commissioning	The cyclical process by which entities assess the needs of people in an area, determine priorities, design and contract appropriate services, and monitor and evaluate their performance. This term is used widely in the UK public sector context, but less so elsewhere. It is sometimes used interchangeably with "contracting".
Costs avoided	Cost avoidance measures are any actions that avoid having to incur costs in the future. They represent potential increases in costs that are averted through specific pre-emptive actions. These measures will never be reflected in the budget or the financial statements.
Child Protection Plan (CPP)	If there were concerns about the safety of a child or their living circumstances, then a child will have been deemed to be ‘at risk’ and may have been subject to a child protection plan. This can occur either through a voluntary arrangement between the family and local authority (“being accommodated”), or by the child being taken into care through a care order. The distinction is that under the voluntary Section 20 arrangement, the family can remove the child from care whenever they desire, whereas this is not the case if they are subject to a section 31 care order.
Deadweight	Outcomes which would have happened anyway, regardless of an intervention, policy or investment.
DCMS	The Department for Digital, Culture, Media and Sport (DCMS) is a <a href="#">department</a> of the <a href="#">United Kingdom government</a> , with responsibility for <a href="#">culture</a> and <a href="#">sport in England</a> , the building of a <a href="#">digital economy</a> , and some aspects of the <a href="#">media throughout the UK</a> , such as <a href="#">broadcasting</a> and <a href="#">Internet</a> . In 2016, DCMS launched the Life Chances Fund, within which it acts as the central government outcome payer. It also hosts Civil Society and Youth and the Centre for Social Impact Bonds, who hold policy responsibility for this area within UK central government.
DCMS Data Portal	A dedicated data portal (created and owned by Centre for SIBs at DCMS) set up for social impact bonds within the Life Chances

	Fund to capture detailed baseline and performance data for individual SIB projects. It aims to facilitate a more streamlined application process and grant management as well as evaluation activity.
DfE	The Department for Education (DfE) is responsible for children’s services and education, including early years, schools, higher and further education policy, apprenticeships and wider skills in England.
Edge of care (EoC)	There are various definitions for this term but generally, these are children and young people who are being considered for care but who have not entered into local authority care. In other cases, they might have been assessed and supported through alternative provisions to statutory care, or else they might be already in the care of the local authority but the permanence of this might not have been established.
Foster care	Foster care is when a child can no longer live with their own family, so is placed into the care of foster carers. The foster carer, or foster parent’s job is to provide a safe, secure environment for the foster child on either a temporary or more permanent basis. Whereas adoption refers to a long-term permanent solution where full legal responsibility of the child is assumed, foster care is usually more of a temporary measure - and the local authority and child’s birth parents still have legal responsibility for the child.
Grey box commissioning	A grey box approach involves more direction or specification from commissioners than a black box approach. There is still ample flexibility for the provider to design the intervention or service.
Input	The financial, human, and material resources used for a specific intervention or service.
Intermediary	Impact bonds are often supported by experts that provide specific advice. These are typically all referred to as “intermediaries” but encompass at least four quite different roles: consultancy to develop business cases, social investment fund managers, performance management experts, and special purpose vehicles.
Investor	An investor seeking social impact in addition to financial return. Social investors can be individuals, institutional investors, dedicated social investment funds and philanthropic foundations, who invest through their endowment. In UK SIBs, these are often ‘investment fund managers’ rather than the original asset-owning institutions or individuals who provide the capital.
Looked After Children (LAC)	Looked After Children (similar to ‘children in care’) is the term used to describe a situation where the local authority is the corporate parent for the child. A child is looked after by a local

	authority if a court has granted a care order to place a child in care, or a council's children's services department has cared for the child for more than 24 hours. On reaching the age of 18, children cease to be considered looked-after by a council.
Life Chances Fund (LCF)	The Life Chances Fund (LCF) is an £80m fund committed in 2016 by UK central government (DCMS) to help people in society who face the most significant barriers to leading happy and productive lives. It will provide top up contributions to outcomes-based contracts involving social investment, referred to as Social Impact Bonds (SIB). These contracts must be locally commissioned and aim to tackle complex social problems.
Ofsted	The Office for Standards in Education, Children's Services and Skills (Ofsted) is a non-ministerial department of the UK government, reporting to Parliament. Ofsted is responsible for inspecting a range of educational institutions, including state schools and some independent schools. It also inspects childcare, adoption and fostering agencies and initial teacher training, and regulates a range of early years and children's social care services. Ofsted assesses the effectiveness of Local Authorities in delivering and providing their statutory services, conducting reviews of each local authority at least once every three years. This includes an evaluation of third-party providers such as external providers of foster care.
Outcomes (outcome metrics/outcome payment triggers)	The outcome (or outcome metric) is a result of interest that is typically measured at the level of service users or programme beneficiaries. In evaluation literature, outcomes are understood as not directly under the control of a delivery organisation: they are affected both by the implementation of a service (the activities and outputs it delivers) and by behavioural responses from people participating in that programme. Achieving these outcomes 'triggers' outcome payments within an outcomes contract or social impact bond arrangement.
Outcomes fund	Outcome funds pool capital from one or more funders to pay for a set of pre-defined outcomes. Outcome funds allow the commissioning of multiple impact bonds under one structure. Payments from the outcomes fund only occur if specific criteria agreed ex-ante by the funders are met.
Outcome payer	The organisation that pays for the outcomes in an impact bond. Outcome payers are often referred to as commissioners.
Outcomes payment(s)	Repayment by outcome payers (to investors), for achieving pre-agreed outcomes in an impact bond.
Output	The tangible goods and services that are produced (supplied) directly by an intervention. The use of outputs by participants contributes to changes which lead to outcomes.
Procurement	Acquisition of goods and services from third party suppliers under legally binding contractual terms. In impact bonds where

	the government is the outcome payer, procurement processes may play a role shaping the market, in defining the outcome specifications, the terms of the outcomes contract, pricing the outcomes, and selecting the parties.
Propensity score matching (PSM)	In the statistical analysis of observational data, propensity score matching (PSM) is a statistical matching technique that attempts to estimate the effect of a treatment, policy, or other intervention by accounting for the covariates that predict receiving the treatment. PSM attempts to reduce the bias due to confounding variables that could be found in an estimate of the treatment effect obtained from simply comparing outcomes among units that received the treatment versus those that did not.
Randomised controlled trial (RCT)	A randomised controlled trial (or RCT) is a type of scientific experiment (e.g. a clinical trial) or intervention study (as opposed to observational study) that aims to reduce certain sources of bias when testing the effectiveness of new treatments; this is accomplished by randomly allocating subjects to two or more groups, treating them differently, and then comparing them with respect to a measured response. One group—the experimental group—receives the intervention being assessed, while the other—usually called the control group—receives an alternative treatment, such as a placebo or no intervention. The groups are monitored under conditions of the trial design to determine the effectiveness of the experimental intervention, and efficacy is assessed in comparison to the control.
Residential care	Residential care is a form of group care for children who are looked after, where care is provided by teams of paid staff. This may be arranged under a care order or a voluntary accommodation arrangement, including short breaks for disabled children. Examples include secure units and children’s homes. Residential care is an alternative to foster care or kinship care, which are more common placements for children who cannot live with their birth family.
Reunification	Reuniting children and young people with their birth families or guardians.
Service provider	Service providers are the entity(ies) responsible for delivering the intervention to service users. Providers work in collaboration with the outcome payer(s) and the investor(s) to make the impact bond work. A provider can be a private sector organisation, social enterprise, charity, NGO or any other legal form.
Service users	Description of the targeted population of beneficiaries or service users.

Social Impact Bond (SIB)	A type of outcome-based contract that incorporates the use of private funding from social investors to cover the upfront capital required for a provider to set up and deliver a service. The service is set out to achieve measurable outcomes established by the commissioning authority and the investor is repaid only if these outcomes are achieved. Increasingly, SIBs are also referred to as Social Outcome Contracts (SOCs).
Special purpose vehicle (SPV)	A legal entity (usually a limited company) that is created solely for a financial transaction or to fulfil a specific contractual objective. Special purpose vehicles are sometimes used in the structuring of impact bonds.
Step down	Moving children and young people ‘down’ from residential care placements to foster care.
Top up fund(ing)	In some situations, an outcomes fund will provide a partial contribution to the payment of outcomes where the remainder of outcomes payments are made by another government department, local government or public sector commissioner. In the LCF the partial contribution from DCMS ‘tops up’ the payment for outcomes and is intended to support the wider adoption of social impact bonds (SIBs) commissioned at the local level.
Theory of change	A theory of change explains how the activities undertaken by an intervention (such as a project, programme or policy) contribute to a chain of results that lead to the intended or observed impacts. The theory of change explains the channels through which programmes can influence final outcomes. It describes the causal logic of how and why an intervention will reach its intended outcomes.
TNLCF	The National Lottery Community Fund, legally named the Big Lottery Fund, is a <a href="#">non-departmental public body</a> responsible for distributing funds raised by the <a href="#">National Lottery</a> . The Community Fund aims to support projects which help communities and people it considers most in need. TNLCF manages the Life Chances Fund on behalf of DCMS.
Value for money	The National Audit Office (NAO) uses three criteria to assess the value for money of government spending i.e., the optimal use of resources to achieve the intended outcomes: Economy: minimising the cost of resources used or required (inputs) - spending less; Efficiency: the relationship between the output from goods or services and the resources to produce them - spending well; and Effectiveness: the relationship between the intended and actual results of public spending (outcomes) - spending wisely.
Wraparound	Wraparound is a process of working with children and young people, especially those with serious mental health challenges, emotional or behavioural problems. Community based services

	and individualised support are combined to “wrap around” a child or youth and their family in their home, school, and community in an effort to help meet their needs.
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# 1. Introduction

This report investigates seven children’s social care projects commissioned through social impact bonds (SIBs), with top-up outcomes funding provided by the Department for Digital, Culture, Media & Sport’s Life Chances Fund (LCF). The research investigates the justifications and alternative SIB design approaches adopted by local authority commissioners to support children and families ‘at the edge’ of (or already within) the statutory care system. The research is supported by a [technical annex and summary report](#).

## 1.1 The intersection of children’s social care and social impact bonds

### 1.1.1 Legal and policy context for children’s social care in the England

Children’s social care services support vulnerable children with a broad range of needs, including children who are disabled, who require protection from harm or who need to be placed in residential or foster care. Many of these children might also have parents who are abusive, are neglectful, have mental ill-health or are involved in substance misuse.<sup>1</sup> These social care services are provided within or alongside broader children’s services in England, such as Sure Start children’s centres and youth justice services.

Central government support is channelled through the Department for Education (DfE) (which is responsible for setting legal and policy frameworks) and the Ministry of Housing, Communities and Local Government (MHCLG) (which provides funding to local authorities for children’s services). This is a devolved area of policy, which means that local authorities are the point of referral and have the independence to set their own protocols as long as these are compliant with central government legislation and guidance. Upon receiving a referral, local authorities assess the case and decide on appropriate action which could include provision of appropriate services (hence classifying the child as a “child in need”<sup>2</sup>), putting a child under a child protection plan (following the convening of a “child protection conference”), taking the child into statutory care (foster care or residential care provided by the local authority) or taking no action.<sup>3</sup> As shown in **Figure 1** below, the Department for Education places children in need

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<sup>1</sup> Munro, 2011. Under the *Children Act 1989*, the 152 upper-tier local authorities in England have statutory responsibilities to safeguard children and promote their welfare by delivering children’s social care. The *Children Act 2004* further requires the local authority, police, clinical commissioning groups and other local partners to work together and assume these responsibilities jointly.

<sup>2</sup> The term ‘child in need’ can encompass a wide range of children and adolescents, in need of varying types of support and intervention. A child is defined as ‘in need’ under section 17 of the *Children Act 1989*, where: they are unlikely to achieve or maintain, or to have the opportunity of achieving or maintaining, a reasonable standard of health or development without the provision for them of services by a local authority; their health or development is likely to be significantly impaired, or further impaired, without the provision for them of such services; or they are disabled. *Children Act 1989*, 1989.

<sup>3</sup> National Audit Office, 2019

into four main categories, depending on the level of response and level of risk involved.<sup>4</sup> These range from a “child receiving early help” (low level of response and low risk, with light touch support below statutory thresholds) to a “looked after child” (high response and high risk, with child placed in foster or residential care).

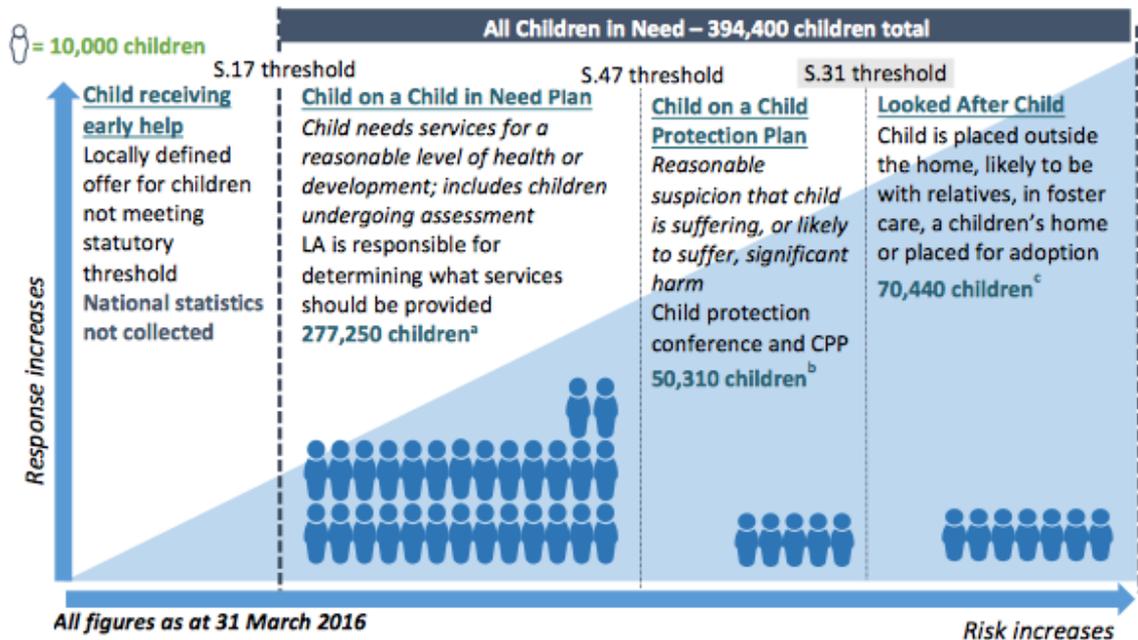


Figure 1 Overview of statutory thresholds for Children in Need. Source: Department for Education, 2018

In 2011, the *Munro Review of child protection*<sup>5</sup> was published, suggesting that children’s social care in England needed significant reform. The Munro Review recommended transitioning to a more child-centred and less bureaucratic system. The Department for Education set out a reform plan to improve children’s social care by 2020 in its July 2016 publication *Putting Children First*.<sup>6</sup> The delivery date was later revised to 2022, with the ambition “to ensure that all vulnerable children, no matter where they live, receive the same high quality of care and support by 2022.” Suggested reforms aim to build a skilled social work workforce, high quality services and a governance and accountability system premised on learning and innovation. The Government’s reform programme includes several other initiatives, such as the £200 million Children’s Social Care Innovation Programme<sup>7</sup> (launched in 2014) to encourage innovative approaches to supporting children and the £15 million Supporting Families; Investing in Practice<sup>8</sup> programme to expand Family Drug and Alcohol Courts (FDAC) and family group conferencing (FGC) projects. Other initiatives seek to

<sup>4</sup> Department for Education, 2018

<sup>5</sup> Munro, 2011

<sup>6</sup> Department for Education, 2016

<sup>7</sup> Department for Education, n.d.

<sup>8</sup> Department for Education, 2019

build peer learning groups (Partners in Practice, Regional Improvement Alliances), foster evidence-based practice within this policy area (What Works Centre for Children’s Social Care<sup>9</sup>), as well as establish teaching and a new national accreditation system for social workers.

### 1.1.2 Rising demand and financial pressures in children’s social care

Demand for children’s social care in England is rising. According to the Department for Education<sup>10</sup>, there has been a marked increase in social care activity between 2010 and 2018 (see **Figure 2**). The number of referrals during this time also increased by 8%, from around 615,000 in 2010/11 to 665,000 in 2017/18.<sup>11</sup> Residential care placements grew by 36%, while foster care placements grew by 18%.

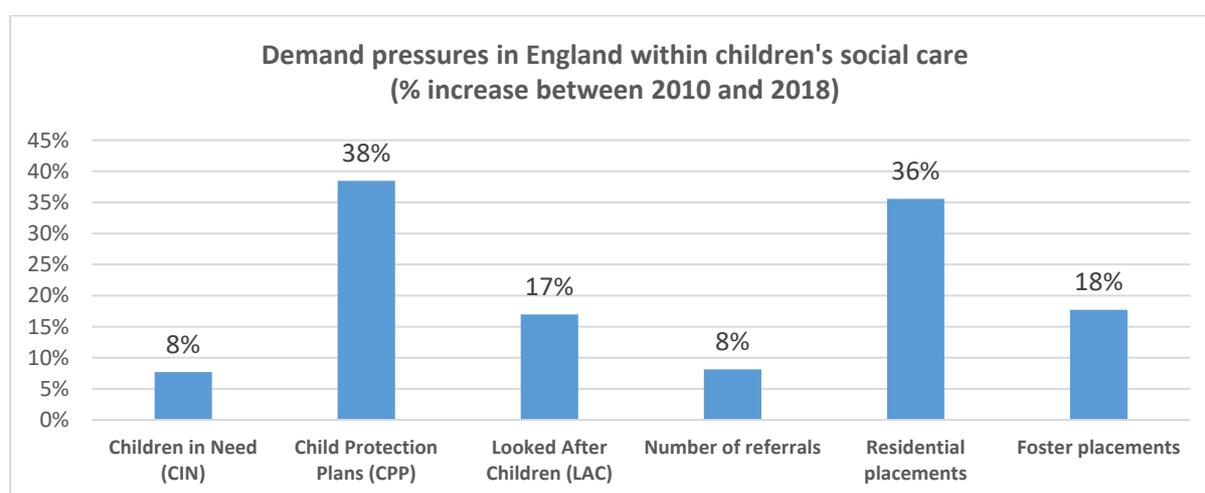


Figure 2 Growing demand pressures in England, based on interpretation of data from Department for Education by GO Lab researchers. Figures for residential placements are a sum of “secure units, children’s homes” and “other residential settings.”

On 31<sup>st</sup> March 2019, there were 399,500 children in need and 52,300 children subject to a child protection plan.<sup>12</sup> Several drivers may have contributed to this increase though their relative significance is less clear. Poverty; an increase in the overall child population; new and greater risks (e.g. County Lines<sup>13</sup>, gang violence, child sexual exploitation); cuts to early intervention services which might have boosted demand for acute social care; and increased awareness in the wake of high profile cases of child sexual exploitation and child murders are each seen to be important contributory factors.<sup>14</sup>

<sup>9</sup> What Works Centre for Children's Social Care, n.d.

<sup>10</sup> House of Commons Library, 2019

<sup>11</sup> House of Commons Library, 2019

<sup>12</sup> Department for Education, 2019

<sup>13</sup> “County lines” is used to describe drug gangs in large cities expanding their reach to small towns. In many cases, vulnerable individuals are exploited to transport substances, and mobile phone ‘lines’ are used to communicate drug orders. Home Office, 2020

<sup>14</sup> The Association of Directors of Children's Services, 2018

Meanwhile, austerity measures in the UK have led to significant reductions in central government grants in the last decade. Central government grants make up the greatest proportion of local government funding<sup>15</sup> and are not ring-fenced, enabling local authorities to decide their own funding allocations. However, this also implies competition from other non-ring-fenced expenditures. Despite a fall in government funding, local authorities have been able to protect expenditure on children’s social care.<sup>16</sup> This is represented in Figure 3 below.

LOCAL AUTHORITY EXPENDITURE ON CHILDREN'S SOCIAL CARE			
England £ billions			
	Cash	Real Terms (2017/18 Prices)	Real terms Annual % change
2010/11	6.65	7.45	
2011/12	6.42	7.10	-4.7%
2012/13	6.61	7.16	+0.9%
2013/14	6.92	7.35	+2.7%
2014/15	8.09	8.49	
2015/16	8.30	8.65	+1.8%
2016/17	8.48	8.64	-0.1%
2017/18	8.84	8.84	+2.4%

Figure 3  
Local authority expenditure on children’s social care in England. Source: House of Commons Library, 2019.

However, growing numbers of looked after children (with an average spend of £45,650 per child in 2015/16)<sup>17</sup> combined with increased care costs (for example through increasing use of expensive residential placements), has led to marked increases in financial pressures within local authorities.<sup>18</sup> In England, 91% of local authorities had overspent on children’s social care in 2017-18, compared to 63% in 2010-11. In aggregate, this equates to a national overspend of £872 million in 2017-18.<sup>19</sup> The Local Government Association (LGA) has estimated that children’s services will face a £1.1 billion funding gap in 2019-2020, which is expected to increase to £3 billion in 2024-2025.<sup>20</sup>

As a result of these financial pressures, local authorities have sometimes responded by prioritising statutory children’s social care (such as child protection) while reducing spending on non-statutory activities (such as children’s centres). This is reflected in the proportion of spending on preventative services which has fallen from 41% of overall spend in 2010-2011 to 25% in 2017-2018,<sup>21</sup> which might exacerbate needs and demand in the

<sup>15</sup> Local government funding is supported by multiple funding streams including central government grants, council tax, and the Business Rates Retention Scheme.

<sup>16</sup> House of Commons Library, 2019

<sup>17</sup> Department for Education, 2016

<sup>18</sup> National Audit Office, 2018; National Audit Office, 2019

<sup>19</sup> National Audit Office, 2019

<sup>20</sup> Local Government Association, 2018

<sup>21</sup> National Audit Office, 2019

future. Behind these aggregate figures, there are considerable variations between local authorities in both demand and spending. According to 2017-18 estimates for England, there was a range of 301 to 1323 children in need episodes per 10,000 children between local authorities. A child can have more than one assessment and more than one episode of need during a tracking period. Meanwhile, costs ranged from £566 to £5166 per child in need episode (per year) across local authorities.<sup>22</sup> According to the National Audit Office, no correlation has been found between local authorities' spending per child in need and the Ofsted rating of their service quality.<sup>23</sup> This suggests that while financial pressures need to be relieved, improving children's services might require more than simply increasing funding. A better understanding of demand pressures and variation between local authorities is required.

Constrained funding is coupled with recruitment challenges as turnover among social care workers remains high. Recruiting and retaining skilled social workers is a substantial challenge for local authorities. In September 2018, the vacancy rate stood at 16.5% while turnover rate was recorded as 15.2%.<sup>24</sup> As with other indicators, there are large variations in turnover numbers between local authorities.<sup>25</sup>

This crunch in terms of high demand, tight resources and staffing challenges translates into adverse ramifications on the lives of children and young people, not only in the present but also for the future. Long term outcomes (such educational attainment, employment, mental health and crime) for those leaving the care system are known to be poorer than their non-looked after peers.<sup>26</sup> Yet, for those young people who are in need, outcomes are known to be better in care settings than outside of care.<sup>27</sup>

### 1.1.3 Social impact bonds: Innovative responses to complex social problems

In the UK, government (both at central and local levels) is experimenting with innovative cross-sector contracting and investment tools in a bid to respond to complex social problems. This includes policy areas such as homelessness, recidivism, children's social care and substance misuse. The financial crisis of 2008 was followed by austerity measures and the introduction of new types of market-based interventions to address complex social problems in the UK. In the meantime, social impact investment also gained momentum. Social investment has been advocated as a basis for saving public money, transferring risk away from the public sector, correcting poor incentives, accessing new funding, and using evidence-based interventions.<sup>28</sup> Within this area, social impact bonds emerged as a new means to leverage private finance for greater cross-sector collaboration, innovative services, and preventative spending.

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<sup>22</sup> National Audit Office, 2019

<sup>23</sup> National Audit Office, 2019

<sup>24</sup> Department for Education, 2019

<sup>25</sup> Department for Education, 2019

<sup>26</sup> Oakley, et al., 2018

<sup>27</sup> Oakley, et al., 2018

<sup>28</sup> Mulgan, et al., 2011

#### 1.1.4 Early use and experiences of SIBs in children’s social care

Despite the criticism and concerns associated with the SIB approach<sup>29</sup>, a series of local government teams have shown interest in adopting this commissioning tool within the domain of children’s social care. SIBs are compelling because they help focus attention on the outcome, which sits at the heart of the payment mechanism. In children’s social care, outcomes are often understood to be very tightly linked to demand reduction. This is the embodiment of the invest-to-save logic, as the SIB enables ‘double running’ (simultaneous operation) of existing services as well as additional preventative services which have the potential to generate long term impact. Particular emphasis is placed on improving long-term educational, employment and wellbeing outcomes.

Early examples of SIBs in children’s social care were regularly cited by research participants as a source of inspiration. A few of these pioneering examples include<sup>30</sup>:

- **Essex County Council Multi-Systemic Therapy<sup>31</sup> (MST)**: Essex County Council MST was launched in 2013 as the first SIB in children’s social care. It was also the first social impact bond to be commissioned by local government. Essex County Council funded a Multi-Systemic Therapy intervention over five years for young people on the edge of care, aged 11-17 who displayed anti-social or offending behaviour or other conduct disorders that put them at risk of an out-of-home placement. The intensive evidence-based therapeutic treatment model aimed to promote positive social behaviours by breaking negative cycles and removing specific problems in the young person’s life. Young people who demonstrated anti-social or offending behaviours were assigned a therapist who worked with them in their home, school, and community, and with family and peers. This therapist was available 24/7 and worked with the young person for an average of 4-5 months to change their social behaviours. Outcome payments were based on the outcome measure of “reduction in care placement days compared to predicted baseline, over a 30-month period for each child.” The project completed delivery in 2018, having engaged 335 service users.
- **Manchester Multi-dimensional Treatment Foster Care- Adolescents (MTFC-A)**: In 2014, Manchester City Council launched a MTFC-A intervention, due to run for five years. The project was designed to work with at least 95 young people aged 11-14 who were looked after by the local authority, either in residential care or in foster placements, or who were at risk of entering residential care. The intervention offered an alternative to local authority residential care for those young people that met the criteria. Within Multi-dimensional Treatment Foster Care, foster carers were trained to provide therapeutic support in order to help

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<sup>29</sup> Neyland et al, 2018

<sup>30</sup> Government Outcomes Lab, 2020

<sup>31</sup> Office for Public Management, 2016

addressing children's emotional and behavioural difficulties. The one-year MTFC programme included encouraging the development of academic skills, setting boundaries, supporting the establishment of contact with pro-social peers and maintaining close supervision of the child. Outcome payments were based on three outcome measures: engagement with service users, moving service users out of residential placement into a familial setting, and service users achieving wellbeing outcomes. The project has completed delivery.

- **The Step-Down Programme**<sup>32</sup> **(Birmingham):** Birmingham City Council funded Core Assets' residential Migration Model for young people aged 11-15 in residential care. Launched in 2014, the Birmingham Residential Migration programme aimed to provide a pioneering new foster placement scheme across Birmingham. It aimed to find stable family foster placements for around 80 young people in residential care in the Birmingham area. The model was a structured intensive foster placement specifically designed for young people transitioning from residential care to a family placement. Skilled and experienced foster carers were supported with a wrap-around team of professionals and the intervention was delivered through a structured phased approach. Outcome payments were based on moving service users down from residential care to foster care and maintaining these placements for 52 weeks. The project has completed delivery. Findings from the REES Centre's evaluation<sup>33</sup> are mixed, but the project was seen as successful overall due to increased stability and cost savings.
- **It's All About Me (IAAM)**: IAAM<sup>34</sup> was launched in 2013 as a SIB developed by voluntary adoption agencies. It operated as a network through which adoption agencies are funded to find and support adoptive families for harder-to-place children. It was originally targeted to be able to deliver families for up to 650 children over ten years across the UK. However, updated details for this project are difficult to find and it is possible that the project is no longer in operation.

### 1.1.5 The Life Chances Fund: Continued experimentation and learning

The UK remains the forerunner in the development of SIBs globally, with over 80 SIBs<sup>35</sup> having been launched across a range of policy areas including homelessness, reoffending, unemployment, youth disengagement, children's social care and adoption, and health. Central Government has also adopted the use of 'outcome funds' as a catalyst for the adoption of outcomes-based contracts. Under this approach a government department (or multiple

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<sup>32</sup> REES Centre, 2018

<sup>33</sup> REES Centre, 2018

<sup>34</sup> More details can be found in a case study by Government Outcomes Lab:

<https://golab.bsg.ox.ac.uk/knowledge-bank/case-studies/its-all-about-me/>

<sup>35</sup> Government Outcomes Lab, 2020

government departments) signals a commitment to pay for social outcomes and enables several impact bonds to be implemented simultaneously.

The Life Chances Fund (LCF) is one such ‘outcomes fund’- a commitment of £80 million by central government to help people in society who face the most significant barriers to leading happy and productive lives.<sup>36</sup> It follows earlier funds (such as the Fair Chances Fund, two Innovation Funds, Social Outcomes Fund, and Commissioning Better Outcomes Fund) and provides top-up contributions for locally commissioned outcomes-based contracts. LCF projects focus on complex social problems across six themes which include drug and alcohol dependency, children’s services, young people, early years, older people’s services and healthy lives. LCF seeks to build on the collective understanding of how to develop and deliver successful SIBs, while supporting an increase in the number and scale of SIBs in England<sup>37</sup>. Through its focus on social investment models, LCF also aims to expand the amount of capital available for voluntary, community or social enterprises (VCSEs) so that they can compete for public sector contracts.

## 1.2 Overview of this report

The LCF places emphasis on evaluation and learning. This connects with UK government’s ambition to improve the quality and quantity of evidence around SIBs. The evaluation strategy<sup>38</sup> for the LCF describes three layers of evaluation activity at the level of i) the fund, ii) the SIB mechanism and iii) local implementation. The GO Lab research team is leading the SIB mechanism evaluation. This report is a part of the detailed ‘supplementary’ stream<sup>39</sup> of evaluation work. The research in this report does not constitute a full, detailed longitudinal investigation of the SIB mechanism, as initially scoped in the supplementary evaluation stream. The report provides cross-sectional, comparative analysis across a series of SIBs in England. This study investigates the justifications and alternative SIB design approaches adopted by English local commissioners in SIBs to support children and families who are ‘at the edge’ of (or already within) the statutory care system. The GO Lab research team invited seven of the successful Life Chances Fund applicants to participate in this comparative study. These projects provided access to internal documents and participated in semi-structured learning workshops, described in [Figure 4](#) below.

Each of these SIBs has been tailored to the local context and has developed a distinct outcomes specification and payment mechanism. There is a strong

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<sup>36</sup> Department for Digital, Culture, Media and Sport, 2017

<sup>37</sup> Department for Digital, Culture, Media and Sport, 2016

<sup>38</sup> Government Outcomes Lab, 2019

<sup>39</sup> Department for Digital, Culture, Media and Sport; Government Outcomes Lab, 2019

degree of interest in the wider adoption of SIBs in this policy area<sup>40</sup> but little is known about the justifications, alternative priorities, and trade-offs that are made in the design of these SIBs. Policymakers (such as DCMS and its Civil Society and Youth team) seek to substantially grow the understanding of the SIB model and identify whether SIBs are a route to deliver better outcomes and value for money compared to alternative commissioning approaches.

This study is the most detailed comparative investigation of SIBs within children's social care to date. It draws on unique access to LCF administration documents, detailed project data and rich insights from local government teams.

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<sup>40</sup> In October 2020, there were 88 SIBs in the UK, 21 of which were projects within child and family welfare. Government Outcomes Lab, 2020

### 1.2.1 Overview of the children’s social care projects studied

Seven LCF applicants were included in the research, shown in **Figure 4** below. These projects were chosen in early 2019 for two main reasons. Firstly, they focussed on children’s social care which was at the core of this report’s research questions. Secondly, they were the most advanced projects in this policy area within the Life Chances Fund application process at the time. This gave researchers reasonable confidence that they would be able to launch successfully, or had already done so (in the case of two projects). More detailed information is included on these projects later in the report, particularly in [Chapter 5](#) and the annexes.

Project name	Location	Service delivery start date	Duration of service delivery (years)	Service users target number	Service user characteristics	Local outcome payers	Investment fund manager(s)	Intermediary (as reported by projects)	Service provider
<b>Integrated Family Support Service</b>	Staffordshire	2018	6.5	1835	Individuals on the edge of care and in care	Staffordshire County Council (lead commissioner)	Big Issue Invest	-	Addiction Dependency Solutions, Humankind
<b>Fostering Better Outcomes</b>	Cheshire West and Chester	2018	6	30	Individuals on the edge of care and in care	Cheshire West and Chester Council (lead commissioner)	Bridges Fund Management	-	Core Assets
<b>Stronger Families Suffolk</b>	Suffolk	2019	6	288	Individuals on the edge of care and in care	Suffolk County Council (lead commissioner)	Bridges Fund Management	ATQ	Family Psychology Mutual
<b>Stronger Families Norfolk</b>	Norfolk	2019	5	400	Individuals on the edge of care and in care	Norfolk County Council (lead commissioner)	Bridges Fund Management	-	Family Psychology Mutual
<b>Strong Families, Resilient Communities</b>	Lancashire	Withdrew in Autumn 2019	6	854	Individuals on the edge of care and in care	Lancashire County Council (lead commissioner)	-	Outcomes UK	-
<b>Pyramid Project</b>	Staffordshire and surrounding areas	2020	4.5	92	Individuals in care	Staffordshire County Council (lead commissioner), Telford & Wrekin Council, Worcestershire County Council, Wolverhampton City Council, Dudley Metropolitan Borough Council	Big Issue Invest	ATQ, CAT Consultants	National Fostering Agency
<b>DN2 Children's Services Social Impact Bond</b>	Nottinghamshire, Nottingham and Derby	2020	5	423	Individuals on the edge of care and in care	Nottinghamshire County Council (lead commissioner), Nottingham City Council, Derby City Council	Nottingham Futures, Core Assets	-	Core Assets

Figure 4 Overview of the children’s social care projects studied, based on interpretation of data from DCMS Data Portal by GO Lab research team

**Figure 4** above captures high level details on the seven projects within this study, as reported by the projects themselves on the DCMS Data Portal for the LCF. Stakeholders involved in the project include intermediaries, but perceptions on who qualifies under this category varies. While some external technical advisors may have been involved during the development stage, these may not always be seen as formal intermediaries by the projects themselves. Assistance at this stage was funded by development grants from LCF (see **Figure 5**). All seven projects applied for and received these grants, ranging from £19,500 to £50,000. These grants were used for purposes such as research, developing theories of change, metrics and financials, designing the service, and engaging stakeholders. Parts of the grant were ring-fenced for commissioner capacity building. While most projects used technical assistance from external consultants, only four of these were formally named in development grants, as reflected in Figure 5.

Project name	LCF development grant award (£)*	Date of grant award	Purpose	External technical advisor for development grant (where named)
DN2 Children's Services Social Impact Bond	£50,000	13 Jan 2016	<ul style="list-style-type: none"> <li>• Research</li> <li>• Theories of change</li> <li>• Metrics and financials</li> <li>• Service design</li> <li>• Stakeholder engagement</li> </ul>	Social Finance  (named in LCF development grant contract)
Stronger Families Suffolk	£23,153	21 Dec 2016	<ul style="list-style-type: none"> <li>• Research</li> <li>• Theories of change</li> <li>• Metrics and financials</li> <li>• Service design</li> <li>• Stakeholder engagement</li> </ul>	ATQ  (named in draft business case)
Fostering Better Outcomes	£19,500	15 Feb 2017	<ul style="list-style-type: none"> <li>• Research</li> <li>• Metrics and Financials</li> <li>• Service Design</li> <li>• Stakeholder Engagement</li> <li>• Commissioner capacity building (up to £5000 only)</li> </ul>	
Integrated Family Support Service (IFSS)	£35,000	15 Feb 2017	<ul style="list-style-type: none"> <li>• Research</li> <li>• Theories of Change</li> <li>• Metrics and Financials</li> <li>• Service Design</li> <li>• Stakeholder Engagement</li> <li>• Commissioner capacity building (up to £5000 only)</li> </ul>	

<b>Stronger Families Norfolk</b>	£36,500 <sup>41</sup>	29 June 2017	<ul style="list-style-type: none"> <li>• Research</li> <li>• Theories of change</li> <li>• Metrics and financials</li> <li>• Service design</li> <li>• Stakeholder engagement</li> <li>• Commissioner capacity building (up to £8000 only)</li> </ul>	
<b>Pyramid Project</b>	£24,500	27 Oct 2017	<ul style="list-style-type: none"> <li>• Research</li> <li>• Metrics and financials</li> <li>• Stakeholder participation</li> <li>• Commissioner capacity building (up to £8000 only)</li> </ul>	ATQ  (named in end of development grant form)
<b>Strong Families, Resilient Communities</b>	£24,500 <sup>42</sup>	20 Nov 2017	<ul style="list-style-type: none"> <li>• Research</li> <li>• Metrics and financials</li> <li>• Stakeholder participation</li> <li>• Commissioner capacity building (up to £8000 only)</li> </ul>	Outcomes UK  (named in LCF development grant contract)

\*Includes any additional amounts awarded for Commissioner Capacity Building Uplift

*Figure 5 Overview of LCF development grants received by projects, based on interpretation of data from DCMS Data Portal by GO Lab research team*

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<sup>41</sup> [360 Giving, 2017](#)

<sup>42</sup> [360 Giving, 2017](#)

## 1.2.2 Projects at a Glance

### Integrated Family Support Service

The Integrated Family Support Service (IFSS) in Staffordshire works with families where children and young people are identified as children in need. The objective is to reduce child safeguarding concerns associated with drug and/or alcohol use (primarily amongst parents and guardians). The IFSS intervention is a strengths-based model<sup>43</sup> that relies on empowering families to find solutions for their issues, rather than relying on statutory services. Family sustainability is expected to stem from engagement with community-based activities, which is also a core element of the wider drug/alcohol strategy. The SIB is an expansion of the IFSS service which operated as a two-year pilot between April 2016 and March 2018.

The project involves three main target cohorts: 1) Children in need (CIN) - to reduce drug/alcohol use, improve parenting and thereby avert escalation to a Child Protection Plan (CPP) or Looked After Child (LAC) status. 2) Children subject to a Child Protection Plan (CPP) - to reduce drug/alcohol use, improve parenting and thereby to avert escalation to becoming a Looked After Child (LAC). 3) Looked After Children - to reduce drug/alcohol use, improve parenting and thereby to reunify children with their families. IFSS combines social care and addiction services (for example by co-locating the specialist teams) while adding the necessary additional intensity and specialist staff. LCF support will enable the intervention to become fully embedded within wider statutory services and to implement necessary refinements.

The outcomes that will be paid for by Staffordshire County Council aim to reduce the number of individuals on Child Protection Plans (CPP) escalating to become Looked After Children (LAC). IFSS was one of the first LCF projects to launch, beginning delivery in 2018, and has been performing well against its outcome targets so far.

### Fostering Better Outcomes

Fostering Better Outcomes builds on the step-down approach used by earlier projects in Birmingham and Manchester, by moving children from expensive and low-quality residential placements to stable and supportive family environments in Cheshire West and Chester. The project is working with four cohorts of 6-8 children per annum aged 7-17 who are in residential care or at risk of entering residential care. It is hoped that stable and long-term placements will improve outcomes for emotional wellbeing, education, and health. Currently the Council has no such 'intermediate' provision between 'mainstream' foster care and residential care. Hence, the Council was motivated to develop a programme of support which is both high quality and is sustainable. A black box commissioning approach was used, with the local council specifying the long-term outcomes and objectives but leaving

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<sup>43</sup> The Care Act 2014 requires local authorities to consider individuals' strengths e.g., personal, community and social networks, and maximise these strengths to enable them to achieve their desired outcomes. The objective of a strengths-based approach is to protect the individuals' independence, resilience, ability to make choices and wellbeing. It may also help delay the development of further needs. (Social Care Institute for Excellence, 2021)

participants to the invitation to tender to specify the service. The project was launched in 2018 and is currently in the delivery stage.

### Stronger Families Suffolk

The project is a family-based intervention to help adolescents overcome behavioural problems and prevent family breakdown in Suffolk. The target cohort is aged 10 - 17 and consists of individuals at risk of entering care, residential school or custody; showing persistent antisocial, violent or offending behaviour; misusing substances or experiencing family conflict, self-harming, risk-taking behaviours or risk of exploitation. Outcomes are aimed at preventing individuals at the edge of care from entering care and reunifying those in care with their families. The existing Family Solutions Service has limited capacity to provide intensive support across this age range. The SIB project is expected to expand the capacity and effectiveness of services by delivering interventions in order to meet a range of needs across the trajectory towards care. This also complements Suffolk's 'High Cost Demand in Children's Services' Programme which is one of the Council's 10 Corporate Transformation Programmes. In the SIB, therapists work with families to repair relationships, enabling families to communicate more effectively, helping parents to have greater influence over their children and helping young people feel able to see their family as a source of support. Families have a minimum of 1 session a week which can be delivered in the home, community or clinical settings. The project launched in early 2019 and has achieved some initial outcomes.

### Pyramid Project

The Pyramid Project aims to offer a 'step down' intervention from residential care by recruiting resilient carers and offering bespoke packages of support and therapeutic interventions. The project is led by Staffordshire County Council (but includes other local authorities) and aims to enhance long-term outcomes and placement stability for young people aged 7 - 17 years old, whose complex needs (for example behaviour problems and severe attachment disorders) pose challenges in traditional foster placements. These are young people who, with additional help, can step down from residential provision into a foster placement. The project hopes to develop the local market for foster care placements and enable these providers to offer varied placement packages of support. These are tailored and customised to meet young people's needs. This will enable local authorities to develop closer working relationships with foster care providers and to recruit specifically trained resilient carers. This model of working is expected to ensure placement stability. The Pyramid Project launched in April 2020.

### Strong Families, Resilient Communities

Strong Families, Resilient Communities is a SIB project that was developed in Lancashire but was not launched. The project aimed to improve life chances for children and young people in some of the most deprived areas of Lancashire through changing their education, employment and training trajectories. The specified outcomes mainly centred on reducing the number of days in care, with secondary outcomes around improving family functioning, education attendance and reading age. The preparation for this SIB project identified the Preston, Burnley, Hyndburn and Pendle Districts as key target areas. The plans identified

two edge-of-care and two reunification cohorts where abuse and neglect were the main issues: children 5-9 years; adolescents aged 10-15 years (four sub-cohorts in total). The project withdrew from the LCF after no compliant bids were received due to concerns over risk and termination clauses, and the local authority's subsequent prioritisation of an alternative safeguarding model.

### Stronger Families Norfolk

The Stronger Families project forms part of Norfolk County Council's Demand Management and Prevention Strategy. It is expected to reduce the numbers of looked after children over 5 years, through delivering sustainable impact and introducing a new operating model to benefit children and families in Norfolk. The project specifically targets young people (aged 8-15) who are at risk of entry into care where the family is experiencing dysfunction and where care could be avoided through engagement with and support from intensive interventions. A fidelity-based therapeutic intervention model provides up to 6 months of intervention followed by 2 years and 11 months of monitoring (based on average care stays) using Functional Family Therapy<sup>44</sup> - Child Welfare (FFT CW). In addition to the outcome payment criteria of care days saved, wellbeing measures are also used to assess the progress made by young people and their families in areas such as improved school attendance, educational attainment, reduced contact with the criminal justice system, as well as better emotional wellbeing. Stronger Families Norfolk began service delivery in 2019.

### DN2 Children's Services Social Impact Bond

DN2 is an innovative regional collaboration between Derby City Council, Nottingham City Council and Nottinghamshire County Council (DN2) to improve outcomes for adolescents (aged 10-17) with multiple complex needs and challenging behaviours. The project will complement existing services by delivering two interventions to two different cohorts within the programme: to children and young people on the edge of care it will deliver intensive support to those at risk of care entry or who recently entered care to help them remain with their families where it is safe for them to do so; and to children and young people in care it will deliver wraparound, specialist support to children in the care system and their foster families to enable them to move into or remain in stable placements and out of residential care. The intervention for children and young people in care involves both a component of step down from residential care to foster care, as well as a stabilisation of foster care where this may be at risk. The project began service delivery in October 2020.

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<sup>44</sup> Functional Family Therapy is an evidence-based programme that works to improve interpersonal relationships within families. It seeks to improve communication and supportiveness between parents/guardians and young people, while decreasing hostility.  
<https://www.functionalfamilytherapy.org.uk>



*Figure 6 Locations of the children's social care projects studied (using location of lead local commissioner), based on interpretation of data from DCMS data portal by GO Lab research team*

## 1.3 Aims of this report

### 1.3.1 Objectives of the research

This research aimed to study seven social impact bonds focussing on children's social care in England, commissioned as part of the Life Chances Fund. With an emphasis on local government perspectives, it aimed to improve the understanding of justifications for using social impact bonds, development processes, and design considerations for projects within this policy area. The report is intended for a wide audience, but will be particularly relevant for researchers, practitioners, and policymakers interested in the adoption of social impact bonds within children's social care. It had the following objectives:

- To investigate the main justifications adopted by local authority commissioners who are adopting SIB structures in children's social care
- To articulate commissioners' rationales as distinct theories of change for each of the SIBs as a commissioning mechanism, that is, what is distinctive - or perceived to be more promising - about the SIB approach compared to more conventional commissioning models?
- To explore the development processes and timelines of these projects
- To identify common challenges and facilitators to developing SIBs for complex social services
- To explore the design considerations and probe the degree of standardisation across projects in the children's social care policy area

### 1.3.2 Research questions

The main research questions are:

- What is the rationale for using a social impact bond (SIB) compared to alternative commissioning approaches in children's social care?
- What has the development process and development timeline looked like?
- What have been the facilitators and challenges in developing the SIB?
- What are the design considerations within the SIB design process (cohort specification, outcomes metrics, approach to pricing outcomes etc)?
- To what degree is there standardisation in the design choices?
- What is the theory of change for the SIB?

## 1.4 Research design: Scope, methodology and data

The research uses qualitative research methods to investigate the justifications for choosing a SIB model and to explore the development processes involved. The primary research also explores projects' design considerations and the degree of standardisation adopted by the seven LCF children's social care SIBs. Workshops and semi-structured interviews (through site visits) with local teams responsible for developing and implementing the LCF SIBs were used to obtain this detailed information. All workshops and interviews were recorded and fully transcribed. The data was analysed using inductive, thematic coding. NVivo, a software data analysis tool, was used for data management, transcription and coding. These thematic

codes were triangulated - where possible - using other administrative project information, including procurement notices and LCF application details.

A total of 39 participants (more details in the table below) were involved in workshops across the seven SIB projects, from departments such as commissioning, finance, legal, procurement and children’s services. Key contacts were identified as the listed project-lead in LCF administration materials. Additional participants from SIB projects were contacted through purposive sampling, an iterative process of selecting research participants based on their level of involvement and experience with the SIB projects. The number of participants involved from each project was variable (ranging from 1 to 11 participants), dictated by introductions from project leads and availability of key individuals. In the situation where only one participant was involved, this took the format of an interview but the content reflected that of the workshops. Although public sector staff were the main focus of our research, some key investor and provider representatives were also included (n = 4) in SIB projects where they were perceived as integral by commissioners during the development phase. Figure 7 below provides more details on the participants representing each SIB project.

Project name	Number of participants	Organisations represented	Departments represented(from local councils)
Intensive Family Support Service (IFSS) Staffordshire	3	Staffordshire County Council	Commissioning, children’s services, procurement, finance, strategy, programmes, health, business relations, prevention and placements, economic development, school improvement, prevention and placements, epidemiological research
Fostering Better Outcomes (Cheshire West and Chester)	5	Cheshire West and Chester Council	
Stronger Families Suffolk	1	Suffolk County Council	
Pyramid Project (Staffordshire, Telford & Wrekin, Worcestershire, Wolverhampton, Dudley)	6	Staffordshire County Council, Dudley Council, Local Government Association, Bridges Fund Management	
Stronger Families Norfolk	7	Norfolk County Council, Family Psychology mutual, Bridges Fund Management	
Strong Families Resilient Communities (Lancashire)	11	Lancashire County Council, Outcomes UK	
DN2 Children’s Services Social Impact Bond (Nottinghamshire, Derby)	6	Nottinghamshire County Council, Nottingham City Council, Derby City Council	

Figure 7 Description of workshop participants across the seven SIB projects

In addition, three semi-structured interviews were used to probe and consider particular design choices and processes for developing specific aspects of the SIB (e.g., how was the ‘outcomes specification’ developed and ultimately decided upon?) and gain insights on COVID-19 adaptation. A detailed review of project documentation (e.g., LCF application; business case; memos to elected members, cabinet reports) was also conducted. A total of 92 documents were reviewed from across the seven projects, including documents from the DCMS data portal as well as those shared by the projects with the GO Lab research team. These documents were reviewed before each project’s workshop and synthesised to highlight key project characteristics, justifications for using a SIB, design considerations, procurement details, and financial modelling. The level of information available for each project through documentary analysis was variable, but was complemented by details provided during workshops.

Informed by analysis of workshop discussions, GO Lab researchers developed a detailed Theory of Change<sup>45</sup> or logic model for each of the seven SIBs as a commissioning mechanism. These articulate both explicit and implicit assumptions about how the SIB model is expected to bring about desired change. The research team worked collaboratively with project stakeholders to explore the following questions:

- What is the overall aim of the SIB?
- What will be the key inputs (including technical/financial and relational) in the SIB project?
- What mediating mechanisms are likely to influence the programme/intervention?
- What short term outcomes would indicate that the desired change is taking place (both at the individual/family and system level)?
- What are the ultimate long-term outcomes? In other words, what does success look like?
- What are the anticipated barriers and challenges to success?

The Theory of Change is complemented by detailed timelines for each SIB. This combination of primary and secondary data supports the comparative analysis of the justifications, development processes, facilitators, challenges, and design considerations for each project.

## 1.5 Notes to support interpretation

The analysis in this report is informed by both primary and secondary data sources. The research team have sought to harmonise sources where possible but ultimately prioritises the reflections shared by participants from the seven SIB projects as these are expected to be most up-to-date and detailed. The figures in the report prioritise data within the DCMS Data Portal for the Life Chances Fund, as communicated by projects and verified by TNLCF. While we have made our best

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<sup>45</sup> A theory of change explains the channels through which programmes can influence final outcomes. It describes the causal logic of how and why an intervention will reach its intended outcomes. A theory of change is a key underpinning of any impact evaluation, given the cause-and-effect focus of the research. Government Outcomes Lab, n.d

effort to use the most up-to-date data available, some of this is likely to have changed during implementation and due to COVID-19. The cut-off date for this analysis is September 2020.

There was considerable variation in size and expertise held within local authority teams. People participating in the research either in workshops or in semi-structured interviews gave their consent to be involved in the research. The research team have masked research participant identities. Where information is already in the public domain, we have used project names to aid clarity.

Throughout the report we refer to all children currently in foster care, adoption, secure institutions, and special placements as being “in care.” “Investors” is a commonly used term in SIBs to describe the source of social investment for projects. In reality, these are ‘investment fund managers’ rather than the original investing institutions or individuals who provide the capital. Other frequently used terms are defined in the [Glossary](#).

The report does not seek to capture the journey of these projects following launch or details on their adaptation to COVID-19 (besides a brief discussion in the Addendum).

## 1.6 Limitations

This is a cross-sectional research study, aimed at capturing a ‘snapshot,’ and does not provide a full evaluation of the seven SIB projects. The report is primarily based on information gathered during workshops and interviews and interpreted by GO Lab researchers. Where possible, this information has been triangulated with data on the DCMS data portal for the Life Chances Fund<sup>46</sup> and other project documents. However, some of these documents were provided by SIB projects during the development phase and may be outdated. These sources do not always match neatly on to research questions and analytical frameworks as many of these documents were produced as part of LCF application processes and were not created for research purposes. It is possible that some of the research participants suffered from recall issues or based answers on their personal opinions.

Some of the projects were still in development when workshops were conducted, and may have gone through changes that the research team do not have sight of. Project information may also change over time, particularly due to the ongoing disruption caused by COVID-19.

Findings might be biased due to the use of purposive sampling and limited availability of stakeholders. The sample of projects only focussed on projects which had been successful in securing top up funding from the Life Chances Fund (with the exception of Lancashire, which withdrew at a later stage). It is possible that stakeholders from these projects held different or more favourable opinions on social impact bonds and the Life Chances Fund compared to other projects which were not successful. For some SIB projects, only a few

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<sup>46</sup> A dedicated data portal (created and owned by Centre for SIBs, DCMS) has been set up for social impact bonds within the Life Chances Fund to capture detailed baseline and performance data for individual projects, to facilitate a more streamlined application process and grant management as well as evaluation activity.

stakeholders could participate in workshops as research participants, which might have restricted the depth of insights for these projects.

## 1.7 Ethics

This study has been reviewed by, and received ethics clearance through, the University of Oxford Central University Research Ethics Committee (Reference number: SSD/CUREC1A/BSG\_C1A-19-07). All data is stored confidentially using secure Oxford University servers, following strict data security protocols. All participants were sent written information on our research protocol beforehand, and also asked for verbal consent at the start of workshops and interviews. Any comments and quotations have been presented anonymously.

## Findings

The following chapters (2, 3, 4 and 5) describe the substantive findings from the research.

## 2. Justifications for using social impact bonds in children's social care

### 2.1 Contextualising pressures on children's social care

A priority research theme surrounding the adoption of Impact Bonds is the investigation and appraisal of the "SIB effect" i.e., the influence of this contracting and funding model on social outcomes when compared to alternative approaches to funding social programmes. Before appraising the 'effect' however, there is an important preliminary question: *what is the intent, purpose or justification for the impact bond?* In this study, none of the seven local authority teams had been involved in the development of SIBs before. This chapter investigates the motivations that drew local authority teams to this new approach for commissioning children's services.

Before turning to provide justifications for their local projects, research participants positioned their decision-making within the broader political and economic context. Following the financial crisis, a decade of austerity has introduced new financial and demand pressures for local government. Referring to years of high spending under the Blair and Brown governments, one participant described this "old world of commissioning" as having been replaced by a "new world" characterised by significant reductions to social care, public health and preventative services. Concurrently, demand and costs of social care have continued to rise for already constrained local authorities. As a result, there are two key sources of pressure on children's social care within English local councils:

1. **Demand pressures:** An increase in the number of children and young people going into care, particularly entering expensive residential placements;
2. **Financial pressures:** Reduced budgets for funding existing children's social care services and initiating new preventative services.

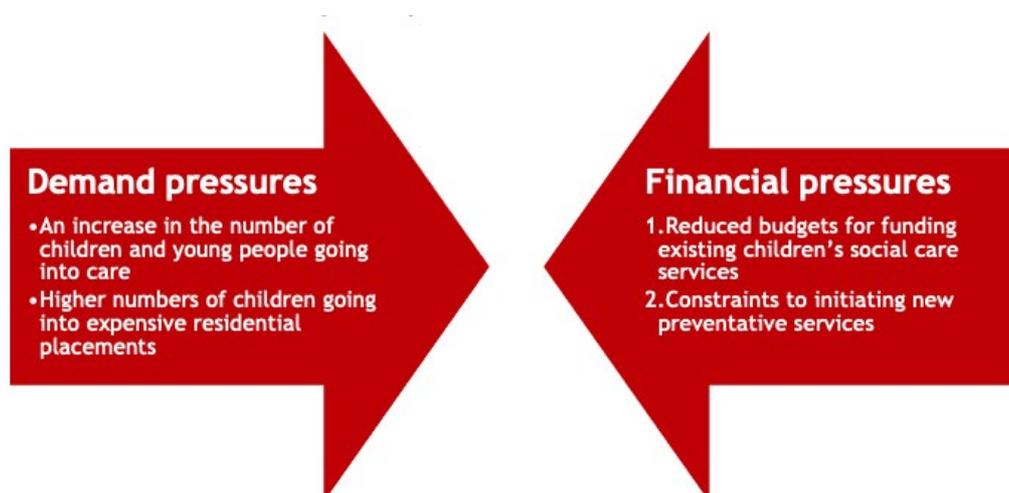


Figure 8 Pressures on children's social care in England, based on interpretation of interview data by GO Lab research team

## 2.2 Justifications for using social impact bonds in children’s social care

The confluence of financial and demand pressures have led some councils, such those who participated in this study, to look for new solutions that address constraints on both fronts. This portion of the research explores why social impact bonds were seen to be a solution. Workshops with the seven SIB projects led to rich discussions around specific pressures and motives in individual local authorities, however they carried some shared themes. As much as possible, we have sought to distinguish the primary *drivers* of using SIBs as a commissioning mechanism (“primary justifications”) from the *purported indirect benefits* of SIBs (“secondary justifications”). These are summarised in [Figure 9](#) below.

Primary justifications		Secondary justifications
<b>Opportunity to improve outcomes for service users</b>		<ul style="list-style-type: none"> <li>• Increased collaboration with internal and external stakeholders</li> <li>• Geared towards preventative approaches</li> <li>• Impetus for innovation</li> <li>• Demonstrating impact through enhanced transparency and accountability</li> <li>• Building technical capabilities</li> <li>• Responding to Ofsted imperatives</li> </ul>
	<ul style="list-style-type: none"> <li>• Improving the quality of existing services through a focus on social outcomes</li> <li>• Addressing service gaps through expanding service offers</li> <li>• Responding to increased demand for care in local authorities</li> <li>• Reducing residential placements</li> <li>• Developing the foster care market</li> </ul>	
<b>Opportunity to counter financial constraints</b>		
	<ul style="list-style-type: none"> <li>• External and upfront sources of funding</li> <li>• The Life Chances Fund as a subsidy</li> <li>• Cost savings and invest-to-save</li> <li>• Additional financial resources for experimentation and innovation</li> <li>• Low perceived financial risk</li> </ul>	

Figure 9 Summary of primary and secondary justifications for using SIBs, based on interpretation of interview data by the GO Lab research team. Reasons explicitly stated by participants for doing SIBs were categorised as “primary” justifications whereas indirectly stated benefits are classified as “secondary” justifications.

## 2.3 Primary justifications

### 2.3.1 Opportunity to improve outcomes for service users

Projects described their primary objective as improving outcomes for their service users (children and young people) and their families. This usually meant either improving the quality of existing services or addressing long established service gaps. For projects looking to ‘step down’ their service users, reduction of residential placements and opportunities to develop the foster care market were also cited as key motives. The justification for improving outcomes was frequently framed in the context of rising demand and needs for care (as identified in [section 2.1](#) above), and is further explained below.

#### a. Improving the quality of existing services through a focus on social outcomes

Using a social impact bond was seen as an opportunity to enhance the quality of current services and interventions, which might otherwise have been either challenging to implement or simply unaffordable. SIBs use an explicit outcome focus (compared to traditional forms of commissioning) and it is expected that the articulation of outcomes would encourage the delivery of a holistic package of services and wraparound support. Pursuit of high-quality services was regarded highly by participants

SIBs were also seen to encourage working in creative new ways both to design services and to engage with families and communities. The potential to re-configure parts of the local care system offered council staff the ability to address underlying issues and goes beyond just “putting plasters [over the problem].” Some of this is linked to the greater flexibility SIBs might bring, for example by using black box approaches for interventions.

Meanwhile, the performance of service providers is expected to be improved under combined scrutiny from both commissioners and social investors. The outcomes focus and presence of a social investor was also expected to lead to greater performance management and produce more demonstrable and measurable results. A commissioning officer welcomed the higher availability of granular data as well as additional case management capacity. The officer felt that the SIB reduced the need to devote resources to case-by-case monitoring while offering greater insight on participant experiences through the provider.

New ways of designing, delivering and monitoring services underpinned the expectations for improving the quality of existing services.

#### b. Addressing service gaps through expanding service offers

Besides boosting existing services, participants spoke about the potential to address service gaps in their local authority. One participant described this as commissioners wearing “a broader set of goggles” to expand the service lens to offer more wraparound<sup>47</sup> support. The impact bond was seen as an opportunity

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<sup>47</sup> Wraparound is a process of working with children and young people, especially those with serious mental health challenges, emotional or behavioural problems. Community based services and individualised support

to broaden the array of available services, for example, by establishing new mental health services, therapeutic support, or working with children and young people's families instead of just individuals. In other cases, SIBs were seen as an opportunity to extend services upstream, onto a more preventative footing. This could mean working with younger children or acting to support children and young people before they became fully involved with social work teams.

Sometimes the SIB opportunities connected to other strategic projects or reform commitments already in place in the local authority. In one SIB project, a step-down focus was seen to tie in well with an ongoing programme which sought to increase the provision of foster placements in the area. In these instances, SIBs were expected to bring extra "firepower" to implementation and help focus resources on identified areas of need. As one commissioner put it: "It's about spending the money where we need to spend the money."<sup>48</sup>

### c. Responding to increased demand for care in local authorities

Participants described trends of increasing and acute demand pressures within their local councils (discussed in [Chapter 1](#) and represented in [Figure 2](#)). Some reported that a lot of money was being spent on a small number of children and young people, especially in placements where young people would remain in out-of-home placements over long periods of time. Others mentioned increasingly younger children coming into care who were proving more difficult to place. Spot purchases of residential placements were described as 'expensive' by participants.

SIBs were seen as a chance to reduce the number of children and young people coming into care and moving them out of residential care more quickly, whilst being conscious of supporting the "right" children who do require care outside their family. Step-down projects were cited as a way of moving children out of residential and into fostering placements, which would save on expensive placement costs and improve social outcomes for young people. One participant said that while the Life Chances Fund top-up was an important catalyst, the council would have considered the SIB even in the absence of this funding, because of the demand pressures being experienced.

By successfully responding to this high demand, one council expected to generate an inter-generational impact on children and young people and their families, which would take them out of a vicious circle and save costs for the local authority in the long run.

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are combined to "wrap around" a child or youth and their family in their home, school, and community in an effort to help meet their needs.

<sup>48</sup> Commissioning Manager, Project A

#### d. Reducing residential placements

The local council teams we spoke to, especially those developing step-down SIBs, were concerned by the rising cost associated with expensive residential care placements. While stepping children and young people down to foster care was articulated as a priority in these SIB projects, it was also acknowledged that identifying the *right* individuals for foster care can be difficult. There was a perception that moving a young person to a new placement, without sufficient or appropriate support in place, is a high-risk and potentially disruptive action, with potential negative implications for the young person's wellbeing and stability. Using a SIB was seen as an opportunity to create additional capacity, which would assist councils in making more informed decisions in step down cases.

#### e. Developing the foster care market

The limited availability of foster carers was a widely cited challenge. This challenge connects to issues highlighted in the Narey review of Foster Care<sup>49</sup> in England, which identified potential shortages due to geography or the availability of carers who are able to look after more challenging children. Research participants noted that these challenges were exacerbated in areas which are geographically remote. Participants also indicated an ambition to improve the 'match' between carers and children with the expectation that this would improve stability and wellbeing.

### 2.3.2 Opportunity to counter financial constraints

Besides wanting to improve outcomes for children and young people, participants were also driven by a parallel objective of overcoming financial constraints. An important difference between SIBs and traditional forms of commissioning is the availability of external (repayable) finance, usually provided through social investors. Participants perceived this as an upfront and additional pot of money, which was expected to generate both cost savings and innovation. The presence of a government backed outcomes fund such as the Life Chances Fund, was perceived to be a 'subsidy', and was seen to lower the risk of the local authorities' own involvement. This justification around countering financial constraints was usually made in the context of rising financial pressures in English local councils and encompassed five sub-themes, explained below.

#### a. Perceptions of social investment as an upfront, external source of funding

Participants described social investment as appealing to cash-strapped local councils. It was seen as an external source of funding which added to the financial resources available to local councils that would have been difficult to secure otherwise. In one project, there were ongoing efforts around bringing in more external funding for projects, and so the idea of social investment for a SIB tied in well with this priority.

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<sup>49</sup> Narey and Owers, 2018

Additionally, the upfront nature of the investment was expected to counter financial pressures by frontloading funds into the set-up stage of a project. These additional resources encouraged cautious commissioners to explore new and potentially higher quality interventions which are often also more expensive. Furthermore, social investment fund managers were perceived to boost management discipline and promote more targeted spending, which some participants cited as helpful and appealing.

#### b. Perception of the Life Chances Fund as a subsidy

The councils we spoke to said they saw a financial opportunity in the Life Chances Fund. The LCF 'top up' (that is the contribution to outcome payments from DCMS) could contribute up to 49% of the total outcome payments for individual projects, and was seen as a 'subsidy' for trying something new or filling service gaps. Participants spoke of the potential to receive LCF funding as a draw, which also helped focus the attention of busy commissioners on developing LCF projects and galvanised their efforts through multiple application deadlines. Without LCF funding, some councils may not have considered developing a SIB in the first place. Others said that while they would not have started work on a SIB without the prospect of receiving LCF support, they would have continued SIB development despite being unsuccessful in the application process.

#### c. Cost savings and invest-to-save

As discussed above in [section 2.3.1](#), participants are concerned about increasing demand and the concomitant rising costs. By developing SIBs that address rising demand, some councils are interested in the cost savings that this might bring. This is particularly the case for 'step down' projects, where local councils find themselves spending on expensive residential placements and competing with other local authorities on both beds and prices. For them, stepping even a small number of children and young people down to foster care can incur significant savings. This ties in well with some councils' priorities around generating savings and using invest-to-save models within children's social care (e.g., investing in preventative care for children to achieve better outcomes leading to cost savings in the future).

#### d. Additional financial resources for experimentation and innovation

The availability of additional funding and resources motivated local authorities to experiment and innovate in multiple ways. This included introducing expensive and higher quality interventions, working with social investment and social investment fund managers for the first time, working with central government and other external stakeholders in new ways, and adopting a social impact bond model for the first time. While they were initially not sure if these were "worth it," they were encouraged to try something new by the SIB, and felt liberated to do so through amplified financial resources and the perceived low risk.

#### e. Low perceived financial risk

Some participants expressed concerns over potentially paying more than they would under alternative commissioning mechanisms (due to the added dimension of paying returns to social investors). Others were reassured that the SIB approach was worthwhile. The opportunity to access upfront capital and to pass on financial risk to the investor was reassuring to local councils and helped build internal consensus. Staff also took comfort in knowing that payments were contingent on performance and the achievement of pre-agreed outcomes. Payment caps (seen as protection against flaws in the contract) and careful financial modelling were seen as further safeguards by some.

However, council teams still felt a sense of responsibility and always bore some risk (such as reputational risk) which they must moderate. Ultimately, councils still bear all of the statutory obligations around protecting children and young people. One participant admitted that working with social investment fund managers was a “leap of faith.”

*“So for me, if you get the right social provider, that could actually make a big difference. That is the big unknown for me, because I don't know whether the social investors really are social investors and want to do good, or whether they are just as mercenary as any other organisation. So it is a leap of faith.”<sup>50</sup>*

In another project, participants shared that in retrospect they thought they might have been naïve in their thinking about risk, but also felt reassured going into a SIB where other local authority partners were also committing to pay for outcomes.

*“I agree that when we think about risk maybe we were being naive...it was that early point...”<sup>51</sup> “But in this way, in doing it with other LAs [local authorities], they could give us their support and advice because this is all very new to us. So we recognised that the more partners we had, the more likely we were to succeed.”<sup>52</sup>*

## 2.4 Secondary justifications

Research participants also described some secondary or indirect benefits that were expected to flow from the SIB approach. While these were not the key animating reasons for deciding to develop a social impact bond, they may have contributed to the overall decision to adopt a SIB and are hence important to capture. Aware of the technical requirements of the SIB development process, participants were motivated to develop and enhance skills in-house. Variation in recent Ofsted ratings may have had some influence on priorities. Some of these second-order benefits may not have been anticipated at the outset and some might have become clearer as the project's development progressed.

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<sup>50</sup> Head of Service, Project G

<sup>51</sup> County Manager, Project A

<sup>52</sup> Business Relations Manager, Project A

These secondary justifications seem to have strengthened participants' faith in the original decision to commission a SIB.

#### 2.4.1 Increased collaboration with internal and external stakeholders

Participants spoke about SIB project development as a way to improve both internal and external collaboration. Internally, using a SIB was seen as a helpful new way of managing resource constraints. A lead commissioner described this need to work closely within a council as a necessity in the “new world of commissioning” which carries increased limitations on both human and financial resources. Earlier involvement and feedback from all teams (such as finance, procurement, legal) brought in timely advice and offered opportunities for course correction. This degree of consultation and internal collaboration had not been common practice in the local authority before the SIB. Others also spoke of the SIB as enabling proper co-production between internal departments, which helped them bypass fragmentation and duplication of effort. In SIB projects where multiple local commissioners (i.e., multiple local councils) were developing a SIB together, the projects benefited from highly engaged local authorities coming together to form a partnership. Sometimes, research participants doubted whether their project would have successfully come together without the expertise and experiences of the others in the partnership. They reflected that SIBs helped them work outside of the envelope of traditional partnership, and make them less insular and risk averse. One participant described the SIB project as “the best piece of work I’ve ever done,” referring to a three-way partnership between the provider, the children’s services team and the public health team.

A Policy and Project Officer from another council spoke of SIBs as harbingers of cultural change, specifically through the formation of “squads.” These bring together people from various departments to form a development team focused on progressing the SIB. The participant argued that this offered better internal working and provided more focused support to project development. They and their team were interested in applying this new way of developing business cases, bids and projects to future initiatives as well. Culturally, this also meant adopting a more coordinated approach internally which elicited behavioural change. For example, a participant who worked within the economic development team talked about having much better sight of feedback received by colleagues in the children’s services team. This then factored in to subsequent decisions and led to families experiencing a more “joined up” approach or service. This new way of working is also perceived to lead to more effective spending and more efficient budgeting.

Externally, SIBs were seen to assist collaboration with new stakeholders and to help strengthen relationships. Projects sought to work in ways that balance the interests of commissioners with investors and providers. One participant spoke about having a “win-win” relationship with the investment fund manager while another mentioned being driven by a feeling of being “in it together.” These were described in contrast to more traditional contractor-provider relationships where the local authority was either interested purely in its own “maximum positives” or in exercising a more punitive contracting arrangement. Due to the strong collaborative component within SIB project development, relationships could instead be based on trust and goodwill. Social

investment fund managers were expected to bring additional programme management discipline and expand capacity. Meanwhile, working with additional local authority partners as co-commissioners was seen to spread the risk and increase the likelihood of success both within the LCF process and the implementation of the project.

The inclination to work with diverse stakeholders is reflected in projects' governance structures. [Chapter 5](#) explores these collaborative structures by analysing the configuration of contracted parties across the seven projects. [Figure 26](#) in [Chapter 5](#) shows the number and nature of stakeholders involved within these projects, as well as the governance structures underpinning these collaborations.

#### 2.4.2 Geared towards preventative approaches

While the importance of preventative work is recognised, local authorities have had far fewer resources in recent years to devote to prevention. In this “new [post-austerity] world of commissioning,” the preventative impact of services sometimes needs to be justified. A SIB approach can be helpful in demonstrating the impact of preventative work via the focus on measurable outcomes. SIBs can also encourage local authorities to take more proactive approaches towards service delivery and intervention, through the use of upfront social investment. This is particularly key in children's social care, where keeping children out of care and using timely intervention can have a positive intergenerational impact<sup>53</sup> - as mentioned above. Providing more support to children and young people on the edge of care and working with younger children were described as key objectives.

#### 2.4.3 Impetus for innovation

Using a SIB model was described as a potential spur to innovation. Participants spoke about upfront finance allowing them to take “chances” and to test new approaches. The SIB approach was seen as an opportunity to try something different without taking significant risk. Some wanted to move away from “business as usual” to address underlying issues, as the old approaches had not gone far enough. SIBs were seen to add momentum to change processes and help local councils act at speed<sup>54</sup>.

There were examples of councils wanting to be perceived as innovative. In one case, this was in keeping with earlier performance where they had won the Council of the Year award. In another, it was perceived as politically popular to appear proactive rather than reactive. They wanted to show that they were doing something different instead of simply spending more money (e.g., through expansion of corporate budgets) and generating better value for money.

#### 2.4.4 Demonstrating impact through enhanced transparency and accountability

As a vehicle, SIBs offer a form of in-built transparency, given their emphasis on paying for outcomes and using sophisticated data tracking systems to do so. There can be open

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<sup>53</sup> Head of Programmes, Project D

<sup>54</sup> Strategic Commissioning Manager, Project A

sharing of data between partners. In one project, the service provider had direct access to the exact same records as the local council.

*“They do get access to all the records. One of the other bits on transparency around this, they have got direct access. They are in our offices, sit next to our teams. So they have access to exactly the same children's records that we have got. We are treating them as part of children's services, not as a third party.”<sup>55</sup>*

Participants reflected that using referral routes involving commissioner-dominated panels and emphasising outcomes that are measurable can be helpful in avoiding perverse incentives. Tracking outcomes over a long period was seen to be conducive to project sustainability, as this is expected to make it easier for councils to demonstrate the project's impact and hence justify its continuity and potential extension.

#### 2.4.5 Building technical capabilities

Developing a SIB can be an opportunity to build technical capabilities for local councils. Outdated IT systems which are no longer fit-for-purpose can be updated to keep up with stringent data monitoring and reporting requirements. Higher scrutiny from social investment fund managers can help drive performance and focus commissioners' attention. While some of this rigour can be taxing, it was also seen to bring positives. For example, more extensive business case planning can lead to more accurate economic assessment. The exercise of developing the SIB can help commissioners have a better appreciation of the skills and expertise available in other departments within the council. A SIB project was seen as an opportunity to enhance the perception of the Children's Services competence internally, by proving that it was capable of working in different and new ways.

Simultaneously, SIBs help bring in external support which can otherwise be either too expensive or logistically challenging. Most often, this was in the form of assistance with financial modelling (e.g., identifying deadweight<sup>56</sup>) which can be much more thorough within a SIB than under conventional arrangements. An example of the introduction of external expertise arose when one council was able to bring in skilled staff for a high-fidelity Multi-Systemic Therapy (MST) intervention from the US, despite being geographically remote. External intermediaries were also seen as key in passing on the learning from earlier SIBs, facilitating replication and helping councils navigate early challenges.

#### 2.4.6 Ofsted ratings influence prioritisation

Though not a major theme in our discussions, Ofsted ratings for individual councils did have some influence on prioritisation within teams. There was a range of ratings among the seven councils, from very high to low performers. Where multiple co-commissioners

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<sup>55</sup> Head of Programmes, Project D

<sup>56</sup> Deadweight is defined by the GO Lab as “outcomes which would have happened anyway, regardless of an intervention, policy or investment. To understand the additionality of a certain intervention it is important to have an estimation of the deadweight.” Government Outcomes Lab, n.d.

were involved (as in the Pyramid Project and DN2), ratings for individual councils could be substantially different. In local authorities where “inadequate” ratings had been received recently, there was more of an immediacy around doing something different to address rising demand and needs. There was a need to look at poor performance as a multi-faceted and complex problem. The SIB presented a chance to trial a new approach and potentially gain national recognition if successful.

*“If we get this right, there is something about national recognition of success, and that is quite important for [Council name] because we have had a tough time so actually to have something where we can say we are turning the curve around would be really good. Also, in terms of partners as well, for partners to get this and understand what we are doing and how they can play into it would be pretty key.”<sup>57</sup>*

On the other hand, inadequate inspections could also sometimes mean buckling down and focusing on internal processes, with little room for experimentation in the short term. After this initial stage, focus can then shift to changing processes and looking at creative new solutions. If a partner council is going through this process of recalibration and internal reform, collaboration can be slowed down and there can be questions around cross-council working.

In local authorities where “good” ratings had been awarded, the SIB was sometimes framed as an opportunity to offer enhanced interventions and additional support to service users- either by working further upstream (e.g., younger children) or expanding existing services (e.g., adding therapeutic support).

## 2.5 Consideration of alternative commissioning approaches

There was limited articulation of what alternative contracting approaches might have been used to develop these projects, instead of a SIB. This might be because the development of these projects appeared intimately bound up with the idea of ‘doing a SIB’ and was focussed on availing the “time-limited opportunity” of the LCF funding. The appeal of social investment and its perceived upfront nature, which was not available through alternative commissioning approaches was a common theme. SIBs were seen as an opportunity to improve the service offer beyond what was already being provided via more conventional commissioning mechanisms.

For example, an internal document justified the use of a SIB as follows:

*“The SIB allows us to trial a new approach through providing up-front funding. The SIB structure places the risk of a new approach with the provider/investor partnership rather than the Council, and introduces a new and robust performance management approach (investors will insist upon this as their investment will only be repaid if the intervention is successful).”<sup>58</sup>*

Overall, the extent to which SIBs were compared to alternative commissioning options during initial decision-making processes appears limited.

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<sup>57</sup> Head of Service, Project G

<sup>58</sup> Internal briefing document, Project E

### 3. Development processes for LCF social impact bonds in children’s social care

#### 3.1 Introduction

All seven of the SIB projects adopted the ‘commissioner-led’ model for the development of their impact bond projects through the Life Chances Fund (LCF). This is different to some other projects in the LCF which are led by service providers or intermediary organisations. Despite this similarity, their individual development journeys and timelines have varied. While there are common elements across the seven, the process of developing a SIB is generally non-linear, iterative and diverse. This chapter outlines and analyses common steps within these development processes, while acknowledging the multiplicity of on-the-ground experiences.

The development trajectories experienced by these SIB projects often overlap with GO Lab’s simplified impact bond lifecycle tool<sup>59</sup> (see **Figure 10**). This tool provides a rough chronology of the various steps involved in setting up and implementing an impact bond project. As this report focuses primarily on the pre-launch journey for the seven SIBs, our study encompasses only the first four stages within the lifecycle tool: review options; develop the business case; manage relationships; and design the service (marked in the figure below).

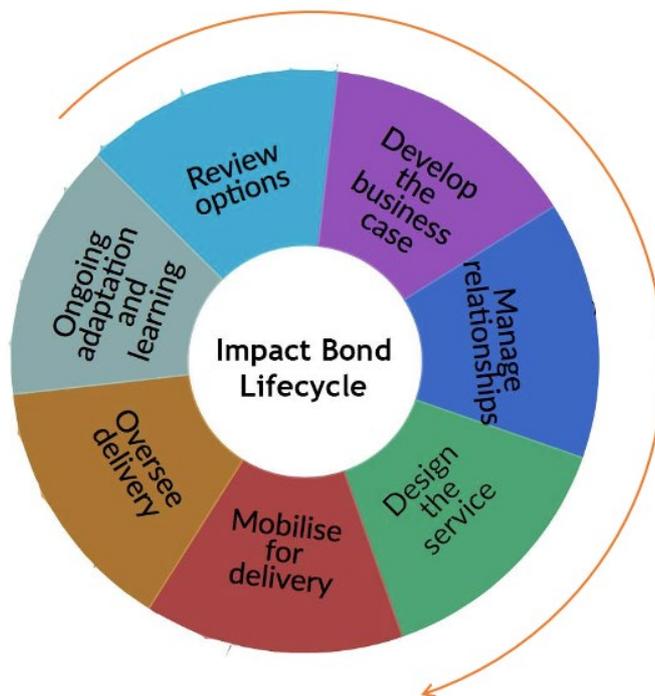


Figure 10 Impact bond lifecycle, Source: Government Outcomes Lab. The orange arc marks the four stages within the scope of this study

<sup>59</sup> Government Outcomes Lab, 2019

**Figure 10** represents an idealised model, where development steps move sequentially and progress clockwise from the “review options” stage to “ongoing adaptation and learning.” The staff we spoke with revealed that the development process can be much less orderly in practice and these stages vary from project to project. SIB development occurs in local contexts which bring their own unique challenges and opportunities. This produces important differences in the order of these stages, their duration and intensity. Indeed, in some projects, some of these stages or sub-stages may have been combined with others, run in parallel, or not have occurred at all.

However, it is still helpful to use this framework to better understand the development process that sits behind these SIBs. In the context of this report, [Chapter 2](#) on justifications began to cover Stage 1 (“review options”). This chapter further delves into Stage 1, while also covering aspects of Stage 2 (“develop the business case”) and Stage 3 (“manage relationships”). Stage 4 (“design the service”) is covered in [Chapter 5](#). As many of these SIBs were either still in development or in early implementation when the primary research was conducted, stages 5 -7 (“mobilise for delivery,” “oversee delivery,” and “ongoing adaptation and learning”) are beyond the scope of this report. However, the approximate mobilisation duration and date of service launch are presented in [Figure 17](#).

Where overlap between project experiences and the formal lifecycle framework exists, this is integrated into the section headings below. [Figure 11](#) follows the order of [Figure 10](#) and roughly matches stages in the GO Lab impact bond lifecycle (column 1) with related stages in LCF projects’ experiences (column 2). It lists these overlaps so as to assist the reader in drawing parallels, rather than to suggest that these are fixed. As expected, project experiences do not neatly fit within the idealised schematic.

<b>Stage(s) in impact bond lifecycle</b>	<b>Related stages in LCF projects' development experiences</b>
<b>Review Options</b>	Starting point of the development process
<b>Define the problem</b>	Financial and demand pressures within local authorities
<b>Appraise different options</b>	Informal conversations and word of mouth
<b>Consider viability</b>	Announcement of the Life Chances Fund by HM Government
	Availability of external expertise
<b>Gather learning</b>	Previous experience and knowledge of SIBs
	Active learning from earlier projects
<b>Develop the business case</b>	Designing the SIB model
	Financial modelling
	Engaging external expertise
<b>Manage relationships</b>	Building internal consensus
<b>Lead outcome payer role</b>	Common challenges around building internal consensus
	Cultural change as a pre-condition
	Regular reporting to key internal stakeholders
	Countering scepticism around financial viability
<b>Procurement strategy + investor engagement</b>	Procurement process
<b>Provider market collaboration/dialogue</b>	Provider market collaboration and dialogue

*Figure 11 Overlap between the impact bond lifecycle tool's stages and LCF projects' development experiences. This table follows the order of stages presented in Figure 10 (column 1) and attempts to match these to the LCF experience (column 2). Based on interpretation of interview data by GO Lab research team*

### 3.2 Review Options: Starting point of the development process

We asked participants where their SIB journey had begun. As none of these teams had been involved in the development of SIBs before, we were curious to find out where things had originated. These early stages were driven by demand and financial pressures, and therefore tied into the primary justifications discussed in Chapter 2. The sections that follow (sections 3.2.1 - 3.3.2) build on the “review options” stage, presented in light blue in Figure 10 and broken into sub-stages in Figure 12 on the right.

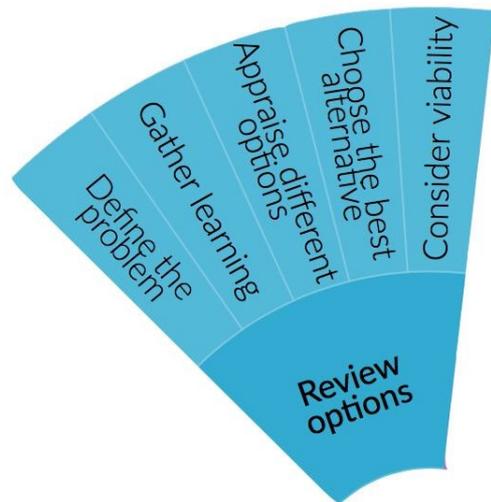


Figure 12 Sub-stages within the “review options” stage

#### 3.2.1 Define the problem: Financial and demand pressures within local authorities

As discussed in [Chapter 2 \(section 2.1\)](#), local authorities face two key sources of pressure on children’s social care: demand pressures and financial pressures. SIB projects presented themselves as an opportunity to address both demand and financial constraints (as discussed in [section 2.3](#)), and this was the starting point for participants to begin considering a SIB. Some councils took a geographically targeted approach and considered that some areas within the council footprint would benefit from improved services. Others worked from a broader conception of ‘demand reduction’ ambitions.

#### 3.2.2 Appraise different options: Informal conversations and word of mouth

Participants reported that their journeys began with informal internal conversations. These took the form of cross-departmental discussions or word of mouth exchanges with external stakeholders, rather than cold contacts. Awareness of evaluations or policy reports on similar impact bonds in the UK and beyond triggered these conversations. In one local authority, a member of staff within a provider organisation had been researching SIBs as an innovative way of financing services. This person had already done the groundwork around financial modelling and contacting investors. Their conclusions fit in well with the council’s own priorities and fuelled interest in using a SIB approach. In another council, discussions at a commissioning conference prompted consideration of the SIB.

Local authority teams would then proceed to gauge interest with their senior management teams via emails, informal meetings and conversations at events. In some SIB projects, the introduction of new leadership had also provided impetus to look for new sources of funding for the local authority. SIBs were put forward as recommendations. Particular interventions such as step down from residential to foster care were “in fashion” and piqued the interest of local commissioners. Once

senior management teams were engaged, a partnership could be formed by bringing together colleagues from relevant departments.

### 3.2.3 Consider viability: Announcement of the Life Chances Fund by HM Government

While some local councils' conversations on SIBs pre-dated the Life Chances Fund, the announcement of this outcomes fund in 2016 served as a substantial "hook". The opportunity to access additional funding from central government was a key draw. In councils where awareness of SIBs was less established, LCF served as a crucial conversation starter.

Participants commented that once they had begun the development process, they would have gone ahead with the SIB project even without the LCF money. However, they would not have initiated the process without being assured of the LCF contribution.

### 3.2.4 Consider viability: Availability of external expertise

By virtue of having worked in the same field, local authority teams were already aware of external stakeholders and intermediaries who had previously worked on SIBs within children's social care. Knowing that this additional technical resource was available gave confidence to participants. As discussed in [Section 1.2.1](#), all seven projects received development grants from LCF to support external technical advice.

### 3.2.5 Gather learning: Previous experience and knowledge of SIBs

In one SIB project, a previous unsuccessful application had been made by the local authority for central government funding but there was interest in trying the SIB approach again. It was hoped that learnings from the previous application process could facilitate success within the LCF.

Other council teams had not attempted to develop a SIB or apply for central government funding before, but had been aware of early impact bonds within children's social care such as the projects in Essex, Birmingham and Manchester. Staff at councils expressed a long-standing interest in replicating these but the LCF provided a tangible opportunity to do so.

## 3.3 Gather learning: Active learning from earlier projects

Once participants had decided to apply for the Life Chances Fund and develop a SIB, their first step was to draw on learnings from earlier projects, both internal projects and those seen as pioneers within children's social care in the England.

### 3.3.1 Learning from pioneering SIBs in children's social care

Participants described the initial development phase as drawing together learning from pioneering SIBs within children's social care. These commonly included SIBs in Essex (evidence-based interventions), Birmingham (step-down models) and Manchester (development of foster placements). Participants sought to better

understand the design, performance and lessons from these projects, drawing on a mix of publicly available reports, data and personal connections with colleagues.

Participants then drew upon these SIBs to inform their own project design. They looked to the SIB closest to their own in terms of targeted service users and overall objectives. They then sought to replicate their interventions, referral processes, financial modelling and other design elements within their own SIBs. In one SIB project, the replication from an older SIB was almost exact, leading a representative to describe initial project plans as a “back of the fag packet” process.<sup>60</sup>

The high level of attention paid to older SIBs underscores the importance of peer learning in the development of new impact bonds. While reaching out directly to colleagues is an option, participants wished for greater access to data on other SIBs. This was seen as potentially helpful in understanding other local authorities’ design choices and replicating successful models.

### 3.3.2 Learning from previous internal experiences

Local lessons from previous experiences of applying for central government funding also informed early thinking in the development process. In one SIB project, an unsuccessful application had been put forward to the Department for Education’s Children’s Social Care Innovation Programme.<sup>61</sup> Lessons from this experience informed the approach when drafting the application for the Life Chances Fund.

Another local authority reported negative experiences with payment by results (PbR) in the past. They had witnessed cherry picking of service users, weak referral systems and lack of clarity around payments for referrals. This led to a more cautious approach when developing the SIB project. Particular attention was devoted to getting referral processes and pathways right. The local authority in question also remarked on the importance of operating in big geographies and avoiding disconnect in the system. Due to the previous negative experience, their development team had faced challenge from external providers on going down this route again. While some of this organisational memory lingered and acted as a barrier, it had also encouraged the development team to see the differences in structuring and learnings between PbR and SIBs.

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<sup>60</sup> Policy and Project Officer, Project E

<sup>61</sup> Department for Education, 2016

### 3.4 Manage relationships: Building internal consensus

Before embarking on the most substantial stages of developing a SIB, participants must secure internal consensus within their local authorities. While this process was readily navigable for some, others had to counter significant internal resistance to secure necessary approvals. The sections that follow (Sections 3.4.1 - 3.4.4) build on the “manage relationships” stage, presented in dark blue in Figure 10 and broken down into sub-stages in Figure 13 on the right.



*Figure 13 Sub-stages within the “manage relationships” stage*

#### 3.4.1 Lead outcome payer role: Common challenges around building internal consensus

Participants agreed that building internal consensus within their local authorities was perhaps the most important part of their development process. While this was straightforward in some SIB projects, it posed significant challenges in others. The SIB model can be technically complicated and hard to explain to colleagues outside the development team, especially when the latter are in the process of understanding it themselves. Timescales for achieving consensus were described as protracted. Depending on local procedures, there is increased scrutiny at many different levels, e.g., from cabinet members, children’s services department, senior management team (SMT), senior leadership team (SLT), Independent Review Officers (IROs), frontline teams and other internal departments. Buy-in from senior management is essential to gain final sign off. In one local authority, negative perceptions of the council’s children’s services department due to management changes and an “inadequate” Ofsted review compromised confidence in the SIB project. Interviewed staff described a hesitance amongst parts of their council to work with investors and pay out financial returns.

Research participants explained that early-stage and regular involvement of colleagues from other departments can help get around some of these challenges. Once senior management approval is gained, the rest of the political process can be straightforward. Where senior management was already embedded in the core SIB development team, building consensus seemed markedly easier. Demonstrating risk transfer and the potential for savings were also key arguments for building consensus. Concerns over working with investors were addressed by demonstrating the project’s value for service users. The idea of shifting risk from the local authority to investors, which would not be possible if money was borrowed from the commercial market, also helped quell apprehensions.

Participants described using different terminology with frontline practitioners to aid understanding. For example, social investors were described as “social funders” instead.<sup>62</sup> This prevented participants from going into “unnecessary rabbit holes” and helped emphasise the focus on delivering positive outcomes. In one project, the local authority had recently won an award and prided itself on being innovative. The idea of being a sector-leading authority by developing a SIB hence boosted interest in applying for the LCF.

#### 3.4.2 Lead outcome payer role: Cultural change as a pre-condition

In order to achieve internal consensus on SIB development, cultural change is needed. Research participants said they needed to ensure the right environment was in place for frontline practitioners to accept, work with, and hold the risk of the SIB. Staff needed to be supported creatively, through new ideas and innovative ways of working. They also needed to be assured that while there was potential for things to go wrong, they wouldn't be “thrown under the bus” if such circumstances did arise. In pursuing the SIB, participants described the way that they needed to move away from a culture of blame. Instead, it was described as valuable to invest in a confident and strong workforce to set up a high-quality new service. Finally, SIB participants needed to ensure that new processes were embedded within the systems of their local authorities. This was necessary to counter the widely cited challenge of personnel turnover. Participants suggested that systems should be set up in a way that is easy for new people to pick up and take forward.

#### 3.4.3 Lead outcome payer role: Regular reporting to key internal stakeholders

Building buy-in within senior management was facilitated by regular reporting on multiple fronts. For example, cabinet briefings were used to inform cabinet-management team discussions. In one council, additional briefings were also arranged for the “permanence and children in care board” and the senior management team. Monthly highlight reports and “better for children” boards also helped build understanding across key internal stakeholders.

#### 3.4.4 Lead outcome payer role: Countering scepticism around financial viability

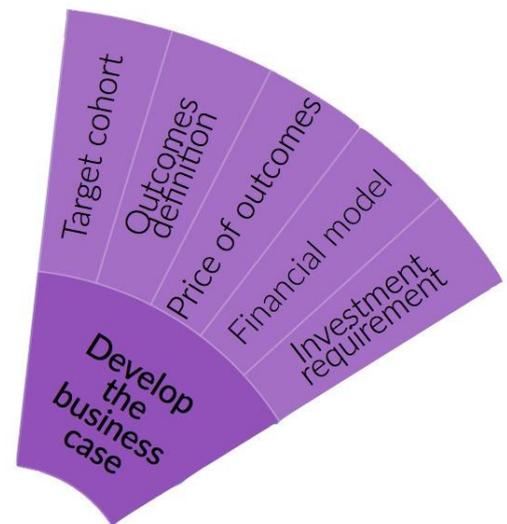
Participants described scepticism from their finance teams. There were concerns around financial viability, based on the lack of robust evidence around SIBs. Finance teams were hesitant to tie themselves to a relatively unproven financial model. Participants addressed these concerns through assertions on low risk for the council and the potential for cashable savings. Sometimes scepticism could go beyond the SIB model and centre more on the intervention and larger objective instead.

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<sup>62</sup> Consultant, Project G

### 3.5 Develop the business case: Designing the SIB model

Following the necessary approvals, participants put themselves to the challenge of designing the social impact bond, including aspects such as the intervention (or service), service user eligibility criteria, outcome metrics and outcome prices. There were three key drivers which animated the thinking of participants as they did this (discussed below). [Chapter 5](#) discusses the design choices of the seven SIB projects in more detail. The sections that follow (section 3.5 - section 3.8) loosely build on the “develop the business case” stage, presented in purple in Figure 10 and broken into sub-stages in Figure 14 on the right.



*Figure 14 Sub-stages within the “design the business case” stage*

#### 3.5.1 Replication of design choices used by previous SIBs

Learning from pioneering impact bonds is a key source of inspiration as well as a starting point in the development process for participants (as discussed in sections [3.2.5](#) and [3.3.1](#)). It is then no surprise that local authorities used the design of these forerunner SIBs as a key framework on which to base their own SIB’s design. Design choices used by SIBs in Essex and Birmingham strongly influenced the intervention, service user eligibility criteria and outcome metrics. However, some of these forerunner projects were perceived as ordinary or standard SIBs by participants who took a more customised approach to SIB project design. For smaller and more rural councils, figures and approaches from SIBs in larger cities such as Birmingham and Manchester did not translate well.

#### 3.5.2 Focus on cashable savings

Given the financial pressures within local authorities ([section 2.3.2](#)) and internal scepticism around financial viability ([section 3.4.4](#)), participants prioritised cashable savings within the business case. This consideration of domains or programmes which could generate the most savings directed the choice of focus areas and interventions for local councils. For example, ‘stepping down’ children and young people from residential care to foster care was expected to generate significant cashable savings for certain councils.

#### 3.5.3 Analysis of needs and demand

The focus on cashable savings was sometimes complemented by a needs analysis to determine areas of particular demand. This helped participants identify risk factors and decide where in the spectrum of service user needs the service would be housed. For example, would the service be focused on young people already on the cusp of care or those further upstream? Where were the biggest gaps in current services and how could these align with the focus on cashable savings? Input from

frontline staff and feedback from market engagement events on the draft service specification also fed into design decisions.

### 3.6 Develop the business case: Financial modelling

Research participants said that they found financial modelling to be the most challenging part of the development process, and drew on external expertise for assistance (discussed further in [section 3.7](#)). This section highlights some of the key elements involved and how they were navigated by research participants. A more detailed economic analysis can be found in Annex 1 within the Technical Annex.

#### 3.6.1 Navigating increased challenges within financial modelling

SIBs appeared to involve much more financial modelling and scrutiny than services commissioned by alternative means. This required far more effort: more thought had to be given to the underpinning assumptions, unit costs and average market prices which could make the difference between project success and failure. Research participants described the way finance teams were pushed much further under this approach. One participant felt that it was difficult to achieve the desired level of accuracy within the SIB. Deadweight<sup>63</sup> figures were particularly challenging to calculate. One participant reflected that calculating non-intervention outcome levels could be quite arbitrary, and could be almost based on a “finger in the air” approach.

Local authority teams sought to replicate the financial modelling conducted by forerunner children’s social care SIBs. However, the variance in budgetary allocations, cashable savings and cost avoidance across local authorities prevents this from being a ‘copy-paste’ exercise. Figures could not just be taken “off the shelf.” For example, one participant described how some council placements were seen as a “zero budget” item if provided internally, while external foster placements can be seen as a big cost. This is different to the thinking within other local authorities where ‘stepping down’ a child or young person from residential placement to foster care can be seen as a very significant saving. A detailed awareness of a council’s cost principles and how its budget interacts with different service user cohorts is therefore required before any financial modelling can be borrowed.

Running the cohort definition exercise in parallel with financial modelling was sometimes necessary due to the complexity involved. When gauging the characteristics of certain service users, time and placement durations were seen as a helpful proxy. For example, the time spent by a young person on a child

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<sup>63</sup> Deadweight is defined by the GO Lab as “outcomes which would have happened anyway, regardless of an intervention, policy or investment. To understand the additionality of a certain intervention it is important to have an estimation of the deadweight.” Government Outcomes Lab, n.d.

protection plan (CPP), could help predict the likelihood of escalation to looked after children (LAC) status. Data from similar projects within the local authority or pilot programmes for the SIB could provide valuable insights. This could then help inform decisions on outcome measures and outcome prices. Where multiple local authorities were involved as outcome payers within a single LCF SIB project (e.g. Pyramid Project and DN2), it was beneficial to break down the business case into individual business cases for each of the councils. This gave each council more confidence that the referral volumes and costs were in line with their expectations.

In one council, working out the counterfactual and attributing outcomes to the SIB was a challenge. The local authority believed having a clear sense of attribution was necessary to justify payments being made to investors, but also accepted that getting to the desired level of accuracy required a lot more work. It was believed that without a randomised controlled trial (RCT), it was impossible to get past any subconscious selection biases within referral systems. Furthermore, there was no data available on start dates of services for children and young people in the counterfactual group. Mapping different scenarios for both groups and using Propensity Score Matching (PSM) were seen to be the best approaches to counter some of these challenges. Having some room for potential error and caps on maximum outcome payments were seen as safeguards against potential inaccuracies.

Despite having been conservative during the financial modelling exercise, one council team feared that they had been affected by “optimism bias.”<sup>64</sup> This project has been in delivery for almost two years, leaving room for retrospection during the primary research. Although careful deliberation had been applied to referral numbers, participants wondered if they had gone far enough in their scrutiny of the numbers at the development stage.

When working through the timing of cash flows and payments to investors, one project felt the need to balance the interests of the investors with those of the local authority. They needed to balance what was viable for investors with what was seen as sufficiently “de-risked” for the local authority to consider the project “worthwhile.” Internal concerns over paying financial returns to investors also had to be addressed.

### 3.6.2 Prioritising cashable savings within financial models

Given common financial constraints, financial modelling was frequently driven by an invest-to-save ethos and an emphasis on cashable savings. In one council, this tied in well with ongoing transformation programmes and their business modelling which strengthened the case for the SIB. In order to be sustainable, the SIB’s savings had to clearly outweigh its costs to the local authority. In another SIB, there was recognition that some of their children and young people did need to be looked after, and so the SIB could not be used as a means to reduce the local authority’s overspend by moving all children out of care. Instead, there was an acceptance

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<sup>64</sup> Lead commissioner, Project C

that using a SIB would not cost them anything more while hopefully providing better outcomes for service users. One participant from the project helpfully described this thought process as follows:

*“If you work in a local authority, the thing that is a driver is saving money. It always is. Every aspect of your work is about the expenditure and if you work with LACs (Looked After Children), probably in every authority...you’ll go ‘what is the budget that is always significantly overspent?’ it is the budget around looked after children. There will always be a driver out there to cut cost and to reduce the children coming into care, and that we look after them in the most cost-effective placements. As an authority...there is an acceptance that the cohort of children we have got need to be looked after...It was an acceptance it [the SIB] is not going to cost us any more, and it is going to be a different way of looking at it, a different way of trying to meet need... I have worked in authorities where the driver has always been reducing the overspend and here it was an expectation that it might save us some money, it might not, but actually it is not going to cost us anything more and potentially the outcomes are going to be better for those young people that come through the cohort.”<sup>65</sup>*

Meanwhile, prioritising cashable savings can bring its own challenges. Cashable savings can be confused with cost avoidance. Services that seek to step down young people might be easier to link to savings but it may not be obvious which young people can step down to foster care successfully. While stepping down a young person into foster care might have clear savings involved for local authorities, it might not be the right thing for the child. Having enough ‘challenge’ in the system is therefore necessary, to ensure that the quest for cashable savings does not undermine the wellbeing of service users. A participant described this challenge as follows:

*“And that’s what made it so difficult because there were no obvious 30-40 children that you could step down very quickly and therefore you’d made huge savings...It has been incredibly challenging to match these children on the cases where we do have carers. It’s not to say that (the provider) hasn’t delivered carers- sometimes they have and we have gone down the track. But their view has been ‘it’s not right for the child’.”<sup>66</sup>*

### 3.6.3 A preference for simplicity

Local authority teams were keen to stick to simpler SIB approaches and favoured more straightforward SIB models over complicated ones. Participants acknowledged that this simplification might mean compromising some of the accuracy within financial modelling, but this was considered to be an acceptable trade-off. The marginal benefit of investing more time and effort into the modelling given other commitments was not considered worthwhile. Local authority teams

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<sup>65</sup> Strategy and Innovation Manager, Project C

<sup>66</sup> Strategy and Innovation Manager, Project C

hoped that generous margins of error along with clearly defined outcome payment caps would offer sufficient financial protection.

### 3.7 Develop the business case: Engaging external expertise

The increased scrutiny and financial modelling involved in SIBs required participants to engage significant external expertise. This could come from different stakeholders and take various forms, some of which are discussed below. Relevant in-house experience and skills were generally lacking as local authorities involved had not implemented a SIB before. In-house specialist skills, particularly financial, were highly valued when these were available.

#### 3.7.1 Heavy use of external expertise for technical aspects

External consultants were heavily involved in providing technical advice to almost all of the projects. Some of these consultants had been engaged as early as the very starting point of the SIB. This was particularly salient where a pioneering SIB was being replicated and the external advisor(s) had been involved in the design of the earlier project. Other consultants and intermediaries were brought in as the development process progressed. Participants found technical aspects such as building business cases for the SIB model challenging and turned to external advisors for assistance in the absence of internal expertise. Development grants from LCF (see [section 1.2.1](#) and [Figure 5](#)) were received by all projects and were pivotal in paying for this extra resource. In one project, financial assistance to support development work was received from the Local Government Association's (LGA) Productivity Expert Fund.

Technical assistance could take various forms. Examples include financial modelling (e.g. identification of deadweight<sup>67</sup>, analysis of raw data, cash flow), providing legal assistance, developing the service specification ahead of procurement, designing the SIB model, mapping the journey of service users to establish referral systems, and progressing the LCF application. Beyond technical assistance, consultants supported local authorities in their procurement processes e.g. by introducing council teams to social investors and organising market engagement events. One participant described these functions as a mix of “front seat driving and backseat driving.”<sup>68</sup> The organisations that external advisors belonged to also varied. Some were independent boutique consultants, others were more established intermediary organisations specialising in social investment and/or designing SIB projects. Besides fulfilling these functions, external stakeholders could bring in additional capacity and experience which allowed local authorities to think out of the box, understand the evolution of service users' needs better, and unpick the development processes in more detail than would otherwise be possible.

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<sup>67</sup> Deadweight is defined by the GO Lab as “outcomes which would have happened anyway, regardless of an intervention, policy or investment. To understand the additionality of a certain intervention it is important to have an estimation of the deadweight.” Government Outcomes Lab, n.d.

<sup>68</sup> Commissioning and Placements Manager, Project F

Working with external stakeholders could also take more indirect forms. Some SIB projects worked actively with third parties on their evaluations, with the objective of building the evidence base. Others were keen to work with existing local authority partners who had already been looking into developing SIBs.

### 3.7.2 Resistance to over-complication and the existence of an ‘industry’

While local authority participants generally found the help of external advisors highly valuable, some also expressed dissatisfaction on having to be reliant on this. One participant reflected that the SIB was portrayed to be much more complicated at the outset by those involved but in reality, it had turned out to be less difficult. Another commented that there was an “industry” around the development and management of impact bonds which could be both overwhelming and off-putting for local authorities who were not used to working in this way. The independence of some of this advice was also questioned. Instead, time-strapped commissioners favoured simplicity within the SIB model and low administration costs. Intermediaries and social investors who could present uncomplicated options were therefore chosen over others. One participant emphasised the importance of promoting more straightforward models if the adoption of SIBs is to be encouraged within local government in the UK.

### 3.7.3 In-house expertise can be rare but instrumental

Having sufficient in-house capacity or expertise to develop a SIB was rare among the seven projects. This is usually due to lack of experience in developing impact bonds and working with social investors or fund managers. Design challenges could be compounded if local level data is unavailable, pushing local authorities to turn to national data instead.

However, when available, this internal knowledge and experience could be instrumental in the development phase. In one project, internal accountants could pick apart a previous SIB financial model and identify mistakes where cost avoidance had been mistaken for cashable savings. In another project, one of the key individuals had a commercial background which bypassed the need for external help with financial modelling. This expedited the development process and also made it simpler to navigate. A central department within one local authority greatly assisted frontline departments by progressing the initial work around securing investment and project design. Extensive internal experience of putting together large projects in children’s services made the process easier.

Although projects utilised external expertise and drew on it substantially, participants felt the need to shift the development work to their internal teams at some stage. This was seen as crucial to building ownership around the project, while also building internal consensus and commitment to seeing the project through.

Working with experts could help participants build their own knowledge and contacts. As time went on, internal understanding and confidence around SIBs

increased. Participants described how, over time, consultants now became more of a sounding board. Furthermore, staff became confident in challenging external advisors. In one SIB project, the team objected to the direction suggested by a consultant, leading to a realignment of the project. While external expertise was seen as highly valuable and necessary at the time of developing these LCF SIBs, it was hoped that in the future a lot of the work could be done in-house. One participant described this tipping point as, *"Enough is enough, we've got enough knowledge in-house now. Thank you very much for your help but we'll crack on."*<sup>69</sup>

### 3.8 Manage relationships: Awarding contracts - Procurement and contract terms

This section analyses the public procurement of the seven SIBs in this study. This analysis includes the market consultations and procurement procedures and, unless stated otherwise, is based on procurement notices published in the Official Journal of the European Union (OJEU) and available on the Tenders Electronic Daily (TED) website.<sup>70</sup> A more detailed project level analysis is included in the Annex 5 (within the Technical Annex).

#### 3.8.1 Background and context

The Public Contracts Regulations 2015 (PCR)<sup>71</sup> provides considerable flexibility for Commissioners, including preliminary market consultations and a wide variety of procedures for the award of contracts. These flexibilities have been important for Commissioners on SIBs, especially as they worked to understand the role of investors.

Market consultations allow the Commissioner to seek or accept advice from experts and market participants.<sup>72</sup> An actor may be involved in the preparation of a procurement and then bid on the contract, so long as the relevant information shared or developed is also communicated to other potential offerors and adequate time for responses is provided.<sup>73</sup> Under specific circumstances, PCR allows a Commissioner to make direct award to a single actor after notifying the market of the intention to do so (using a specific type of notice),<sup>74</sup> or running a competition with rounds of questions and answers with individual actors.<sup>75</sup> For social services contracts, such as these LCF children's social care SIBs, there is even more flexibility around procedures through the "light touch regime," which

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<sup>69</sup> Commissioning and Placements Manager, Project F

<sup>70</sup> The TED website is available online at <https://ted.europa.eu/TED/browse/browseByMap.do>.

<sup>71</sup> Public Contracts Regulations

2015, <https://www.legislation.gov.uk/ukxi/2015/102/contents/made>.

<sup>72</sup> PCR 40(2), so long as these consultations do not distort competition or violate the principles of non-discrimination and transparency (PCR 40(3)).

<sup>73</sup> PCR 41.

<sup>74</sup> This is not called a "direct award" in PCR. It is a "negotiated procedure without prior publication" (PCR 32) and the mandatory notice is elsewhere referred to as a "Voluntary Ex Ante Transparency Notice," or commonly "VEAT." See PCR 99 regarding voluntary notices.)

<sup>75</sup> A competitive procedure with negotiation (PCR 29) or competitive dialogue (PCR 30).

allows a Commissioner to effectively design their own process as long as it is fair and transparent.<sup>76</sup>

All these flexibilities are provided for under the PCR. On the other hand, procurement practice in some local authorities might not use these flexibilities. Common practice may focus on processes that are seen as low risk. This is not a SIB-specific issue. The tension between the flexibilities in PCR - a national law based on European Directive - and the procedural nature of some local procurement practices existed before, and exists beyond SIBs.

A second and different problem relates to the contracts themselves. The terms of the contracts and their management are generally outside the scope of PCR. Local authorities have standard sets of terms and conditions that they attach to their contracts. These standard terms and conditions can vary by local authority. Terms in these contracts, such as cancellation terms, are unlikely to suit SIBs. This seems to be the problem that occurred in one of the seven SIB projects here.

DCMS does not seek to limit the flexibility of commissioners using PCR. A recent LCF Frequently Asked Questions (FAQ) document states, “We expect your contracting arrangements to offer good value for money, selecting any new providers through open procurement involving consideration of at least three potential suppliers. Use of pre-qualification questionnaires, drawing from a pool of experienced potential suppliers, Voluntary Ex-Ante Transparency notices and similar arrangements are all acceptable provided they are compliant with the commissioner’s financial standing orders and national contract law.”<sup>77</sup>

### 3.8.2 Summary of procurement processes within the seven SIBs

**Figure 15** below provides a summary of what was procured and how. DCMS required all LCF SIBs to include a provider and an investor. However, analysis of the procurement notices shows variation in whether the commissioner was focused on awarding the contract to the investor, the provider, or both (or a hybrid of both). GO Lab’s analysis finds that in four of the seven SIBs, the procurement notice focused on the provider.

Five of the seven SIBs were procured using some variation of a competition with dialogue, negotiation, or some variation of the same using the Light Touch Regime. One SIB was awarded as a pilot under an existing larger contract. Another SIB was awarded directly (i.e., negotiated procedure without prior publication).

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<sup>76</sup> PCR 74 - 76.

<sup>77</sup> Department for Digital, Culture, Media and Sport (2020), Life Chances Fund, Frequently Asked Questions, [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/876934/LCF\\_FAQs\\_FINAL\\_DRAFT.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/876934/LCF_FAQs_FINAL_DRAFT.pdf).

Some procurement related findings emerged from interviews that help inform the context of this analysis:

- Some participants define “procurement” as simply the formal process of inviting and evaluating bids, while others took a broader view to include market engagement and contracting issues.
- Procurement timelines varied and were relatively short for at least two projects. For the projects in Suffolk and Norfolk, stakeholders report that it took six months between final award (end of procurement) and service launch. However, other participants perceived procurement processes for SIBs to be complicated and more elongated than for other projects. Councils had not worked with investors in this way before and found it difficult to engage them at times.
- Participants reflected that the SIB had required procurement colleagues to be a lot more involved than they usually would be in the development of a project. This was helpful in ensuring that everyone was on the same page. Procurement leads who participated in the research also felt that more negotiation was required within the tendering process than usual.
- Market engagement events included “speed dating round robins” for investors and providers. Feedback received at market engagement events gave local authorities the opportunity to refine service specifications and outcome metrics before going to tender.
- External intermediaries and consultants sometimes introduced local authorities to potential investors. Webinars and well-defined service specifications helped attract further interest. Simplifying complicated bids was sometimes helpful, for example, by keeping the cohort description simple and not splitting it too much.
- In one SIB, a focus group was conducted with children and young people to get feedback on existing services, particularly around introductions and the transition period with foster carers. The outputs on what children saw as a good foster carer were fed into the procurement process and the invitation to tender (ITT).
- Participants regularly observed that the SIB market was too narrow, especially in terms of potential investors and investment fund managers. While this lack of options was “worrying” to some councils, they also recognised that detailed knowledge of the children’s social care sector was needed even amongst financiers. The limited availability of fund managers with expertise in children’s social care was associated with limited competition.
- The LCF requirement to include an investor and the time involved to find a new investor caused a seriously protracted delay in one project. In another project, the procurement approach was driven purely by the time constraints of the LCF process, and the council team would have preferred to procure differently. In retrospect this council team would have preferred to procure a fund manager first and then ask them to bring in a provider.
- Challenges for smaller providers in teaming up with established investors were acknowledged.

- There is sometimes tension between the contract terms desired by the local authority and those desired by contractors. The DCMS template contract is somewhat helpful but does not solve these problems where there is a clash with a local authority's own standard terms.

Projects	Intensive Family Support Service (Staffordshire)	Fostering Better Outcomes (Cheshire West and Chester)	Stronger Families Suffolk	Pyramid Project	Stronger Families Norfolk	Strong Families Resilient Communities (Lancashire)	DN2 Children's Services Social Impact Bond (Nottinghamshire, Derby)
	SIB is a small part of larger contracts. Started as a pilot under one contract. Later was part of a different contract			One investor was part of an early market engagement. Later a SPV owned by another investor was contracted			
Awardee (with ownership info if special purpose vehicle)	ADS Humankind Charity	Core Assets Group Ltd	Bridges Social Impact Bond Fund and Better Outcomes Better Value (owned by Bridges Fund Management)	Big Fostering Partnership (owned by Big Issue Invest)	Better Outcomes Better Value (owned by Bridges Fund Management)	None	Outcomes for Children (Core Assets Group) Ltd
What is being procured?	Primarily provider services	Primarily provider services	Hybrid or both. Awards made to Investor and a provider.	Investor	Hybrid or both	Primarily provider services	Primarily provider services
How is it being procured? (Procedure)	Unclear - likely part of much larger contracts.	Light Touch Regime, including dialogue or negotiation.	Light Touch Regime, including dialogue or negotiation.	Negotiated procedure without prior publication	Competitive dialogue	Light Touch Regime, including dialogue or negotiation	Light Touch Regime, including dialogue or negotiation
Timeline Comments		Three months from due date to award	Three months from due date to award; Four months of market engagement		Four months from due date to award; Five months of market engagement	The notice declaring no awardee was issued two months after the expression of interest due date	Twenty-nine months (i.e., 2 years and 5 months) from due date to award.

Figure 15 Summary of procurement processes across the seven SIB Projects. Source: GO Lab research team interpretation of procurement notices published in the OJEU

### 3.9 Provider market collaboration and dialogue

The challenges of procuring a suitable provider appear linked more to existing complexities within children’s social care landscape than to the SIB model itself. While there were no quick fixes for resource constraints, it was hoped that success within these projects could potentially help develop the provider market and build capacity. This section is loosely linked to the “design the service” stage, presented in green in Figure 10 and broken down into sub-stages in Figure 16 on the right.

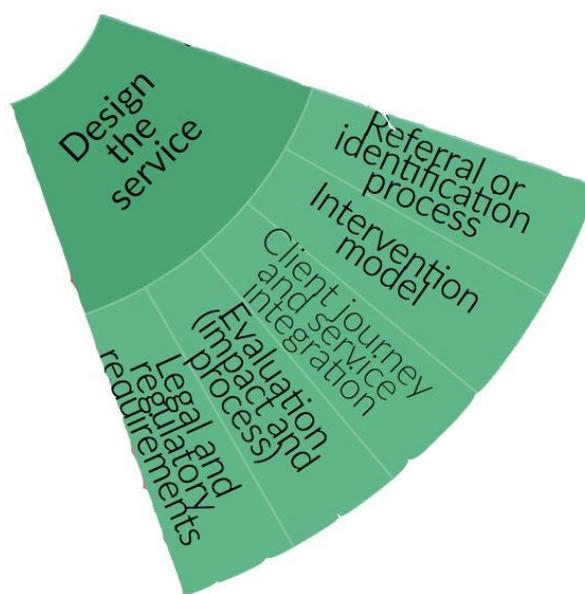


Figure 16 Sub-stages within the “design the business case” stage

#### 3.9.1 Market readiness is variable yet integral

Sometimes the service provider market was not seen to be ready for the adoption of a SIB model and needed to be supported and/or expanded. Capacity development for foster carers was also required in some instances. Some projects took this market development on as an active goal alongside other targeted outcomes. While there was a general preference to work with providers from the VCSE sector, sometimes the only providers with relevant experience and track record were from the private sector. This lack of choice was particularly intensified in councils which were more geographically remote and had a smaller pool of candidates to pick from, or where evidence-based interventions were being used. One research participant explained that the lack of clinical psychologists on a national level translated into local shortages too. Having sufficient financial resources in such councils did not counter the perceived lack of competent professionals and management.

#### 3.9.2 Providers with established relationships were preferred

Local authorities were keen to work with providers with whom they already had established relationships. Local providers were preferred but were seen as lacking strong relationships with potential social investors. Smaller local providers were seen to lack prior experience working within SIBs which added to the challenge.

#### 3.9.3 Provider networks need to be managed

Where multiple providers were involved, local commissioners had to take on a more substantial convening and management role. In such provider networks, competition was seen to be high. In one SIB project, while providers were described

as being happy to work together, they were not willing to take the lead or to have one of them take the lead.

#### 3.9.4 Lack of competition can generate perverse incentives

Participants felt that it was increasingly becoming a “providers’ market” within children’s social care. There was wariness around perverse incentives that could arise and the potential for these projects to turn into money-making exercises for providers. As part of the wider operating context, local authority teams described having few options to choose from. Participants were concerned that because of current business models, providers could have an incentive to keep children and young people in high-cost residential placements which do not necessarily produce the best outcomes. Local authorities hence sought to gain more control of provider markets in the future and to introduce more competition.

#### 3.9.5 Mitigating potential foster care breakdowns

In the past, projects were said to have broken down due to provider market failure, particularly within foster care placements. Participants identified a need to scale up supply (for example, of therapeutic foster placements) to match the increased demand, and expected to increase the pool of foster carers by engaging a number of different providers. This market management was seen as a difficult balancing act, particularly when there was a desire to open up opportunities to smaller providers who may have vital localised knowledge but might be too small to support a high number of placements.

#### 3.9.6 Cultural change is necessary for providers too

Providers too were described as needing to go through a process of cultural change when engaging in a SIB. Staff from SIB projects described how providers must learn to work differently and take ownership of this shift instead of it coming from “a big ivory tower” (the local commissioner). One participant described this as follows:

*“There is the cultural change that we have talked about: making sure that we are creating the environment for frontline practitioners that is able to accept risk and able to work with risk and can hold risk. If we are supporting staff creatively, innovatively using new ideas and new ways of working...It won't work all the time. Something will go wrong at some point and we have got to make sure that practitioners feel that they are not being thrown under the bus and that there isn't a culture of blame in the authority. No one feels stupid. There is a lot of work still to be done, to invest in our workforce to make them feel confident and strong.”<sup>78</sup>*

Participants described the need for more tailored and adaptive services. The intervention should no longer be seen as set and “one size fits all”. Providers were expected to work closely with children and young people and be much more prepared to customise the intervention according to their individual needs.

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<sup>78</sup> Head of Service, Project G

### 3.10 Overview of development timelines

Individual development timelines for each SIB project are presented below in **Figure 17** and categorised according to the impact bond lifecycle ([section 3.1](#)). These are primarily based on GO Lab researchers' interpretation of interview and workshop data, where participants looked back on their development journeys.<sup>79</sup> The detailed processes described above and have been broken down into five main stages:

- Review options
- Develop the business case
- Manage relationships
- Design the service
- Mobilise for delivery

Building on **Figure 10** and **Figure 11**, these stages (bars) incorporate a wide range of activities within the development process. "Review options" (**blue bar**) includes problem definition, appraisal of different options, consideration of viability and gathering of learning. "Manage relationships" (**green bar**) includes preparation for the role of lead outcome payers, procurement process, investor engagement, and provider market collaboration and dialogue. "Develop the business case" (**orange bar**) includes designing the SIB model (cohort, outcomes, prices), engaging external expertise, and financial modelling. "Design the service" (**yellow bar**) includes establishing referral and identification systems, intervention design, client journey mapping, evaluation, and legal requirements. A detailed study of "mobilise for delivery" (**red bar**) is not within the scope of this study, but is inferred from interviews as teams prepared to launch the service.

To connect these timelines with the context of the formal LCF application process, service launch dates, submission dates for Expressions of Interest (Eols) and full applications (FAs), and dates of final LCF sign-off from TNLCF and DCMS are also indicated. These steps form the application procedure to secure LCF funding.

While it is evident that in reality the steps are not as sequential as presented in the impact bond lifecycle tool, it is still a helpful way of comparing projects across what is otherwise a tangled journey. The summarised timelines in **Figure 17** below show that development looked different in every SIB, but incorporated similar activities. On average, it took between 2.5 - 3 years to fully set up a SIB. Many of the development stages ran in parallel during this time, and the overall process could be iterative and non-linear.

The process of "managing relationships" (represented by the green bar in **Figure 17**) was perhaps the most substantial and extensive in each project, and is a testament to the strong collaborative element in SIBs. This stage covers aspects

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<sup>79</sup> Where possible, this interview data has been triangulated with project documents and data within the DCMS data portal. However, there is some potential for participants to have misremembered events/dates or for researchers to have misinterpreted these.

such as building internal consensus, engaging other local outcome payers, engaging investors and providers, and running the procurement process. These were seen as substantive activities across the seven projects. For some projects, there are two distinct green bars. In these SIB projects, the second bar represents a second round of procurement following service launch (e.g., for a new provider or for an independent evaluator).

In most projects, final LCF sign-off was received following the launch of the service. While this was not explored explicitly during interviews, councils might have been motivated to start service delivery due to time pressures e.g., start of financial years or school years.

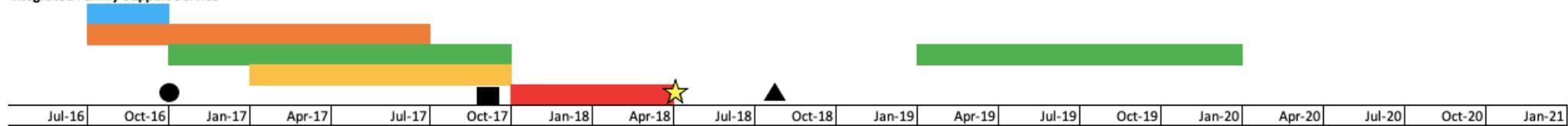
More detailed individual development timelines for each project are included in Annex 3, including specific dates and activities where available. These further represent the varying pace and nature of each of these development journeys. For example, Bridges Fund Management suggest that the time between final award (end of procurement) and the service launching in both Norfolk and Suffolk was around six months: relatively short compared to other projects.

No two development processes look exactly the same but this group of SIB projects did seem to face common challenges and facilitators. These are discussed in the next chapter ([Chapter 4](#)).

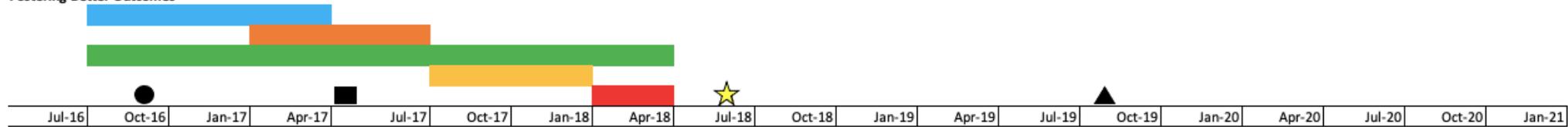
**SIB PROJECT DEVELOPMENT TIMELINES**

<b>LEGEND</b>	Review Options	Develop the business case	Manage relationships	Design the service	Mobilise for delivery
	● Expression of Interest (Eoi) submitted	■ Full Application (FA) submitted	▲ LCF sign off	★ Service launched	

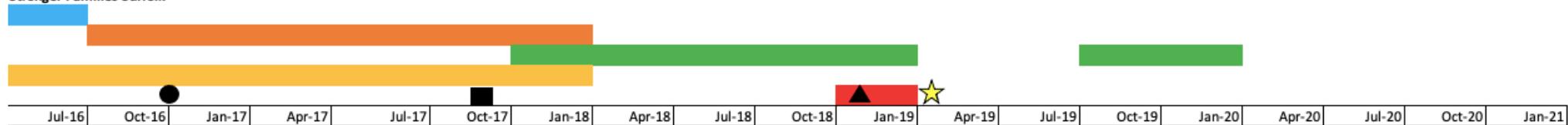
**Integrated Family Support Service**



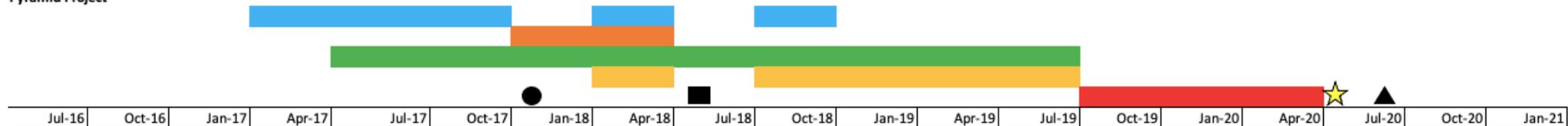
**Fostering Better Outcomes**



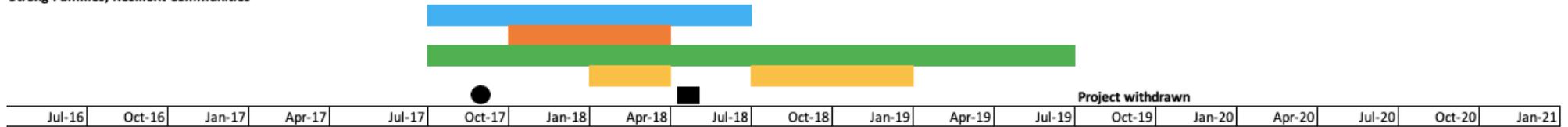
**Stronger Families Suffolk**



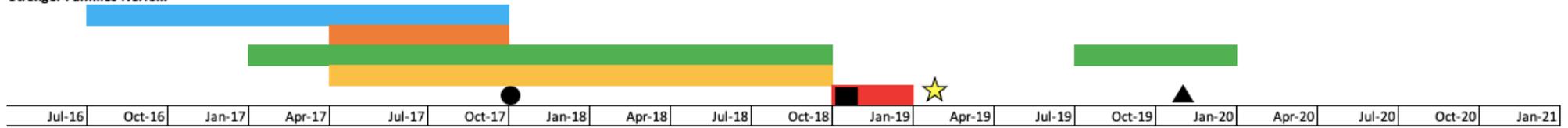
**Pyramid Project**



**Strong Families, Resilient Communities**



**Stronger Families Norfolk**



**DN2 Children's Services Social Impact Bond**

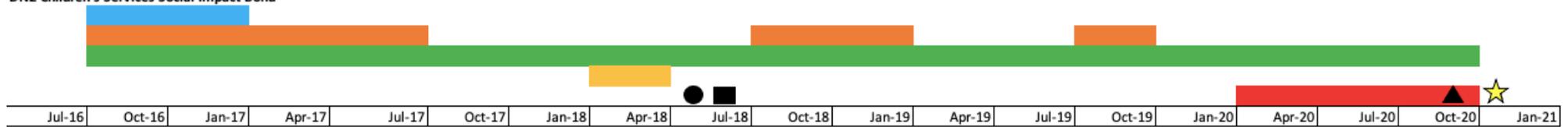


Figure 17 Summary of development timelines across the seven SIBs, based on interpretation of interview data by GO Lab researchers and figures from the DCMS Data Portal. This figure is primarily based on data from interviews with local authority participants. Where possible, this interview data has been triangulated with project documents and data within the DCMS data portal. However, there is some potential for participants to have misremembered events/dates or for researchers to have misinterpreted these. The level of detail in the participants' descriptions also varied across the seven SIB projects.

## 4. Facilitators and challenges within development processes for LCF social impact bonds in children’s social care

### 4.1 Introduction

This chapter describes the facilitators and challenges experienced by council teams across their varied SIB development journeys. While some of these themes are directly linked to the SIB model, others are based on the wider context of children’s social care in England. Council teams were asked about what - in practical terms - helps SIBs get over the line. Research participants offered reflections on ways to simplify the development process and tips for those interested in adopting a SIB model in children’s social care in the future.

### 4.2 Facilitators

Council teams across the SIB projects mentioned several factors as facilitators in the development process. GO Lab researchers have interpreted and distilled these into five main factors (summarised **Figure 18** and discussed in the sections below). The main facilitators are:

- Top up funding and development grants from LCF
- Operational preparedness and support
- Creative and engaged procurement approach
- Ambition to deliver additional, high-quality services
- Technical knowledge

Facilitator	Sub-themes within facilitator
Top up funding and development grants from the LCF	<ul style="list-style-type: none"> <li>- Seen as a “subsidy” or “discount” which served as a hook</li> <li>- Perceived as underwriting of risk by central government</li> <li>- Key in building internal consensus for SIB</li> <li>- Key in paying for external support during development phase</li> <li>- LCF deadlines focussed attention of busy local commissioners</li> </ul>
Operational preparedness and support	<ul style="list-style-type: none"> <li>- SIB brought in new skills and provider teams</li> <li>- New and collaborative ways of working, both internally and externally</li> <li>- Early engagement and regular cross-departmental feedback</li> <li>- Social investment fund managers brought new approaches and insights</li> <li>- “Win-win” attitude in balancing interests across sectors</li> </ul>
Creative and engaged procurement approach	<ul style="list-style-type: none"> <li>- Collaborative and trust-based working instead of penal conditions</li> <li>- Early market engagement</li> <li>- Opportunities to do procurement in creative, new ways</li> </ul>
Ambition to deliver additional, high-quality services	<ul style="list-style-type: none"> <li>- Well designed and high-quality interventions with clear added value</li> <li>- Clear service specifications</li> </ul>
Availability of technical expertise	<ul style="list-style-type: none"> <li>- Technical expertise often gained externally, through consultants or peers</li> <li>- Most often applied to financial modelling and developing LCF applications</li> </ul>

Figure 18 Facilitators within development processes for the seven projects. Source: GO Lab research team interpretation of workshops and interviews

#### 4.2.1 Top up funding and development grants from the LCF

The top up funding from the Life Chances Fund was seen as instrumental not only in stimulating interest in SIBs, but also in solidifying support and galvanising participants involved in developing SIBs. It was the ultimate “hook,” without which councils said they would not have even looked into SIBs. The LCF funding was perceived as a “subsidy” or “discount” by local councils, which strengthened the case for pursuing a SIB. Internal consensus was built on expectations of risk transfer and value for money, which the LCF was perceived to strengthen. Participants indicated that it was easier to ‘sell’ the idea of adopting a SIB when this came with the backing of central government. The LCF top up seemed to underwrite some of the financial and operational risk around the project. In the absence of this support, participants suggested that some of the SIBs may have been abandoned due to complexity, or would have chosen different (and arguably less innovative) providers to economise. Despite the additional work that was required in setting up the SIB compared to other programme development experiences, participants felt that it would be worth the effort to secure the LCF funding:

*“...The argument at the time was that yes, it will incur extra work but it will be worth it because of the discount of the LCF offer which will offset that extra work. I'm not sure that has come true in practice or will come true in the next few years, but that was certainly part of the thinking process at the time.”<sup>80</sup>*

Another participant echoed the role of the LCF funding in trialling the SIB approach, but also thought that it might not be required next time:

*“...We are at the point now that we can take that learning and apply it...We have the evidence now that that is working. We have ideas and opportunities to use what we didn't have before.”<sup>81</sup>*

LCF application deadlines, though pressurising, also galvanised effort around a “time limited funding opportunity” and helped focus the attention of busy local commissioners. External deadlines justified bringing people around the table quickly to form project teams, and encouraged multiple local authorities to partner up in some projects. Project teams were motivated to hold regular meetings to keep to LCF timelines.

Development grants, applied for and received by all seven projects, were fundamental in the design phase. [Section 1.2.1](#) and [Figure 5](#) offer more details. These grants enabled local authorities to engage external expertise for financial modelling and technical assistance. As discussed in [Chapter 3](#), this external assistance could be quite substantial and required extra resources to pay for this. However, development grants were insufficient to cover the costs fully, driving local authorities to pay for further support from their own budgets.

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<sup>80</sup> Strategy and Innovation Manager, Project C

<sup>81</sup> Lead Commissioner, Project B

#### 4.2.2 Operational preparedness and support

SIB development was assisted by new and more collaborative ways of working with both external and internal partners. Stable and sustained support from senior leadership was vital. Where internal buy-in was secured early and key individuals were involved consistently, the development journey appeared much smoother. Development was time-consuming and complicated, which is why having buffer time was recommended by participants to allow for delays. Frequent meetings with partners and having all key internal actors from local authority teams at the table from the beginning was seen as beneficial. Colleagues from a wide range of internal departments were hence able to give active feedback on the design of the SIB e.g., from procurement, operational, safeguarding, legal, finance and senior management teams. Sometimes colleagues were also involved from related service areas such as youth justice and healthcare during the initial development stages. However, it was felt that having a dedicated “core” team to carry the project through was necessary. Presence of a finance team member and a project lead on this “squad” was highly valued. Challenge from internal colleagues could then shape projects in ways that seemed sensible for everyone, and help the core project team make changes at speed.

It was seen as helpful to define upfront what corporate and organisational capacity would be needed from each department and communicate this clearly to ensure commitment. Having advocates across relevant departments such as finance and procurement expedited buy-in. In one project, a strategic department at the corporate centre (economic development) led the SIB project instead of a frontline one (such as children’s services). This allowed the central team to act as a critical friend and add value to the development process while “shielding” project teams from the responsibilities of the LCF process. One participant described the value of having a steering group composed of diverse perspectives. This helped balance financial concerns around costs with more service-related concerns around social outcomes for children and young people. Individual staff were understood to come to the project with different drivers and having these varied views represented reduced the danger of development being one-dimensional.

In interactions with external stakeholders, participants described themselves as adopting more of a win-win attitude compared to a typical commercial negotiation. Where multiple local authorities were involved, it was felt that partners truly faced challenges together and made decisions jointly at all levels. Partnerships were formed on both operational and strategic levels. Council staff said they hadn’t tried to grasp every positive and had instead tried to strike a balance of interests. Projects drew on technical assistance from external consultants and intermediaries which was unusual for them. Working outside the envelope of a traditional principal-agent contracting relationship pushed local authorities to be less risk-averse and less insular. Where multiple local authorities were involved, there was a sense of risk-sharing among local commissioners. It was helpful to identify individuals to serve as “champions” in each of these organisations but to have a single council as the point of contact for the Life Chances Fund. Working with social investment fund managers brought new insights and new challenge to local

authorities' thinking. Overall, participants reflected that relationship building and trust took precedence over "dictating how services should be delivered". There was a tendency to rely on goodwill rather than to apply "penal conditions" within stakeholder relationships.

While adapting to a new service could take time, in some SIB projects, staff could see the difference it was making to service users' wellbeing in a pilot project. They found this to be a rewarding experience and brought new enthusiasm to the project. Having enthused operational teams who were energised by what the SIB could bring and ready to adopt any new processes or ways of working that this would entail, (including making preparatory arrangements) was helpful. In one project, increased data monitoring and sharing due to the SIB enabled provider teams to gain direct access to the local authority's children's records. Not only was this a sign of a strong relationship, but also helped the provider gain valuable insight into the local authority's local context.

According to participants, a critical number of frontline staff, especially therapeutic staff, were lacking within children's social care. The SIB could help counter this problem by providing access to new resources (such as social investment and LCF funding) which in turn helped councils implement new and high-quality interventions. These interventions then brought in new teams and human resources to deliver the service, especially where the intervention was novel or evidence-based and carried high fidelity requirements (i.e., a licensed intervention that needs to be delivered according to a manual). For projects which had begun service delivery, stakeholders reflected that these new staff members were seen to be well-trained and highly competent, which drove the effectiveness of the intervention and increased confidence in the model. While this foresight had not been available when developing these projects, participants (especially those situated in small councils or more rural areas) said they had anticipated these benefits, and that this had strengthened their case within the local authority for developing the SIB. They also shared that they would not be able to access these skilled staff members without the SIB, which provided both the required financial resources as well as incentives.

#### 4.2.3 Creative and engaged procurement process

Participants described how the emphasis on collaborative and trust-based working translated to the procurement process as well. Positive and long-standing relationships with providers, where they existed, proved helpful in propelling the procurement process and continuing co-production. For providers, this might involve a history of working together on past projects e.g., a pilot project or a similar service elsewhere in the local authority. For social investment fund managers, this might have meant informal work together with council teams to shape the SIB project, which in some cases was quite intensive and yet preceded any formal procurement or signing of contract.

Engaging the market early was seen to be crucial. Local commissioners who started conversations earlier generally found procuring investors and providers more

manageable than others. However, one SIB project unexpectedly found itself having to match its provider to an investor, and struggled to do this. In another SIB, a broad approach was taken towards procurement which a participant termed as a ‘grey box’ approach. Here the council presented providers with an overall objective and suggested some approaches to achieve this, but decided to give the providers space to present their own solutions. The opportunity to develop a service offer in this flexible way was one of the appeals of adopting a SIB for the local authority.

In one SIB, having a contract template (provided online by the Centre for SIBs team) was seen as useful and mitigated the need to bring in more legal advice. However, in another SIB, the termination clauses were seen to be at odds with the standard terms typically adopted by the council. This suggests that it would be useful to incorporate local authorities’ perspectives into the template contract.

#### 4.2.4 Ambition to deliver additional, high-quality services

While additional financial resources (such as the LCF top up funding) were seen as beneficial, participants agreed that the projects simply would not work without a well-designed intervention. The quality of the service and its relevance to local contexts were at the heart of success. “Throwing money” at the problem was not enough on its own:

*“Could we have done this without the upfront funding? No. Was the money itself, and where and how it came from, enough? Also no. So there are a number of conditions that needed to be met.”<sup>82</sup>*

The need for well-considered service specifications is notable given the wider discussion of SIBs as simply ‘paying for outcomes’ (and, by implication, not requiring prescriptive service specifications). Council teams expected that conforming to the service specification would help achieve the desired outcomes and also uphold financial viability. In one SIB, there was wariness around scope creep jeopardising the project’s original objectives:

*“Conforming to the specification, which brings quality of outcomes for both service users and financially, because there is a product cost, there is the service user need...financially, it should be sound as well. (If) there is a scope change or scope creep to the specification and straight away, it is out of the window because the original product design has actually changed.”<sup>83</sup>*

#### 4.2.5 Technical knowledge

Local commissioners found aspects of the SIB development process demanding but lacked in-house skills to navigate this independently. As discussed in [Chapter 3](#), advice from experienced external consultants and intermediaries was heavily relied upon as a facilitator. This was particularly useful for the financial modelling stage. In some SIB projects, assistance was also provided in developing the LCF

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<sup>82</sup> Lead commissioner, Project B

<sup>83</sup> Strategic Commissioner, Project E

application, conducting feasibility studies, and developing the service specification ahead of procurement. Social investment fund managers' experience from previous projects and active involvement provided a sense of security to local commissioners. The SIB template contract<sup>84</sup> was typically seen to be helpful, as were documents from other SIBs which offered guidance on developing partnership agreements across local co-commissioners (in situations where several local authorities were jointly commissioning a SIB).

Participants thought that doing a SIB for the second time would be less challenging. They hoped that they would be able to use learning, documents and financial modelling from the LCF experience to speed up development in the future. They also hoped that they would be able to do more of this development work in-house.

### 4.3 Challenges

Participants mentioned encountering multiple challenges during the SIB development process. GO Lab researchers have interpreted and distilled these into five main factors (summarised in **Figure 19** and discussed in the sections below). These include:

- Time and resource intensiveness
- Technical complexity and dependence on external support
- Relational and operational challenges
- Ideological challenges
- Risk and returns

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<sup>84</sup> Centre for Social Impact Bonds, 2017

Challenge	Sub-themes within challenge
<b>Time and resource intensiveness</b>	<ul style="list-style-type: none"> <li>- Protracted development timelines, extending beyond initial expectations</li> <li>- Varying approval processes and competing deadlines amongst local co-commissioners</li> <li>- Procurement was complicated, multi-staged and delayed</li> <li>- Drain on staff time and effort</li> <li>- LCF processes added to complication</li> <li>- Original assumptions might not hold true by the time of service launch</li> </ul>
<b>Technical complexity and dependence on external support</b>	<ul style="list-style-type: none"> <li>- Difficult to understand SIBs and underlying processes</li> <li>- New ways of doing procurement and partnership building were challenging</li> <li>- Lack of standardised definitions in children's services</li> <li>- Lack of in-house skills for financial modelling and delivery of new services</li> <li>- Dependence on external support incurred additional costs</li> <li>- LCF application stages could be complex and unclear</li> </ul>
<b>Relational and operational challenges</b>	<ul style="list-style-type: none"> <li>- Personnel turnover led to gaps in understanding and ownership</li> <li>- Lack of senior leadership continuity</li> <li>- Internal scepticism around financial viability</li> <li>- Multiple local commissioners required extra coordination</li> <li>- Additional reporting and performance management</li> </ul>
<b>Ideological challenges</b>	<ul style="list-style-type: none"> <li>- Some political sensitivities around working with social investors</li> <li>- Fear of being perceived as a Private Finance Initiative and profit making</li> <li>- Added scrutiny of social investment fund managers</li> <li>- Continuity and extension of contracts</li> <li>- Pressure to demonstrate better outcomes and cost effectiveness</li> </ul>
<b>Ongoing potential risks</b>	<ul style="list-style-type: none"> <li>- Low financial risk but reputational risks still present</li> <li>- Pressure from partners to succeed</li> <li>- Ultimate risk lies in failing service users</li> <li>- Residual concerns on returns and value for money</li> </ul>

Figure 19 Challenges within development processes for the seven projects

#### 4.3.1 Time and resource intensiveness

Long and protracted development timelines were a key challenge across the seven projects. As represented in [Section 3.10](#), projects took an average of 2.5 - 3 years to develop. While the development process might have been smooth for some and more challenging for others, the overall length of the journey remained similar. Some of this was a consequence of far more stakeholders (both internal and external) being involved in project development than usual.

Where multiple local commissioners were involved, timelines were also elongated by variable approval processes within individual councils which were generally time-consuming to coordinate. Governance arrangements took time to put together. Competing deadlines had to be navigated. While projects had sufficient initial information to prepare business cases, the outcome metrics were sometimes not finalised until later, which impeded in-principle agreements from being made by the LCF administration team. This made key individuals' personal influence even more crucial in pushing things forward.

*“And it is a different business model and business style. There are comfort blankets around the policies and procedures and what we can and can't do. Sometimes that is comforting and sometimes it is frustrating in terms of pace and wanting to move things forward.”<sup>85</sup>*

As discussed in [Section 3.8](#), procurement processes for several projects were lengthy, complicated and fraught with delays. While no project found procurement straightforward, some projects faced particular challenges in securing and retaining social investors. Others grappled with a narrow provider market, especially in relation to the quantity and capacity of local foster carers, which was widely cited as a nationwide problem. Matching the chosen provider to a social investor was an unexpected challenge for one of the SIB projects. In addition, participants suggested that there were a limited number of social investment fund managers interested in investing within the statutory children's services sector. Following the initial successful Expression of Interest, one Council encountered difficulties in developing the full business case and application. Council staff felt that the original fund manager appeared to be attempting to change the financial terms as well as the risk allocation in their favour. This made it difficult to progress the project on the original understanding as set out in the Expression of Interest. As there were limited alternative social investment fund managers, this almost resulted in project cessation.

Market engagement was challenging for some projects, and local councils struggled to achieve adequate interest in their SIB project. In some SIB projects, legal teams were particularly cautious about the negotiation phase of the tender process which slowed things down and delayed the launch of the SIB-backed service. In one SIB, participants reflected on the difficulties of resourcing procurement panels due to limited capacity within the council. Participants described the way procurement in SIBs needed to be considered more carefully than in other commissioning models, where it could be relatively light touch. In many instances, projects followed a multi-stage procurement process which added extra pressure and made procurement more resource intensive. Research participants requested that these features of SIBs be made more explicit up front in the future. This was expected to aid planning for the time commitment and technical expertise required on procurement panels.

Developing a SIB was a significant drain on staff time and effort. While the opportunity cost was unclear, participants perceived this to be high. Reporting requirements were expanded (due to the nature of multi-stakeholder development processes) and meant that new reporting lines and structures had to be integrated. Financial modelling was difficult and required external support. Development grants were insufficient to cover this work fully, necessitating councils to cover further costs themselves. Senior management had little time to go through this work in detail. Sometimes it was difficult to understand where the ultimate

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<sup>85</sup> County Manager, Project A

responsibility for the delivery of the project sat. The Life Chances Fund included three application stages which added more work and was perceived by some to slow down project development.

*“As a process, it felt very lengthy and involved an awful lot of people internally. It felt like it was quite an expensive preparation stage in terms of staff costs and staff time....I'd like to reflect on whether this is something we could have contracted or commissioned in a different way rather than going through this process.”<sup>86</sup>*

*“There was a lot of back and forth, filling in lots of application forms, getting a slot for a cabinet report...There are a million other things I need to do so I wasn't dedicated [solely to SIB project] by any stretch of the imagination. The fit with the day job is a challenge.”<sup>87</sup>*

Beyond being a significant drain on busy local commissioners' time, prolonged development timelines introduced the risk of the original specification no longer matching the council's changing priorities. The original financial assumptions which underpinned the business cases and justifications for the SIBs may no longer hold by the time of launch. This might affect project performance in unexpected ways and generate less value for the local authority than anticipated.

#### 4.3.2 Technical complexity and dependence on external support

The SIB model was new to research participants. Participants found them complex and resource intensive to understand, which was described as “off-putting” by one commissioner. Despite having significant experience in children's social care, participants said they felt out of their depth and struggled to understand the technical details of the SIB approach. Procurement processes were seen as more intensive than usual and prone to breakdowns. While SIBs were valued for their collaborative ways of working, these aspects were new and unusual for council teams. Forming partnerships was not always straightforward. Inadequate data systems made it difficult to initiate the design phase.

*“There are 7-8 data and case management systems that children's services can have that amalgamate from the centre. They are all built around the operational service. They are not strategic tools. We have cobbled things together to get a strategic overview but it is not designed for that. They have got a day job so it can take months to get data and to validate it. Sometimes it is slightly different and we need to go backwards and forwards to get to a point where we are confident that it is accurate: it can be 3 months, 6 months. And that's been a major impediment.”<sup>88</sup>*

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<sup>86</sup> Resources Team Manager, Project C

<sup>87</sup> Head of Programmes, Project D

<sup>88</sup> Lead Commissioner, Project B

Additional skills were needed for financial modelling and sometimes on the frontline (for evidence-led interventions), but both were usually lacking in-house. As described in [section 3.6](#), Councils regularly struggled to assess the deadweight, counterfactual, and attribution of the intervention to the outcomes achieved. This led to high dependence on external support for projects. Even so, establishing the right level of accuracy and margin of error was a demanding task. Pinning down cashable savings and costs avoided was tricky, especially as the budget for looked after children was categorised differently in different councils. Council teams needed to consider both pooled budgets and individual budget lines. Limited time could make the financial modelling exercise a “leap of faith.” One participant wondered if SIBs were “over-engineered” and “over-complicated” by those long imbedded in this space. One participant emphasised that there is a need to simplify impact bonds if they are to be endorsed to busy local commissioners, especially for those undertaking SIBs for the first time.

*“It was quite hard to understand. If it is to be a model of funding and financing, someone needs to find a better way of explaining it to me. Otherwise people switch off and go back to other things they understand. I found it quite tricky and that is not a good way to sell things to people, making them feel overwhelmed.”<sup>89</sup>*

A lack of standardised definitions within children’s services added to the challenge of developing SIB projects. Concepts such as “edge of care” might seem clear in a service specification, but this was insufficient to ensure that the same understanding and clarity was passed down to referral panels. It was unclear what escalations and de-escalations between different stages (Children in Need, Child Protection Plan and Looked After Children) looked like in practice. Family support could take various forms, but there was limited understanding of these different types and intensities. The wider policy context of a SIB is therefore also complex in how it works with providers, how it affects service users, and how it incorporates the voice of frontline workers who are closest to children and young people. In one SIB project, it was unclear if their chosen referral pathways were correct and if they would bring the right children into the service, thereby generating value for money. There was a danger of focusing on children who would have never come into care anyway. Such inappropriate service targeting was something another council had previously experienced due to cherry picking by a provider. Some of these considerations are discussed in [Section 5.2](#).

The Life Chances Fund application procedure was seen to compound the complexity of the SIB. While participants recognised that the scrutiny was necessary, they felt that they could have been supported better during the development phase. Instead, the LCF left some “scratching their heads.” There was sometimes a lack of clarity on what the next step in the application process was supposed to be.

*“...It is quite complex in the ask you get from the LCF in terms of the information they ask us to submit...From the beginning, it would have been useful to know all*

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<sup>89</sup> Lead Commissioner, Project B

*the stages you need to go through. There is another piece of work we need to submit before we can officially go live...the information that LCF are asking for looks fairly [straightforward] to them but for us we are scratching our heads as to see what that means.”<sup>90</sup>*

One participant found going through the LCF application stages more demanding than designing the SIB itself. Participants suggested that development grants (see [Section 1.2.1](#) and [Figure 5](#)) had been less generous during the later rounds of the LCF application process which meant councils applying in those rounds are likely to have spent more of their own money to engage external support. The range and extent of technical assistance was therefore constrained, and might have impeded accuracy within financial modelling and business case development. Research participants raised questions around the independence of some of the advice received. One participant suggested that “investors could make a model to tell you anything.”

While the technical complexity of SIBs was a substantial impediment and slowed things down, participants acknowledged that ultimately the SIB development process did help them assess their local context in more detail and develop a more thorough business plan than they might have otherwise.

#### 4.3.3 Relational and operational challenges

The development process was also challenged by relational factors. Original project teams were rarely stable from start to finish across the full development process, which made it a “moveable feast”. This was not a surprise, given the frequency of personnel turnover in local authorities and the protracted timelines that SIBs carry. However, this did lead to gaps in understanding and handovers between staff were sometimes described as bumpy for the SIB project. Linkages to other key departments within councils could be compromised. Loss of continuity within senior leadership led to a lack of ownership and increased uncertainty.

*“One person left...and one person moved to another job internally, that stuff happens. We are trying to build and maintain relationships that open doors... But it is very relational and when you lose people that way, and you start with someone else who goes “What’s all this, I don’t understand it, how can I get up to speed?” then you step back a little. That is always going to be part of the dynamic and that’s more than judgement. That’s just how it goes...you have to continue to refresh the system.”<sup>91</sup>*

In some SIB projects, there was significant scepticism from senior management over financial viability and risk. One participant described the process as a “hard sell” which required persistent discussions:

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<sup>90</sup> County Manager, Project A

<sup>91</sup> Provider organisation representative, Project E

*“In our team, we are used to change day in and day out but other people aren't and we get that. So it was a long sell. That's the word I would use. Give the message, keep on giving the message, repeat the message, for some people I think the penny still hasn't dropped. But I think for the key people, the penny has dropped. In terms of what we are trying to do here is good.”<sup>92</sup>*

Adding more local commissioners to the project introduced an extra layer of coordination challenge and project management requirements, which was not equally feasible in all geographies. In such SIB projects, participants favoured smaller and simpler SIBs rather than big, complex projects with multiple local authorities. In some projects, there was seen to be a sizeable need to brief multiple stakeholders and to do this more frequently.

#### 4.3.4 Ideological challenges

In academic literature, SIBs have attracted criticism (principally on grounds of financialisation and commodification of social services, for a discussion see the review by Fraser et al., 2018<sup>93</sup>). When responding to some of these ideological challenges associated with adopting a SIB approach, there were two types of responses from participants. For four projects, these were not a significant theme in the workshops. Notably, the sample of projects involved in the research had proactively developed an impact bond proposal and selection bias might be at play here. However, for three projects, there was limited discussion of opposition on political grounds which is summarised below.

In one SIB project, the obstacle related to the political risk of using SIBs which some in the council perceived to be similar to PFIs (Private Finance Initiatives) and excessive profit-making. This council team was wary of the SIB being linked to these negative connotations. The development team was also concerned about paying out more than the total service cost of the project, while not fully understanding the configurations around risk and payment mechanisms involved.

In a second SIB project, challenge had been received from certain political groups in the council around the involvement of social investors. However, the development team had countered this by emphasising that it was only a three-year contract and that they were not committing to this way of working “for life.” They hoped that the results of the SIB would be measurable and transparent, and consequently help them demonstrate its impact.

In a third SIB project, a senior member of the council was highly cynical in scrutinising the social investment function, based on political differences. This was thought to have had some influence on the selection of the investor in this project.

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<sup>92</sup> Programme Officer, Project F

<sup>93</sup> Fraser, A., Tan, S., Lagarde, M., and Mays, N. (2018) Narratives of Promise, Narratives of Caution: A Review of the Literature on Social Impact Bonds. *Social Policy & Administration*, 52: 4- 28. doi: [10.1111/spol.12260](https://doi.org/10.1111/spol.12260).

Due to such political sensitivities in the local councils involved, the project was not widely promoted. Instead, the development team decided it would be best to wait until they had positive results and narratives before promoting their use of the model more widely.

When council teams looked to the future, there were no significant concerns over the continuation of the current SIB projects even if there was a dramatic change in the political composition of councils. This was due to legal and contractual obligations that had been undertaken. However, such an event could affect the extension of contracts in the future, as well as decisions around developing another SIB. In some councils, elections were expected to bring in a new set of members each time. This could introduce new priorities which may or may not complement a SIB model. There was more pressure to demonstrate better outcomes and realise cost effectiveness in projects where political hesitance had been voiced.

#### 4.3.5 Ongoing potential risks

While local authorities generally perceived financial risk in SIB projects to be low, participants wondered if reputational risk was still involved. Some staff felt that they were guiding their partners into the SIB and felt the pressure for it to work. They feared being held responsible if the project was seen to be less beneficial in terms of cost effectiveness and social outcomes than anticipated. Equally, they hoped to be seen as trendsetters or “marketeters” for trying something innovative if the project was deemed successful. Others felt that the ultimate risk was failing to deliver promised services and outcomes for the children and young people they were responsible for.

*“You could argue that financially there isn't a lot of risk for it for anybody. When you look at the cost for each placement, and particularly when you look at the cost of placement in relation to where we are now on cost of placement...But in terms of the impact on the children, and the desire to offer them something different and more consistent and better is where it becomes challenging from an operational perspective. Especially from a social care and social work perspective. These are our children and we need to do something differently for them.”<sup>94</sup>*

At times, concerns were raised over financial returns to social investors, which were seen to make SIBs more expensive than more conventional commissioning alternatives. Well-designed SIB models with clear payment caps (i.e., a maximum payment threshold beyond which outcomes would no longer be paid for) were seen as vital protection from the risk local authorities were undertaking. One research participant described this tension:

*“There is principle of there being a profit. Return related to risk is alien and not being taken on because people should be willing to take high risk, but to then get a higher reward relative to that...The trade-off in that ratio and the*

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<sup>94</sup> Resources Team Manager, Project C

*understanding of that principle...that it is private sector driven...I don't know if that is a thing but I have got a feeling that it might be.”<sup>95</sup>*

#### **4.4 Wishlist for the future**

Looking back on their development journeys, there were a number of things that local authorities wished they had been aware of when they started developing their SIB. Participants wished market engagement and procurement had been easier, both in the range of available investment fund managers and providers as well as in contracting with them on the project. Where procurement conversations fell apart, councils wished that fund managers had been more forthcoming in their reasons so that the project teams could learn and adapt. Better communication of expectations at the start of the project would also have been beneficial, especially in terms of the time and resource intensiveness involved.

Above all, amongst research participants there was an overwhelming call for SIBs to be simplified. Participants suggested that simplification could be achieved in a number of ways, such as building and signposting to more templates, providing better guidance on technical aspects such as financial modelling, and streamlining application procedures for outcome funds. Local commissioners suggested that ideally, they would have opportunities to build in-house knowledge and skills which would reduce their reliance on external support. More granular data on how similar SIBs had been designed and structured by others was identified as helpful for designing future impact bonds.

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<sup>95</sup> Strategic Commissioning Manager, Project A

## 5. Design considerations and standardisation within LCF social impact bonds in children’s social care

### 5.1 Introduction

This chapter describes the ultimate design choices adopted by each of the seven SIB projects. These design choices are the culmination of the development processes outlined in [Chapter 3](#). This chapter’s analysis draws on GO Lab’s triangle tool<sup>96</sup> (**Figure 20**), which emphasises three main aspects in a well-designed outcomes (and SIB) contract from the perspective of the public sector:

- The cohort of service users that the programme will support;
- The outcomes that the programme aims to achieve;
- The price that will be paid for outcomes.

These three aspects are key in protecting the commissioner from opportunistic behaviour on the part of SIB suppliers, while ensuring that investors (and providers) are being reimbursed for outcomes of reliable value. This schematic provides a framework for comparing design considerations, and to establish whether there was standardisation across the seven SIB projects.

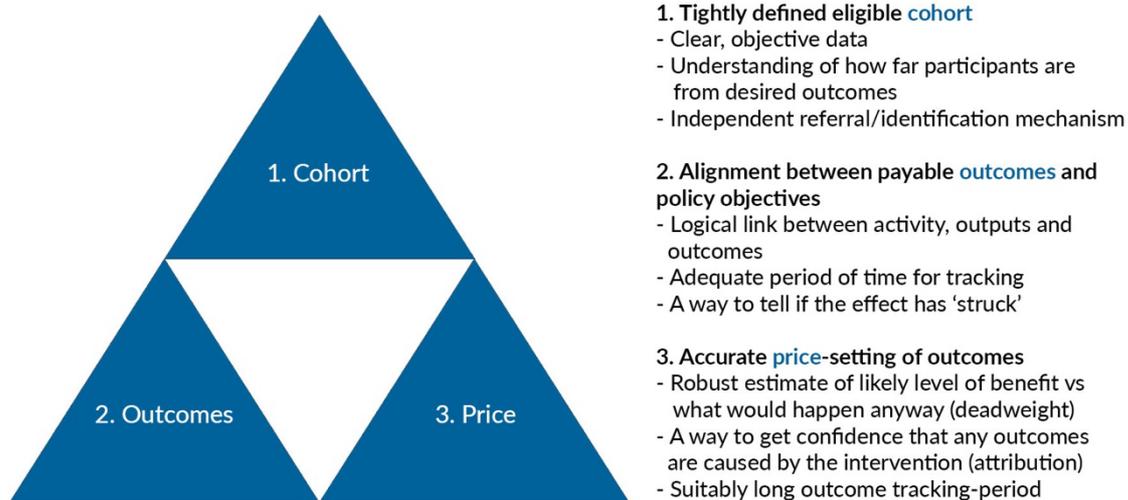


Figure 20 GO Lab’s Triangle for designing a robust outcomes contract within a SIB framework

With these three key features in mind, we explore how projects navigated various concerns and considerations for design components. We also analyse the final decisions made and how they compare across the seven SIBs, under four main headings:

- Cohort<sup>97</sup> definition
- Outcomes specification, outcome payments, and payment frequency
- Intervention design
- Governance structures

<sup>96</sup> FitzGerald, et al., 2019

<sup>97</sup> The group of children, young people and their families who were to be supported by the SIB-backed services.

Much like the development timeline in [Section 3.10](#), no two projects are exactly alike in how they specify these elements. As discussed below, almost all SIB projects take on a range of children and young people and pursue a range of outcomes and intervention approaches instead of restricting themselves to a narrow focus. Where ambitions intersect across different projects, some commonality is found. Design standardisation is therefore relatively low, but not completely absent.

## 5.2 Cohort definition

When designing SIBs, local councils began by deciding which service users they sought to design services for. Should they work more upstream with children on the edge of care, or seek to step down children in residential care to foster care? Was it best to reunify children in care with their families instead? Which age groups and characteristics (e.g. challenging behaviours and complex needs) should be focussed on? In making these decisions, participants sought to take a host of factors into account. Some teams considered where the local needs were greatest, and if there were any groups of children who were currently “left out” of services. This could include certain age groups, geographical areas or young people with specific or more complex needs. Other teams deliberated where cashable savings might be highest. These savings were seen to be synonymous with better outcomes for children and young people and in some SIB projects drove cohort definition. Some council teams took inspiration from pioneering SIBs in Birmingham and Manchester, and conducted journey mapping exercises to compare possibilities. Exclusion criteria were also discussed. In two councils, there was a need to clearly differentiate the SIB cohort from a similar group of young people in other services to avoid duplication in spending. In another SIB, an educational psychologist helped the council think through what would make a placement “successful”. Simply referring a child into the service was insufficient. Active engagement from the child, and their family, was needed for the service to be effective. This led the council to reflect on the extent to which children might engage with education and therapy in the new service, and if there was a danger of parents undermining placements, which could bring them to a premature end. Projects’ ultimate decisions around cohort definition were rooted in local priorities and calculations.

Teams who participated in the research recognised the importance of sticking to tight referral criteria (as defined for their individual project) by carefully scrutinising referrals, especially to ensure financial value, but also acknowledged that it would be difficult to turn away service users. Participants proposed to adopt panels to examine referrals from social workers, which would then be passed on to the SIB service provider. Disagreements over the appropriateness of individual service user cases were to be expected at times. Consideration of transition plans and readiness to move on were particularly key for cohorts being stepped down from residential to foster placements. Commissioners discussed how different “doors” to the service interacted with each other, and how teams could collectively uphold the referral process while allowing flexibility. Other teams were wary of being “buried by the number of referrals.” Hence, balancing flexibility with fidelity to the original referral criteria could potentially be challenging. In some SIB projects, minimum referral numbers from councils were agreed, in order to mitigate risk for investment fund managers. While the possibility of cherry picking and targeting “low hanging fruit” was touched upon by participants, it appeared that adequate familiarity with service users and scrutiny were in place for commissioners to be confident in managing these tensions. For example, in one

project participants were confident that contractual levers could be used against the provider if the independence of referrals came into question, but they thought this was unlikely based on positive past experience.

*“If we ever felt that [the provider] were acting inappropriately, that would be escalated but we haven't seen that so far. As you see with a lot of this, there are elements of trust with a lot of this. That has just never been an issue in three years so why create a process there... If the organisation went rogue and decided to just focus on finances, we have still got all the contractual clawback that they are not delivering the service. So we have got all the usual levers...”<sup>98</sup>*

A clear and consistent understanding of terms such as “edge of care” was also seen to be essential to ensure the right level of service was offered. One participant emphasised the importance of ensuring the “right” children and young people were going into care instead of blindly trying to reduce numbers. Participants described how, for some children, care is sometimes the correct route, and denying them this option is not conducive to their wellbeing.

*“At times, we have just made things worse by moving the risk on to providers rather than managing it at home. It is about how we work in a different way. We have done a lot of work around right placement, right child because we aren't saying that children shouldn't be in care, just that the right children in the right placement. Accommodating the child is not always the right answer to improving outcomes or making any difference whatsoever.”<sup>99</sup>*

*“It is very important that we don't delay care entry if care is where they need to be. We have got so much evidence that children will do better if they have been in care for longer. If we delay care, they will often come in with much more of a crisis. It is much more irreparable...”<sup>100</sup>*

As in other areas of the development process, participants said they would have appreciated having more detailed information on how other SIBs had defined their cohorts. Participants felt that this could be helpful in recruiting providers and carers, as well as drawing up contracts with investors and other local commissioners. Capturing case studies and feedback from foster carers was seen to be key for working out more accurate service user profiles and presenting needs. Participants felt that more detailed profile information might be more useful in future than using broad terms such as “edge of care” and “step down.”

**Figure 21** below summarises how cohorts were defined across the seven projects. Almost all projects chose to have a relatively broad focus, by providing services to both service users on the edge of care and in care. Targeted age groups also varied, as reflected in the “eligibility criteria” in **Figure 21**. The number of service users targeted over the life of the projects ranged from 30 to 1835, with a mean of 560 individuals. Due to the small number

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<sup>98</sup> Lead commissioner, Project B

<sup>99</sup> Children's Social Care Improvement Partner, Project G

<sup>100</sup> Head of Programmes, Project D

of projects, the average is driven up by a couple of large projects. In reality, five out of seven projects targeted less than 500 children and young people. All of these cohorts were defined as numbers of individual children or young people expected to participate in the SIB-backed service.

Project Name	Cohort size (number of children or young people expected to participate)	Cohort type(s)	Eligibility criteria
Integrated Family Support Service (IFSS) Staffordshire	1835 <sup>101</sup>	Children on the edge of care (Children in Need, children subject to a Child Protection Plan), children in care	Children in need, children subject to a Child Protection Plan and Looked After Children, where parental drug and alcohol use is an indicator of risk.
Fostering Better Outcomes (Cheshire West and Chester)	30	Children and young people on the edge of care, children and young people in care	Children aged from 7-17 within the local authority either in or on the edge of care.
Stronger Families Suffolk	288	Children and young people on the edge of care, children and young people in care	11-16 years (10 and 17 year olds with agreement from Commissioner) at risk of entering care / reunification of children already in care.
Pyramid Project (Staffordshire, Telford & Wrekin, Worcestershire, Wolverhampton, Dudley)	92	Children and young people in care (Looked after children)	Young people aged 7 - 17 years old, with complex needs (for example behaviour problems and severe attachment disorders).
Strong Families, Resilient Communities (Lancashire)	854	Children on the edge of care, children in care	1) 5-9 years old diverted from entering care; 2) 10-15 years old diverted from entering care; 3) 5-9 years old reunited from care; 4) 10-15 years old reunited from care.
Stronger Families Norfolk	400	Children on the edge of care, children in care	Children and young people aged 8-15. There will be two target cohorts: 1) 8 to 15-year-old Edge of Care cohort and 2) 8 to 15-year-old In Care cohort
DN2 Children's Services SIB (Nottingham, Nottinghamshire, Derby)	423	Children on the edge of care, children in care	Children and young people at risk of care entry or who recently entered care. Adolescents with multiple complex needs and challenging behaviours

Figure 21 Cohort definition across the seven SIB projects. Data source: DCMS Data Portal

<sup>101</sup> The target of 1835 individuals for IFSS includes both children and other members of their families.

### 5.3 Outcomes specification, outcome payments and payment frequency

As discussed in chapters 3 and 4, SIBs proved to be technically complex to develop. Deciding on what is a ‘good’ outcome (to act as a payable outcome metric) for a project is difficult. There is no single, instinctive or automatic outcome measure that works for all SIB projects, even when they might have similar policy objectives. Yet, participants felt that the additional rigour in project development that SIBs introduced could ultimately lead to better and more focussed outcomes for service users.

Previously, outcome metrics for children’s social care SIBs have been based on “the number of care days saved.” Some councils felt strongly about going beyond this commonly used metric, while others wanted to make sure outcomes were structured in a way that could be verified confidently. For example, one council preferred a single outcome (“the number of care days saved”) which was clearly measurable within council-held administrative data to avoid potential gaming by the provider. Sometimes “proving periods” needed to be built in to outcome measurement windows to ensure that the intervention had truly ‘stuck’ and a placement was stable before any payments were made. For example, one council built in a period of 90 days to ‘test’ whether the placement seemed stable and to ensure that they were not “paying too soon.” Councils started from simple outcome metrics (inspired by other SIBs or similar projects) and tweaked them through an iterative process of feedback from the procurement process, soft market testing, and conversation with intermediaries and frontline staff. This helped teams feel confident in linking outcome measures to the broader local context as well as partners’ capacities.

Although workshop discussions centred on payable outcome metrics, participants were confident that the SIB projects would lead to wider indirect benefits as well. For example, additional therapeutic support enabled by the SIB was expected to reduce risk-taking behaviour, improve educational outcomes and extend assistance to service users’ siblings. While these broader expected outcomes (around wellbeing and education) were rarely defined as payable outcomes, it was hoped that tracking outcome metrics would help capture information (e.g. through using the outcomes star<sup>102</sup> tool) and give assurance that these indirect benefits were accruing. Overall, participants leaned toward simple and clearly defined outcome specifications, which offered little room for ambiguity.

*“There were some softer benefits. We might not have fully modelled all the costs going into it. At the same token, you are not fully valuing all the soft benefits of it...You need to be aware of those things and how they might balance up. But not at the expense of making a model too over complicated such that you don't really understand what are the key things driving the results. You could have made it quite a bit more complicated by trying to measure those other things in the model. But the big factors in the model are much more important.”<sup>103</sup>*

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<sup>102</sup> Triangle, n.d.

<sup>103</sup> Head of Programmes, Project D

**Annex 6** in the Technical Annex provides details on how outcome payment triggers and frequency of payment were specified across the seven projects. The research team classified these triggers into the following outcome categories (**Figure 22**):

1. **Engagement:** Service users engage with service/intervention
2. **Prevention:** Service users prevented from escalating status/entering into care
3. **Step down:** Service users moved “down” from residential care to foster care
4. **Reunification:** Service users reunited with birth family/guardian(s)
5. **Sustainment:** Service user stabilised in placement (can be of any type)
6. **Improved wellbeing:** Improvement in wider outcomes e.g., education/attendance, family functioning, reading age etc

Project Name	Engagement	Prevention	Step down	Reunification	Sustainment	Improved wellbeing	Total
Integrated Family Support Service (IFSS) Staffordshire	3	2					5
Fostering Better Outcomes (Cheshire West and Chester)			1		2		3
Stronger Families Suffolk		1		1			2
Pyramid Project (Staffordshire, Telford & Wrekin, Worcestershire, Wolverhampton, Dudley)			2		7		9
<i>Strong Families, Resilient Communities (Lancashire)</i>		1				3	4
Stronger Families Norfolk		1		1			2 <sup>104</sup>
DN2 Children’s Services SIB (Nottingham, Nottinghamshire, Derby)		1	1	1	1		4
<b>Total</b>	<b>3</b>	<b>6</b>	<b>4</b>	<b>3</b>	<b>10</b>	<b>3</b>	

Figure 22 Categorisation and count of distinct outcome payment triggers across the seven SIB projects. Based on GO Lab research team interpretation of outcome payment triggers data within the DCMS Data Portal. Strong Families, Resilient Communities is shaded grey as this project did not ultimately launch.

Figure 22 shows the number of outcome payment triggers that each project has specified, and also classifies these into the six outcomes ‘categories.’ These categories tie in with the larger objectives mentioned by participants in designing their outcome specification. Projects adopted payable outcome measures across multiple outcome categories. All except two included outcome payment triggers for preventing entry or escalation into care, and

<sup>104</sup> While there is only one outcome payment trigger is reported for this project on the DCMS Data Portal, it relates differently to different service users within the cohort. For service users not in care, it functions as a ‘prevention’ outcome. For service users in care, it serves as a ‘reunification’ outcome.

projects also paid for one of the other categories (such as step down, reunification and sustainment). This seems suitable given the broad range of service user needs engaged. Only one project paid for engagement with the service. Engagement payments are a common feature in other UK SIB projects (see INDIGO<sup>105</sup> for details on wider SIB projects). These engagement outcomes are also closer to outputs rather than outcomes.

While there is no obvious standardisation in the range of outcome measures chosen, there were similarities in how outcome payment triggers were defined within the same outcome category. For example, prevention outcomes were typically defined as preventing children from entering statutory care. This is understood as a fairly straightforward and unambiguous measure. Step down outcomes were defined as moving children from residential to foster care. Meanwhile sustainment outcomes were focussed on maintaining stable placements for specified periods of time (usually described in months or weeks) whatever their nature might be, either foster placement or reunification with family. One council team said that tying payments to sustainment outcomes helped them incentivise providers to deliver long term support to some of their most complex children. Reunification outcomes were defined as reuniting children and young people with their birth families or guardians.

There was variation in the number of outcome triggers projects decided to pay for (see [Annex 6](#) in technical annex for a detailed breakdown of each project's outcome triggers). Norfolk decided to use a single outcome payment trigger while Pyramid Project decided on 9 separate measures, the largest number across this group of projects. In the pyramid project outcome measures involve payments over a two-year period and have been based on the learning from previous step-down SIBs which had shorter and fewer measurements. Typically, projects paid for 2 - 4 separate outcome measures. Each outcome payment trigger is attached to a target number of service users. Following validation by an independent source, the outcome would then be considered to have been 'achieved' and the project could claim outcome payments for this. There are no service user targets (i.e., the targeted number of children and young people to be supported) attached to outcome triggers for Lancashire as the project withdrew before procurement and the finalisation of its outcomes. The triggers included here are those submitted as part of the full application to the LCF.

Projects opted to make payments across a range of frequencies and time schedules. Projects varied in their use of weekly, monthly, quarterly, yearly and other defined regular intervals. Payment schedules were designed to spread out payments for projects in a way that would sustain cash flows for the service while also giving them enough time to demonstrate impact. Deciding on these frequencies was easier where there was access to more granular data e.g., on cost of bed nights. Early feedback from finance and procurement teams was also seen to be helpful in targeting the correct budget lines when specifying outcome payment triggers.

When pricing these outcomes, suggested market rates were put forward by local commissioners and these were derived from estimates of minimum unit costs for the provider. Following soft market testing and engagement with providers, outcome prices

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<sup>105</sup> GO Lab's International Network for Data on Impact and Government Outcomes.  
<https://golab.bsg.ox.ac.uk/knowledge-bank/indigo/>

were revised upwards. Participants said their emphasis was on reaching an arrangement that worked for all parties involved and where everyone’s interests could be balanced, instead of trying to push for the lowest price possible.

While designing SIBs, participants commented on the need to have clear payment caps as a precaution against potential flaws in the contract or inaccuracies in the financial modelling. **Figure 23** below shows the maximum potential outcome payments from local commissioners. The maximum potential outcome payment values are submitted as part of the LCF application process. Local councils *may* (but do not always) use this value to institute a formal ‘contract cap’ above which payment will not be made. Where relevant, these are broken down by individual local authorities involved in each project. As local commissioners were majority funders within the LCF, their contributions exceed those from the LCF, particularly within the policy area of children’s social care, a devolved area of policy in England.

Project Name	Maximum potential outcome payments (£ by individual LAs)	Maximum potential outcome payments (£ combined total from all LAs involved)	Funding from LCF (£)	Funding from LCF (% of total outcome payments)	Total maximum potential outcome payments (£) (LAs + LCF)
Integrated Family Support Service (IFSS) Staffordshire		2,835,000	1,890,000	40%	4,725,000
Fostering Better Outcomes (Cheshire West and Chester)		3,423,000	939,000	21.5%	4,362,000
Stronger Families Suffolk		3,281,306	422,400	11.4%	3,703,706
Pyramid Project		12,053,188	2,388,592	13%	14,441,780
1. Telford & Wrekin Council	1,572,155				
2. Worcestershire County Council	2,620,258				
3. City of Wolverhampton Council	2,620,258				
4. Staffordshire County Council	3,144,310				
5. Dudley Council	2,096,207				
Strong Families, Resilient Communities (Lancashire)		10,400,000	2,600,000 (requested)	20%	13,000,000
Stronger Families Norfolk		7,711,057	1,238,512	13.8%	8,949,569
DN2 Children’s Services SIB (Nottingham, Nottinghamshire, Derby)		8,643,270	2,995,411	27.5%	11,638,681
1. Nottinghamshire County Council	3,834,423				
2. Nottingham City Council	2,609,424				
3. Derby City Council	2,199,423				

Figure 23 Maximum potential outcome payments across the seven SIB projects. Data source: DCMS Data Portal

**Figure 23** also shows the maximum ‘top up’ funding from the Life Chances Fund. This spans a range from 11.40% to 40% across the seven projects, and is formally limited to a maximum 49% contribution for any project in the Fund. For Lancashire, this amount corresponds to

the amount requested from the LCF. The project withdrew from the process before the final application stage, and had not been awarded any LCF top up funding.

Adding outcome payments from local commissioners and the Life Chances Fund gives us a total figure for maximum potential outcome payments (last column of **Figure 23**) for each SIB project. According to this metric, Pyramid Project is the largest of the seven projects with £14,441,780 as its maximum potential outcome payments. This project is co-commissioned by five local councils who provide the bulk of the payments (87%). It is interesting to note that projects which received the highest contributions from the LCF (IFSS and DN2) are also some of the largest when measured by cohort size (as shown in **Figure 21**). Projects to receive some of the lowest contributions from the LCF (Suffolk and Fostering Better Outcomes) are some of the smallest in cohort size. We do not have enough information to say whether this was coincidental or if project scale actively influenced any decisions regarding LCF awards. Some of these figures are expected to change due to additional LCF funding being committed as part of the LCF Further Allocations process.<sup>106</sup>

#### 5.4 Intervention design

Under a quintessential or ‘textbook’ SIB model, the outcomes contract is intended to bring complete flexibility to provider organisations since only outcomes are specified<sup>107</sup>. The original Payment-by-Results and SIB models typically espouse a “black box” approach where providers are free to design the service in any way they see fit. This freedom is understood to be the factor that facilitates the ability to innovate. While some projects involved in this research did use a black box approach, others chose to specify the intervention. However, it was sometimes unclear from interviews how much freedom providers had been given to design the service in these black box approaches. Local commissioners did have some larger objectives and expectations in mind which helped give the project direction. This could be interpreted as projects adopting more of a “grey box” approach<sup>108</sup> rather than a black box approach.

Where projects included more than one distinct cohort of children and young people (**Figure 21**) and more than one outcome payment trigger (**Figure 22**), this was then reflected in their choice of interventions. Some favoured flexibility through black/grey box approaches, while others chose high fidelity evidence-based interventions.

Participants highlighted the role of co-production with internal departments and external stakeholders in conducting early collaborative needs analyses and defining overall objectives. This was not only key in identifying the right cohort for projects, but also shaped thinking on the intervention in some SIB projects. Understanding different professional opinions on how integrated services can be delivered was important in this exercise. For example, in one project clinical opinion could sometimes be different to social care opinion. This was seen as a healthy discussion for the council to have. The new interventions needed

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<sup>106</sup> <https://www.gov.uk/government/publications/life-chances-fund>

<sup>107</sup> Carter, et al., 2018

<sup>108</sup> A grey box approach involves more direction or specification from commissioners than a black box approach. There is still ample flexibility for the provider to design the intervention or service.

to align with current service provision and complement it, while avoiding duplication and ‘scope creep.’

Furthermore, SIBs were generally perceived to offer flexibility in intervention live running, as long as a focus on outcomes could be retained. Local commissioners took comfort in this and saw it as security against potential flaws in their model. The SIB model and the LCF top up money brought new opportunities to address service gaps and provide more holistic and wraparound support to service users. For some projects, this meant going beyond social care to include more of an educational approach to their intervention. This led to more support from schools and galvanised other parts of the social care system. In other projects, therapeutic and mental health support had previously been lacking and was now introduced.

**Figure 24** below describes the intervention chosen by each project in detail, and also indicates the expected duration of the service.

Once again, there is some variation across the projects in the exact intervention chosen, based on local needs, demand pressures, and characteristics of target cohorts. There is however a common thread of providing customised and wraparound support which improves wellbeing while also providing the most suitable care options.

Project name	Intervention (as described by SIB projects in LCF application forms)	Service delivery period
<b>Integrated Family Support Service (IFSS) Staffordshire</b>	<p>IFSS works with families who have children and young people identified as children in need or with child protection plans, and where parental drug and alcohol use is an indicator of risk. The project will reduce parental drug/alcohol use and improve parenting to prevent children from becoming subject to a Child Protection Plan (CPP) or escalating to Looked After Child (LAC) status. It will also allow the repatriation of children with their families. The IFSS intervention is a strengths-based model that relies on empowering families to find solutions for their issues, rather than relying on statutory services. A large part of family sustainability is expected to stem from engagement with community-based activities - which is also a core element of the wider drug/alcohol strategy. The SIB is an expansion of the IFSS service which operated as a two-year pilot between April 2016 and March 2018. IFSS combines social care and addiction services (for example by co-locating specialist teams) while adding the necessary additional intensity and specialist staff. LCF support will enable the intervention to become fully embedded within wider statutory services and to implement necessary refinements.</p>	6.5 years
<b>Fostering Better Outcomes (Cheshire West and Chester)</b>	<p>Fostering Better Outcomes builds on the step-down approach used by earlier SIB projects in Birmingham and Manchester, by moving children from expensive and low-quality residential placements to stable and supportive family environments in Cheshire West and Chester. Currently the Council has no such 'intermediate' provision between 'mainstream' foster care and residential care. Hence, the Council was motivated to develop a programme of support which is both high quality and is sustainable. A black box commissioning approach was used, with the Council providing an indicative example of the long-term intervention it intends to commission, but leaving the ultimate service specification to the provider. The project is working with four cohorts of 6-8 children per annum aged 7-17 who are in residential care or at risk of entering residential care. It is hoped that stable and long-term placements will improve outcomes for emotional wellbeing, education, and health.</p>	6 years
<b>Stronger Families Suffolk</b>	<p>The SIB aims to prevent young people from becoming Children in Care (CIC) when it is safe for them to remain within their family / connected network. It also aims to support young people who are already in care to return to live with family / connected network when it is safe and appropriate to do so. Functional Family Therapy (FFT) is used, which is an evidence-based programme that works to improve interpersonal relationships within families. It seeks to improve communication and supportiveness between parents/guardians and young people, while decreasing hostility. Other goals include helping family members adopt positive solutions to family problems and developing positive behaviour change and parenting strategies. Sessions take place with all key family members in the room. The therapist invests significant effort at the start of the therapy to engage everyone in order to make this happen. Individual interventions are avoided to create a context in which there is a balanced alliance with all family members so everyone sees the need for them to be involved for things to change. Focus on one person as the 'problem' is avoided. Much of the intervention occurs in 'real time' with the therapist helping to intervene and change unhelpful interactions as they occur in the room. The family are taught skills and are set tasks to practice these between sessions. Special consideration is given as to how to generalise these skills to other contexts towards the end of the intervention.</p>	6 years
<b>Pyramid Project (Staffordshire, Telford &amp;</b>	<p>The Pyramid Project offers a 'step down' intervention from residential care by recruiting resilient carers with bespoke packages of support and therapeutic interventions. The project is based in Staffordshire and aims to enhance long-term outcomes and placement stability for young people aged 7 - 17 years old, with complex needs (for example behaviour problems and severe</p>	4.5 years

Wrekin, Worcestershire, Wolverhampton, Dudley)	attachment disorders). It aims to support those young people who, with additional help, can step down from residential provision into a foster placement. The project hopes to develop the market of foster carers and enable these providers to offer varied placement packages of support to meet the needs of children and young people in a more customised way.	
Strong Families, Resilient Communities (Lancashire)	Strong Families Resilient Communities was a SIB developed in Lancashire. The project aimed to improve life chances for children and young people in some of the most deprived areas of Lancashire through changing their education, employment and training trajectories. Lancashire had intended to adopt a black box approach to procurement, by allowing service providers and social investors to determine their preferred solutions. The main outcomes were set around reducing the number of days in care, with secondary outcomes around improving family functioning, education attendance and reading age. The analysis undertaken identified the Preston, Burnley, Hyndburn and Pendle Districts as key target areas. The plans identified two edge-of-care and two reunification cohorts where abuse and neglect were the main issues: children 5-9 years; adolescents aged 10-15 years (making for four sub-cohorts in total). The project withdrew from the LCF process in October 2019, prior to procurement and finalisation of its design.	6 years
Stronger Families Norfolk	Stronger Families Norfolk works with two cohorts of young people (aged 8-15)- those on the edge of care and those already in care. A fidelity-based therapeutic intervention model provides 6 months of intervention followed by 2 years and 11 months of monitoring (based on average care stays) using Functional Family Therapy - Child Welfare (FFT CW). The evidence-based intervention seeks to improve communication and supportiveness between parents/guardians and young people, while decreasing hostility. In addition to the outcome payment criteria of care days saved, informal wellbeing measures are also used to assess the progress made by young people and their families in areas such as improved school attendance, educational attainment, reduced contact with the criminal justice system, as well as better emotional wellbeing.	5 years
DN2 Children's Services SIB (Nottingham, Nottinghamshire, Derby)	DN2 is an innovative regional collaboration between Derby City Council, Nottingham City Council and Nottinghamshire County Council (DN2) to improve outcomes for adolescents with multiple complex needs and challenging behaviours. The project will complement existing services by delivering two interventions to two different cohorts within the programme: to children and young people on the edge of care it will deliver intensive support to children at risk of care entry or who recently entered care to help them remain with their families where it is safe for them to do so; and to children and young people in care it will deliver wraparound, specialist support to children in the care system and their foster families to enable them to move into or remain in stable placements and out of residential care. The intervention for children and young people in care involves both a component of step down from residential care to foster care, as well as a stabilisation of foster care where this may be at risk.	5 years

Figure 24 Intervention design across the seven SIBs. Data source: DCMS Data Portal and LCF application forms

The approaches taken to specifying the service or intervention by participants have been distilled by GO Lab researchers to ease comparison (**Figure 25**). This analysis is based on an interpretation of contract notices, interview data, and data within the DCMS Data Portal. Within the sample for this study, two different approaches were taken to specify the service or intervention, which are summarised below:

- **Black box approach:** Social impact bonds are theoretically expected to employ a black box approach, where the intervention is not specified and is left to the service provider’s discretion. Within the seven SIB projects, five used a black box approach. This included Fostering Better Outcomes, IFSS, DN2, Pyramid Project and the SIB in Lancashire. They left the exact service specification up to the provider and investment fund manager as long as it met their larger objectives (e.g., stepping children down from residential care to foster care, or reducing/avoiding care).
- **Licensed intervention:** Two projects (Norfolk and Suffolk) decided to use a licensed intervention instead of a black box approach. Both Norfolk and Suffolk specified the Functional Family Therapy (FFT)<sup>109</sup> intervention. FFT is a family-based therapy for young people between 11 - 18 years, which supports the reduction of disruptive communication patterns and focuses on positive interactions, effective supervision and boundary setting. They hoped that the high-quality licensed intervention would help them do something “measurably different” to existing provision. While DN2 had expressed interest in an “evidence-based service” within its procurement notice, researchers are not aware of a licensed intervention ultimately having been procured.

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<sup>109</sup> Functional Family Therapy, n.d.

Project name	Use of licensed intervention in project	Description of intervention provided by commissioner during procurement (contract notice)	Interpretation of project's approach to intervention
Intensive Family Support Service (IFSS) Staffordshire	No	<p>“The agreement will represent ALL services for people with drug/alcohol problems commissioned by Staffordshire County Council, including:</p> <ul style="list-style-type: none"> <li>– <b><u>young people early intervention and treatment</u></b>,</li> <li>– adult community treatment,</li> <li>– adult residential treatment (detoxification and rehabilitation),</li> <li>– specialist criminal justice services,</li> <li>– <b><u>specialist child safeguarding services</u></b>,</li> <li>– specialist alcohol-related health services (North Staffordshire only).”<sup>110</sup></li> </ul>	IFSS sought to use a black box approach, aimed at serving a wide range of groups with drug and alcohol problems.
Fostering Better Outcomes (Cheshire West and Chester)	No	<p>“The service is intended to provide a <b><u>high-intensity foster care type intervention in order to facilitate children ‘stepping down’</u></b> into stable foster care by delivering a person-centred approach. The Council’s research indicates that this type of intervention is typically delivered by a multi-disciplinary team which provide holistic support for the foster carer, family and child or young person. The provider would be expected to manage the end-to-end process of foster carer recruitment for the service, placement matching and support for the young person while in placement... The <b><u>Council does not have any existing preference regarding the intervention.</u></b>”<sup>111</sup></p>	Fostering Better Outcomes sought to use a black box approach, aimed at stepping children down from residential care to foster care.
Stronger Families Suffolk	Yes	<p>“The Intensive Intervention will be a recognised <b><u>evidence-based approach, or combination of such approaches, such as Functional Family Therapy (FFT), Multi-Systemic Therapy (MST), Triple P, Solution Focused-Brief Therapy (SFBT) or similar.</u></b> This Tender does not prescribe the approach, but asks for this to be described in the Method Statement as part of the Tender response. Internal review indicates that <b><u>Functional Family Therapy or a similar approach would be a potentially good fit.</u></b> The Service Provider will have experience of delivering the evidence-based approach and must achieve practitioner training and site certification, as appropriate to the practice model identified and the delivery of this contract within a reasonably practicable period from the start of the Contract.”<sup>112</sup></p>	Suffolk sought to use a licensed intervention, aimed at reducing the need for care and enabling children and young people to safely stay with their families.

<sup>110</sup> <https://ted.europa.eu/udl?uri=TED:NOTICE:170550-2019:HTML:EN:HTML&tabId=1&tabLang=en>

<sup>111</sup> <https://ted.europa.eu/udl?uri=TED:NOTICE:414307-2017:HTML:EN:HTML&tabId=1&tabLang=en>

<sup>112</sup> <https://ted.europa.eu/udl?uri=TED:NOTICE:130426-2018:HTML:EN:HTML&tabId=1&tabLang=en>

Pyramid Project (Staffordshire, Telford & Wrekin, Worcestershire, Wolverhampton, Dudley)	No	Contract notice not available.	Based on interviews, Pyramid Project sought to use a black box approach aimed at stepping young people down from residential care to foster care.
Stronger Families Norfolk	Yes	“Norfolk County Council is seeking to award a payment by results contract to an investor provider partnership established as a special purpose vehicle (SPV) that funds and contracts the delivery of <b>evidenced based interventions</b> which result in a <b>reduction in the number of days spent in care.</b> ” <sup>113</sup>	Norfolk sought to use a licensed intervention, aimed at reducing the number of days spent in care.
Strong Families Resilient Communities (Lancashire)	Project did not launch.	“The Authority intend to procure an edge of care service, which delivers high quality Services which will focus on a combination of avoiding the <b>unnecessary entry of Children and Young People (CYP) into care, reducing their duration in care and the high risk of not in education, employment, or training (NEET) trajectory when not in care.</b> This preventative service is being undertaken on a payment by results basis. Based upon the anticipated scale of this contract it is envisaged that <b>the service provider’s solution</b> will involve social investment and a social investment bond (SIB) approach.” <sup>114</sup>	Lancashire sought to use a black box approach, aimed at avoiding entry into care, reducing duration in care, and reducing the risk of NEET trajectory when not in care.
DN2 Children’s Services Social Impact Bond (Nottinghamshire, Derby)	No	“This procurement exercise seeks to award a <b>contract for evidence-based services</b> that support children on the edge of care and, in care to achieve better social outcomes to the DN2 Partnership. DN2 is seeking a consortium to deliver the specialist interventions to support young people with challenging behaviours and complex needs: – In Care, who are currently in <b>residential care to step down to foster care</b> , who are in foster care and at a high risk of placement <b>breakdown, or of entering residential care, to remain in stable foster care</b> , who currently are LAC but whom we are seeking to <b>re-unify with their birth family or primary carers.</b> – Edge of Care - an intensive family intervention to support <b>children and young people on the edge of care remain safely with their families / primary carers.</b> ” <sup>115</sup>	DN2 sought to use a licensed intervention, aimed at fulfilling multiple objectives for different cohorts- including step down, stable foster care, reunification, and avoiding entry into care. Researchers are not aware of a licensed intervention having been ultimately used.

Figure 25 Approaches to designing interventions in the seven SIBs. Based on GO Lab researchers’ interpretation of contract notices, data within the DCMS Data Portal and information from interviews

<sup>113</sup> <https://ted.europa.eu/udl?uri=TED:NOTICE:92250-2018:HTML:EN:HTML&tabId=1&tabLang=en>

<sup>114</sup> <https://ted.europa.eu/udl?uri=TED:NOTICE:163432-2019:HTML:EN:HTML&tabId=1&tabLang=en>

<sup>115</sup> <https://ted.europa.eu/udl?uri=TED:NOTICE:124593-2018:HTML:EN:HTML&tabId=1&tabLang=en>

## 5.5 Governance structures

Governance structures describe the relationships between different parties involved in the implementation of an impact bond and the contractual configuration between them. **Figure 26** below describes the governance structures adopted by the seven SIBs. SIB projects favoured a simple governance structure, with the contract held directly between outcome payer(s) and the provider. This chimes with participants' views in interviews and workshops where they expressed a preference for more straightforward configurations. However, three SIBs: Pyramid Project, Stronger Families Suffolk and Stronger Families Norfolk, opted to include a special purpose vehicle (SPV). The SPVs were led by the social investment fund manager in all three SIB projects. Ultimately, participants said that the relational and trust-based element of these projects was key in driving governance and monitoring, instead of the contractual arrangement.

*“We have got the flexibility to renegotiate things if we need to ... But commissioning is much more than contracting. It is the stuff we started off with around collaboration, and partnership working. If we get that right...like in football clubs where it is about relationships. It is the same in commissioning: it is all about relationships. The work we do gets signed off by legal and the conversations you have with lawyers...the likelihood of a relationship breaking down so that you go down to court is so far away that you put the effort into the relationship not in the contracting. ...We have gone on that journey together from day one. [the providers] and us have all done it together. There's trust and a bond. [The investor] came in and carried on that ethos.”<sup>116</sup>*

All seven projects were commissioner-led<sup>117</sup>, that is, applications to the LCF top up fund were made by the local authority who also took a leading role in convening relevant stakeholders. However, there were differences across the seven projects in wider governance arrangements and the contractual relationships between the parties.

- Where multiple local commissioners were involved (as in the Pyramid Project and DN2), one commissioner took a lead role in driving the project and also in coordinating the Life Chances Fund application stages.
- Most of the SIB commissioners in the sample for this research ultimately ended up contracting with a single provider entity.<sup>118</sup> There was an example where this contracted provider functioned as a 'social prime' and went on to manage other service providers<sup>119</sup> (as reflected in the DCMS data portal and **Figure 4** in [Section 1.2.1](#)).
- There were instances, in the sample, of projects working with a single investment fund manager. It is unclear if working with a single provider and a single fund manager was an explicit choice or if this was simply a product of how projects conducted their

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<sup>116</sup> Lead Commissioner, Project B

<sup>117</sup> Other projects in the LCF were sometimes led by providers or intermediaries instead.

<sup>118</sup> Data is limited for the SIB in Lancashire, as it withdrew before procurement reached completion. This team had however expressed a preference for a direct contract.

<sup>119</sup> In Pyramid Project, the SPV subcontracts the foster care placements from a number of IFAs (Independent Fostering Agencies)- currently five but likely to increase in the future. Provider organisations in other projects could also be connected to other providers e.g., multiple fostering agencies. GO Lab researchers do not have sight of these.

market engagement and procurement processes. For example, significant challenges in procuring and retaining social investment fund managers may have played into the final arrangement.

- However, there was an example of a project (DN2) that did not work with a single investment fund manager. In this case, contracts were held with two investment fund managers.
- The only central government outcome payer involved, in this sample, is DCMS (through the Life Chances Fund).

The number of total stakeholder organisations involved in these projects ranges from 4 to 10. This of course does not reflect the “cast of thousands” that participants mentioned, as the totals in **Figure 26** reflect only the number of stakeholder *organisations* formally involved through contracts, as reported by projects themselves within the DCMS Data Portal. As discussed in [Section 1.2.1](#) and **Figure 5**, the interpretation of technical advisors as formal intermediaries varies from project to project. This figure also does not consider the informal interactions held with other stakeholders (e.g., extensive engagement with external consultants who provided technical assistance), or the number of individuals involved from each stakeholder organisation which could be substantial.

Annex 4 represents these structures in more detail for four of the seven projects, using governance diagrams submitted during the Life Chances Fund application procedure. Over the life of these projects, there is potential for new, additional local commissioners to come on board. This is particularly expected in the Pyramid Project.

Project name	Governance structure	SPV	Nature of project lead	No of stakeholder organisations involved	No of central govt outcome payers	No of local outcome payers	No of providers	No of investment fund managers	No of intermediaries
Integrated Family Support Service (IFSS) Staffordshire	Direct contract between outcome payer and provider	No	Commissioner led	5	1	1	2*	1	
Fostering Better Outcomes (Cheshire West and Chester)	Direct contract between outcome payer and provider	No	Commissioner led	4	1	1	1	1	
Stronger Families Suffolk	Intermediated: Outcome payer holds contract with SPV led by investor	Yes	Commissioner led	5	1	1	1	1	1
Pyramid Project (Staffordshire, Telford & Wrekin, Worcestershire, Wolverhampton, Dudley)	Intermediated: Outcome payer holds contract with SPV led by investor	Yes	Commissioner led	10	1	5	1	1	2
Strong Families, Resilient Communities (Lancashire)	N/A	No	Commissioner led		1	1			1
Stronger Families Norfolk	Intermediated: Outcome payer holds contract with social prime /SPV led by investor	Yes	Commissioner led	4	1	1	1	1	
DN2 Children's Services SIB (Nottingham, Nottinghamshire, Derby)	Direct contract between outcome payer and provider	No	Commissioner led	7	1	3	1	2	

\*In IFSS, 2 providers have been involved over the project's implementation, but not at the same time. The first provider completed its contract in March 2020 and was replaced by a new provider which started its contract in April 2020

Figure 26 Governance structures across the seven SIBs, as reported by projects within the DCMS Data Portal.

## Addendum: COVID-19 Adaptation and LCF Further Allocations

Following the onset of COVID-19 in early 2020, governments worldwide responded by announcing a range of restrictions and closures. A national lockdown was imposed in the United Kingdom on 23 March 2020, causing mass disruption to all spheres of life. The operations of social services, including social impact bonds, were also significantly affected.

The Cabinet Office provided guidance in an effort to protect the vast networks of social service providers delivering on public contracts, urging contracting authorities in March to “act now” in order to ensure “suppliers at risk are in a position to resume normal contract delivery once the outbreak is over.”<sup>120</sup> Their recommendation to authorities overseeing contracts involving payment by results was to issue payment “on the basis of previous invoices, for example the average monthly payment over the previous three months.”<sup>121</sup>

To ensure continued service delivery and to stabilise cash flows within Life Chances Fund projects, in April 2020 DCMS gave projects three options for receiving payments as part of their LCF award. Projects could choose to pause their services altogether, continue delivering services on an outcomes basis, or switch to grant payments based on projected medium case performance scenarios. These choices were expected to hold until late September 2020 and to mirror projects’ arrangements with local commissioners (who contribute the majority of outcome payments). Simultaneously, projects also adapted their interventions to virtual formats, navigated challenges around logistics and outcomes monitoring, and grappled with increased demand for their services. While some restrictions in the UK were eased in July 2020, LCF projects and commissioners continued to face uncertainty throughout the summer and autumn due to the rapidly changing landscape of local and national restrictions.

While the pandemic was unforeseen at the inception of this evaluation study and hence not a part of the original research enquiry, we have gleaned some high-level insights into how the six successful SIBs adapted to COVID-19<sup>122</sup>. Four of these projects had already been launched in 2018-2019 and were well into implementation when the lockdown happened. The pandemic delayed the launch of the other two projects. One of these was able to launch in April despite the lockdown. The other was launched more recently in October 2020, but also began delivering light-touch services in April as part of its mobilisation phase. Based on interviews with two individuals closely associated with these projects, it appears that these five projects in delivery were able to adapt well to the lockdown. Services were delivered virtually, predominantly through phone calls and video calls between service users and link workers. In another project where an evidence-based intervention was being used,

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<sup>120</sup> Cabinet Office, 2020

<sup>121</sup> Cabinet Office, 2020

<sup>122</sup> Due to concern with asking SIB project teams for further interviews during an incredibly challenging delivery period, a decision was made to gather insights from funding support teams within TNLCF. The insights in this chapter are informed by interviews with two individuals closely associated with the seven SIBs. These participants are different to the participants for the main body of the report.

permission was requested from the license owner to transition to online services and this was granted. In another project where service users were particularly vulnerable and safeguarding was a concern, socially distanced check-ins were sometimes arranged in parks and open spaces. None of the projects suspended service delivery at any point. Following the easing of the lockdown in summer 2020, services maintained a hybrid approach and did not resume fully in-person operations.

**Figure 27** describes the payment mechanism decisions made by the six successful projects, in response to the three options offered by the Centre for Social Impact Bonds, the team leading LCF within DCMS. Four out of the five projects in delivery chose to stay on outcomes contracts for LCF payments. Only two projects shifted to grant payments based on their projected medium case scenario. DN2 had been due to launch in April but was paused until October 2020, after which it began delivery on a medium scenario grant. Pyramid Project launched in September 2020 on an outcomes contract. These decisions were to hold until 1 October 2020 for LCF payments, and projects were expected to return to outcomes contracts at this point if they had chosen a different option. While DN2 returned to outcomes on 1 October 2020, IFSS was granted an extension to stay on medium scenario payments until 1 January 2021. It too has now switched back to outcomes. Potentially because all of these projects were commissioner-led, decisions made for LCF outcome payments were reported to have been fully mirrored for local outcome payments.

Project Name	Payment option chosen- LCF payments (until 30 Sept 2020)	Payment option chosen- LCF payments (1 Oct 2020 - 31 Dec)	Payment option chosen- LCF payments (from 1 Jan 2021)	Payment option chosen- local outcome payments (until 30 Sept 2020)	Nature of service delivery launch	Duration of live service delivery (months from service launch until 23 March 2020)
Stronger Families Norfolk	Continued on outcomes contract	Continued on outcomes contract	Continued on outcomes contract	Continued on outcomes contract	Launched before first lockdown	13.5
Stronger Families Suffolk	Continued on outcomes contract	Continued on outcomes contract	Continued on outcomes contract	Continued on outcomes contract	Launched before first lockdown	12
Integrated Family Support Service (IFSS) Staffordshire	Switched to grant on medium scenario	Continued on medium scenario	Switched back to outcomes contract	Switched to grant on medium scenario	Launched before first lockdown	23.5
Fostering Better Outcomes (Cheshire West and Chester)	Continued on outcomes contract	Continued on outcomes contract	Continued on outcomes contract	Continued on outcomes contract	Launched before first lockdown	21
Pyramid Project (Staffordshire, Telford & Wrekin, Worcestershire, Wolverhampton, Dudley)	Launched on outcomes contract	Continued on outcomes contract	Continued on outcomes contract	Continued on outcomes contract	Launched after first lockdown	0
DN2 Children's Services SIB (Nottingham, Nottinghamshire, Derby)	Launched on medium scenario grant	Switched back to outcomes contract	Continued on outcomes contract	Launched on medium scenario grant	Launched after first lockdown	0

Figure 27 Payment mechanism and service delivery adaptation to COVID-19 across the six successful SIBs. Source: DCMS data portal. The column on “payment option chosen- local outcome payments” is based on information from one-to-one interviews

The SIB model does not seem to have had any obvious influence on the adaptation to COVID-19 and social distancing thus far, though participants said it is too early to make a full assessment of any long-term impact. Participants felt that social investment fund managers have mostly been quite hands-off at this time unless directly asked for assistance. Local commissioners and providers have been in the driving seat instead. However, there have been some indirect operational benefits due to adoption of virtual formats. Reduced or no physical contact has reportedly saved staff travel time and increased their capacity to provide more support to children and young people. In one project where the intervention works closely with service users' families, the digital format was helpful in ensuring every family member's participation. Including the entire family in sessions had been a challenge prior to the lockdown. Access to technological devices was generally not reported to be a challenge but where required, one project was able to provide these to service users.

No changes were requested (from LCF administration team) in relation to the project design or outcomes targets by any of the SIBs. Projects were broadly on-track to meet their performance targets and achieve intended outcomes. However, some changes to project design might be on the horizon. There is an expectation that projects may request changes to their cohort definition in the future, most likely to lower the age profile and bring younger children into their services. Some have also applied for Further Allocations<sup>123</sup> funding from the Life Chances Fund, which may cause some of the projects' decisions (as described in [Chapter 5](#)) to change. While the Further Allocations Process<sup>124</sup> was designed to help successful LCF projects scale by increasing the size of their cohorts and/or adding new commissioners, it is possible that other changes might also be supported. Final decisions were anticipated in late 2020, and successful applicants are expected to begin delivery of scaled-up services by June 2021.

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<sup>123</sup> Department for Digital, Culture, Media and Sport, 2020

<sup>124</sup> As a result of attrition of projects, a further opportunity to request LCF funds (a commitment of £80 million by central government) was launched in March 2020, known as the Further Allocations Process. The objective was to help existing LCF SIBs to scale their services by increasing the size of the project cohort and/or by adding new commissioners to projects.

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