Financing Early Intervention: Interim Paper

Graham Allen Review

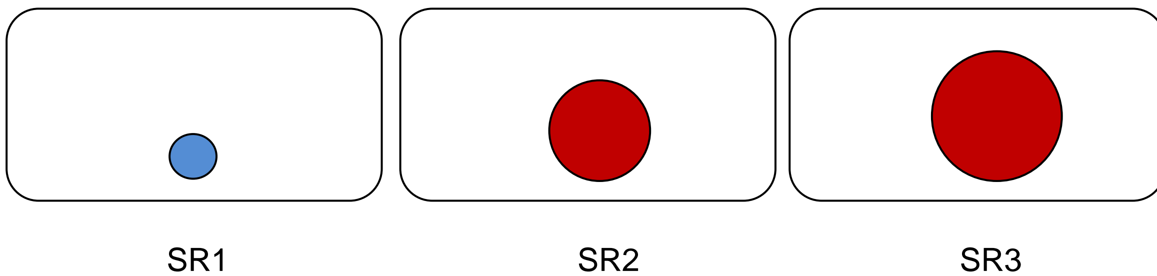
Introduction

1. Part 1 of this review has set out the importance of Early Intervention, both in terms of improved social outcomes and economic benefits to the public sector. Acting early to prevent problems occurring in the future with children, young people, and families will help to greatly reduce future public spending on tackling the problems later. There is a strong cost-benefit rationale for intervening at the earliest possible stage- the earlier the intervention in a child's life, the more cost effective it is. Additionally the cost of not intervening is far greater through not acting, Government is committing to paying out billions of pounds in the future in addressing more serious problems.
2. Early Intervention is defined as: "those programmes which ensure that babies, children, and young people build the social and emotional bedrock to fulfil their potential and reduce dysfunction. This is a prerequisite to break the intergenerational cycle of dysfunction and underachievement." Waiting for a child to reach school age before any problems are identified or addressed is simply too late, as by that stage most of the damage is already done.
3. This short document sets out the areas of focus for Part 2 of the review, which will report in May/June 2011. Over the next few months we will be exploring options to improve the financing of Early Intervention programmes. This will include a particular focus on attracting additional private sector investment into those programmes which best deliver outcomes, whilst at the same time recognising the barriers that need to be addressed within the public sector. This is because we believe that greater scale and financial sustainability can be achieved through drawing on external sources of investment. Our final recommendations will therefore set out a full range of financial mechanisms that could help to attract additional investment, both internally and externally to Early Intervention.
4. Part 1 of this review also set out recommendations for an Early Intervention Foundation. Considering how this institution might best facilitate and support greater financial investment will also be a key line of enquiry in our work over the next few months, alongside the specific financial mechanisms.
5. We are in the early stages of this second phase of the review. Therefore this document does not set out any recommendations, but rather flags the direction of our work over the coming months. Whilst we have already started working with representatives from the financial community, we are interested to hear from

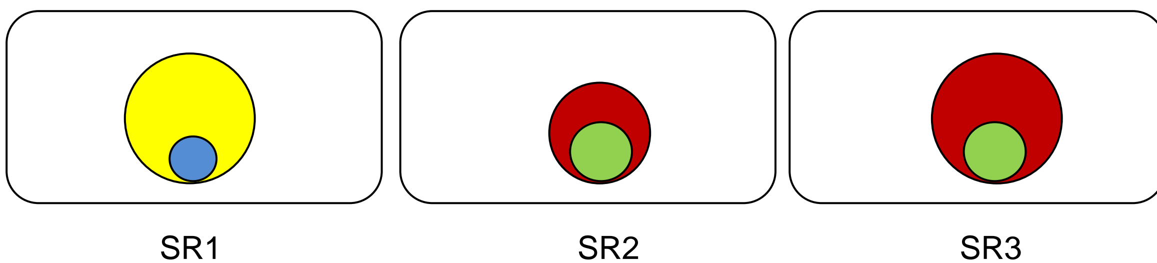
others who might wish to contribute. Details for doing so are set out at the end of this document.

The problem we are trying to solve

6. The hypothesis is that if the Government spends only a small amount on early intervention programmes now (blue circle in diagram below), there will need to be greater expenditure in future spending review (SR) periods to address more serious problems (e.g. as children develop behavioural issues and become disruptive at school, grow up to be prisoners, teenage mothers, alcoholics – shown by the red circles below):

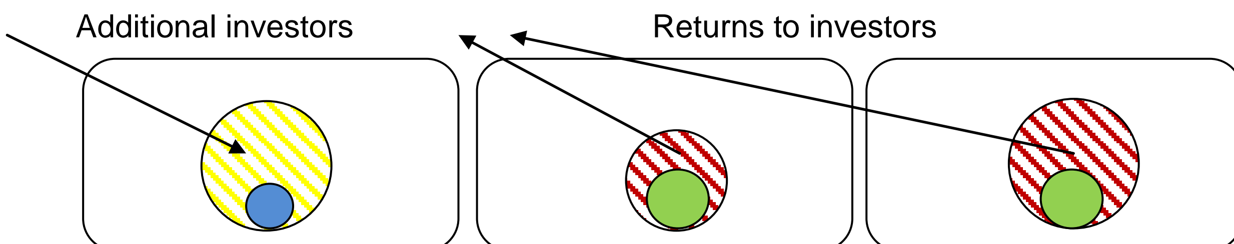


7. However if we were to invest more in Early Intervention now (yellow circle), the expenditure in future SR periods will be less (green circles):



8. Given that spending for the current SR period has already been allocated however, additional finance will need to be sought in order to achieve this. This could come from additional public sector borrowing, or alternatively from private or VCS investment, which could include a mixture of different sources of finance. These may be external investors seeking a return.

9. Given that the additional investment will result in Government savings in future SR periods, the Government could choose to incentivise investors by paying them a return out of the future savings. In order to work out how much Government could afford to pay, and still benefit from the savings, the shaded areas in the diagram below will need to be quantified.



SR1 SR2 SR3

Public sector Barriers:

10. Early Intervention is particularly challenging for the public sector for a number of reasons:
    - **Longer-term uncertainty.** Early Intervention often requires long time periods before the benefits are seen (i.e. preventing a child from committing anti-social behaviour, growing up into an alcoholic or from having a teenage pregnancy later in life). This means that the public sector needs to be able to focus on longer delivery timescales when investing in programmes. However public sector organisations usually receive finite resources to spend over a relatively short budget cycle that rarely stretches beyond 3 years. Pressure to show results within the budget period can mean short term programmes are sometimes preferred to those with longer term benefits. Public sector delivery bodies often do not know whether they will continue to receive resources, again resulting in programmes which generate benefits quickly being preferred. Alongside this, we will need to consider how we can best overcome some of the uncertainty in the public sector, for instance by securing cross-party buy-in to Early Intervention policy. This would help to reduce the impact of political change on policy delivery, and to provide greater certainty to investors.
    - **Reactive approach.** Preventative measures are sometimes seen as an optional 'nice to have' - it is often easier to prioritise finite resources towards those who are already affected by serious problems, rather than those who might face them in the future. This is particularly so in the current tight fiscal situation meaning that the public sector ends up taking a more reactive approach than it might otherwise do, and lends itself less towards longer-term investments in Early Intervention. Additionally there are often statutory obligations which require a reactive and sometimes costly approach, leaving the public sector with no option but to prioritise resources for these (putting children into care for instance, or certain parts of the criminal justice system).
    - **Risk aversion.** The perceived lack of a clear track record of delivery of Early Intervention programmes in the UK means that there is a challenge in demonstrating the positive effects of programmes, at least in the shorter term. As programmes are developed and tested more widely, there will be greater clarity over those programmes which really deliver change and are robustly

evaluated. However, this may take a bit of time. In a world of finite resources and fiscal consolidation, public sector organisations are likely to be prioritise those programmes which are seen to be less 'risky' which deliver outcomes during their budget cycle.

- **Complex Organisational silos at national & local level -** Early Intervention programmes frequently involve a large number of delivery organisations with different areas of focus – health, crime prevention, education, to name a few. This means that there is less of an incentive for an individual organisation to invest in such programmes, as the benefits may well accrue to someone else. This implies that they should instead invest collectively in programmes which benefit multiple organisations. However each organisation will usually have its own budgeting mechanisms and strict rules that accompany these. For instance different public sector bodies will have different rules governing their ability to borrow money, and have different reporting structures, which operate at distinct levels within their organisation. The picture becomes yet more complicated when considering the national and local delivery frameworks, which again operate differently within their fields. Therefore reaching agreement to invest across different organisations at different levels becomes difficult. There are solutions within the public sector that are currently being developed – community budgets are a good example of this at local level. Community budgets will help to explore for instance investment and savings accruing to different organisations. Creation of a financial vehicle or mechanism that operates across these silos is therefore attractive, and needs to be explored at both national and local levels.

11. Addressing these barriers will be an important part of our recommendations, helping to encourage greater investment in Early Intervention by the public sector.

12. It may mean helping public sector bodies better be able to prioritise investment in Early Intervention from within their existing budgets, for instance through tools such as community budgets or looking at local government borrowing rules. It may also mean considering whether Government itself needs to raise additional finance. For instance, we will explore options for Government bonds.

13. It may be the case however that simply finding extra public sector money will not be sufficient in bringing about culture change. New ways of working will be needed if we are to improve the development and delivery of Early Intervention programmes, and for this external finance may be needed.

Why external finance is needed

14. Whilst addressing the public sector barriers will be an important part of the review, we believe that Government acting on its own might not be sufficient in securing adequate finance. The aim of our work is not to shift the burden of

responsibility onto the private and VCS sectors, but rather to acknowledge that there exist certain limitations which mean that the public sector would achieve better outcomes for children and young people with the support of others. Some would argue that even if greater investment is found from within the public sector itself, this will not necessarily bring about the culture change needed. More money does not always mean better delivery of outcomes, and new ways of encouraging innovation are needed. External finance may be able to help trigger the necessary change, through driving greater competition for example. A successful approach will address the public sector barriers, in parallel to drawing in external finance.

15. In the shorter term in particular spending has already been allocated, and so additional external finance will be required in order to enable more immediate investment in Early Intervention.

16. There are already some emerging models in social policy that have successfully attracted external investment (such as Social Impact Bonds), although these have almost exclusively been drawn from Charitable foundations or philanthropist investors on an ad hoc or grant basis. But charitable investment is often provided in on an ad hoc or grant basis.

17. Bringing in external finance could also have the following additional benefits:

- **Promoting competition and driving innovation –**Bringing in external investment will incentivise those delivering services to compete to receive the investment, which in turn should help to drive up standards. Early Intervention is an area of policy which requires a particularly innovative approach given the multiple areas of impact and longer timescales involved. Drawing on external sources can represent a new way of delivery, and thus encourage greater innovation.
- **Risk sharing**. Whilst ensuring that a more robust approach to evidence is taken in delivery of programmes (as described in Part 1), private sector investors may be more accustomed to a returns-based approach where there is an element of challenge/risk involved. Bringing in private and VCS sectors finance therefore allows the public sector to share or transfer this challenge or risk, particularly if a ‘payment by results’ approach is applied (the public sector pays a return to investors only if the programme delivers successful results).
- **Skills & Resource –** Sometimes private sector organisations have greater skills, systems or resources already in place. So for instance they might have particular IT systems already in place, meaning that the public sector does not need to set one up from scratch. This can result in greater **efficiency.**
- **Immediate resource** – The recent spending review process has now closed, and spending limits for each Department are now set. This means that additional public sector investment is unlikely to be unlocked prior to the next

spending review period starting in 2015. Therefore attracting external finance in the interim will be essential if we are to act now on Early Intervention.

18. Involving the private sector however must be done in an appropriate manner. The National Audit Office set out the following in their 2009 report, 'Private Finance Projects':

"Private finance brings costs and risks over the use of conventional funding. Part of the cost difference is because, unlike Government borrowing, the cost of private finance reflects the risks of the project. So projects which use more expensive, risk-weighted, private finance must also bring sufficient benefits to be worthwhile. These benefits might include cost efficiencies, quality improvements, innovation or the better management of risk. It is important to establish how these will be achieved before the project is initiated.

Each project requires a business case that demonstrates that the project is feasible, affordable and VFM. Although business cases generally demonstrate feasibility and affordability they often do not manage to demonstrate adequately that private finance is the best VFM option."

19. We will ensure that any specific mechanism recommended in this review sets out clearly the case for private sector involvement – including in terms of value for money.
20. In summary however, we believe that external finance will help to bring about more immediate funding for Early Intervention, and will enable greater transfer of risk out of the public sector. If the total amount of savings which the public sector will receive can be shown to be significantly greater than the cost of external finance, then it should be possible to demonstrate value for money.

What innovative finance options already exist?

21. Within preventative & social policy there are a number of innovative financial models emerging in support of social outcomes:
    - The most recent example is the **Social impact Bonds** established by the Ministry of Justice (MoJ) in Peterborough. This model seeks external investment for reduced rates of reconviction within a cohort of prisoners. Repayment of this investment is conditional on MoJ making savings from reduced offending, greater efficiency, coordination and innovation, as a result of specific programmes delivered with the prisoners. The MoJ model provides encouragement that an appropriate model could be developed to attract additional investment. The challenge will be for the MoJ pilot to demonstrate cashable savings for Government at the end of the pilot period, and to attract commercial investors. We will consider whether the social impact bond model could be applied to Early Intervention, and how to overcome any barriers.

- Additionally the **Big Society Bank** is being established to improve investment in social enterprise, providing wholesale funding to intermediaries. We will fully explore the links with the Big Society Bank in our work, ensuring that there is no duplication between any institutions established. It is likely that any new Early Intervention institution would operate as a new player in the market which the Big Society Bank is aiming to develop and support.
- The Government announced plans last year to encourage **mutuals & cooperatives** in the public sector. We will consider whether these public sector 'spin-offs' could provide the opportunity to attract greater external finance into delivery of Early Intervention.
- There are currently 16 places doing **community budgets**, focused around families with complex needs that pool various strands of Whitehall funding into a single bank account. Ministers have expressed the aim to have the model extended to all areas by 2014. We will consider what role this type of structure could play in helping to overcome some of the challenges of investing in Early Intervention programmes across organisational boundaries, and additionally whether they might be suited to bringing in private sector finance.

22. In addition, there are other areas of public sector policy which are currently designed to attract private investment. **PFI** is the most obvious example of this. PFI enables the public sector to contract with the private sector on a long-term basis to deliver large infrastructure programmes. Because of its long-term nature, PFI could provide some helpful lessons regarding payment to investors over longer time periods. Similarly, we will also explore the use of Joint Ventures (JVs), where both the public sector and the private sector contribute to a commercial venture on a joint basis (and are often used in PFI).

Potential Obstacles

23. In Part 2 of the review, we will explore a number of financial mechanisms that could help to attract external investment to Early Intervention. However, there are a number of challenges specific to Early Intervention that we will need to address as part of this, if we are to successfully widen our means of external support and funding:

    - **Clear metrics and savings** - the difficulty in establishing clear metrics on which to determine payments to investors. In particular there is a need to demonstrate that savings are additional to that which would have been achieved in the absence of the intervention, in order to help quantify how much of a return Government can afford to pay to investors. This will be

necessary in order to justify any returns paid, which in turn need to be set at a level attractive enough for investors.

- **Establishing cashable savings** – In order to justify savings being paid out to investors as a return, there is a need to demonstrate that the savings are 'cashable' to a significant enough scale and on a sustainable basis. Normally this means that something needs to stop being delivered, in order to "free up" the savings (i.e. less care workers are needed, or a prison is shut down as it is no longer needed). There will also need to be sufficient transparency and safeguards, ensuring that savings accrued are not all spent on other areas instead as this would prevent any payment to investors.
- **Payment Complexity** – the multiple beneficiaries of Early Intervention policies could make any new payment structure complex, if savings accrue to a range of different Government organisations. This will extend to issues such as data-sharing across different organisations, which will need to be addressed in order to determine success measures. This needs to be addressed at both national and local level.
- **Budgeting Complexity** - lack of long-term budgeting framework at Departmental or local level makes it difficult to make financial commitments outside of normal planning horizons.
- **Political Complexity** – Early Intervention needs to be championed across all of the political parties, both at local and central level, to reduce uncertainty of policy delivery and resultant financial payouts. The three main political parties endorsed the first report, and ensuring cross-party support will be a key feature of our recommendations in the final report.
- **Long Repayment Timescale** –the long time scales required to fully see the benefits of Early Intervention (and therefore receive payment for successful delivery) could make it unattractive for investors. Finding some means of providing milestone payments will be necessary, as investors will usually want to see some sort of return within a couple of years.
- **Fragmented Provider Market** – Early Intervention programmes rely on often small voluntary organisations. These can be poorly capitalised, and may struggle to scale up to the challenge of delivering Early Intervention and demonstrate a robust track record to justify support and resources.
- **Delivery incentives –** Any new mechanism needs to incentivise both investors to take on the risk of delivery (through the level of return they receive), and incentivise those delivering services. In the case of Early Intervention, those investing are unlikely to want to play an active role in delivery or monitoring of delivery. We will also need to ensure that any mechanism does not create perverse incentives. So for instance, it should avoid the incentive for investors 'cherry-pick' those individuals whom it is

easiest to achieve success with. A mechanism which provides maximum payment for minimum effort will need to be avoided.

Criteria for any intervention

24. Any new mechanisms proposed should not jeopardise the protection of sound public finances, and in particular protect against risks for the taxpayer:

- **Value for money** – Options which involve borrowing from the private sector at a significantly more expensive rate then gilts are unlikely to be appealing to Government, unless significant additional benefits can be demonstrated. Demonstrating that the financial benefits (future savings) of Early Intervention are significantly greater than the cost of using private finance now (including any interest) will be key. Transfer of risk or additional competition encourages could also help to justify the cost to the public sector.
- **Avoid spending control risks** – Whilst we will evidently need to establish a means of being able to pay investors a return over a potentially long time period, we need to be careful when designing a new system which creates future commitments for expenditure at a future date and pressures on future budgets (although it could be argued that by not acting preventatively now, Government is creating future spending commitments where it will have to later spend to tackle problems). Ideally we should investigate options for enabling money to be set aside or ring-fenced in a transparent manner, for the purposes of making payments to investors. There is a particular need to ensure there is sufficient transparency, so that any savings accrued are not simply all spent on another area instead. Avoiding this would create a spending risk, as it would prevent payments from being made to investors out of the savings accrued. Transparency of potential costs will additionally be of particular importance for any mechanism which is off-balance sheet. For instance, Government publishes the details of all PFI projects where they are off balance sheet.
- **Meet fiscal and accountancy requirements** – Our recommendations should avoid placing burdens on the Government balance-sheet, particularly at a time when Government is working to reduce the fiscal deficit. It may be however that additional borrowing now by the public sector at a time when Government is trying to reduce the fiscal deficit, may be less attractive than making future payments to investors over a longer timeframe. Government guarantees, whilst they inevitably help to reduce cost of returns, are unlikely to be a realistic option for Government in the current environment.

What investors need?

25. Part 2 of the review will need to consider how best to make external investment mechanisms more attractive for both public & external investors:

26. We believe that investors need:

- Clear metrics – from which to drive performance and returns
- Attractive returns from a Government backed revenue stream, both in terms of the timescale they are offered over (possibly with interim milestones), and the level of financial incentive. Some investors may be more focused on receiving a financial return, whilst others will be happy to receive less of a return if they know they are contributing to greater social outcomes.
- Improved confidence in any new asset class – likely to be achieved through pilots that demonstrate success
- Clarity over risk – ensuring that investors are able to weigh up the relative risks and rewards
- Market creation – to provide investors with confidence about liquidity
- Certainty – a product which minimises scope for Government to change its mind

Financial mechanisms

27. There are a number of parallels with financing a business, which can be applicable here. For instance, organisations can apply for loans, issue bonds, or shares in their company. Building on models already known and in existence, and considering how these could be adapted and applied in the field of Early Intervention will form the initial basis of our investigations. It may be that including an element of Early Intervention in an already existing product may be most appropriate, particularly in addressing investor appetite. Alternatively, a completely new stand-along mechanism may be more appropriate.

a. Payment by results (PBR)

28. The Public Spending criteria suggest that a mechanism which pays any dividend or interest to the private sector should be focused on rewarding successful delivery of outcomes. This is often referred to as 'payment by results', meaning that the provider only receives a payment if they have successfully delivered outcomes. This ensures that the private sector takes on the risk for delivery, and strengthens the VFM case. It also helps to ensure a greater focus on metrics and evaluation, which in turn should help to drive up standards. The review will also need to consider how the appropriate incentives for both investors and delivery bodies can best work, and consider who exactly needs to take on any risk.

29. PBR places a greater responsibility on those commissioning services to be rigorous about the outcomes they want, whilst putting in place an incentive system to ensure the provider delivers these outcomes in the most cost-effective and innovative way. Clearly this has the potential to deliver cash savings for the Commissioner, profits for the provider and better public services for the end user.
30. We believe, at this stage in our thinking, that such a model is likely to underpin any financial mechanisms which we will recommend. This is because they enable transfer of risk out of the public sector, and therefore help to justify the greater expense of using private sector finance. Social impact bonds represent one of the mechanisms which we will explore in particular, considering how these could be adapted to attract private sector investors. We will need to explore the types of outcomes that could be used to determine successful performance that triggers payment.

b. Types of Finance

31. We will consider a full range of financial mechanisms across the spectrum, including equity, debt, and hybrid products. A brief description of these is set out below

Type of finance mechanism:	**Includes consideration of:**
Equity / Quasi-equity: Pros: Most appropriate form of finance where risk is perceived to be greater by investors. Attractive as investors only receive a dividend upon successful performance, and transfers risk to the private sector. Also could help to draw in other forms of finance (e.g. debt) through strengthening of balance sheets, as it can provide investors with greater confidence. Cons:However, can be expensive form of finance in order to reward investors for risks taken, and requires consideration of what exactly investors would buy a 'stake' in.	• Venture capital models, where investors buy a share or a stake (of a fund, organisation, or programme), and are paid a dividend only upon successful performance • Mutuals & cooperatives, and the options for investors buying stakes in these. • Quasi-equity such as social impact bonds, or consideration of whether simpler form of payment by results contract is more appropriate. • Franchising could operate in respect of individual programmes, with a national institution supporting development of programmes for wider roll-out. • ISAs as a means of allowing

	savers to invest in organisations which support delivery of early intervention, or to buy a stake in a national fund
Debt: Pros: Attractive as usually simple and cheaper form of finance. It can also be combined with equity for a stronger balance sheet. Cons: However, it may be less appropriate for Early Intervention given the lack of track record of Early Intervention programmes for investors. Debt is possibly a less attractive option as those receiving it are required to pay it back, usually in addition to an interest payment or coupon. It therefore sits on the public sector balance sheet and increases the fiscal deficit.	• Local government bonds, which local government can already issue, but have historically been expensive in comparison to borrowing from the PWLB. Often the costs of issuance are too prohibitive for a single area to issue a relatively small bond. • Prudential borrowing rules, for instance restrict what local authorities can borrow for (i.e. capital borrowing only), and the time period over which they can do so. This is of particular impact for Early Intervention, where the benefits occur over longer timeframes. • Retail bonds could provide a potentially attractive option for high net worth individuals interested in supporting Early Intervention, either on a Government or private sector basis. • Consideration of the IFFIm model for Bond Issuance.
Hybrid (Debt & Equity): Pros: Attractive as can help to lever-in greater levels of investment, and takes account of different expectations and needs of different types of investors. Can also help to reduce risk of default, and should therefore reduce costs of finance. Cons: However is a more complex structure. Creation of any equity buffer to back-up debt could perhaps be better put	• Hybrid models drawing on debt and equity. For instance we could create a special purpose vehicle (SPV) using Philanthropic equity to help lever in additional commercial debt. Similarly any equity investment could be used as a 'buffer', to protect against default of debt. • Evolving models depending on

to use in a pure equity type vehicle.	stage of programme delivery.For example, at the outset of a new programme being established, it might be that equity finance is most appropriate given the greater risks involved. Once a programme is up and running however, it may be that a debt-type model is more suitable. It may also be that a hybrid product is needed to help meet the needs of different types of investors, depending on their risk appetite. • Consider whether Community Budgets could provide a possible tranche of any hybrid structure

c. **Scale**

32. Different models will be applicable depending on the size of the investment sought. So for instance different models could apply at local, regional or national level. At local level, the costs associated with some financial mechanisms may simply be too prohibitive (for instance legal fees, credit ratings, etc). A national level fund for instance could help to overcome some of these costs, and will probably be necessary if we are to establish an effective market with sufficient liquidity for investors. However creating a ‘one size fits all’ approach might not be attractive to everyone. We will therefore aim to explore mechanisms which could operate at different levels of scale.

d. **Programmes, cohorts, and organisations**

33. In considering different mechanisms, it will be important to establish whether we are seeking investors to put money into specific programmes, into a social enterprise which delivers Early Intervention policy, or into a cohort of individuals with whom you want to deliver certain outcomes. It could also be possible to have a mechanism which combines different elements of these options. In all cases, the focus needs to be on **delivery of successful outcomes**.
34. In the case of **programmes**, investment would relate to outcomes delivered by a specific programme or portfolio of programmes. This has the advantage of incentivising a single provider to deliver outcomes. However it requires a strict adherence to the programmes over a potentially long time period. This does not

allow for any flexibility, and could pose problems should more effective programmes be developed in the interim.

35. In the case of **organisations**, investment would be linked to outcomes delivered by a particular social enterprise. Often social enterprises can lack the means for growing their organisation, so that they are better able to deliver their programmes to a greater number of people. Supporting these organisations would help to create a greater number of delivery agents, who are able to provide programmes on a more sustainable basis. However this model tends to work best for those organisations that operate outside of local or central government, and we will need to consider how it could be applied across the range of delivery organisations who work at local level.
36. In the case of a **cohort** of individuals, investment would be linked to outcomes achieved with a specific group of individuals, and would be agnostic to the programmes used to achieve these outcomes. This has the advantage of providing a more flexible approach, ensuring that the cohort can benefit from the most effective programmes in existence at the time. This is the model currently being tested through social impact bonds with prisoners in Peterborough. However, whilst it is often the case that a single provider could be responsible for delivering multiple programmes to a group of individuals in a prison, this is less likely to be the case with Early Intervention where the local authority normally commissions multiple providers.

e. Investor groups

37. Our work in Part 2 of the review will also consider the different investor groups who might be interested in specific products. In particular we will explore mechanisms which are attractive to financial institutions and investors, in the hope of drawing in resources of greater scale on a more sustainable basis. The following groups of investors will be considered:

- **Financial institutions (Investment banks, retail banks, etc)**
- **Financial investors (venture capitalists, etc)**
- **Retail investors (ordinary individuals)**
- **Ethical investors**
- **Endowment capital from foundations**
- **Philanthropic investors**
- **Charitable sector**
- **Business sector**
- **Private sector bodies who deliver for Government already (i.e. Serco)**
- **Public sector investment**

38. We will need to explore the motivations and incentives that will attract these different groups, and understand the different rates of return that they would be willing to take in order to help drive better outcomes in Early Intervention. For instance a charitable organisation will probably not require as high a rate of return (if indeed one at all) as a financial investor, as their core purpose may be to promote Early Intervention in any case.
39. Ensuring that we can help to create a market in Early Intervention products will be important in attracting additional investors of all kinds. However we will need to weigh up the relative benefits of attracting those who require greater returns, alongside those who historically have not required any return. In particular we do not want to create a model that ends up being more expensive to the public sector, providing returns to those who do not seek them, and failing to attract those who require higher returns.

f. Tax incentives

40. Whilst we are mindful of the public spending implications of providing tax incentives, this should not rule out consideration of the possibilities in areas such as **ISAs** or exploring **local tax policy**. For instance, we will consider the role of Community Development Finance Institutions (CDFIs which help to offer loans and investment to social enterprises at local level), given that they are currently positioned to offer community investment tax relief (CITF) for investors. If the Government is serious about external finance having a stronger role in public services, then the tax incentives to facilitate this should be fully considered, particularly if this investment will bring about greater public savings.

i. <u>Role of Institution</u>

41. Part 1 of the report sets out the recommendation for a new Early Intervention institution at national level. In considering the mechanisms as described above, we will also explore how a national institution might best support these, including:

- **Act as an advocate for Early Intervention** - Demonstrate the benefits of Early Intervention to investors, providing a credible source of expertise for them.
- **Awareness raising** – providing both investors and local areas with greater awareness of the number of finance options that might be available to them.
- **Critical mass** – provide greater economies of scale. For instance an individual area may not be able to absorb the costs associated with establishing particular financial mechanisms. The institution could either absorb these itself across a number of different areas, or help to bring together areas seeking to deliver similar programmes and thus enabling them to better meet costs between themselves. Similarly, the institution could help to diversify investor

risks across a number of different programmes, thus reducing risks and the level of returns required.

- **Act as a broker for investors and local areas -** One of the core roles of the institution will be to bring together the investor community, with robust evidence-based delivery programmes requiring additional funding.
- **Hub for evidence based programmes –** helping to reduce risk for investors by ensuring that their money only goes into programmes which are robust and likely to produce successful outcomes. This could include development of robust metrics for assessing outcomes, for the purposes of paying investors.

42. There will be a range of additional considerations that will need to be taken into account when considering the role of the institution. We will need to:
    - Explore for instance how the finance arm of the foundation should best be structured to comply with state aid, accounting, regulatory and other relevant considerations.
    - Consider the nature of links with other similar entities, such as Big Society Bank.
    - Ensure that there is sufficient separation between the financial and best practice arms of the institution, to prevent any conflict of interest from arising.
    - Consider how it could become self-sustaining
    - Explore the most appropriate governance and leadership options
    - Set out the relationship of the institution with Government

Conclusions

This document has set out the problem we are trying to address, and the key areas we will explore in order to come up with some credible solutions. We will continue to work closely with the financial and investor community as we develop our recommendations. If you are interested in being involved then please contact the Review Team on EIFinancingAllenReview@cabinet-office.x.gsi.gov.uk