Cabinet September 2016 TOWER HAMLETS Classification: Unrestricted

Social Impact Bond: Pan-London Care Impact Partnership

Lead Member	Councillor Saunders, Deputy Mayor and Cabinet Member for Education & Children's Services	
Originating Officer(s)	Kate Bingham	
Wards affected	All	
Key Decision?	Yes	
Community Plan Theme	A healthy and supportive community	

Executive Summary

Tower Hamlets Children's Services has been working with the Greater London Authority and five other London Boroughs – Bexley, Hillingdon, Merton, Newham and Sutton - to develop a social impact bond (SIB) funded service to prevent adolescents entering the care system. The service will work with families to keep young people out of care using the well- established Multi-Systemic and Functional Family Therapy methodologies. Benefits of the edge of care SIB will include;

- New services to help young people and their families stay together, rather than the young person entering the care system
- Better outcomes for young people, as there is evidence that young people who enter the care system later in their life as teenagers suffer particularly poor outcomes
- Net financial savings, after the cost of the service is taken into account
- A leading role in a leading edge project the first social impact bond across
 multiple council areas in the country. Hence a project which will have a
 national profile and fits well with our desire to be more 'outward looking

This report seeks approval for Tower Hamlets to act as the lead commissioner for the Pan-London Care Impact Partnership and to enter into an outcome based contract to deliver early intervention services for adolescents on the edge of care.

Recommendations:

The Mayor in Cabinet is recommended to::

1. Authorise the Corporate Director of Children's Services to act as the lead commissioner for the Pan-London Care Impact Partnership.

- 2. Authorise the Corporate Director of Children's Services to enter into a contract with the Social Impact Bond provider to support young people and their families in Tower Hamlets.
- Following consultation with the Corporate Director for Children's Services, authorise the Service Head - Legal Services to execute all necessary contract documents in respect of the awards of the Pan-London Care Impact Partnership and an outcomes based contract on behalf of Tower Hamlets.

1. REASONS FOR THE DECISIONS

- 1.1 Tower Hamlets has a particularly high proportion of adolescents who enter the care system, suffering poor outcomes and with a high financial cost. The average unit cost per week for a child in care for two years is £1,529. The Council identified the need to look at preventative work to avoid care entry for adolescents as part of its analysis of financial pressures in children and adults services. In May 2014 the Greater London Authority (GLA) brought together a group of London boroughs to consider opportunities for collaboration to improve outcomes for adolescents on the edge of care. The aim of the project was to introduce a range of evidence-based "edge of care/ in-care" interventions across London and establish a more flexible outcomes-based commissioning model that can scale up across London over time by using a tariff based on reduced care entry/reduced care costs.
- 1.2 In the context of rising numbers of Looked after Children (LAC) and significant budgetary pressures for all local authorities, the GLA commissioned Social Finance to work with the six London Boroughs to explore the opportunity of using a "pay for outcomes" approach to enable London Boroughs to access specialist services that prevent or reduce care entry for vulnerable young people. This development project was funded by the Big Lottery and Cabinet Office Commissioning Better Outcomes Fund. It provided the opportunity to apply for further funding from the Big Lottery Fund which would subsidise the Boroughs' payments for positive outcomes should the services be commissioned.
- 1.3 The Pan-London edge of care services platform will be supported by social investment. Social investment would fund the setup and delivery of specialist intensive prevention services Multi-Systemic Therapy (MST) and Functional Family Therapy (FFT) that are currently hard to access for London Boroughs on a stand-alone basis. The platform will set up and subcontract the services and each Borough will access the capacity that would meet its local needs. In almost all London Boroughs, the local need falls substantially short of the capacity of a full service team.
- 1.4 It is envisaged that each Borough will commit to an outcomes contract with the central platform, therefore avoiding complex co-commissioning agreements. It is anticipated that Boroughs will agree a minimum volume

expectation of eligible cases that will be referred to the services, with the platform bearing co-ordination, capacity and implementation risk.

2. ALTERNATIVE OPTIONS

- 2.1 The Social Impact Bond provides investment, that would not otherwise be available, to address social problems and fund preventative interventions. As such, this project presents an opportunity to provide support to reduce the strain on acute services.
- 2.2 It would not be financially viable for Tower Hamlets to commission either MST or FFT in isolation. We would be unable to generate the level of referrals required to meet designated caseload set out within the models licence. The Pan-London Care Impact Partnerships provides economies of scale that will attract high quality providers across London.
- 2.3 The project will be subsidised by a grant provided by the Big Lottery Fund. This will contribute to 14.8% of our outcomes payments. This funding would not be available outside of the Pan-London programme.

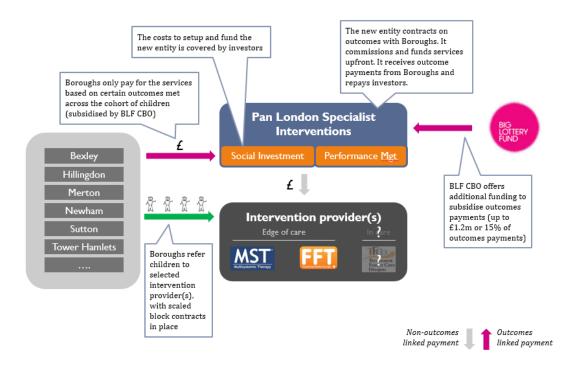
3. **DETAILS OF REPORT**

- 3.1 Social Impact Bonds provide an innovative approach to attracting additional funding through social investment. The SIB would allow residents to access an invaluable early help offer that would not be available without this mechanism. The SIB represents a contingent liability and is dependent on the outcome of future events.
- 3.2 Over the 6 year project contract, Tower Hamlets stands to realise £1.4m in net savings. This is as a result of a total of 69 young people receiving services over 3 years, which lead to improved outcomes and reduced time in care placements and avoidance of ancillary costs (e.g. care leaving costs).
- 3.3 Additional savings can be realised by the Borough beyond the timeframe of the 6 year contract term. This is as a result of young people benefitting from the programme, whose care journeys would otherwise have continued over subsequent years. A total saving of £2m could accrue to Tower Hamlets over this extended time frame.
- 3.4 The prospect of acting as the lead commissioner for this joint project is a fantastic opportunity for the council. SIBs offer a new model of funding and delivery that could be applied across the council. As lead commissioner, Tower Hamlets would acquire valuable experience of delivering this new model of local government delivery. The Pan-London Care Impact Partnership has agreed to reimburse the council for any cost associated with the procurement of the SIB. Funding was also secured through the Big Lottery Fund to support this project and will further reduce any perceived risk to the council.

3.5 An application was made to the Big lottery Fund (BLF), Commissioning Better Outcomes and the Social Outcomes Fund, on the 24th March 2016. This application was approved in principle on the 12th May 2016 and the BLF intends to award the project £1.5m to support the Pan-London programme. The grant will provide as a subsidy for the outcome payment only and will support 14.8% of all outcome payments in Tower Hamlets. It is envisaged that the council will benefit from £185K in subsidised outcome payments during the life of the project.

Social Impact Bonds

- 3.6 A SIB is a financial mechanism in which investors pay for a set of interventions to improve a social outcome that is of social and financial interest to a commissioner. If the social outcome improves, the commissioner repays the investors for their initial investment plus a return for the financial risks they took. If the social outcomes are not achieved, the investors stand to lose their investment.
- 3.7 The outcome metrics form the foundation of the SIB contract between the public sector and investors. All stakeholders need to trust that there is an objective mechanism for assessing and agreeing the degree to which social outcomes have been achieved. Such a metric might need to be linked to cashable savings on the part of the public sector commissioner. Whether suitable metrics can be identified is a key determinant of whether or not a SIB is the appropriate instrument for addressing an identified social issue.
 - 3.8 The SIB will be financed by social investors, such as Charitable Trusts and Foundations. Social investment has been shown to bring social and economic benefits. There is, however, an expectation of financial repayment and the Pan-London SIB is based on a clear evidence based intervention that will offer a level of reassurance to the investor. Social investment is different from more traditional financial investment and involves weighing the social and financial returns of investments in different ways. This can mean accepting lower financial returns if the social impact is greater. Social Impact Bonds enable social ventures to access finance to grow and achieve greater social impact.
- 3.9 The diagram below illustrates how the SIB platform will operate within the Pan-London Edge of Care Project.



The Intervention: MST and FFT

- 3.10 We know that adolescents often enter care during a crisis with their family, with the police or with their mental or emotional health. They experience a larger number of placements, a more disrupted experience of care, poorer outcomes in education and are at increased risk of struggling when they leave care.
- 3.11 The proposed project will provide an early intervention programme to support adolescents on the edge of care. This will improve outcomes for the adolescent young person and reduce the high cost associated with children and young people being in care. As an early intervention programme, this approach which offers a real opportunity to improve outcomes for children and young people and make long-term savings. The reduction in care costs will inevitably reduce pressure on the council's budget.
 - MST and FFT will complement existing services available in the boroughs and offer a more specialist and intensive response to families where adolescents are at risk of care entry. These services work directly with young people and their families to strengthen relationships, improve communication and enable conflict resolution. While both these services originate in the US and are licenced models, they have been implemented in the UK and elsewhere internationally over the past 15 years. Intensive treatment for families with young people who display chronic, persistent challenging behaviours and who are at risk of out of home placement.
 - Strengths based approaches aimed at improving family functioning and communication in complex families and empowering parents.

- Application of effective, well-tested therapeutic techniques to empower both parents and young people to change their relationship.
- A focus on creating sustainable change.
- 3.12 As evidence based interventions MST and FFT require a defined structure that the Council would not be able to support independently, the Pan-London SIB provides an opportunity for economy of scale and access to additional financial investment to support the investment. The SIB provides the funding mechanism so that we are only paying if the service delivers improved outcomes and a reduction in the number of days this cohort is in care.

Good practice in Commissioning Social Impact Bonds

- 3.13 SIBs are currently being used in Essex County Council and Manchester City Council. Essex CC did not offer Multi-Systemic Therapies (MST) service prior to the implementation of the SIB. This funding structure offered Essex the opportunity to target investment into a preventative intervention to support a group with complex needs which, more often than not, placed a great strain on the care system, and in doing so deliver direct financial savings.
- 3.14 An interim report published by Essex CC highlighted findings from a stakeholder survey and interviews that indicated that the SIB structure had impacted on many aspects of implementation of MST in Essex. Areas where it has had the most impact included: the referral pathway and processes; project governance and oversight; and the information and monitoring requirements. The report did not identify any evidence to suggest that the delivery of MST through the SIB added any significant value in terms of outcomes or performance. What the data does show is descriptive evidence of where the SIB structure added value to the process of MST delivery, which may in turn lead to improved outcomes. The areas of added value to date are:
 - The continual engagement of SIB investors, beyond the initial investment
 - The investment of MST in the programme's success, including the rigorous quality assurance and willingness to address challenges flexibly
 - The security offered by the SIB funding to MST therapists
 - A rigorous information and reporting system, focused on outcomes

Inter-Borough Agreement

- 3.15 The Council's Legal Service has developed an agreement to control the relationship between the different councils throughout the process of tendering. This includes forming a steering group which will have decision making power as to the final shape of the tender. However, it is unclear at this stage how the final contracts with the SIB provider will work as between the councils themselves.
- 3.16 It is most likely that each council will have their own contract with the SIB provider although it is possible that Tower Hamlets could contract on behalf of

the other councils. In any event, a further agreement (also known as an Access Agreement) will be entered into between the Councils to govern the contracting relationship. The commitment from Tower Hamlets under the current agreement is only to run the procurement and in any event, beyond the responsibility to procure correctly Tower Hamlets has and will have no resultant liability for the delivery of SIB related services in other council areas.

Role of the Lead Commissioner and resource Implications

- 3.17 As lead commissioner for the project there will be an additional resource implication. Children's Commissioning will coordinate the development of the SIB specification on behalf of the six local authorities. Additional legal support will be required to support the establishment of the Special Purpose Vehicle, which will hold the SIB together and provide a performance management function. Legal Services will also develop an individual outcomes contract on behalf of Tower Hamlets, which will be adapted by other boroughs for their own purposes. A Pan-London agreement has been produced that makes provision for all costs to be reimbursed once the SIB has been established.
- 3.18 The role of the Lead Commissioner is set out within the Pan London Care Impact Partnership Agreement. As Lead Commissioner we will provide to the Boroughs:
 - Commissioning and project management support provided by Children's Commissioning. This will ensure that the necessary and appropriate resources are available to undertake these tasks.
 - Procurement expertise including (but not exclusively) advice relating to the nature of an appropriate procurement route, access to electronic tendering services and other associated procurement related services and
 - Legal advice including (but not exclusively) advice relating to the procurement approach, drafting of the terms and conditions, in tender queries, and other associated legal related services.
- 3.19 Members of the Pan-London Edge of Care Partnership have agreed to reimburse Tower Hamlets for all reasonable costs. This will be, set out within the Pan-London Care Impact Partnership agreement, and an upfront payment of £17K will be requested. This payment will cover project management, procurement and legal costs.

Potential Savings

- 3.20 Analysis provided by Social Finance suggests there are 30 cases p.a. in Tower Hamlets, eligible for MST or FFT, with the business case below showing potential savings if only 23 children were referred p.a.
- 3.21 It is proposed that the services are delivered in each Borough for 3 years. A 6 month set up phase is required and a 2 year run-off tracking period once the last young person has received services. Interventions run for 3-5 months.

Therefore the contract term is 6 years. The business case below is based on the 6 year horizon.

3.22 The table below illustrated the level of savings that can be achieved. In order to calculate the net savings available, outcome payments that the Borough will make to the platform, are deducted from the gross savings and the Big Lottery Fund subsidy is added back in.

£000	Component of business case	69 young people	Comments
	Gross savings over life of project	£2,500k	Savings correspond to reduced care placements costs
-	Cost of outcomes payments	£1,252k	£500/young person who completes the therapy £215 per week out of care/at home
+	Big Lottery Fund subsidy to outcomes payments	£185k	14.8% of outcomes payment
=	Net savings over project period	£1,433k	
+	Additional savings after project period	£534k	To capture savings from residual care journeys avoided, that extend beyond the project time horizon of 6 years
=	Total net savings	£1,968k	

4. COMMENTS OF THE CHIEF FINANCE OFFICER

- 4.1 Tower Hamlets Council (LBTH) has been assigned as the lead authority to undertake the procurement process for the SIB project. LBTH will incur additional costs in order to undertake this process. The conditions of the Big Lottery Fund Grant relate solely to outcome payments and do not allow for administrative costs; therefore an agreement in principle has been made, whereby all 6 Boroughs will contribute equally towards the cost of the procurement process. This contribution would total c£100,000 and will be set at a level sufficient to cover LBTH's costs. However this has yet to be confirmed in writing with all parties concerned and therefore presents itself as a potential unfunded risk to LBTH.
- 4.2 The suggested format for the contract lends itself to that of a framework agreement between the 6 Boroughs (Commissioners) and the supplier. At this early stage financial risks around the contract remain unclear, until the finer details around the structure of the contract have been finalised. This would include risks around de minimis referrals over the length of the contract and participants joining/exiting the framework.
- 4.3 As the SIB is outcomes based, it would appear to offer the Council a relatively low risk opportunity to exercise an option which potentially provides long term added value to the client and yield long term savings. Where Outcomes are

- not achieved, the cost of each referral to the council is circa £500 (a total of £34,500 if all 69 referrals were to fail during the course of the contract).
- 4.4 The funding required for successful outcomes payments have been identified within Children's Social Care.
- 4.5 The SIB is estimated to yield net savings of £1.4m over the 6 year contract period, through improved outcomes and reduced time in care placements and avoidance of ancillary costs (e.g. care leaving costs). Additional potential savings of £500k to take the overall savings to £2m may also be realised beyond the 6 year timeframe as a result of young people benefitting from the programme, whose care provisions would otherwise have continued over a number of years. However it will be difficult to materially ascertain the longer term tangible savings the treatment has contributed beyond the 6 year period.
- 4.6 It is unclear whether the net financial savings arising as a result of the proposed approach in this report represent cashable savings or opportunity savings i.e. the avoidance of resources that would otherwise be required. In either case the benefits from this approach needs to be properly reflected in the Council's MTFS in a way that Members can be assured of the actual impacts should this proposal be agreed.

5. **LEGAL COMMENTS**

- 5.1 The Council has an obligation as a best value authority under section 3 of the Local Government Act 1999 to "make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness". This obligation extends to the purchase of all goods works and services. The Council meets this obligation by subjecting purchases to the appropriate level of competition.
- 5.2 The Council is obligated by the Public Contracts Regulations 2015 to submit certain procurements to advertising and methods of procurement in accordance with these regulations. However, these services are of the type that fall into Schedule 3 of the regulations which means that whilst the regulations still apply the formalities of the procurements are less stringent
- 5.3 In respect of Schedule 3 services the regulations only apply to a procurement that has a value greater than £584,000. However, this contracting opportunity is the value of the purchase aggregated across all the Boroughs involved (albeit the Council's resultant contract will be only in respect of purchases made by this Council) and therefore the Public Contracts Regulations will apply to this contract.
- 5.4 Schedule 3 services' procurements are only subject to a "light touch regime". This means that the procurement can be quite flexible in approach. However, the process that is devised for the procurement must still be fair open and transparent,. This should be considered when determining matters such time for response, evaluation criteria, evaluation methodology etc.

- 5.5 In order to satisfy the Best Value duty in accordance with Section 3 Local Government Act 1999 as detailed above, the Council must ensure that it awards the contract on the Most Economically Advantageous Tender basis. This means awarding to the provider in that has attained the best score on a blend of quality and price and in accordance with the advertised evaluation criteria.
- 5.6 The Council is acting as lead authority in respect of this Procurement. It is therefore undertaking the procurement process on behalf of the other participating boroughs.
- 5.7 The Council is seeking to enter into an agreement to govern the arrangements between the boroughs for the purposes of running this procurement process. This agreement is intended to govern such issues as information sharing, setting up of a project steering group, responsibility for sharing procurement costs, and procuring responsibilities. In the main however, this Council is responsible for the procurement and in particular ensuring that the contract is procured correctly in line with the governing law. It is notable however, that this is an identical risk to the one which the Council would take if the Council were procuring on its own behalf only. This is because the intention is to procure something for this Council following which the other Boroughs can then enter into their own separate identical agreements with the winning bidder. Therefore, aside for a greater aggregated cost all factors for this Council are the same as if it were procuring only on its own behalf.
- 5.8 However, in order for the Procurement to be successful it is necessary to ensure prior to the commencement of the procurement that all the boroughs are committed to a minimum value of spend so that the estimated value of the Procurement is realistic and savings are realised across all the boroughs based on the increased volume of all the boroughs purchasing together.
- 5.9 It is anticipated that the winning bidder will be a consortium of 1 or 2 service providers and an organisation that is willing to bear the upfront cost of setting up the services. Soft market testing has shown that such organisations exist and are likely to be social enterprises whose purposes are those to further the assistance of care in sectors such as this one.
- 5.10 However, managing all the contracts together would be burdensome for the Council. Therefore, it is suggested that the winning consortium would set up a company for the purposes of delivering the services and the Council would then only have to manage the one contract.
- 5.11 The Council may also consider entering into separate agreements with each member of the consortium (called collateral warranties) to ensure that in the event of a claim the Council could seek redress against the particular consortium member through such an agreement as it is likely that the set up company will have very little in the way of its own financial substance.
- 5.12 Throughout the contract period the Council will make payments for the services. However, the nature of the contract will be such that the Council will

only be obliged to make payments against successful outcomes. Therefore, the limitation on the Council's risk is twofold. It does not have to take the risk of successfully setting up a new innovative service which may bear something in the way of initial problems but will also only pay against measured and delivered successes.

- 5.13 The Council has been successful in winning a grant to support these services from the Big Lottery Fund. The nature of the grant is that the grant can be used to subsidise each payment that is to be made by the Council until such time as the grant has been fully utilised. This also removes some of the risk from the Council. However, the Council must ensure that the Contractor understands the obligations placed upon the Council by the Big Lottery Fund to ensure that there is continuing access to the grant funds. Also and to this extent, obligations similar contractual grant obligations placed on the Council by the Big Lottery (such has information collection, sharing and reporting) must also be included in the winning bidder's contract.
- 5.14 It is notable that the Big Lottery have suggested to the Council that it should not use the funding to directly cover the Council's costs of procuring these services. However, it would be commercially acceptable for the social enterprise funder to bear these costs also which would amortise the costs into the success based payments paid by the Council.

6. ONE TOWER HAMLETS CONSIDERATIONS

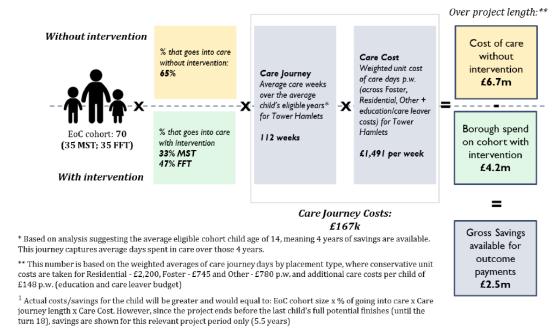
6.1 This project will mostly benefit people from a particular age group. The Edge of Care Social Investment Platform assumes that a cohort of 11-16 year olds, who on average have a 65% likelihood of care entry, will receive such services.

7. BEST VALUE (BV) IMPLICATIONS

- 7.1 The economic benefits of Early Intervention are clear, and consistently demonstrate good returns on investment. Intervening later is more costly, and often cannot achieve the results that Early Intervention is able to deliver.
- 7.2 Social Finance has provided assurance through our business care that the identified savings are realistic and can be achieved within timescales. The cost of the average care journey for 11-16 year olds has been calculated as part of the development of the project. The cohort has been defined on the basis of need codes that correspond to eligibility for MST and FFT services. This analysis has drawn on historic data that was available over the 12 year period 2003 2015. It has tracked care journeys over time and by placement type. By applying unit costs for placements, an average cost of care journey has been calculated.
- 7.3 The volume of eligible cases for this specialist edge of care services has been estimated, based on historic care entry and need codes. For Tower Hamlets, it is estimated that 30 young people per annum would be eligible for these

services, but for the purposes of analysis a more cautious estimate of 23 have been used.

- 7.4 The following assumptions have been made for Tower Hamlets:
 - The average 11-16 year-old, eligible for MST/FFT, that enters care in Tower Hamlets will accumulate 2.2 years in care over their remaining childhood (on avg. 4 remaining years) incurring placement costs of £167k.
 - The cost of an MST intervention is on average ~£15k per family.
 - The Edge of Care Social Investment Platform assumes that a cohort of 11-16 year olds, who on average have a 65% likelihood of care entry, will receive such services.
- 7.5 Service success rates ranging from ~35-50%, generate gross savings of c. £2.5m, significantly better life chances, keeping the family together and an improved focus on engagement with school and the wider community.
- 7.6 The chart below illustrates the benefits of the project to Tower Hamlets.



Note: Small discrepancies might arise due to rounding of numbers

8. SUSTAINABLE ACTION FOR A GREENER ENVIRONMENT

8.1 The proposals in the report will not contribute to a sustainable environment and will not have any environmental implications.

9. RISK MANAGEMENT IMPLICATIONS

9.1 All boroughs were asked to approve a Business Case for the purposes of the Big Lottery Fund application. There is a risk, however, that one or more borough will withdraw from the project at any stage.

- 9.2 Both MST and FFT are licenced interventions, with a defined structure and professional case load. On current volume assumptions, the initial group of six Boroughs will have access to two MST teams and one FFT team, offering a total capacity each year of 150 cases. Should an authority withdraw from the programme, the structure of the interventions would need to be reviewed.
- 9.3 To mitigate this during the procurement process, Legal Services have designed and circulated an inter-borough Agreement. This Agreement is intended only to govern the relationship between the Boroughs for the purposes of agreeing the appropriate methodology to bring this matter to tender stage, including the development of the appropriate tender documentation.
- 9.4 It is anticipated that further agreements will be executed between the parties to govern the contractual relationship between the Boroughs prior to executing contracts with the winning social impact bond provider.

10. CRIME AND DISORDER REDUCTION IMPLICATIONS

- 10.1 The primary outcome and payments of the proposed SIB are based on care prevention, but wider outcomes reflecting education, offending and emotional wellbeing can be tracked. We know that adolescents often enter care during a crisis with their family, with the police or with their mental or emotional health. This project will enable the council to introduce both MST and FFT, which would not be possible without the SIB.
- 10.2 Studies of MST have shown a 75% reduction in violent offending against a control group 4 years after treatment a 54% reduction in arrests 13 years after treatment and a 50% reduction in out-of-home placement. Other studies show that MST has reduced out-of-home placements by 47-64 per cent, improved family functioning, decreased substance use and reduced mental health problems for youth. In addition, a 22-year follow-up study by the Missouri Delinquency Project showed that MST's positive results are sustained over long periods of time.
- 10.3 Studies of FFT have shown a 50% reduction in recidivism, a 77% reduction in referrals to foster care and improvements in school performance and attendance for 60% of young people.

11. SAFEGUARDING IMPLICATIONS

11.1 It is a priority of the Edge of Care Platform (MST/FFT) to ensure that a regular flow of suitable cases are referred to the services. Good working relationships are required with the Boroughs' social workers to facilitate this. The Platform Programme Manager and Supervisors will attend Borough panels which consider cases at risk of care or in need of intensive support. It is envisaged that in Tower Hamlets, referrals will be made by the Entry to Care Panel.

11.2 The Programme Manager, in conjunction with Supervisors will allocate the case to the most appropriate service. The therapist will work closely with the allocated Social Worker throughout the treatment period to ensure close communications and sharing of relevant information.

Linked Reports, Appendices and Background Documents

Linked Report

None

Appendices

None

Background Documents – Local Authorities (Executive Arrangements)(Access to Information)(England) Regulations 2012

None

Officer contact details for documents:

Wesley Hedger - Commissioning Manager, Children's Commissioning