

# SOCIAL INVESTMENT IN EDUCATION

John Loder, Gemma Rocyn Jones and Will Norman / June 2013



## **About The Young Foundation**

The Young Foundation is determined to make positive social change happen. We pioneered the field of social innovation with The Open University, UpRising and Studio Schools. We work closely with individuals, communities and partners building relationships to ensure that our thinking does something, our actions matter and the changes we make together will continue to grow.  
**[youngfoundation.org](http://youngfoundation.org)**

## **About Big Society Capital**

Big Society Capital is the world's first social investment bank. It was launched in April 2012, with an estimated £600 million of capital, £400 million of which will be from unclaimed assets left dormant in bank accounts for over 15 years, and £200 million from the UK's largest high street banks.

Big Society Capital's mission is to develop the social investment market in the UK by investing in social investment finance providers and by acting as a market champion. By improving access to finance for social sector organisations, and by raising investor awareness of investment opportunities that provide a social as well as a financial return, Big Society Capital will be instrumental in connecting the sector to capital markets.

**[bigsocietycapital.com](http://bigsocietycapital.com)**

## **About Impetus – The Private Equity Foundation**

Impetus – The Private Equity Foundation (PEF) is a charity supporting the growth, effectiveness and sustainability of charities and social enterprises through its venture philanthropy model. To achieve these aims, Impetus – PEF provides management expertise and pro bono business skills, alongside long-term funding, to organisations it believes are ready to become game-changers, with the potential to really move the needle on the most persistent social problems.

**[impetus-pef.org.uk](http://impetus-pef.org.uk)**

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# TABLE OF CONTENTS

<b>1 Executive summary</b> .....	<b>8</b>
<b>2 Introduction</b> .....	<b>11</b>
2.1.Objectives and scope .....	11
2.2.Structure.....	12
2.3.Methodology .....	12
2.4.Limitations and caveats.....	13
<b>3 The problem and context</b> .....	<b>14</b>
3.1 The nature of the attainment gap.....	14
3.2 Financial context.....	16
3.3 Institutional context .....	16
3.4 The role of social sector organisations.....	17
<b>4 Efficacy: What works in tackling educational disadvantage? ....</b>	<b>18</b>
4.1 Lessons from the research base.....	18
4.2 Does the evidence base impact on practice? .....	23
<b>5 Marketability</b> .....	<b>25</b>
5.1 The Post-16 vocational market .....	26
5.2 Direct to schools, focusing on the pupil premium.....	29
5.3 Central government - through social impact bonds and payment by results contracts ....	33
<b>6 Investability</b> .....	<b>36</b>
6.1 The demand for social investment.....	36
6.2 The capacity to receive social investment.....	37
<b>7 Conclusions and recommendations</b> .....	<b>41</b>
<b>Appendix A: Payment by results and social impact bonds primer</b>	<b>43</b>
<b>Appendix B: Post-16 funding primer</b> .....	<b>44</b>
<b>Appendix C: 4-16 funding primer</b> .....	<b>47</b>
<b>Appendix D: Case studies</b> .....	<b>49</b>

## **Foreword from Big Society Capital**

The UK social investment market is growing. It is estimated that demand for social investment could rise from £165million of social investment in 2011 to £1billion by 2016.

Big Society Capital was set up in 2012 to support the growth of this market by acting both as an investor and a market champion. We are now a year old and by the end of 2012 we had committed £56million to 20 different intermediaries. In our second year we would like to commit a further £75-100million and in particular, shift our focus to creating pools of capital specialising on specific social issues. The attainment gap between children from different socio-economic backgrounds is one of those issues.

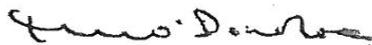
Charities and social enterprises are delivering a range of interventions to tackle this attainment gap. The changes in the education landscape with schools gaining more autonomy over budgets and a reorganisation of vocational education will create further opportunities for social sector organisations to work with children from disadvantaged backgrounds. We believe access to finance will be critical for these organisations to grow and scale in order to achieve greater impact.

Big Society Capital has already invested in five Social Impact Bonds (SIBs) to help disadvantaged young people across the country. Our investment is enabling social sector organisations to work with these young people to raise educational outcomes and improve employment prospects. However there is clearly scope to do more.

This report has identified a number of these areas where social investment can play a role in the education. Growing organisations delivering interventions in schools with the use of the Pupil Premium, financing the set up of direct providers in vocational education and investing in Social Impact Bonds all have potential for a strong social and financial return.

To take this work forward, we will be working with social investors and social sector organisations to explore opportunities for deploying capital to address educational need. We will also continue to provide wider support for social sector organisations including working to develop a consistent approach to evidencing social value.

This is a timely opportunity for social investment to make a real difference to children's lives and we hope this report will focus attention on the practical steps needed to achieve this.



**Nick O'Donohoe**

**Chief Executive, Big Society Capital**

## Foreword from Impetus - PEF

In 2006 I was one of a number of individuals from the private equity industry who had a shared ambition to achieve more through our giving. We came together to form the Private Equity Foundation (PEF), with the intent of offering our business skills and strategic resources, as well as funding, to charities supporting disadvantaged children and young people. Many of these organisations were struggling to scale their programmes in spite of excellent interventions that were delivering great outcomes.

Our aim was threefold: to reach and help transform the life chances of more disadvantaged children and young people, more effectively than was currently the case (in order to drive down the nearly one million young people currently not in education, employment or training (NEET)), to build capability, capacity and long-term value in the charities that we supported, and to provide the opportunity for those in the private equity community to realise its own potential through donating its skills and wealth to those far less fortunate than themselves.

Over the last six years PEF has remained committed to unlocking the potential of disadvantaged young people by transforming their life chances. During the last 6 six years we have worked with 21 charities that have delivered successful outcomes to over 100,000 young people in their homes, at school and during their transition into the workplace. We also launched our first social impact bond in March 2011 with the support of the Department for Work & Pensions (DWP)'s Innovation Fund: ThinkForward is a programme that provides super-coaches to 950 disengaged pupils in 14 schools in East London to improve attendance, behaviour and academic attainment. Our experience with the programme and the social impact bond has been very positive and successful to date, and it led us to question what other opportunities there might be to deliver great interventions in schools on the basis of payment by results contracts funded via social investment structures.

We are delighted to be collaborating with Big Society Capital and The Young Foundation on this important research project. Although the social investment market is in its early stages, it is growing. The report highlights a number of areas where social investment and payment by results contracts might provide a valuable source of funding to increase the scale and reach of organisations that are proven to have a really positive impact on the educational attainment of young people, whilst providing real value and reducing the risks to achieving success to schools and head teachers.

Our hope is that this report will be a catalyst for action - bringing together the organizations providing these programmes, potential school and local authority commissioners, investors and social intermediaries such as the Private Equity Foundation in the shared aim of raising achievement and narrowing the attainment gap for some of the most disadvantaged children and young people in our society. At the very least, we owe them – and they deserve - the right to know that we are exploring every opportunity to enable them to be the learners, the achievers and the great citizens that each of them has the potential to be.



**Charlie Green, Impetus - PEF Trustee**

# **1. Executive summary**

Social investment can help close the attainment gap. This report will argue that there are excellent opportunities for social investors in this area of education. There is real social need; evidence that we can do something about it; customers who are willing and able to pay for a service; and investees who both want social investment, and can repay it. These opportunities need careful specification, and to be approached in an intelligent and pragmatic way. However, we believe that education can and will form a significant part of social investor's portfolios in the future.

## **1.1 Problem and context**

A public educational system, free at the point of use, should be our greatest tool for delivering equality of opportunity. But this is not happening. When pupils from poorer backgrounds enter the education system they are already behind their peers. Instead of catching up at primary and secondary school, this gap widens as they progress through their school career with severe consequences for their life prospects. If every young person is to have a fair chance in life, we need to do more.

Successive governments have been actively trying to improve educational outcomes for those from disadvantaged backgrounds. Increasingly, rather than specifying particular techniques, the direction of policy has been to give schools a great deal of autonomy over their budgets and approach, and to try to hold them to account by transparency over outcomes, rigorous inspection, and the eventual threat of special measures if they persistently fail to achieve.

This creates an opportunity for non-state actors in education. The market is more open to new direct providers such as academy chains, free schools and post-16 providers (although only the last of these is straightforwardly investible). It is also more open to those who provide services to schools. While schools will do much themselves, there will be many situations where an external, well run and well-evidenced provider can play a role in helping schools to reach their targets, filling a gap that centrally-mandated programmes have left.

Another way that an outcomes focus is being implemented is through social impact bonds and other payment by results contracts. These are programmes to which considerable public money has been devoted, and which have the potential to be a key part of social investors' portfolios over coming years.

## **1.2 The solutions**

There are promising potential solutions that are not yet in widespread use. The enormous literature on educational attainment has been well synthesised, but many of its strongest recommendations have not yet been implemented.

However, good evidence is not enough to sell a product or service, even with pressure from Ofsted. There must be customers who have the money to buy, and for whom the product meets a perceived need. We have selected three specific markets to examine in detail, as we believe they have a combination of a growing demand, visibility over the medium term, and

both social and financial scale. They also combine well, both in terms of timescale and ambition. These areas are:

### **1. Post-16 vocational education**

The post-16 education system has failed a very large cohort of the population, entering them for qualifications with little or no labour market value. Engaging and helping a cohort that has by definition found the existing schools system and culture hard to engage with will require some new techniques and approaches, which a range of innovative new providers are seeking to provide.

The rise in the school leaving age to 18 creates demand for 50,000 to 100,000 new school and college places. Subject to regulatory approval, this market is fairly open, with charitable and commercial providers able to set up, and be paid in arrears according to pupil numbers. Unlike the other markets we are examining, this is mainstream provision; it therefore has structurally higher visibility than the ancillary services considered below. The one-off rise in demand provides a window of opportunity for the setting up or expansion of innovative providers in this area.

### **2. Central government, through social impact bonds and other payment by results contracts**

Throughout the public sector, there is an increasing desire to pay for results (PbR), rather than simply for activity. Since results can only be determined after the event, payments move from advance to arrears. This creates a need for financing, and an opportunity for the social investor. Social impact bond (SIB) is the name given to the financing vehicle for this.

Educational outcomes have been an early focus. As well as making a dramatic difference to young people's lives, they may also lead to significant long-term savings through a reduction in benefits.

The £30m DWP Innovation Fund is the largest example of this sort of funding in the world at the moment, and focuses on a range of primarily educational outcomes. If SIBs can generate enough of a saving to pay for themselves, they could be a very large market. The government continues to invest considerable sums in developing this market, and education is and will be a key focus.

### **3. Services provided directly to schools, with a focus on the pupil premium**

The pupil premium targets £1.875bn at raising the attainment of pupils from lower income households. In the long term it is hard to see the issue of the attainment gap disappearing off the political agenda, given its social and economic consequences, and the principle of differential funding based on need has been accepted by all major parties. Pressure from Ofsted to show that this money is well spent, and the necessity to publish league table results for this specific group, creates an opportunity for external assistance. There are a growing number of innovative social enterprises operating in this market, and there is considerable room to grow.

However, not all of these new entrants will survive. The best social enterprises build a close relationship with the school, and move from providing a service as a contractor, to being a partner of the school. The greatest opportunity is probably to change teaching practice in a substantial and long-lasting way, although specific targeted help to high-need pupils is also very valuable.

Up-to-date data suggests that this group is very much open to the possibility of investment. There are some concerns in the investor community about their capability to put together a

credible plan to repay the investment, due to a lack of skills. However there is a considerable amount of money going into the sector to improve investment readiness, and we would expect this to bear fruit in the coming years.

### **1.3. Enabling the market**

These three opportunities show that there are practical actions that have a good chance of reducing the attainment gap, and that social investors have a key role to play.

While the objective of this report was to find opportunities that would succeed against the existing backdrop, there are some enabling actions that can be taken to make the greatest impact.

For government:

1. The government can play an important role as a validator of quality: prizes, awards, and standard-setting would all help quality social sector operators to gain credibility and scale faster.
2. A central government department could create a new dedicated fund which would operate in a similar way to the DWP Innovation Fund, targeting educational attainment through the provision of evidence-based interventions in schools.

For other actors in this market, a number of other considerations occur:

3. We should dedicate resources to build market infrastructure that enables social enterprises to scale their service provision in a fragmented schools market.
4. We need to continue to improve the relationship between grant funders and social investors to support social sector organisations. New coordinated programmes centred on the capital needs of growing social enterprises will allow grant funders to use investment to leverage their impact, and increase the number of investible opportunities for social investors.

## 2. Introduction

In the UK, children from poor families tend to do poorly at school. This inequality at school sows the seeds of further inequalities through life, limiting employment opportunities and greatly reducing future earning potentials. The education system should be our best way of ensuring equal opportunity for all. It does not achieve this; the type of household you come from remains a dominant feature in educational performance, and of future success in life.

It is clear that new and imaginative approaches are required to improve educational outcomes for those from disadvantaged backgrounds. A complete solution will require coherent and system-wide change over many years involving many different actors, and a complete answer would be well beyond the scope of this report. Instead, we focus on the important role that social sector organisations with access to social investment can play. We argue that there are some excellent opportunities for social investors to use their capital to help close the attainment gap and improve the lives of many of the young people that are being let down by our current system.

### 2.1. Objectives and scope

This report provides advice to social investors on where they can most effectively deploy their capital for an optimal mix of social impact and financial return in order to improve educational outcomes for young people from disadvantaged backgrounds. We aim to:

- summarise the size and scale of the problem, and actions being taken to solve it
- identify some specific opportunities where social investment can play a role
- suggest changes that might improve the outlook for social investment.

The scope of this report is defined by three issues:

1. What is educational attainment?
2. Who are the disadvantaged young people we are concerned with?
3. What defines a good social investment opportunity?

We consider educational attainment fairly broadly, including attainment of qualifications, improvement of employability, and social and emotional development. We are more interested in understanding how potential buyers understand educational attainment than in imposing our own definition.

The young people we are concerned with in this report are 4–19 year olds, with a focus on mainstream primary and secondary education. By disadvantaged, we primarily mean those from lower income households. Eligibility for free school meals (FSM) is the conventional proxy for this. Pupils are eligible for free school meals if their families are claiming a number of benefits, including income support, income related jobseekers allowance, the guaranteed element of the state pension credit, and the child tax credit. While it has its faults, this

measurement drives both data gathering and government spending, so we use it as convenient first approximation.<sup>1</sup>

We understand a ‘good opportunity’ for social investment to have three qualities. It must have efficacy, in other words there must be a good reason to believe that it will improve the educational outcomes. It must be marketable, in that there must be someone who will buy the service or product. Finally, it must be investible. There must be a need for social investment, investees with skills and capabilities to generate a positive return on the investment, and a proportionate level of risk.

## **2.2. Structure**

With this three-part test – efficacy, marketability and investability – in mind, the report is structured as follows:

### **1. Problem and context**

We look at the scale of the attainment gap and the financial and institutional context in which it sits.

### **2. Efficacy – What works in improving educational outcomes?**

We review the existing literature and highlight the applicable approaches that improve educational outcomes.

### **3. Marketability – What will someone pay for?**

We select a few areas where demand is likely to be strong and stable, and comment on how to succeed in these markets

### **4. Investability – Which of these services could be turned into investable social enterprises?**

In order for there to be a role for social investors to play, there has to be a need for capital, and the prospect of a respectable long-term return. We consider some of these issues in the context of the sector.

### **5. Conclusions and recommendations**

Finally we draw these themes together and make some recommendations about how to facilitate progress in the sector.

## **2.3. Methodology**

This report draws on the considerable research base in the area, as well as a series of interviews with practitioners, entrepreneurs and investors in the sector.

Our approach has been to:

- survey the considerable secondary literature in the sector to understand the best evidence about what works
- use the available statistical data to shed light on the size of the market
- analyse comprehensive survey data, kindly made available by BIG Lottery Fund and Clearly-So, to understand the role of social enterprise at the moment

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<sup>1</sup> Research by the Children’s Society has found that 700,000 children living below the poverty line were still not entitled to the meals because their parents worked over 16 hours a week. The Children’s Society, *Fair and Square: Free school meals for all children in poverty*, available at: [www.childrensociety.org.uk/sites/default/files/tcs/fair\\_and\\_square\\_campaign\\_report.pdf](http://www.childrensociety.org.uk/sites/default/files/tcs/fair_and_square_campaign_report.pdf)

- interview practitioners, experts, entrepreneurs and investors to gain an expert perspective on what is marketable and investible
- undertake detailed case-study analysis of six social enterprises that are active in the field.

## **2.4. Limitations and caveats**

We believe our approach has produced some well-evidenced and helpful conclusions. However, it is important to be clear about the limitations of our research.

The research base into educational attainment is vast. We have not attempted to summarise this base ourselves, but have relied on a small number of systematic reviews which summarise hundreds of meta-analyses, each of which in turn systematically aggregate the results of hundreds of individual studies.

Our second limitation is in the number of interviews we undertook. We have been fortunate enough to speak to some of the most thoughtful and credible thinkers in the area, and we believe that their views should be given proper weight. However, we have not undertaken a comprehensive survey of the sector, and our interviews are not meant to be representative.

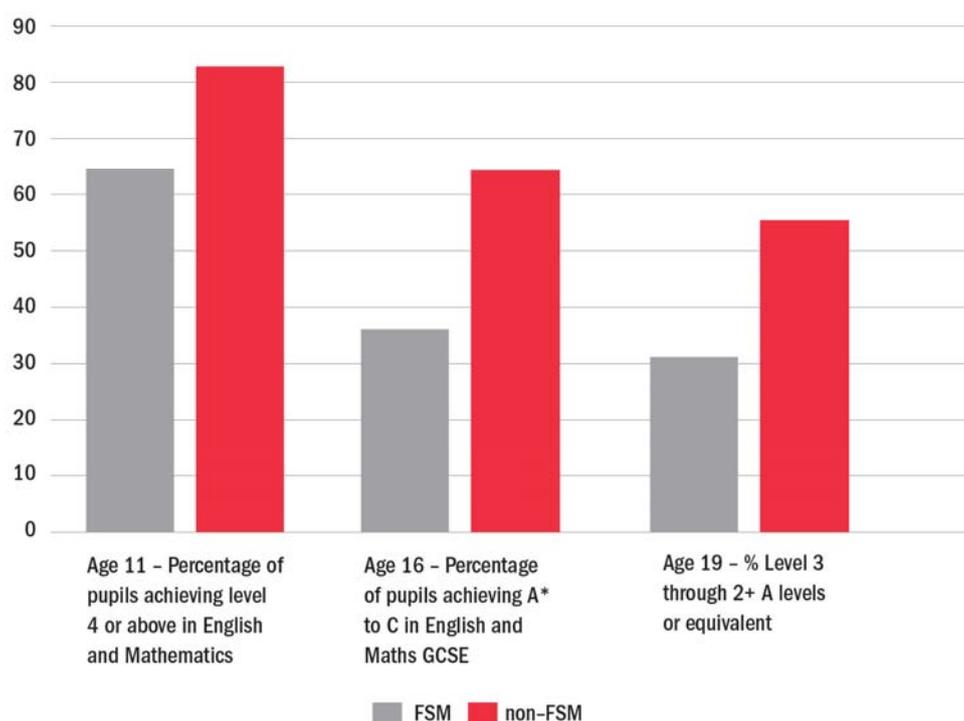
### 3 The problem and context

#### 3.1 The nature of the attainment gap

Educational outcomes for those from disadvantaged backgrounds are poor. In 2011 only 35 per cent of pupils receiving free school meals (FSM pupils) achieved five A\* – C grade GCSEs including English and maths, compared to the national average of 62 per cent of those not receiving free school meals (non-FSM pupils). In other words FSM pupils are slightly more than half as likely to meet this key benchmark as those from less disadvantaged backgrounds.<sup>2</sup>

This attainment gap starts early and persists throughout the school career. As the Key Stage 2 (age 11) results below demonstrate, the gap is well established at the end of primary school. The Institute for Public Policy Research (IPPR) estimated that half the Key Stage 4 (age 16) gap is already present when pupils enter secondary school.<sup>3</sup>

**Figure 1. The attainment gap**



Source: Department for Education (DfE)<sup>4</sup>

The higher the level of attainment examined, the greater the gap. The recently introduced, and more challenging, English Baccalaureate benchmark (A\* to C in a combination of

<sup>2</sup> [www.education.gov.uk/researchandstatistics/statistics/keystatistics/b00214299/attainment-gap-at-ages-11-16-and-19](http://www.education.gov.uk/researchandstatistics/statistics/keystatistics/b00214299/attainment-gap-at-ages-11-16-and-19)

<sup>3</sup> Clifton, J. & Cook, W. (2012) *A long division: Closing the attainment gap in England's secondary schools*. London: IPPR

<sup>4</sup> [www.education.gov.uk/researchandstatistics/statistics/keystatistics/b00214299/attainment-gap-at-ages-11-16-and-19](http://www.education.gov.uk/researchandstatistics/statistics/keystatistics/b00214299/attainment-gap-at-ages-11-16-and-19)

English, maths, a language, history or geography, and two sciences) was achieved by only 4.3 per cent of FSM pupils, compared to 17.2 per cent of non-FSM pupils.<sup>5</sup> In the three years to 2008, only two per cent of the student intake at the 25 most selective universities was made up of FSM pupils.<sup>6</sup>

Narrowing this gap has been an ambition of successive governments. However, measuring improvements over time is complicated by the dramatic overall improvement by pupils (which many would attribute, at least in part, to grade inflation), as well as the use of GCSE ‘equivalent’ qualifications such as NVQs, which have been included in the overall results, but not valued in the labour market in the same way.<sup>7</sup> FSM pupils disproportionately undertake GCSE-equivalent qualifications, rather than GCSEs themselves.<sup>8</sup> Detailed corrections for these factors do suggest some closing of the gap (by about a sixth of a grade per subject). However there is much more to do.

Poor educational outcomes have a long-term impact on people, reducing their employability, earning potential and choices in life.<sup>9</sup> The long-term income consequences are detailed in Figure 2.

**Figure 2. Percentage hourly pay gap to employees with GCSE or equivalent level of education, age 22 to 64 (2011)**

	Median hourly pay (£)	Pay gap to GCSE %
<b>Degree</b>	16.10	85
<b>Higher education</b>	12.60	45
<b>A Levels</b>	10.00	15
<b>GCSE grades A*– C</b>	8.68	0
<b>Other qualifications</b>	8.07	-7
<b>No qualification</b>	6.93	-20

Source: Office for National Statistics (ONS)<sup>10</sup>

Low educational attainment does not only affect individuals, but also wider society. Those with poor or no qualifications are likely to become NEETs (not in education, employment or training). Research by York University estimates an average lifetime public finance cost of £56,301 for a young person who is NEET aged 16 to 18.<sup>11</sup> The resulting estimated aggregate public finance costs of 16-18 year old NEETs range from £12bn to £32bn. The costs to the public purse of the failure to master basic literacy have been estimated at up to £2.5bn

<sup>5</sup> [http://data.gov.uk/dataset/pupil\\_attainment\\_by\\_free\\_school\\_meal\\_fsm\\_eligibility\\_-\\_gcse\\_ks4](http://data.gov.uk/dataset/pupil_attainment_by_free_school_meal_fsm_eligibility_-_gcse_ks4)

<sup>6</sup> Sutton Trust (2010) *Responding to the new landscape for university access* Available at: <http://www.suttontrust.com/public/documents/access-proposals-report-final.pdf>

<sup>7</sup> Wolf, A. (2011) *Review of Vocational Education - The Wolf Report*. Available at: [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/180504/DFE-00031-2011.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/180504/DFE-00031-2011.pdf)

<sup>8</sup> [www.ft.com/cms/s/0/d82fc3cc-eab3-11e0-aeca-00144feab49a.html#axzz2WSxGBw42](http://www.ft.com/cms/s/0/d82fc3cc-eab3-11e0-aeca-00144feab49a.html#axzz2WSxGBw42)

<sup>9</sup> [www.education.gov.uk/rsgateway/DB/SBU/b001014/b01-2011v2.pdf](http://www.education.gov.uk/rsgateway/DB/SBU/b001014/b01-2011v2.pdf)

<sup>10</sup> [www.ons.gov.uk/ons/rel/lmac/earnings-by-qualification-in-the-uk/2011/earnings-by-qualification-in-the-uk.html](http://www.ons.gov.uk/ons/rel/lmac/earnings-by-qualification-in-the-uk/2011/earnings-by-qualification-in-the-uk.html)

<sup>11</sup> Coles, B., Godfrey, C., Keung, A., Parrot, S. & Bradshaw, J. (2010) *Estimating the life-time cost of NEET: 16-18 year olds not in Education, Employment or Training* York: University of York. Available at: [http://www.york.ac.uk/media/spsw/documents/research-and-publications/NEET\\_Final\\_Report\\_July\\_2010\\_York.pdf](http://www.york.ac.uk/media/spsw/documents/research-and-publications/NEET_Final_Report_July_2010_York.pdf)

annually.<sup>12</sup> There is a considerable financial gain to be harvested by improving outcomes for this group, providing potential opportunities for payment by result investment structures (discussed in Chapter 5).

## **3.2 Financial context**

Real education spending is likely to reduce by about 3.5 per cent per year until 2015. However, much of this will be felt by the higher education sector and will be offset by the rise in tuition fees. Schools are relatively protected, and budgets are likely to remain flat in real terms up to 2015.<sup>13</sup>

Against this, demand is rising. We are at the beginning of a small demographic bulge at present, with nursery and primary numbers showing an eight per cent increase over the next three years, while secondary school numbers are expected to fall by three per cent. Looking slightly further ahead, overall numbers of pupils in nursery, primary and secondary education are expected to rise by 13.3 per cent by 2021, with an 18 per cent increase in primary school and a seven per cent increase in secondary school enrolment (under 16).<sup>14</sup> The extension of the school leaving age to 17 this year, and 18 in 2015, will also increase demand on the education budget. This is likely to lead to falling real-terms spending per pupil.

For pupils from disadvantaged backgrounds, the projected squeeze on budgets might be mitigated by the pupil premium. The pupil premium is additional funding given to schools to support disadvantaged pupils (currently £900 per pupil). The impact of this will mean that schools in more deprived areas should see a real-terms funding rise over the lifetime of this parliament, while schools in other more prosperous areas may see a fall in funding.

## **3.3 Institutional context**

Power and responsibility has shifted significantly in the education sector over the past decade. School spending used to flow through local authorities to schools, with local authorities retaining some money for central services: Special Educational Need services (SEN), Pupil Referral Units (PRUs) and others. However, in recent years there has been a shift to passing as much money as possible directly to schools, giving head teachers far more autonomy. This has been implemented both through the academies programme and through guidelines which restrict the amount of money local authorities can retain for maintained schools.

Since this policy of localisation has been pursued by both the Labour and Coalition governments, it seems likely to continue in the medium term. Given the pressure on local authority budgets, local government is – and will remain – a very difficult market into which to sell services. Instead, individual schools, via head teachers, are increasingly the key market for social enterprises.

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<sup>12</sup> Every Child a Chance Trust (2009) *The Long Term Costs of Literacy Difficulties*. Available at: [http://www.kpmg.com/UK/en/IssuesAndInsights/ArticlesPublications/Documents/PDF/What%20We%20Do/ecc-long\\_term\\_costs\\_of\\_literacy\\_report\\_2nd\\_edition.pdf](http://www.kpmg.com/UK/en/IssuesAndInsights/ArticlesPublications/Documents/PDF/What%20We%20Do/ecc-long_term_costs_of_literacy_report_2nd_edition.pdf)

<sup>13</sup> Chowdry, H. & Sibieta, L. (2011) *Trends in education and schools spending*. Institute for Fiscal Studies: Briefing Note BN121. Available at: <http://www.ifs.org.uk/bns/bn121.pdf>

<sup>14</sup> DfE statistical release SFR11/2013 – *National Pupil Projections: Future trends in pupil numbers*. Available at: <https://www.gov.uk/government/publications/national-pupil-projections-future-trends-in-pupil-numbers-march-2013>

### 3.4 The role of social sector organisations

Social sector organisations (SSOs) have long played an important role in supporting educational attainment. Be it directly within the school day supporting the delivery of the curriculum through bespoke study programmes (for example Success For All [see Case Study (iv) in Appendix D] or The Brilliant Club) or training teachers as part of continued professional development (CPD) to deliver and integrate specialist programmes into their curriculum. Research from Social Enterprise UK's 2013 survey of social enterprise found that 17% of those surveyed are focused on promoting education and literacy<sup>15</sup>. There is also a tradition of SSOs providing non-formal education through the development of social and emotional capabilities which in turn improve the likelihood of positive attainment<sup>16</sup> through targeted programmes both inside and outside the school day.

In response to policy changes and shifts in social need, SSOs have expanded their remit to include directly running schools and whole curriculum educational provision, particularly in the areas of alternative provision for excluded pupils and post-16 further education. For example, UK Youth has developed a network of Youth Achievement Foundations that specialise in alternative provision for excluded pupils. There is also a growing number of SSOs who are providing ancillary support to schools (see case studies). This can take the form of back office operational support through to locally-sourced school meals, such as Local Food Links in Dorset, or the online case notes system Narrative developed by Inaura.<sup>17</sup>

The success of SSOs in this sector has been driven by two critical factors:

1. Increasing localisation has meant central government has a reducing appetite to control the adoption of new techniques and approaches. While central government will continue to incentivise schools around certain outcomes, it will not be able to dictate particular approaches to all schools.
2. It is through SSOs that we are seeing the greatest level of innovation, designing approaches that are relevant to young people today and in particular those on the edges of the system who are hardest to reach and at greatest risk of low participation and, consequently, low attainment. This is manifest in the emergence of digital technology-based solutions which capitalise on advances in technology to flip the traditional form of classroom learning (for example, The Discoverables,<sup>18</sup> Excite-Ed<sup>19</sup> and the Khan Academy<sup>20</sup>) as well as in traditional charities such as the Prince's Trust. In addition, Teach First is investing in innovation hubs, to develop and pilot new approaches.

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<sup>15</sup> State of Social Enterprise Survey 2013, Social Enterprise UK to be published in July 2013

<sup>16</sup> McNeil, B., Reeder, N. & Rich, J. (2012) A framework of outcomes for young people. London: The Young Foundation. Available at: <http://youngfoundation.org/wp-content/uploads/2012/10/Framework-of-outcomes-for-young-people-July-2012.pdf>

<sup>17</sup> <https://narrativehq.net/>

<sup>18</sup> [www.discoverables.org/about](http://www.discoverables.org/about)

<sup>19</sup> [www.excite-ed.co.uk/](http://www.excite-ed.co.uk/)

<sup>20</sup> [www.khanacademy.org/](http://www.khanacademy.org/)

## **4 Efficacy: What works in tackling educational disadvantage?**

There has been a great deal of research looking at the effectiveness of different approaches to tackling educational disadvantage, and much of this has not been implemented. In this section of the report we outline which relevant types of educational interventions have strongest evidence of the impact.

It is important to be clear about the kind of evidence that the research base consists of. It covers a huge variety of studies and programmes, which are grouped according to their broad approach – for example, peer-to-peer, social and emotional skills. There is a great deal of variability within these broad approaches, and the success factors of specific interventions are not typically clear. Consequently, attempts to replicate the effects of a given intervention are often unsuccessful. There are only a small number of tightly specified interventions which have first class evidence, such as Reading Recovery. Therefore investors need to bear in mind that simply because a given general approach tends to work does not imply that a specific intervention will be effective in principle or in practice.

Most of the evidence summarised below does not distinguish between disadvantaged and average pupils but focuses on broader improvement in attainment. It seems that most interventions work equally for disadvantaged pupils and average pupils. If they were to be implemented uniformly, they would not close the attainment gap but simply raise attainment levels across the board. However, in practice they can be tailored to focus on disadvantaged pupils. For example, literacy programmes allow a focus on specific pupils, for example through extra and small group tuition. There is also evidence that disadvantaged pupils tends to cluster in weaker schools. So even whole-school interventions like feedback, if targeted at schools in the right areas, can narrow the gap nationally, even if the within-school gap remains the same.

The quality of the research methodology is also variable. Randomised controlled trials are relatively rare, and it is necessarily hard to control for all the relevant factors in this context.

Although we consider the evidence base an extremely helpful guide, we are not suggesting that social investors should confine themselves to very well-evidenced interventions. They may also wish to play a role in promising but under-evidenced areas, and help build the evidence base for a particular programme.

### **4.1 Lessons from the research base**

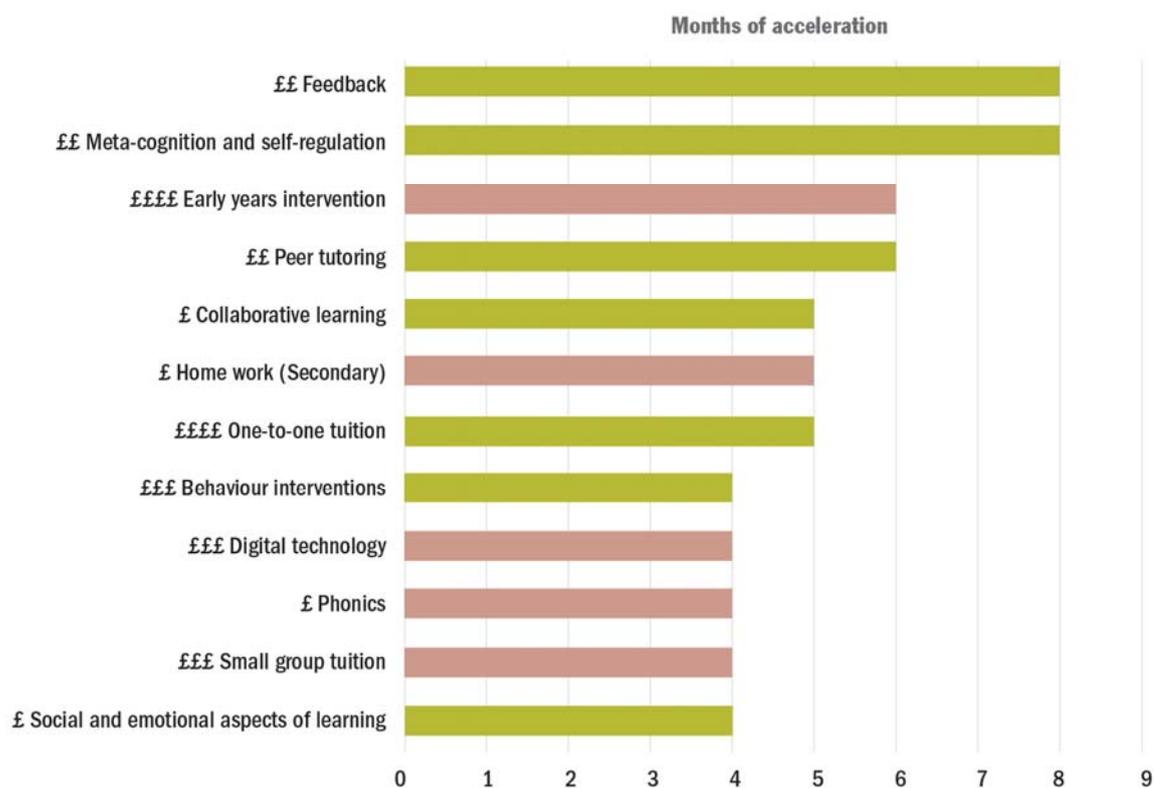
The research base into educational attainment is vast. Millions of students have contributed to the thousands of studies that make up this base. We have not attempted to summarise this base ourselves, but have relied on a small number of systematic reviews which summarise hundreds of meta-analyses, each of which in turn systematically aggregate the results of

hundreds of individual studies. In particular we have drawn on the Education Endowment Foundation’s Toolkit<sup>21</sup>, and John Hattie’s *Visible Learning*<sup>22</sup>.

The results of systematic reviews are usually presented in terms of ‘effect size’, which allows a ranking of the effects of interventions. Effect size measures the magnitude of the improvement in educational outcomes in terms of standard deviations against a relevant comparator. This can be most easily interpreted as additional months of learning against the peer group. One standard deviation being the equivalent of 12 months of additional schooling.

Not all the approaches analysed in the literature are relevant to this report. Some are out of scope (for example pre-school interventions, as this report focuses on children through their mainstream school years, 4-19), while others are a matter for schools’ internal policies (such as quantity of homework). The following chart in figure 3 from the Sutton Trust and Education Endowment Foundation’s Teaching and Learning Toolkit (EEF toolkit)<sup>23</sup>, shows a number of relevant approaches, ordered by effect size in terms of months of acceleration. The £ symbols on the left indicate the relative expense of the programme.

**Figure 3. The most effective modes of intervention, by months of acceleration**



Source: The Sutton Trust-Education Endowment Foundation Teaching and Learning Toolkit.

<sup>21</sup> Higgins, S., Katsipataki, M., Kokotsaki, D., Coleman, R., Major, L.E., & Coe, R. (2013). *The Sutton Trust-Education Endowment Foundation Teaching and Learning Toolkit*. London: Education Endowment Foundation

<sup>22</sup> Hattie, J. (2009) *Visible Learning: A synthesis of over 800 meta-analyses relating to achievement*. London & New York: Routledge

<sup>23</sup> Higgins, S., Katsipataki, M., Kokotsaki, D., Coleman, R., Major, L.E., & Coe, R. (2013). *The Sutton Trust-Education Endowment Foundation Teaching and Learning Toolkit*. London: Education Endowment Foundation

While there are other systematic reviews, the EEF toolkit is the most recent and has a UK focus. The results are also consistent with other meta-studies in the area, for example James Hattie's extensive review of the evidence, *Visible Learning*.

This leaves six areas that we think of as being particularly interesting:

## 1. Feedback

Feedback is information provided to the student on their level of understanding and to the teacher on the effectiveness of their approach. Feedback can relate to one's performance, provide an alternative strategy, or give a motivational boost. It is important to note that feedback is not just that which is given to the student by the teacher, but also the reverse. It is vital that teachers know what is working for their students, and what is not, so that they can tailor their approach.

Feedback is a simple idea, and it is surprising at first glance that this is such an outstandingly strong effect. While there is no universally accepted theory as to why feedback is so important and often underused, there are a number of key statistics that shed some light on the issue:

- 80 per cent of feedback a student receives about his or her work in elementary (primary) school is from other students. But 80 per cent of this student-provided feedback is incorrect.<sup>24</sup>
- Most of the material taught in a class is already known by the students.<sup>25</sup>
- About 70 percent of the teachers claimed they always or often provided detailed feedback, but only 45 percent of students agreed with their teachers' claims.<sup>26</sup>

Essentially, feedback is a key component in what differentiates teaching from the mere presentation of information. It is the mechanism whereby a teacher can learn what is being learnt, and how to correct for that. It is also the way that a student can discover if what they have understood is what they need to know, and understand exactly how they need to improve their understanding or the presentation of it.

The evidence around feedback suggests that it has an effect of around 0.62 or eight additional months of schooling<sup>27</sup>. Interventions in this area are cheap and effective, although feedback is not necessarily easy to implement.

There are relatively few social enterprises working on this issue at the moment, and this seems a prime opportunity for new social enterprises and social investment.

**Optimus Education** provides 'Marking, Feedback and Assessment' a training package that helps primary and secondary school teachers to improve the quality of the feedback they give to students. It shows how to use marking, feedback and assessment to inform teaching and

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<sup>24</sup> Hattie, J. (2009) *Visible Learning: A synthesis of over 800 meta-analyses relating to achievement*. London & New York: Routledge

<sup>25</sup> *ibid* (p32)

<sup>26</sup> *ibid* (p. 32)

<sup>27</sup> Higgins, S., Katsipatakis, M., Kokotsaki, D., Coleman, R., Major, L.E., & Coe, R. (2013). *The Sutton Trust-Education Endowment Foundation Teaching and Learning Toolkit*. London: Education Endowment Foundation p.12

enhance student progress and achievement. Developed by Optimus Education, the training package has been designed around the research on using feedback to raise attainment. Optimus Education publishes education and resources for school professionals. It is a private company and started in 1997.

## 2. Meta-cognition and self-regulation

Learning is itself a learnt skill. Meta-cognition and self-regulation mean encouraging pupils to explicitly think about the task at hand (learning) and then think about the strategies they use to go about this task. This approach involves supporting pupils to be more independent with their work, set their own goals and work out how to achieve them.

The evidence for meta-cognitive approaches is good, with an effect size on average of 0.69<sup>28</sup>. The evidence also suggests that it is particularly effective for raising attainment in low-achieving pupils<sup>29</sup>. This might be due to low-achieving students not gaining these skills from their home environment. It provides a potentially fruitful area that could reduce the attainment gap.

**The Philosophy Foundation (TPF)** was founded in 2007 to bring philosophical enquiry into schools and embed reasoning as the ‘fourth R’ and a fundamental building block of education in the UK. Philosophical enquiry develops speaking and listening skills and encourages critical and creative thinking. TPF trains philosophy graduates in how to run philosophical enquiries with children and adults. These specialist teachers then deliver a bespoke curriculum through a range of one-off workshops and weekly hour-long sessions throughout the academic year within both primary and secondary schools.

Qualitative feedback from teachers, pupils and parents has highlighted the breadth of impact across all areas of work, through increased concentration, greater thought and attention made to points raised in class, children more willing to voice their opinions, and a higher level of questioning. Research is currently being undertaken by the Institute of Education to independently evaluate its impact.

See Case Study (v) in Appendix D.

## 3. Social and emotional skills

Social and emotional skills are the non-cognitive skills we need in life. They include capabilities like self-motivation, determination, resilience, and team work. Social and emotional capabilities are important in their direct effect on educational attainment, in that being an effective learner depends upon having these qualities.

These skills also have a broader impact on the life chances of the individual.

The Young Foundation, like others, has argued elsewhere that the education system is mistaken in its exclusive focus on measuring cognitive ability. Non-cognitive skills are as valuable and significant, as well as being easier to change.<sup>30</sup> A complete exploration of this

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<sup>28</sup> Hattie, J. (2009) *Visible Learning: A synthesis of over 800 meta-analyses relating to achievement*. London & New York: Routledge

<sup>29</sup> Chiu, C.W.T. (1998) *Synthesizing Metacognitive Interventions: What Training Characteristics Can Improve Reading Performance?* Paper presented at the Annual Meeting of the American Educational Research Association San Diego, CA, April 13-17, 1998.

<sup>30</sup> Roberts, Y. (2009) *Grit: The skills for success and how they are grown*. London: The Young Foundation

argument would take us beyond the scope of this report. However, it is relevant to note that social investment in this area can have a double social impact, improving educational attainment as well as broader life outcomes.

**Humanutopia** was founded in 2004 to raise aspirations. Since then it has worked in over 200 schools and academies, supporting 125,000 young people and creating 10,000 ‘Heroes’.

Humanutopia’s work is largely preventative and deals with many root causes of social and educational dysfunction. They do this through entire year group interventions which provide a safe environment for students to discuss their experiences and openly address powerful underlying issues of behaviour, bullying and trust, which affect the ability to learn and develop positive relationships. Young people gain a sense of happiness, wellbeing and inner belief as they become pro-social role models and ‘heroes’ to younger people in their community.

See Case Study (iii) in Appendix D.

#### 4. Peer tutoring

Peer tutoring refers to approaches within which pupils learn from each other with support from the teacher. The evidence is fairly strong for this approach and the effect significant. The idea behind peer tutoring is that it forces pupils to think about and develop their own learning strategies, which help them to be more effective learners; it helps both tutor and tutee.

Rohrbeck and colleagues found an effect size of 0.59, or around six months’ additional teaching.<sup>31</sup> The authors also found that peer tutoring was most effective “with low-income, minority students living in urban settings”<sup>32</sup>. This makes it a ripe area to reduce the attainment gap. Peer tutoring is cheap to deliver, but does require some training to ensure it is effectively implemented.

This is another area where few social enterprises are operating at the moment, and where new investment might be valuable.

#### 5. Behaviour

Disruptive behaviour can be a barrier to learning and is disproportionately attributed to low-achieving students,<sup>33</sup> and interventions to reduce disruptive behaviour in the classroom show considerable potential to reduce the attainment gap. This is not an argument for removing disruptive pupils, but for giving schools the right support to deal with disruptive behaviour.

There have been a number of meta-analyses on a wide variety of interventions designed to decrease disruptive behaviour, and the average effect size is 0.37 standard deviations (or about three months’ accelerated learning).<sup>34</sup> However the results for different interventions vary considerably. If we instead look at meta-analyses for individual programmes, the area is much more promising.

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<sup>31</sup> Rohrbeck, C. A, Ginsburg-Block, M. D., Fantuzzo, J. W., & Miller, T. R. (2003). ‘Peer-assisted learning interventions with elementary school students: A meta-analytic review’. *Journal of Educational Psychology*, 95(2), 240-257.

<sup>32</sup> Ibid 250

<sup>33</sup> [www.education.gov.uk/publications/standard/publicationDetail/Page1/DFE-RR218](http://www.education.gov.uk/publications/standard/publicationDetail/Page1/DFE-RR218)

<sup>34</sup> Hattie, J. (2009) *Visible Learning: A synthesis of over 800 meta-analyses relating to achievement*. London & New York: Routledge

**Leap Confronting Conflict** is a national charity that provides young people with the skills they need to manage conflict and prevent destructive or violent behaviour. It works in partnership with teachers, community groups and the criminal justice system. Every young person who participates completes evaluation of their understanding and awareness of conflict issues. The Identity, Prejudice and Belonging programme works specifically around racial violence and has expanded to work with young people excluded or at risk of exclusion. In 2012 this programme reached 400 young people through schools and youth services resulting in 93 per cent improving their understanding of conflict, 87 per cent having a greater appreciation of others' identities and 93 per cent felt better able to challenge prejudice.

## 6. One-on-one and small group tuition

Small group tuition applies to groups of five pupils or fewer, typically given for a few hours per week. Groups of six have a diminished effect. While there is evidence to support reduction in general class sizes, it is much smaller in effect. As might be expected, one-on-one tuition has a greater effect than small group tuition, although the difference between pairs and one-on-one seems minimal.

**Catch Up**<sup>35</sup> is a not-for-profit charity that has developed structured interventions that enable struggling learners to 'catch up' in literacy and numeracy. Catch Up provides training and support to teaching assistants who deliver the Catch Up Literacy and Catch Up Numeracy intervention to students through two 15-minute one-to-one sessions each week.

Research suggests that Catch Up Literacy enables learners to make 19 months' progress after seven months of the intervention. Catch Up Numeracy has been shown to achieve an 11-month increase for a five-month intervention, equating to a mean ratio gain of 2.2.<sup>36</sup>

See Case Study (i) in Appendix D.

## 4.2 Does the evidence base impact on practice?

One of the challenges for social enterprises is that the evidence base of what works is only partially integrated into practice by schools. The graph in figure 4 below shows the top spending priorities for the pupil premium for a range of primary and secondary schools as of March 2013.<sup>37</sup> Cheap and well-evidenced interventions such as feedback and peer-to-peer tutoring remain very small niches, whereas teaching assistants are one of the top three interventions, despite the evidence presently suggesting that they make no difference on average.<sup>38</sup>

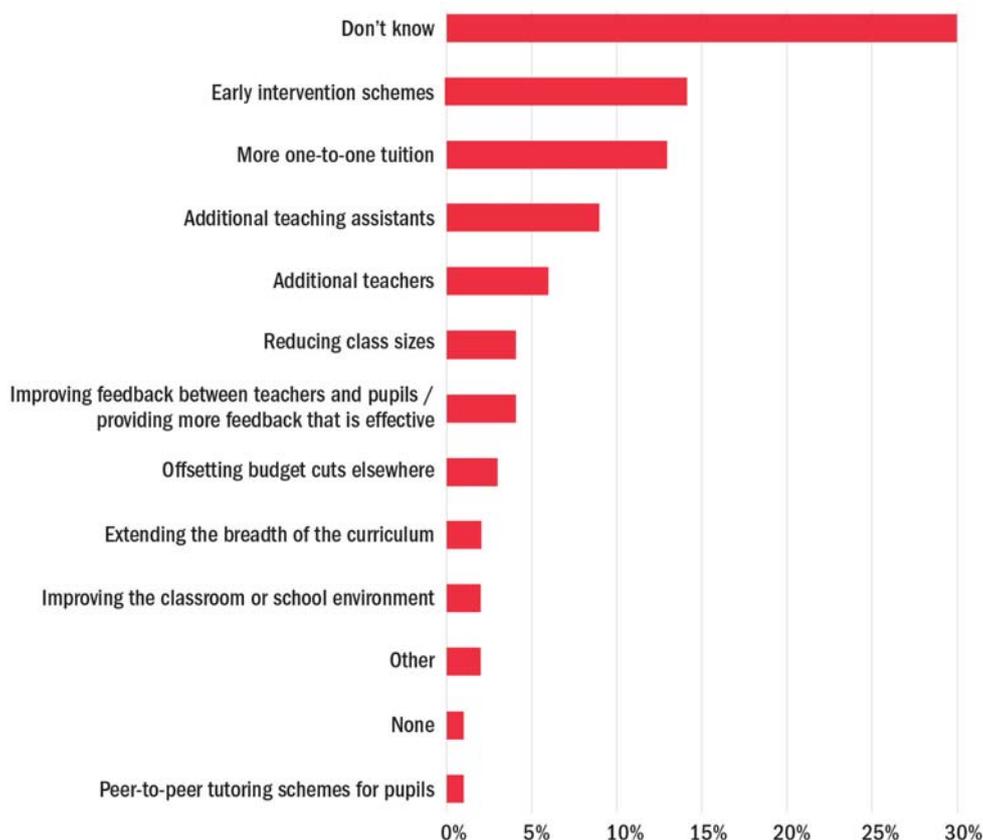
<sup>35</sup> Catch Up® is a registered trademark

<sup>36</sup> Data taken from Catch Up's website.

<sup>37</sup> Ager, R. and Pyle, K. (2013) NFER Teacher Voice Omnibus March 2013 Survey: Spending Priorities for the Pupil Premium Available at: [www.nfer.ac.uk/nfer/publications/99929/99929.pdf](http://www.nfer.ac.uk/nfer/publications/99929/99929.pdf)

<sup>38</sup> It is important to note that the evidence base only tells us that we do not yet know how to make teaching assistants work effectively, not that they cannot work. Effort to developing a new approach could well be worthwhile.

**Figure 4. With the money received through the Pupil Premium, what is the third main priority for extra spending at your school in 2012/2013?**



Source: Sutton Trust NFER Teacher Voice Omnibus March 2013 Survey

There are a number of reasons the evidence base is not used more widely. Survey data<sup>39</sup> suggests that teachers draw largely on their own experience and on their peers to select priorities, rather than the research evidence. Only five per cent of schools looked at the EEF toolkit, and only 35 per cent considered research at all. However, 52 per cent relied on their own experience and 46 per cent on what had worked at other schools. One organisation we spoke to was told by a head teacher that they could have turned up at the school wearing a clown suit and he would still have commissioned them to work in the school as they had been recommended by a local head teacher whose opinions he respected. This should not be a surprise, as evidence about the uptake of innovation in other sectors suggests that personal experience and peer influence remain more effective than evidence.<sup>40</sup>

However there are positive signs about the availability of infrastructure to enable evidence-based decision-making in schools. There is now a credible and accessible synthesis of the research base (in the form of the EEF toolkit), extra funding to implement it in the shape of

<sup>39</sup> Ager, R. and Pyle, K. (2013) NFER Teacher Voice Omnibus March 2013 Survey: Spending Priorities for the Pupil Premium Available at: [www.nfer.ac.uk/nfer/publications/99929/99929.pdf](http://www.nfer.ac.uk/nfer/publications/99929/99929.pdf)

<sup>40</sup> Rogers, E. (2003) *The Diffusion of Innovation, 5th Edition* New York: Simon and Schuster

the pupil premium, pressure from Ofsted to spend it well, and monitor how it is being spent. This suggests to us that the use of the evidenced techniques outlined above will rise over the next few years.

## 5 Marketability

Good evidence is not enough to sell a product or service. There must be customers who have the money to buy, and who feel the product meets a pressing need. We have selected three specific markets to examine in detail, as we believe they meet two key criteria:

**Positive demand outlook.** To make an impact it is not enough to throw money at old approaches; we must adapt and innovate, albeit around a core of good evidence. This is much easier in markets where we see the potential for some growth. Social investors are also looking for approaches that can scale, which is significantly harder in a shrinking market. Our conversations with investors have revealed a great deal of concern about abrupt fiscal and policy switches that might disadvantage their investees. The areas we have chosen are ones where we have good reason to think there will be stability in spending, and therefore investors could take a reasonably long-term view.

**Social need at scale.** The second criteria we assessed the markets against is the presence of social need and size of the potential market. We have chosen potentially large markets, as this will maximise social impact and financial return.

The markets in question are:

- students themselves, in the post-16 vocational market
- direct to schools, with a focus on the pupil premium
- central government, as the commissioner of SIBs/PbR contracts.

It is important to note that we are talking about markets rather than services here. The same social enterprise with the same approach could market to a school as a supplementary education provider, to the government as an evidence-based constituent of an SIB, and could open its own post-16 college appealing directly to students. However, in practice the different requirements of these markets will probably make it hard for a single programme to succeed in all three.

We will outline why each of these markets meets these criteria in the discussion below.

These opportunities also allow a portfolio with a mix of time horizons and levels of scale and ambition. Given that the rise in the school leaving age is happening this year and in 2015, the opportunity for investment here is imminent. Results from the first few SIBs and PbR contracts will come out over the next few years, hopefully also leading to growing opportunity there. Direct investment in social enterprises marketing to schools has the greatest potential size of these three, but is an immature market which will scale over the next 3-10 years, given the right background conditions.

There is also a hierarchy of scale here. The funding of post-16 institutions, while a good-sized market, is the smallest of the three opportunities. Social impact bonds – if they can be shown to reduce long-term benefit costs – are a potentially large market. Directly marketing

to schools has the highest potential to impact on disadvantaged young people, as it can potentially effect the whole school system, and embed new practice across the country. However it is also probably the most challenging to invest in at this point. A comprehensive assessment of all the investment opportunities in education is beyond the scope of this report, so we do not pretend that these are indubitably the only investable markets in the sector. In particular there are a number of markets we would have liked to consider in more detail, but which we did not feel quite met our criteria at this time. These are:

- Alternative provision. This is provision out of the ordinary school setting for pupils who have been excluded, or are on the edge of it. This market has been much criticised<sup>41</sup> and social enterprises could enter it. However it is relatively small (only about 5,000 pupils are excluded nationally every year), and mooted reforms to the incentives in this market make for a low revenue visibility.
- Sport/physical activity. While the evidence here is not yet strong enough to warrant inclusion, some of the more innovative and successful programmes that we are aware of use sport and physical activity to engage those who are otherwise unmotivated by formal education, as well as to improve behaviour and levels of concentration. We would like to see more evidence in this area.
- Given more time we would also like to segment the market for educational disadvantage in more detail and consider interventions for the most disadvantaged, as well as for the broad swath. In this huge area there is a need for further thinking and further research.

We now turn to the three opportunities identified, and consider what makes them an attractive market, how large the opportunity might be, and how to succeed in these areas.

## 5.1 The Post-16 vocational market

The post-16 education system has failed a very large cohort of the population, entering them for qualifications with little or no labour market value. As the Wolf Report stated:

- Many of our 16- and 17-year-olds move in and out of education and short-term employment. They are churning between the two in an attempt to find either a course which offers a real chance for progress, or a permanent job, and are finding neither.
- The staple offer for between a quarter and a third of the post-16 cohort is a diet of low-level vocational qualifications, most of which have little to no labour market value. Among 16- to 19-year-olds, the report estimates that at least 350,000 get little to no benefit from the post-16 education system.
- English and maths GCSE (at grades A\* - C) are fundamental to young people's employment and education prospects. Yet less than 50 per cent of students have both at the end of Key Stage 4 (age 15-16); and at age 18 the figure is still below 50 per cent. Only 4 per cent of the cohort achieves this key credential during their 16-18 education.<sup>42</sup>

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<sup>41</sup> Taylor, C. (2012) *Improving Alternative Provision*, DfE Available at: <http://media.education.gov.uk/assets/files/pdf/8/improving%20alternative%20provision.pdf>

<sup>42</sup> Wolf, A. (2011) *Review of Vocational Education - The Wolf Report*. Available at: [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/180504/DFE-00031-2011.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/180504/DFE-00031-2011.pdf)

Following this report, the government announced the removal of the majority of GCSE-equivalent vocational qualifications from the school performance league tables. While the deletion of these qualifications from the league tables removes some perverse incentives, that does not mean the problem will solve itself. An active effort will be required to create new pathways that work for this cohort. And this cohort is disproportionately composed of those from disadvantaged backgrounds.

Additionally, the government is increasing the age to which all young people in England must continue in education or training, requiring them to continue until the end of the academic year in which they turn 17 from 2013 and 18 from 2015.<sup>43</sup> Options include:

- continuing in full-time education, such as school, college or home education
- an apprenticeship
- part-time education or training if they are employed, self-employed or volunteering full-time (which is defined as 20 hours or more a week).

This will require an increased number of places in schools, colleges and training institutions, although exactly how many will depend on the choices that young people make between the options outlined above. Further, in line with the Wolf Report, there will also be additional funding available for those who have not attained GCSE maths and English, to help them reach the required level.

This market is open to a number of providers, including charities, commercial companies and social enterprises. The easiest funding route is known as the ‘zero-funded contract’, and subject to regulatory approval, allows the operator to open its doors and be paid for the pupils it signs up. (For a fuller description of the funding structures see Appendix B)

Over the medium term this should be a fairly stable market. An established provider offering recognised qualifications and training is unlikely to be disrupted by abrupt changes in political direction; the leaving age is unlikely to be lowered again, and colleges can adapt as qualification requirements change. Of course investments in new start-ups or expansion remain as risky as in any other business sector, but no more so.

## Scale

The total planned budget for 2013-14 for post-16 education is £7,430m, up from £7,335m for 2012-13.<sup>44</sup>

Estimates for the total number of extra places required by the changes are difficult to come by<sup>45</sup>. Based on 2011 figures (the latest available) we have estimated that around 50,000 to 100,000 extra places will be needed over the next two years to cover the changes. This is based on the relevant population multiplied by the proportion of which are NEETs, with corrections for the fact that many of these individual may prefer a part-time approach, in combination with volunteering, and allowing for imperfect compliance. This is a very approximate estimate, but is consistent with other estimates from elsewhere.

Based on the new funding formula we have assumed an average of £4,000 funding per pupil with an average deprivation uprating of £870. This means around £279m of extra funding will be needed to cover the extra places.

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<sup>43</sup> Section 68 of the Education and Skills Act 2008

<sup>44</sup> Education Funding Agency, 2013, Letter to institutions delivering 16-19 education and training. Available at: <http://www.education.gov.uk/aboutdfe/executiveagencies/efa/a00210682/funding-formula-review>

<sup>45</sup> There have been no estimations of the impact of raising the school leaving age since the original impact assessments in 2007.

There is considerable uncertainty with respect to this estimate. While we can assume that few NEETs will be able to find an apprenticeship, we don't know the mix between full- and part-time work that will be selected. The need for extra places could be higher. We also do not know if there is excess capacity in the existing system that will be absorbed, or if there is a large amount of capacity in the pipeline already.

It is also important to understand that NEETs are not a static category – instead people churn in and out of NEET status. As mentioned above, the Wolf Report estimated 350,000 young people were being broadly failed by the education system post-16. An enterprise that can succeed in this group can move beyond the 50,000 new places mentioned here and begin to draw in from this larger group.

### **How to succeed in this market**

While the social needs of this group are well defined, appealing to them as customers is less clearly understood. Since this is a group that has previously not fully participated in mainstream education, or has found the experience unhelpful, there is clearly a lot to learn about how to appeal to and deliver for this cohort.

**Reaching the hard-to-reach.** 2nd Chance provides a 12-month programme of training and support to 16- to 24-year-olds who have been failed by the traditional education system. It is based on a successful model of education provision for students operating in France.

Places at 2nd Chance are filled through young people applying directly rather than any form of referral process. Attracting their interest and commitment to attend the programme means that the 2nd Chance model needed to be designed to be relevant to them and meet their needs. It is set in a specially remodelled building, follows the pattern of a working day and offers four days in the classroom all together and one day per week as a paid employee at a partner organisation. The salary matches what they would otherwise have received as jobseekers allowance, while being employed encourages them to have genuinely meaningful employment over the course of the programme.

This was the driving force behind 2nd Chance's creation – the recognition that existing provision for harder-to-reach pupils was failing them. For its first intake starting in June 2013, 2nd Chance had 150 applications for 50 places.

See Case Study (vi) in Appendix D.

This presents some difficulty in understanding how providers can succeed in attracting and delivering for students in this market, since, by composition, this is a group that is being broadly failed, and where there has been little effective provision. Our conversations with existing suppliers of post-16 education do not suggest that there is a very active attempt on the part of existing institutions to tailor their offer to the requirements of this group (although our sample is far from statistically significant). Models for success are few and far between.

One of our key recommendations is that this is an area for further research and innovation. However there are a number of insights:

1. Non-participants in post-16 education are far from homogenous; caring for a parent, engagement in criminal activity, having some time off, or coping with serious

illness are all among the reasons given.<sup>46</sup> A range of different providers will be necessary to serve this group.

2. Non-participants have a poor record of school achievement, and have consequently tended to become disenchanted with or even hostile towards the school system. One way of seeing this would be to suggest that they are leaving because they cannot succeed within it, rather than going towards something better.<sup>47</sup> Engaging, enthusing, and offering a fresh approach will be central.
3. While maths and English skills are central, training can also be valuable. Here there is a poor match between supply and demand. Research from the Local Government Association (LGA)<sup>48</sup> found a poor relationship between numbers training and vacancies. In 2010-11 in England 94,420 people took hair and beauty courses, but only 18,016 jobs were available. On the other hand there were 273,969 vacancies in construction, but only 123,370 people took courses. Good matching of training with the supply of jobs is central.

## 5.2 Direct to schools, focusing on the pupil premium

### Why it is attractive?

#### a. Growing demand

The pupil premium exists to make “sure that schools do much more to focus on gap narrowing” for their most disadvantaged pupils.<sup>49</sup> It is a fairly large additional investment for schools – £1.875bn in 2013-14, or £900 per pupil. In most cases the pupil premium is paid direct to schools, allocated to them for every pupil who receives free school meals. Schools decide how to use the funding, as they are seen as best placed to assess what additional provision their pupils’ need.<sup>50</sup>

This funding is not ring fenced, but it is intended to be used for pupils from poorer backgrounds. Consequently there is pressure building on schools to be able to demonstrate that they are spending this money appropriately and wisely. A number of factors push schools towards best practice in this area:

- Ofsted has been fairly critical of the way that the pupil premium is being spent, saying: “*In some schools it was clear to inspectors that the spending was not all focused on the needs of the specific groups for whom it was intended*”, and “*only one in 10 school leaders said that the pupil premium had significantly changed the way that they supported pupils from disadvantaged backgrounds.*”<sup>51</sup>
- Schools are required to report online on how they are spending the pupil premium money, and to report their outcomes for disadvantaged pupils in league tables.

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<sup>46</sup> Spielhofer, T., Walker, M., Gagg, K., Schagen, S. & O'Donnell, S. (2008) *Raising the Participation Age in Education and Training to 18*. London: DCSF Available at: <http://dera.ioe.ac.uk/7423/1/dcsf-rr012.pdf>

<sup>47</sup> Department for Education and Skills (2007) *90% participation project desk research*. Great Britain: Department for Education and Skills

<sup>48</sup> Gardiner, L. & Wilson, T. (2012) *Hidden Talents: Skills mismatch analysis*. Centre for Economic and Social Inclusion. Available at: [http://www.local.gov.uk/c/document\\_library/get\\_file?uuid=ae107372-6539-4e8b-a1d2-6aabfdd3ad3d&groupId=10171](http://www.local.gov.uk/c/document_library/get_file?uuid=ae107372-6539-4e8b-a1d2-6aabfdd3ad3d&groupId=10171)

<sup>49</sup> Laws, D. (2013) *Speech: Closing the gap*, DFE: [www.education.gov.uk/inthenews/speeches/a00222472/lawsascl](http://www.education.gov.uk/inthenews/speeches/a00222472/lawsascl)

<sup>50</sup> Department for Education (2010) *Press Release: Government announces pupil premium to raise achievement*. Available at: [www.education.gov.uk/inthenews/inthenews/a0063284/government-announces-pupil-premium-to-raise-achievement](http://www.education.gov.uk/inthenews/inthenews/a0063284/government-announces-pupil-premium-to-raise-achievement)

<sup>51</sup> Ofsted (2010) *The Pupil Premium: How schools are using the Pupil Premium funding to raise achievement for disadvantaged pupils*. Available at: [www.ofsted.gov.uk/resources/pupil-premium](http://www.ofsted.gov.uk/resources/pupil-premium)

- Some schools will be subject to more formal scrutiny on how exactly the money is spent. For example, category 3 schools ('requiring improvement'), that are also category 3 for leadership, and which have low attainment for disadvantaged children, will have more accountability requirements for their pupil premium. Here, the school will be required to draw up an action plan for the pupil premium in consultation with a system leader to develop a strategy for effective spending, based on the evidence of what works. Ofsted will comment on the impact of this plan as part of its programme for monitoring and re-inspecting weak schools.
- Finally, no school can be classified as outstanding if its results cannot demonstrate progress for disadvantaged pupils.

Much of the pupil premium money will be spent on schools' internal budgets; for many schools the pupil premium represents an offset to other funding cuts. However, bought-in services may also be boosted. As schools that are underperforming are pressured to demonstrate credible plans to improve, some will seek external expertise to accelerate and validate their plans.

This funding is likely to be sustained in the medium term. As discussed above, the attainment gap has been a focus of policy for some years. All three parties are committed to extra funding for disadvantaged pupils. Educational under-attainment has a huge cost to the state, and it is a fiscal necessity to tackle it in the long run; it is hard to see a government ignoring this problem. The only way therefore to get schools to focus on this area is to demand accountability about how they spend this money. Social enterprises with a credible answer to this question are already finding an interested audience, and we believe they will continue to do so.

## **b. Scale**

In 2014-15 there will be £2.5bn to spend supporting the 1.3m FSM pupils through the pupil premium. This represents a significant opportunity for social investment. Clearly only a small proportion of this will be available to outside providers, and it is difficult to know exactly how much at present. However, many social sector organisations have experience of selling into schools under existing arrangements. Interviews with the sector have found most social entrepreneurs pick a price point around £2,000 - £10,000 for secondary schools, and £500 - £5,000 for primary schools, with most of these schools working with only one or two social enterprises. School pricing points for buying in external support seem to be fixed regardless of the nature or impact of the intervention.<sup>52</sup> This favours low cost interventions and means those that are more resource-intensive need to find alternative revenues to subsidise the full cost.

To explore this further, it is illuminating to look at overall school budgets. The following table (Figure 5) setting out income and expenditure across maintained schools gives some sense of what might be available for spending on bought-in services.<sup>53</sup> Looking at the relevant budget lines in school accounts, £240 per primary school pupil and £379 per secondary school pupil might in theory be available to social enterprises in general. This is about £56,000 per primary school and £379,000 per secondary school. However, it is important to note that much of this budget is already spoken for, via text books, supply

<sup>52</sup> This is based on anecdotal evidence from our interviews. We have not been able to test this through a full survey of head teachers.

<sup>53</sup> 2009-10 Consistent Financial Reporting (CFR) data, Department for Education  
[www.education.gov.uk/schools/performance/archive/2009-10\\_school\\_spend\\_per\\_pupil-Grouped\\_data.zip](http://www.education.gov.uk/schools/performance/archive/2009-10_school_spend_per_pupil-Grouped_data.zip)

teachers, therapists and so on, and few social enterprises are likely to be able to access every budget line at once.

**Figure 5. Spending per pupil (£) in maintained schools in selected categories (inc pupil premium)**

	Average number of pupils	Total income	Learning resources (not ICT)	ICT learning resources	Bought in professional services	Staff training and development
<b>Primary</b>	234	4,022	145	38	36	22
<b>Secondary with KS4</b>	1,033	5,214	230	63	48	26
<b>Secondary without KS4</b>	442	4,197	183	36	40	15

Source: 2009-10 Consistent Financial Reporting (CFR) data, Department for Education

### How to succeed in this market

It is important to note that many of the teachers we interviewed had not historically seen bought-in services as a major factor in meeting their objectives. This is not to say that they are ideologically opposed to buying in services, but more that they are not used to doing so frequently, and expect to be able to reduce the attainment gap using their own staff.

Secondly, the products that are presently being bought focus on extra tuition around literacy and numeracy, as the rapid growth of organisations such as Debate Mate, The Brilliant Club, Tutor Trust and Reach Up illustrate. These are products where teachers can see the clearest link to the outcomes that matter to them. Beyond this, there is significant variation in what sorts of products and services appealed to budget holders within schools. Some practitioners were particularly interested in understanding their pupils better through data, others in parental and community interventions, others in hard-to-reach groups and still others in improving the emotional resilience of their charges. Nearly every sort of intervention mentioned above under efficacy resonated with some, but none with all.

Given this variation, and the lack of impact of the research base on school spending as mentioned above, the key factor of success in this area is not primarily the type of intervention championed, but the marketing and delivery of that intervention. Our conversations with successful entrepreneurs and practitioners were consistent in revealing three criteria for success:

#### a. Delivering in partnership

Complete buy-in from the school, from classroom teachers to governors, is critical. Long-term impact will be determined by the extent to which it is embedded within the school experience. As a result successful organisations try to work with schools and classroom teachers from the outset to ensure maximum buy-in.

**Effective delivery partnerships.** The Philosophy Foundation learned quickly in its early days that not fully engaging with the teaching staff can have negative consequences. For example, a classroom teacher who is not engaged, and wanders out of the room mid-session, can undermine completely the work of the organisation. If the teacher does not support the programme, why would the students? In another case, the school allocated a PE class to

receive support. Not only did the PE teacher not understand or engage with the support, but the children suffered from not being given their opportunity for physical activity. See Case Study (v) in Appendix D.

Social sector organisations need to ensure that their relationship is one of equals and mutual respect from the outset, having the confidence to insist on the optimal conditions for delivery. Success For All seeks to ensure this by stipulating that the chair of the governing body must be a co-signatory on the contract to ensure the whole leadership team is on board with the programme.

### **b. Speaking the language of teachers**

The teaching profession is fiercely aware of the responsibility they hold for providing a quality foundation for life for each of their pupils. In practice this can mean that achieving credibility in the eyes of teachers can be a difficult barrier to overcome. This is particularly important when one considers that organisations are competing not necessarily against other enterprises but against the opportunity to invest in more teaching staff or smaller classroom sizes. For example, one of our interviewees, Enabling Enterprise, solely employs qualified teachers as it believes this is critical for both the quality of their delivery and credibility in the eyes of their clients.

Articulating how an organisation will help make the teacher's life easier is another way social sector organisations can be successful in marketing to schools. Crudely speaking, in the world of education this means how an organisation will help the school meet Ofsted requirements, literacy and numeracy floor targets, and since the changes announced in March 2013, progress made by the FSM pupils.

**A simple offer.** Catch Up clearly articulates and links its impact to the core Ofsted targets for numeracy and literacy. The extensive research of Catch Up interventions enables it to state that pupils will make twice the normal rate of progress.<sup>54</sup> There is even a downloadable calculator on the website that teachers can use to calculate how much the training will cost per child. For example, training a programme coordinator and two teaching assistants working with five learners per week over the course of four years – including the on-going running costs – would work out at £123 per struggling learner.<sup>55</sup> See Case Study (i) in Appendix D.

### **c. Endorsement**

Whether from the Department for Education or a neighbouring school, endorsement remains one of the primary means of access to the decision-makers that social enterprises need to secure contracts. Teachers receive hundreds of emails each week offering them services of some form, which means endorsement from a respected partner can be the difference between following up or ignoring the offer. Using academy chains as an entry point to a wider network of schools is a common strategy – used by organisations such as Success For All and Humanutopia – although at present there are only a small number of academy chains.

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<sup>54</sup> Taken from [www.catchup.org](http://www.catchup.org). These results have not been verified by The Young Foundation.

<sup>55</sup> Based on Catch Up calculation available online [www.catchup.org](http://www.catchup.org)

**The power of word-of-mouth.** For Humanutopia, the personal experience of teachers seeing their work in action and the corresponding word-of-mouth recommendations have been the core drivers of their growth. Working within the academy chain, Oasis Community Learning has proved an important opening to working with other schools that have seen the impact across the whole school.

The ethos of the school and critically the head teacher, has also played an important role. A teacher in a school where behavioural issues are a systemic problem or for whom the holistic development of the pupils is placed on a par with academic performance can be an important indicator of whether or not they will be receptive to Humanutopia's approach. See Case Study (iii) in Appendix D.

### **5.3 Central government – through social impact bonds and payment by results contracts**

#### **Why it is attractive**

The first social impact bond (SIB) is only three years old, but the sector has grown considerably since then. The £30m DWP innovation fund is the largest SIB programme to date, and one very much focused on educational outcomes. The government commitment to public service reform makes payment by results (PbR) contracts increasingly attractive over the medium term, and there is widespread interest across the public sector. The transfer of all criminal rehabilitation programmes to a payment by results model is just one example. Further, in a time of austerity, the self-funding potential of SIBs is also attractive. The possibility of improving social outcomes without having to find money in stretched budgets is a huge selling point in this day and age.

SIBs have been seen as complex to implement, however there are a number of enabling initiatives and trends that are making SIBs and other PbR contracts simpler in practice. The first is the availability of data. The Cabinet Office and its Centre for social impact bonds are committed to making available data from central government departments that will enable outcomes to be tracked and accurately priced. Education is data rich in the tracking of attainment, progression and attendance. Access to the National Pupil Database has the potential to provide comparative base line performance data against which an intervention with a particular cohort could be assessed.

The second is the investment in a pipeline of well-evidenced interventions. The Education Endowment Foundation<sup>56</sup> alone has made 56 grants to SSOs working with over 300,000 pupils in the UK, while the Dartington Social Research Unit has assessed 16 programmes and approaches as part of its Investing in Children project<sup>57</sup> and is working with a further 25 up to 2016 as part of Big Lottery Fund's Realising Ambition programme.

Thirdly, practical knowledge about how to set up a SIB is becoming more available. The first SIBs involved considerable bespoke legal support to develop the contract and determine the roles and requirements of each participant. The Cabinet Office has developed standard

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<sup>56</sup> [www.educationendowmentfoundation.org.uk](http://www.educationendowmentfoundation.org.uk) Accessed 3 June 2013

<sup>57</sup> More information on the Investing in Children project is available here: <http://dartington.org.uk/projects/investing-in-children/>

format contracts and online guidance on best practice in procurement and managing processes which will make the process smoother to replicate in the future.<sup>58</sup>

Finally, familiarity with SIBs is leading to a more pragmatic attitude now than was the case in their early development. In particular, measurement is approached in a more pragmatic way. In the early SIBs, measurement was done in a precise but mathematically and practically complex way involving large databases and a carefully matched control group. There is greater recognition and value placed on simpler indicators as measures of attribution, as can be seen from the metrics used for the DWP Innovation Fund; a letter from the school attesting to improved behaviour is not perhaps scientifically robust as a measure of future attainment, but for a young person identified as at risk of poor attainment it is meaningful and feasibly obtainable.

**The DWP Innovation Fund.** The DWP Innovation Fund was launched in 2011 to address youth unemployment through innovative early interventions delivered in areas with no existing support. The fund had £30m to invest over three years and has entered into 10 contracts over two rounds of commissioning, who will work with 17,000 young people between 14 and 24 years old. The DWP used analysis from the Longitudinal Study of Young People in England to identify proxy indicators of key risk factors of later negative outcomes, which would act as the trigger point for payments. These indicators included attitude towards school, attendance and behaviour as well as more traditional outcomes of accredited qualifications and sustained employment. By targeting proxy indicators, the fund is able to release payments more quickly than waiting for long term evidence. From the perspective of an investor this improves the liquidity of their investment as they don't have to wait so long to realise the financial return.

### How big is it?

The scale of the market for social impact bonds is normally a direct consequence of the projected cashable savings that accrue to the commissioner from achieving the social outcome. In the case of educational attainment the key beneficiary is the Department for Work and Pensions (DWP). It is the benefits bill, rather than the education budget, that saves from greater educational attainment. Disadvantaged young people are disproportionately likely to become considered 'not in education, employment or training' (NEET). The long-term additional costs to the DWP of each young person NEET are estimated at £56,000 and to the economy overall at £104,000.<sup>59</sup> Based on the 152,000 young people aged 16-18 years who were NEET in England at the end of March 2013, this equates to cost to the public purse of £8.5bn. In 2010 the DWP allocated £30m, a fraction of this estimated long-term cost, to fund innovation pilots. If this is successful, then this could be a very large market indeed.

Additionally there is a significant pool of capital available for co-commissioning of SIBs where the savings from an intervention don't accrue to solely one commissioner. The £60m available from the Cabinet Office Social Outcomes Fund and the Big Lottery Fund Co-commissioning Fund increase the potential of SIBs in the public sector.

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<sup>58</sup> The Centre for Social Impact Bonds has launched a Knowledge Tool Box providing extensive guidance and case studies which simplify the process. [http://data.gov.uk/sib\\_knowledge\\_box/](http://data.gov.uk/sib_knowledge_box/)

<sup>59</sup> Coles, B., Godfrey, C., Keung, A., Parrot, S. & Bradshaw, J. (2010) Estimating the life-time cost of NEET: 16-18 year olds not in Education, Employment or Training York: University of York. Available at: [http://www.york.ac.uk/media/spsw/documents/research-and-publications/NEET\\_Final\\_Report\\_July\\_2010\\_York.pdf](http://www.york.ac.uk/media/spsw/documents/research-and-publications/NEET_Final_Report_July_2010_York.pdf)

## How to succeed in this market

In the context of PbR contracts as a means to improve educational outcomes, there are three ways to measure success:

1. Securing the commitment of commissioners to fund the contract
2. Attracting social investors to provide the upfront finance
3. Achieving the desired outcome of improved attainment

We consider each of these in turn below:

**Securing commissioners of the contracts.** We have already mentioned the infrastructure work that is being done to relieve the barriers that prevent commissioners from entering into PbR contracts and SIBs. The successful results of existing SIBs such as the Peterborough SIB and the DWP Innovation Fund pilots will also be important in the long-term viability of this approach and subsequent central government funding. Although it is still too early for full impact evaluation of the Peterborough SIB or the DWP Innovation Fund pilots, early indications are positive.

**Attracting investment.** The question as to whether SIBs represent a good financial investment remains unanswered at this point. The precise financial arrangements being used have not been made public, and it is therefore impossible to assess the risk reward balance. However in private conversations reputable investors have expressed confidence that these currently represent a viable investment.

**Teens and Toddlers** is confident that it will be able to deliver the targeted social outcomes that will drive the financial payments by the DWP to the social investors. However its ability to track and evidence its impact is a result of significant philanthropic support received from Impetus Trust.

The specifics of the DWP Innovation Fund contract require weekly reporting on all output and outcome measures. Even where interventions are evidence-based and have a proven evaluation, this does not always mean that tracking and reporting outcomes is embedded within the delivery of every service to every individual beneficiary. Through previous support and investment from Impetus Trust, Teens and Toddlers had already developed its own reporting system and its staff were accustomed to regular reporting before it became a day-to-day obligation under the DWP contract.

See Case Study (ii) in Appendix D.

**Improving the attainment of disadvantaged young people.** For SSOs to be successful they will need to be mindful of the critical success factor of delivering in partnership with schools (detailed in Chapter 6), as well as maintaining the integrity of the delivery model.

## 6 Investability

For an opportunity to be investible, there must be a demand for finance and the capability to repay it.

### 6.1 The demand for social investment

In the post-16 space and in SIBs there is a clear role for investment. In both cases investment will be important for SSOs looking to start or expand in these areas.

SIBs are built around the investor providing upfront risk capital for an outcomes-based contract and cannot function without investor involvement. In the case of the DWP Innovation Fund, having investors identified was one of the prerequisites of qualifying for the invitation to tender. There is a clear financing gap in the post-16 market, due to the zero funding nature of the initial contracts. While some institutions have been able to access grant funding for this, there is a need to create a large number of places in a relatively short time, and grant funders are not normally keen to provide what is effectively bridge financing.

When it comes to direct investment in SSOs, overall data shows considerable engagement with social investment. A survey undertaken for Big Lottery Fund and others<sup>60</sup> in 2012 found that 22 per cent of youth- and education-focused organisations had taken on some form of repayable investment, with a further 44 per cent indicating some interest (either actively considering, or have applied and been rejected). Only 33 per cent were uninterested. Since the environment for grant funding seems likely to remain tight, interest in social investment is likely to remain strong.

There are some important nuances here however. Our interviews suggest that SSOs respond to changes in the schools market, diversifying their revenue base, developing their infrastructure for capturing impact and professionalising their marketing strategies, and they are looking for risk capital to finance this. Much of the investment hitherto has been secured lending to the larger institutions in the sector, or those with an asset base. Analysis of Big Lottery Fund's survey of investment readiness from 2012<sup>61</sup> showed that the majority of those who were successful were required by investors to provide security for the investment. However, much of the need going forward will be for riskier capital. While social investors are unlikely to fund highly risky start-ups, they are capable of equity or equity-like investments in growing businesses. Big Society Capital will play an important role here, as it injects riskier capital into the sector.

Secondly there is the issue of the availability of grant funding as an alternative to debt finance. Grant funding is plainly more attractive to the investee than repayable finance, and the very best enterprises will be exactly the ones that are most able to access grant funding. With programmes such as the Education Endowment Foundation or Big Lottery Fund offering multi-million multi-year grants for SSOs looking to scale evidence-based interventions, it is not surprising that many of the best social enterprises are finding sufficient access to grant funding to meet their growth plans. There is a danger that social investors suffer from a selection bias problem, unable to invest in the best enterprises. Grant funding is finite, and this problem will therefore reduce as the sector grows. However, closer

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<sup>60</sup> Gregory, D., Hill, K., Joy, I. & Keen, S (2013) *Investment Readiness in the UK* ClearlySo, New Philanthropy Capital. Available at: [www.biglotteryfund.org.uk/er\\_invest\\_ready.pdf](http://www.biglotteryfund.org.uk/er_invest_ready.pdf)

<sup>61</sup> *ibid*

cooperation with grant funders would be advantageous to social investors. It would also allow grant funders to leverage their giving.

**Repayable versus non-repayable funding.** As one would expect, the decision whether to use grant or loan funding comes down to the risk profile. Catch Up has used both loans and grants to fund its growth and product development. Secured loans from the Charity Bank were used to fund the consolidation of their service offer and then to develop a digital package. In both cases they were able to clearly link these projects to additional revenues and accelerated growth, with which they repaid the investment.

When Catch Up decided to adapt their literacy approach to the area of numeracy, there was less certainty of whether this approach would work and what the demand from schools would be. As a result of this higher risk of success, the project was funded through a grant from the Esmée Fairbairn Foundation. Catch Up is currently enhancing their digital support package for parents, which is offered free to schools. As the impact on parental engagement is untested and this product enhancement it is not expected to drive additional sales, they have chosen to fund it through grants.

See Case Study (i) in Appendix D.

## 6.2 The capacity to receive social investment

The demand and need for social investment may be there, but are social sector organisations capable of taking on investment?

In terms of the capacity to receive social investment, there are some commonly recognised criteria which are applicable across all sectors:

1. **Scale.** The transaction costs associated with investment – particularly those associated with complex structures such as longer duration quasi-equity – favour larger investment sizes of at least £25,000. This in turn implies that SSOs need to have a turnover of at least £80,000 for investment to be feasible.
2. **Track record.** The longer the trading history of an organisation, the less the perceived operational risk. SSOs typically need to have been running for at least two years before being eligible for investment. Social investment is therefore not appropriate for seed funding or proof of concept.
3. **Investment readiness.** The strategic plan and the leadership and operational capacity to achieve it are critical. Those with a clear and believable plan to return money to investors are few and far between. Many of those working with young people, either within education or without, do not have a commercial background. In addition, governance, reporting, contracting and legal form need to be in place.

Although there have been many new SSOs launched over the last two years, supporting education attainment through selling into schools and local authorities is a well-established sector. The latest data from the National Council for Voluntary Organisations (NCVO) has shown that there are 7,713 education-focused SSOs with an average turnover of £200,000, although it should be caveated that this includes education providers outside the scope of this report (such as early years or adult provision). So, scale might not be an immediate barrier.

Track record is more complex, as what was a successful business model pre-2010 does not necessarily hold true today, with the many changes in education policy and issues surrounding marketability that were discussed in Chapter 5. This is borne out by the fact that 55 per cent of the youth and education charities surveyed by Big Lottery Fund<sup>62</sup> in 2012 said that they expected their mix of funding to change over the following year. Additionally, a third of CAF Venturesome's portfolio working in education have been looking to transition their business model from grant funding to a more diversified and sustainable source of revenues. Investors are not able to rely on historical performance as an indicator of future growth. However this issue is not unique to social investment; few industries are static and good enterprises are adaptable. Track records need to be carefully interpreted however.

Institutional maturity can be a problem. Much has been written about investment readiness and the mismatch between where investors perceive the weaknesses to be and those identified by the SSOs themselves, all of which is relevant to education-focused SSOs.<sup>63</sup> Dedicated investment readiness support, such as that offered through the Cabinet Office Investment and Contract Readiness Fund and the soon to be launched Big Lottery Investment Readiness Fund, will play an important role in developing the internal capacity of the sector.<sup>64</sup>

From our interviews we found that there are three characteristics that investible organisations in the education space share: the ability to succinctly articulate their impact on attainment, a clear sales strategy for reaching schools, and an adaptable revenue model.

1. **Articulation of impact on attainment.** Organisations have to articulate their impact such that it reflects the school's priorities. Simply put this equates to Ofsted priorities, national league tables and central government floor targets. Increasingly organisations are employing former teachers who understand and speak the same language as their clients.
2. **Sales strategy.** Reliance on word-of-mouth and personal recommendation will only go so far without some form of engineered approach or means to amplify through a large scale hub and spoke approach, the use of educational conferences or appropriate media coverage.
  - a. Marketing strategies need to be highly professional. Organisations that are ahead of the curve are already employing marketing and sales experts, attending or holding educational conferences as well as investing in effective use of social media and search engine optimisation.
  - b. Targeting the decision-makers. At one time, just a couple of hundred local authority education leads were the main entry point. But now the numbers have changed, and organisations need to access the approximately 20,000 head teachers who hold the budgets of primary and secondary schools across the country. The judicious use of endorsements through, for example, academy chains, the National College for Teaching and Leadership and the Good CPD Guide are increasingly important.

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<sup>62</sup> *ibid*

<sup>63</sup> Gregory, D., Hill, K., Joy, I. & Keen, S (2013) *Investment Readiness in the UK* ClearlySo, New Philanthropy Capital. Available at: [www.biglotteryfund.org.uk/er\\_invest\\_ready.pdf](http://www.biglotteryfund.org.uk/er_invest_ready.pdf)

<sup>64</sup> More information is available on the fund website [www.beinvestmentready.org.uk](http://www.beinvestmentready.org.uk)

3. **Adaptable revenue model.** The decision to buy-in support is highly sensitive to changes in head teacher, Ofsted priorities and the national economic outlook. Revenue diversification and the ability to access alternative sources of income are therefore critical for providing an investor with confidence in the business model. This is beyond the simple track record of delivery and evidence of impact. Organisations have to show they are delivering services that schools or commissioners are willing to pay for and that they have a marketing and sales strategy that will enable them to overcome the issues of a fragmented market.

**Redefining a business model.** The Philosophy Foundation (TPF) has always funded their work through trading income direct from the schools themselves. Grant funding has been used to finance external evaluation of their work. However they have found that the price at which schools are willing to pay has remained static at around £2,800 for a year-long programme and there is no room to further increase the charges to schools. Scaling up their reach will involve a step-change in their core costs before they are able to achieve economies of scale.

Given the issue of pricing sensitivity, TPF is looking for alternative sources of revenue to cross subsidise the cost of delivery. TPF has already established a modest source of revenues from the publication of its books on philosophical enquiry, which includes *The Philosophy Shop*, winner of the Education Resources Award (ERA) for Educational Book of 2013. However, capitalising on opportunities such as the Good CPD Guide to recommend its training in meta-cognitive skills and building on its work with corporates will be key to its capacity to return investment.

See Case Study (v) in Appendix D.

**Becoming investment ready is a time-consuming and resource-intensive process.** It is important to recognise that the few organisations that have been successful in securing investment often owe their investment readiness to capacity development paid for by grants and pro bono supporters. In the case of *Teens and Toddlers* their ability to articulate their impact on the outcomes most pertinent to their stakeholders and their system for tracking and recording these outcomes were both developed through the support package offered by Impetus Trust, long before the launch of the DWP Innovation Fund. In the case of *Catch Up*, they have been able to afford to buy-in professional marketing expertise thanks to a grant from the Charles Dunstone Charitable Trust. Developing these three critical attributes – the impact narrative, sales strategy and an adaptable revenue model – can be a catch-22 situation. They require financial resources that SSOs are unable to meet organically, but without which they cannot access growth capital. This is why the relationship between grant funders and providers of risk capital is so important.

**Experience.** CAF Venturesome is probably the most prolific social investor in the education space. Since 2002 it has made 16 investments to organisations whose work impacts attainment. Their experience has indicated that the education sector is highly sensitive to changes in the economy and education policy. Across its portfolio the education investments were the first to feel the pressure of the declining economic environment in 2008, as head teachers reduced their external expenditure for fear of their budget being cut in the next financial year. Over-reliance on a small number of school contracts, compounded by the seasonality of the school spending cycle, translates into a high financial risk for the investor. In practice this means that potential investees must be able to demonstrate how their model can stand up to these pressures.

## 7 Conclusions and recommendations

For social investors, education presents a promising area. It has:

- real social need
- evidence and knowledge about how to make an impact
- some helpful policy initiatives, despite a climate of austerity
- demand for finance of the kind the social investors can supply
- a body of exciting and innovative entrepreneurs.

We have suggested that three areas could form the cornerstone of a portfolio in this area, combining social and financial returns:

1. Finance new post-16 education and training institutions that reach those groups who have been failed previously and supply basic skills and contact with employers in new and engaging ways.
2. Funding the best-evidenced interventions through an SIB/PbR, with the additional benefit of demonstrating that this is a viable asset class.
3. Scale social enterprises that help schools use the pupil premium wisely, in light of the evidence (carefully selecting those that understand the challenge of selling in this market).

Opportunity	Efficacy	Marketability	Investability
<b>Post 16 Education</b>	Large proportion of the cohort failed  Basic skills a clear need	Rise in the school leaving age creates demand	Funding in arrears gives a clear need for finance
<b>Social impact bonds</b>	Suitable for any well-evidenced intervention  Would be helped by building the evidence base for specific programmes	Central government has been an enthusiastic champion, and would be the key beneficiary of significant savings	Investors are essential  Risk reward balance still unclear, as a new product
<b>Direct to schools</b>	A host of well-evidenced approaches exist, and social enterprises that embody them	Pupil premium provides helpful funding  Increasing pressure on schools to show evidence based  Many social enterprises already operating, but at small scale	Significant proportion of the cohort have taken investment  Cooperation with grant funders would be helpful

While the last of these may take some time to come to scale, the first is immediate, and the second will go through a peak in demand in the next 2-3 years, so there should be a natural balance.

We have specifically selected opportunities which we think will succeed against the existing policy environment and would not require dramatic structural changes to the system. Indeed, the core opportunity for social enterprise has occurred because central government has stepped back from directive management of the education sector. It has given institutions more autonomy over their budgets, and is holding them to account for outcomes, rather than specifying solutions. It supports outcome-based structures such as SIBs, and welcomes a range of innovative new entrants, such as in the post-16 market. The greatest policy requirement is that the government continues to operate in this way.

However there are some areas where the government needs to continue and deepen its existing direction, some where it can play a facilitating role, and some where it has a role as a customer, through SIBs/PbR:

1. The government can play an important role as a **validator of quality**: prizes, awards, and standard-setting would all help quality operators to gain credibility and scale faster. As well as being of practical use, the impact of this as a signal of the government's confidence in the sector would be very significant.
2. A central government department could **create a new dedicated fund** which would operate in a similar way to the DWP Innovation Fund, targeting educational attainment through the provision of evidence-based interventions in schools.

For other actors in this market, a number of other considerations occur:

3. **The post-16 market is a key area for further research where a better understanding could support the development of** new forms of engagement for harder-to-reach young people.
4. **Grant funders and social investors should work together more closely.** We need to design new coordinated programmes that allow grant funders to use investment to leverage their impact, and allow social investors access to the best enterprises.

There are valuable initiatives going on in most of these categories. There is a great deal to do in order to make this sector work, but many reasons to believe that it will get there.

## **Appendix A: Payment by results and social impact bonds primer**

There is growing interest in the use of payment by results (PbR) across the public sector. As this shifts risk away from the state and onto contractors, there is a need for risk finance.

A payment by results contract is one that links payments to the achievement of specific outcomes, rather than the performance of activities. Historically a contractor working with the long-term unemployed would be paid for each person they worked with, irrespective of whether that individual actually found work. Under a PbR contract the contractor would only be paid for those who found work. In practice a PbR contract may not be purely results-based; they can contain some activity-based payments.

Since this payment is both uncertain and in arrears, it creates a need for risk financing. Social sector institutions have much of the expertise to carry out the work, but not usually the balance sheet strength to internally finance these contracts. Therefore there is a need for external risk capital, and a place for investment.

When the execution risk of a PbR contract is transferred to a consortium of investors, the structure is usually called a social impact bond (SIB). SIBs, and to some extent PbR in general, have often been sold on the basis that they will pay for themselves; that the improvement in the social outcome will reduce long-term government spending, and thus cover the costs of the PbR. Reducing reoffending and diverting children from care and custody are two examples of this sort of approach.

In theory the government might choose to offer a PbR contract on an outcome which is not self-funding in this way. Typically government spending is socially focused, not based on financial return. From the point of view of the investor and operator, it makes little difference. However in a climate of financial austerity it is a powerful marketing point and all the large scale SIBs have had this logic.

Since the government is typically the payer in a PbR contract, the outcome in question will often be a socially valuable one, such as reducing reoffending or long-term unemployment. This makes PbR a potentially excellent area for social investors, combining a need for risk capital with social impact.

In order for a PbR contract to work, a number of conditions need to be met:

1. An objectively measureable outcome or basket of outcomes on which to base the contract.
2. Fair attribution of changes in that outcome. This means confidence that changes to this outcome are caused by the contractor, rather than by other actors, or background factors such as the economy. It also means that the measurement cannot be gamed in any way, for example by 'cherry picking' individuals.
3. A fair balance of risk and return so that both investors and the state find the deal attractive.
4. Reasonable transaction costs.

## **Appendix B: Post-16 funding primer**

### **Post-16 funding and trends**

The post-16 education system is currently going through a period of transition due to the increase in which all young people in England must remain in education or training, as outlined in the main report. This will apply to 16-year-olds from the end of the academic year in which they are 17 from summer 2013, and 17-year-olds to their 18th birthday from summer 2015.

The primary source of funding for post-16 education providers is from the Education Funding Agency (EFA), with additional funding routes through local authorities. As part of the increase in the school leaving age, the funding arrangements are also changing.

### **Young People**

The young people covered by this system are either:

- between the ages of 16 and 19
- aged 19-25, have a learning difficulty and/or disability and are the subject of a learning difficulty assessment
- aged 10-18 in juvenile secure accommodation.<sup>65</sup>

For the 2013-14 academic year this covers nearly 1,550,000 students, including 257,000 apprenticeship places.

### **Provision**

Post-16 education is provided by schools, Academies (sponsored, converter, City Technology Colleges, Free Schools, University Technology Colleges and Studio Schools), colleges and independent providers.<sup>66</sup>

### **Funding routes**

The EFA is the primary funder of post-16 education, replacing the Young People's Learning Agency and Partnership for Schools from April 2012. The EFA is reducing its number of staff that deal directly with local authorities and individual institutions.

### **Standard route**

The standard funding route in the new system is directly from the EFA from 2013 on a per student basis. This is approximately £4,000 per full time student (600 hours). Academies, colleges, and providers will get their funding in this way, though the system is still lagged (funding is based on data from the previous year) and is calculated through data returned in census for schools/academies or Individualised Learner Record (ILR) for colleges and other further education providers.

The new formula is set out below. Of particular interest is the disadvantage funding which has been designed to create a single budget that institutions use as they see fit to help

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<sup>65</sup> Education Funding Agency (2012), Statutory Guidance: Funding Arrangements for 16–19 Education and Training. Available at: <http://www.education.gov.uk/aboutdfe/executiveagencies/efa/funding/fundings/a00203196/16-19-funding>

<sup>66</sup> Education Funding Agency (2012), Statutory Guidance: Funding Arrangements for 16–19 Education and Training. Available at: <http://www.education.gov.uk/aboutdfe/executiveagencies/efa/funding/fundings/a00203196/16-19-funding>

students achieve full participation and achievement. This element is calculated via two blocks.

- Block 1 is based on a student’s postcode, using the Index of Multiple Deprivation 2010. The uplift here is between 8.4 per cent and 33.6 per cent
- Block 2 is based on a student’s achievement of GCSE English and maths at the end of Year 11. For 2013-14 the rate will be £480, and a student with neither qualification would receive £960 (£1440 for a student in care).

This part of the funding allocation is not ring fenced for these students, although this is tempered by the fact that all students without Grade C GCSE in English or maths must now enrol on these courses in post-16 education.<sup>67</sup>

**Figure 6. Funding formula**



### Local authorities

Under the new system the local authorities’ (LAs) main role is to champion the education and training needs of young people in their area through:

- influencing and shaping the provision on offer and helping to develop and improve the education and training market
- promoting any necessary structural change in the local education and training system
- supporting the improvement of the quality of the education and training of young people aged 16-19
- supporting employer needs, economic growth and community development working with local enterprise partnerships (LEPs) as appropriate
- supporting the development of provider and stakeholder networks that help to deliver the raising the participation age (RPA) targets.

This means that they can reallocate places from one institution to another where that best meets the needs and demand of students and addresses local or regional priorities for improvement and participation.

High needs students (HNS) – those with learning difficulties and/or disabilities and/or special educational needs – are eligible for additional funding. The first £6,000 of extra support is provided by the EFA based on figures given by the local authority on the number of places it is going to commission from each institution. Any further funding required is negotiated and agreed with the students LA.<sup>68</sup>

<sup>67</sup> Education Funding Agency (2012) 16-19 Funding Formula for 2013/14 / Shadow Allocations 2012/13 Available at: <http://www.education.gov.uk/aboutdfe/executiveagencies/efa/a00210682/funding-formula-review>

<sup>68</sup> Education Funding Agency, 2012, 16-19 Funding Formula Review: Funding full participation for young people Available at: <http://www.education.gov.uk/aboutdfe/executiveagencies/efa/a00210682/funding-formula-review>

### Zero-funded contracts

Zero-funded contracts are a new funding route to allow commercial and charitable institutions to enter the 16 to 19 education market. It joins the other market entry options offered by the EFA - Free Schools, University Technical Colleges, Studio Schools, and responding to open procurements run by the EFA.

Under a zero-funded contract institutions will receive £0 per student for the first year of operation – funding then starts from the second year of delivery, subject to compliance with the contract. Students at zero-funded institutions will still be eligible for bursaries.<sup>69</sup>

In their first year, zero-funded institutions must:

- establish suitable facilities
- develop links to the local referral and education and training network
- recruit students and deliver to them education and training in accordance with the EFA contract and the principles governing study programmes as described in the publication ‘Study Programmes for 16-19 year olds’
- administer and pay bursaries to eligible students
- submit the ILR for each student
- be in scope for Ofsted inspection
- be subject to, and satisfy in the opinion of, the EFA, financial health, audit, assurance and compliance considerations
- meet all other requirements in order to be funded the following year.

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<sup>69</sup> Education Funding Agency (2012) *e-bulletin issue 13: Zero-funded contracts gateway opens* Available at: <http://www.education.gov.uk/aboutdfe/executiveagencies/efa/efabulletins/h00215046/issue-13/article-06>

## **Appendix C: 4-16 funding primer**

### **Dedicated Schools Grant (DSG)**

Primary and secondary schools in England – those other than Academies, Free Schools, or Studio Schools – are funded through local authorities via the DSG from the Department for Education. The DSG is calculated from the School Census, and takes into account the level of educational disadvantage in each area, area costs, and the level of provision in the area.

Each local authority uses a locally-agreed distribution formula to share its level of DSG among its schools. Each school will receive a different level of funding for its pupils depending on the application of the local formula, including the split of funding between its primary and secondary pupils.<sup>70</sup>

From 2013-2014 the Department for Education is limiting the formula that local authorities may use to apportion the DSG among their schools. The aim of this is to limit some of the variability between funding levels for different local authorities. This sets out two mandatory factors and ten other optional factors to be used to calculate the funding levels. The mandatory factors are a basic per-pupil entitlement (based on the student census) and a deprivation score.<sup>71</sup>

The changes coming into effect from 2013-2014 also mean that local authorities will be forced to publish the formula they use to calculate the funding that each school receives.

### **Academies**

Academies, both primary and secondary, receive their funding direct from the Education Funding Agency (EFA). Academies should receive equivalent level of per-pupil funding as they would receive from the local authority as a maintained school. Academies also receive funding to meet their additional responsibilities that are no longer provided for them by the local authority.<sup>72</sup>

Academy funding is calculated using the local education authority's formula to ensure consistency with maintained schools. From 2013-2014 this calculation will be done by the EFA using the local authority's published formula.

#### **Free Schools, University Technical Colleges and Studio Schools**

From 2013-14, Free Schools, University Technical Colleges (UTCs) and Studio Schools will be funded through the relevant local simplified formula. This means that they will be funded on the same basis as Academies and maintained schools.<sup>73</sup>

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<sup>70</sup> [www.gov.uk/government/publications/funding-for-primary-and-service-childrens-education-schools/funding-for-primary-and-service-childrens-education-schools](http://www.gov.uk/government/publications/funding-for-primary-and-service-childrens-education-schools/funding-for-primary-and-service-childrens-education-schools)

<sup>71</sup> Department for Education, School Funding Reform: Arrangements for 2013-14, [www.gov.uk/government/publications/school-funding-reform-next-steps-towards-a-fairer-system](http://www.gov.uk/government/publications/school-funding-reform-next-steps-towards-a-fairer-system)

<sup>72</sup> [www.education.gov.uk/schools/leadership/typesofschools/academies/primary/steps/b00204848/academy-funding](http://www.education.gov.uk/schools/leadership/typesofschools/academies/primary/steps/b00204848/academy-funding)

<sup>73</sup> Department for Education, School Funding Reform: Arrangements for 2013-14, [www.gov.uk/government/publications/school-funding-reform-next-steps-towards-a-fairer-system](http://www.gov.uk/government/publications/school-funding-reform-next-steps-towards-a-fairer-system)

## **Pupil premium**

The pupil premium was introduced in April 2011 and aims to make “sure that schools do much more to focus on gap narrowing” for their most disadvantaged pupils. The pupil premium is a fairly large additional investment for schools – £1.875bn in 2013-14, rising to £2.5bn in 2014-15. In most cases the pupil premium is paid direct to schools, allocated to them for every pupil who receives free school meals. Schools decide how to use the funding, as they are best placed to assess what additional provision their pupils need. From April 2013 the pupil premium will be around £900 per disadvantaged pupil in years from Reception to Year 11 in maintained schools and Academies in England.<sup>74</sup>

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<sup>74</sup>[www.education.gov.uk/schools/adminandfinance/financialmanagement/schoolsrevenuefunding/a00218077/funding-settlement-2013-14](http://www.education.gov.uk/schools/adminandfinance/financialmanagement/schoolsrevenuefunding/a00218077/funding-settlement-2013-14)

## Appendix D: Case studies

### (i) Catch Up® - [www.catchup.org](http://www.catchup.org)

Catch Up is a not-for-profit charity that has developed structured interventions that enable struggling learners to ‘catch up’ in literacy and numeracy. Catch Up provides training and support to teachers and teaching assistants who manage and deliver the intervention to pupils through two 15 minute one-to-one sessions each week.

Catch Up was founded in 1997 and is based in Thetford, Norfolk.

#### Efficacy

Catch Up offers two interventions; Catch Up Literacy and Catch Up Numeracy. Both interventions have undergone numerous external evaluations assessing the quality of training and the impact of the interventions on children’s attainment. Catch Up calculates its impact in terms of ratio gain, or rather the average increase in skills as measured by standardised tests compared to what would otherwise have been expected. Based on the research, it estimates that Catch Up Literacy achieves an average ratio gain of 2.75, which equates to 19 months’ progress from a seven-month intervention. Catch Up Numeracy has been shown to achieve an 11-month increase for a five-month intervention, equating to a mean ratio gain of 2.2.<sup>75</sup>

Catch Up Literacy is currently undergoing a large-scale randomised control trial involving over 650 pupils across 17 schools, funded by the Education Endowment Foundation, to test its impact on literacy over the transition period between years six and seven, and on these pupils’ attitudes to learning.

The management teams commitment to evidencing impact has been a driver of their involvement in so many external evaluations, the results of which have informed the development of the intervention. The breadth of research also reflects that, since numeracy and literacy were placed at the centre of the national curriculum, there have been several national programmes of research and best practice focused on these areas, from which Catch Up has benefited.

#### Marketability

*Why is it attractive?*

There are three reasons why Catch Up finds its products easy to market to schools.

Firstly the **simplicity** of its offer:

- The interventions are light-touch involving 15 minute sessions twice a week, which can be easily integrated into the targeted support time that teaching assistants would already be offering underachieving children.
- Teaching assistants themselves need only attend four half days of training and there are no additional or hidden resource implications for the school.

Secondly, the **quality** of impact evidence:

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<sup>75</sup> Data taken from Catch Up’s website.

- The approach has been evaluated and shown to more than double the normal rate of pupil progress.<sup>76</sup> The impact is clearly articulated and linked to core Ofsted targets for numeracy and literacy.

Thirdly, it is **cost-effective**.

- The programme involves one-off training costs of £350 per trainee. There is even a downloadable calculator on the website that teachers can use to calculate how much the investment in staff training will work out as the cost per child.
- Analysis by New Philanthropy Capital in 2010 estimated the average cost per child to be £120. Catch Up now sets this at £130.
- With pupil premium budgets of £900 per child in 2013-14 and the introduction of a specific Year 7 catch-up premium of £500 for each pupil who has not achieved level 4 in reading or maths, the Catch Up interventions represent an inexpensive solution for schools.

*How to succeed?*

**Adapting and investing in their marketing approach.** Prior to 2010 Catch Up had always targeted the strategic individuals within local authorities to act as local champions of their work. Since 2010, many of their previous contacts are no longer employed by the local authorities due to cuts in local authority spending and Catch Up now has to target schools directly.

Whereas previously Catch Up considered marketing unnecessary and possibly ‘too sell-y for a charity’, investing in developing a marketing strategy, with bought-in expertise from an educational marketing professional, has been central to their ability to trade through the recent economic crisis. However, they were also successful in applying for a grant which enabled them to make this investment in internal capacity.

**Speaking the language of teachers.** As a literacy and numeracy offer, Catch Up is able to clearly express to teachers how its work can contribute to achieving their floor targets in these areas. They also employ qualified teachers on their staff; the director and deputy director both held senior management team roles in schools. They also maintain a high level of credibility within the teaching profession, due to their involvement with school governing bodies, participation in national studies on literacy and numeracy and through running regular conferences on relevant topical issues such as targeting pupil funding to enhance learning.

## **Investability**

*Demand for investment*

As one would expect, the decision whether to use grant or loan funding comes down to the risk profile. Catch Up has used both loans and grants to fund its growth through product development. Secured loans from the Charity Bank were used to fund the consolidation of their service offer and then to develop a digital package. In both cases they were able to clearly link these projects to additional revenues and accelerated growth, with which they repaid the investment.

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<sup>76</sup> Taken from Catch Up’s website. These results have not been verified by The Young Foundation.

When they decided to adapt their literacy approach to numeracy, there was less certainty of whether this approach would work and what the demand from schools would be. As a result of this higher risk the project was funded through a grant from the Esmée Fairbairn Foundation. Catch Up are currently enhancing their digital support package for parents. As the impact on parental engagement is untested and this product enhancement is not expected to drive additional sales, they have chosen to fund it through grants.

#### *The capacity to receive and return social investment*

Catch Up core costs are 100 per cent funded through trading revenues and its cost-effective model enables it to charge schools a price that ensures full cost recovery. It has already successfully repaid two unsecured loans to the Charity Bank.

However robust the model is, their ability to continue trading through the negative experience of a drop in training income in 2011 was due in large part to additional loans from their trustees, repaid fully by the end of 2012, to provide them with a working capital cushion.

#### **Key lessons**

- Schools respond to a simple offer that is tied into their own floor targets for learning outcomes.
- A professional marketing strategy is critical for effectively targeting and growing income.
- There is a need for both grant and loan finance to support investment and growth.

#### **(ii) Teens and Toddlers - [www.teensandtoddlers.org](http://www.teensandtoddlers.org)**

Teens and Toddlers is a charity whose vision is for all young people to feel valued, included and inspired to contribute to their communities. They achieve this through inspiring young people to achieve the skills, qualifications and self-belief they need to succeed in education, at work and in life. The programme takes a group of teenagers aged between 13 and 16 who are at high risk of becoming either teenage parents or disengaging with education, and pairs them with younger children aged between three and five years, who are also vulnerable and in need of early intervention as determined by the nurseries, who they mentor and become a role model to.

Teens and Toddlers has been a recipient of venture philanthropy from Impetus Trust since 2009 and in 2011 received social investment from Big Society Capital, Bridges Ventures, CAF Venturesome, Impetus Trust, the Barrow Cadbury Trust and the Esmée Fairbairn Foundation to deliver a £3.2m contract under the second round of the DWP Innovation Fund.

#### **Efficacy**

Teens and Toddlers has been tracking and evaluating its effect on participants since its launch in 2001. It continues to track each participant annually up to the age of 20, enabling them to have an accurate picture of how successful their intervention was long after the end of the programme. The 2012 retrospective study found that 95% of those aged 16-18 remained in education, employment or training and 98.6% of participants did not go on to conceive. This last statistic is in comparison to the 45% who were designated by teachers as being at high risk of becoming a teenage parent.

On the strength of this evidence, the organisation was considered robust enough for it to secure over £2.4m of social investment from leading UK social investors, enabling them to deliver against a DWP contract worth £3.2m.

## **Marketability**

### *Why is it attractive?*

Teens and Toddlers offers a well-evidenced approach for working with young people who are identified as being at high risk of becoming a teenage parent. They have developed their own risk assessment tool and work with teachers who assess risk levels pre and post the programme which enables them to measure perceived changes in level of risk..

The intervention is practical and discrete, lasting 18 weeks, and has the additional benefit of offering participants a recognised qualification through a QCF National Award in Interpersonal Skills.

### *How to succeed*

As a recipient of strategic funding from central government, the organisation was able to receive a steer from the DfE as to which schools and areas it should target its support. Following the change in the funding environment and the loss of local authority contracts, Teens and Toddlers has undergone a strategic review of its approach. Through pro bono support from Impetus Trust, it was able to undertake an in-depth stakeholder mapping process which enabled them to identify the real outcomes that their core customers valued and focus on demonstrating how their work meets them.

## **Investability**

### *Demand for investment*

Teens and Toddlers has benefited from significant capital investment in the form of venture philanthropy from Impetus Trust. Between 2009 and 2013 Teens and Toddlers will have received £835,000 in the form of grant funding and £480,000 of pro bono support from professional services organisations including Price Waterhouse Coopers, PA Consulting and Macfarlane, OC&C Strategy Consultants and Bearing Points.

This support has been a critical part of Teens and Toddlers' ability to diversify their business model after local authority funding fell away in 2010 and develop the outcomes measurement strategy and reporting system that was fundamental to their ability to secure and deliver the DWP Innovation Fund contract.

Securing social investment was a pre-requisite for Teens and Toddlers to be invited to tender for the DWP Innovation Fund. Even had this not been the case, entering into an arrangement for social investment would still have been important for Teens and Toddlers to manage the financial risk of a payment by results contract.

While not contractually obliged to meet the financial return, Teens and Toddlers acknowledges the contract has an inherent financial risk as failing to deliver the outcomes that drive the financial return may inhibit its ability to secure future contracts and investments.

### *The capacity to receive and return social investment*

Teens and Toddlers is confident that it will be able to deliver the targeted social outcomes that will drive the financial payments by the DWP to the social investors. However there are two important considerations in this:

Firstly, that the outcome indicators used by the DWP reflect interim risk indicators of behaviour, attendance and attitude to school, often referred to as softer indicators, rather than hard measures of educational attainment. They are also being measured on QCF level 1 and level 2 qualifications achieved. These outcomes are relatively easy to measure and do not require a lengthy study to assess whether the intervention a young person received aged 14 actually results in attainment two to four years later.

Secondly, the specifics of the DWP Innovation Fund contract require weekly reporting on all output and outcome measures. Even where interventions are evidence-based and have a proven evaluation, this does not always mean that tracking and reporting outcomes is embedded within the delivery of every service to every individual beneficiary. Through previous support and investment from Impetus Trust, Teens and Toddlers had already developed its own reporting system and its staff were accustomed to regular reporting before it became a day-to-day obligation under the DWP contract.

#### **Key lessons**

- Capacity development and investment in the organisation's infrastructure and systems is critical and often more time-consuming and resource-intensive than expected.
- Organisations like Teens and Toddlers that have been successful in securing social investment and a major PbR contract have often benefited from substantial support for developing their business capacity over a number of years.
- Evidencing outcomes through one-off evaluations is not the same as having a measurement and reporting system embedded throughout all programmes of work, which can be a pre-requisite for determining the successful delivery of outcomes under a PbR contract.

#### **(iii) Humanutopia - [www.humanutopia.com](http://www.humanutopia.com)**

Humanutopia was founded in 2004 to raise aspirations. Since then it has worked in over 200 schools and academies, supporting 125,000 young people and creating 10,000 'Heroes'.

Humanutopia's work is largely preventative and deals with many root causes of social and educational dysfunction. They do this through entire year group interventions which provide a safe environment for students to discuss their experiences and openly address powerful underlying issues of behaviour, bullying and trust, which affect the ability to learn and develop positive relationships. Young people gain a sense of happiness, wellbeing and inner belief as they become pro-social role models and 'heroes' to younger people in their community.

## **Efficacy**

The anecdotal evidence of the impact that Humanutopia has on young people is powerful. Their social media is inundated with feedback from young people following each of its sessions. That children feel able to share so openly their personal experience reflects the safe environment created by Humanutopia and their confidence to express it. An online survey of 935 students from across seven of the participant schools in 2012 found that 92 per cent of students said they understood their behaviour better, 96 per cent wanted to improve their grades and 88 per cent were helped to make new friends.

Humanutopia's work has not been externally evaluated and until recently they had not tracked the individual impact on each young person participating in its programmes. That being said it is evident that Humanutopia's programmes draw on the methodology behind peer mentoring, which is an effective and evidenced form of learning.

## **Marketability**

*Why is it attractive?*

Humanutopia's work tackles issues of bullying, behaviour and lack of self-esteem and resilience which can affect not just individual learning but the learning experience of an entire class and year group.

The ethos of the school and, critically, the head teacher has also played an important role. A teacher in a school where behavioural issues are a systemic problem or for whom the holistic development of the pupils is placed on a par with academic performance can be an important indicator of whether or not they will be receptive to Humanutopia's approach.

*How to succeed*

To date the core driver of growth has been through the personal experience of teachers seeing Humanutopia in action or via **word-of-mouth** from those who have. Working within the academy chain Oasis Community Learning has proved an important opening to working with other schools that have seen the impact across the whole school.

The budget cuts that have affected schools and local authorities mean that it is increasingly important for Humanutopia to demonstrate cost effectiveness and how its work directly contributes to the school priorities around attainment in literacy, numeracy and GCSE floor standards, to prevent its work being seen as an additional 'nice to have' rather than fundamental driver of achievement.

This problem is reflected by one head teacher interviewed who said he would love to have them working within his school but cannot justify the expenditure, in an environment where he has restructured staffing arrangements to allow him to buy-in literacy and other specialist support that he believes will support the whole school reaching attainment targets.

## **Investability**

Expanding its reach will require Humanutopia to invest further in its evidence base, linking its work to academic attainment, its marketing strategy and building its core delivery team to manage growth. Humanutopia is run by an ambitious and committed team that recognise the benefits of non-financial support associated with social investment as opposed to organic growth.

Humanutopia operates a 100 per cent trading model where schools pay for the full cost of the programme adopted. While the maximum impact is achieved through long-term engagement with schools, Humanutopia offers a range of one day, 2-9 day and year-long courses which are all priced to enable full-cost recovery.

However, a key barrier to growth has been the reduction in school budgets. Schools that had previously signed up to multi-year contracts reduced their commitments and it has been increasingly difficult to secure new contracts when schools are under increasing pressure and looking for quick wins to demonstrate the allocation of their pupil premium. Ensuring that they have the right marketing plan and people in place to secure new contracts will be critical for securing investment.

### **Key lessons**

- Linking impact to areas targeted by schools and teachers, namely floor targets in literacy and numeracy, is important.

### **(iv) Success For All - [www.successforall.org.uk](http://www.successforall.org.uk)**

Success For All (SFA) is a UK-based charity that directly targets improvement in literacy through raising the quality of teaching. Founded in 1997, SFA is based on a successful programme of work that was developed at the Johns Hopkins University in Baltimore, USA. Building on its work in primary education, SFA is now developing a programme for use at key stage three in secondary schools. SFA currently works in over 200 schools across the UK.

### **Efficacy**

Randomised control trials in the US suggest that the SFA has an effect of 0.2-0.33 on literacy outcomes. It is not possible to translate research efficacy from different countries directly as there can be differences in the external environment, system and support provided to learners that influence the outcomes.

SFA will be undertaking a two-year randomised control trial from September 2013 across 50 schools to establish its impact on literacy in England. SFA's own analysis of the performance of its learners against national benchmarks suggests that schools who have adopted SFA have a higher average point score (the measure of progress made) than the national average, which has enabled them to reduce the attainment gap.<sup>77</sup>

### **Marketability**

*Why is it attractive?*

SFA's focus on the core curriculum area of literacy means it is simple for teachers to understand. The impact on struggling learners is quickly visible and evidenced by SFA's track record.

Although the programme is implemented over a four year period, the bulk of the costs are front loaded into year one to cover the initial purchase of curriculum resources and intensive training and support for teachers while the programme is embedded into school. This makes

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<sup>77</sup> Narrowing the Gap: The Impact of Success for All 2012, Success For All Available at: [www.successforall.org.uk/The%20Impact%20of%20SFA%20Jan%202013.pdf](http://www.successforall.org.uk/The%20Impact%20of%20SFA%20Jan%202013.pdf)

it more attractive to a school that may be unwilling to commit its budget so far into the future.

#### *How to succeed*

Previously championed as a literacy support programme, SFA now describes itself foremost as a programme to support whole-school teaching and learning in the drive to deliver the National Curriculum and raise attainment.

In its early years, SFA relied upon word-of-mouth to identify new schools and target areas. More recently it has recognised that it needs to be more systematic in its approach. This has involved aligning its marketing materials to the language and targets that resonate with head teachers. In practice this means explicitly showing evidence of SFA pupils' performance at Key Stage 1 and 2 versus national averages, including the breakdown of performance for children qualifying for free school meals or who are looked after.

In 2012 SFA was given a £500,000 grant from the Big Lottery Fund towards replicating its Wings programme for 8-14 year olds nationally. Knowing that the optimal impact would be achieved through working across the whole school and over several years, SFA decided to use the funds to partially rather than fully subsidise places on the programme. By doing this SFA believes that over the five years of the BIG programme they will have leveraged in an additional £500,000 enabling them to extend and deepen their reach.

However, expanding into new countries such as Scotland, Northern Ireland and Wales, which operate different education policy environments to England, has not been without difficulty. The different environment has necessitated further adaptation of the marketing and support model than used in England.

### **Investability**

#### *Demand for investment*

SFA's growth to date has been funded through self-generated surplus and judicious use of grant funding. Through Big Lottery Fund's Realising Ambition programme they have been able to begin expanding their offer across new geographies. Further expansion will require working capital that the organisation could choose to finance through social investment.

#### *The capacity to receive and return social investment*

SFA recognises that schools are more committed to the success of the programme when they have made their own financial contribution to the costs. While SFA has benefited from cornerstone funding from foundations, it has developed a strong trading income directly from schools.

Although the efficacy of SFA's work is dependent on a whole-school approach, the need to generate sufficient revenues to break even meant that during the first few years of the economic crisis it sold many shorter, and less impactful, packages in order to break-even. Of the 100 schools it was working with in 2012, only 51 were implementing the full programme.

### **Key lessons**

- Replicating a successful model in a new geography requires tailoring to the local policy and operating environment.
- Grant-funded programmes can be used to stimulate demand through part-subsidising delivery.

## **(v) The Philosophy Foundation - [www.philosophy-foundation.org](http://www.philosophy-foundation.org)**

The Philosophy Foundation (TPF) was co-founded in 2007 by Emma and Peter Worley to bring philosophical enquiry into schools and embed reasoning as the ‘fourth R’ and a fundamental building block of education in the UK. Philosophical enquiry develops speaking and listening skills and encourages critical and creative thinking.

TPF trains philosophy graduates in how to run philosophical enquiries with children and adults. With this training these specialist teachers then deliver a bespoke curriculum through a range of weekly hour-long sessions throughout the academic year within both primary and secondary schools.

In addition to working directly in the classroom, TPF also trains teachers in enquiry skills to embed creative and critical thinking across the whole curriculum.

Since 2007, TPF has directly supported over 12,000 children.

### **Efficacy**

TPF uses philosophical enquiry to develop speaking and listening skills as well as cognition and higher order thinking. Philosophical enquiry teaches critical thinking and a systematic and rational approach to problem solving. TPF believes that by teaching philosophy at an early stage, children develop autonomous, creative thinking skills as well as rationalising and reasoning skills. With these skills children are expected to have a better chance of resolving problems and making the right decisions for themselves as individuals, as they develop through childhood into adults.

Qualitative feedback from teachers, pupils and parents has highlighted the breadth of impact. This impact has been observed across all areas of work, through increased concentration, greater thought and attention made to points raised in class, children more willing to voice their opinions and a higher level of questioning. One teacher noted: “*The sessions have certainly helped their comprehension skills. They became much better listeners and much better able to ask and answer questions giving clarifications and explanations.*”

TPF is currently undergoing an external evaluation by the Institute of Education to assess their impact on attainment in literacy, critical reasoning and thinking over an academic year across 20 classes.

### **Marketability**

#### *Why is it attractive?*

It is often assumed that philosophical enquiry is best suited to students who are already achieving well academically – the ‘gifted and talented’. However TPF has found that children at all levels benefit from improved critical reasoning and consequently struggling learners often have higher literacy and academic attainment. Reaching the decision-makers and explaining this evidence is one of the biggest barriers to securing contracts.

#### *How to succeed*

Given the importance placed on working in partnership with schools, TPF has always targeted head teachers directly rather than going via local authorities. Until now word-of-mouth and personal recommendations have been the strongest access route to these decision-makers. One head teacher noted that TPF could have walked into the school

wearing a clown suit and he would still have commissioned their work, as they had been recommended by another local head teacher whom they held in high esteem.

This has worked to great effect in their local area of Lewisham where they have worked with 25 out of 66 primary schools. They are currently working in 40 schools across the UK. The 90 per cent renewal rate that TPF have for contracts is indicative of how their work is valued once they start working with a school.

Although they have a team of trained philosophy teachers based in Birmingham and Manchester they are unable to use them as they have not yet cracked how to expand into these new areas.

Linking TPF's work to the EEF toolkit research on meta-cognition and the associated Good CPD Guide to recommend its training offers a way of broadening its access route.

### **Investability**

#### *Demand for investment*

TPF has a team of 53 trained specialist philosophy teachers of whom between 10-20 are currently working in schools. Fully deploying these teachers would enable TPF to double its reach of young people. Accessing and securing contracts in new schools requires significant investment in TPF's marketing materials and sales team. Expansion will also involve a step change in core costs, as they move into larger, chargeable office space, buy in sales expertise, pay full market salaries and develop the systems needed to manage a national network.

Accessing finance to invest in sales and marketing expertise will be key to achieving the sales growth which will enable them to achieve economies of scale.

#### *The capacity to receive and return social investment*

TPF has always funded its work through trading income direct from the schools themselves. Grant funding has been used to finance external evaluation of their work. However they have found that the price schools are willing to pay has remained static at around £2,800 for a year-long programme and there is no room to further increase the charges to schools.

Given the issue of pricing sensitivity, TPF is looking for alternative sources of revenue to cross subsidise the cost of delivery. TPF has already established a modest source of revenues from the publication of its books on philosophical enquiry, which includes The Philosophy Shop, winner of the Education Resources Award (ERA) for Educational Book of 2013. However, in order to generate a reliable revenue stream to cross subsidise their schools work, TPF is designing a corporate offer to support employee development through collaborative thinking, problem solving, communication, collaboration and autonomy.

### **Key lessons**

- Personal recommendations and endorsements are critical for accessing new schools and can be a barrier to geographic expansion
- Full engagement and buy-in of staff is needed to maximise and embed impact
- Schools' buying power drives reliance on external sources of revenue

## **(vi) 2<sup>nd</sup> Chance – [www.2ndchanceuk.org](http://www.2ndchanceuk.org)**

2nd Chance provides a 12-month programme of training and support to 16-24 year olds who have been failed by the traditional education system. It has built upon a successful model of education provision for students operating in France. The French network of Les Ecoles de la Deuxième Chance (E2C) now has 63 schools across the country, supporting 7,800 young people each year.

2nd Chance has been established in the UK by Brian Linden, a director at the private equity firm Cinven, together with leading education experts.

### **Efficacy**

The 2nd Chance approach has been adapted from the French model to meet the social need and policy environment in England. Rather than adapt it to the direct requirements of existing central government streams – for six-month programmes and targeting solely 16-18 year olds – they have decided to pilot what they believe will be a more effective model: 12 months' support for 16-24 year olds. Successful completion of the programme relies on the young person making their own personal decision to return to the education system and commit to follow through, which many 16- or 17-year olds who feel failed by the system are often not yet ready for. The experience of the French model has been that it is more effective for slightly older young people of 20-22 years.

The first pilot is due to start in the London Borough of Southwark in summer 2013. It is therefore too early to assess its efficacy in raising the attainment and employability of disadvantaged young people.

However, the French model has a 60 per cent success rate of enabling young people to leave E2C with a recognised national qualification and 70 per cent success rate for getting young people into employment, 59 per cent of which remain in employment 12 months later.

2nd Chance intends to use the Mental Toughness Questionnaires to assess the impact on each young person's social and emotional skills as well as tracking their educational attainment and employment experience. It is aiming for pupils to leave 2nd Chance with a GCSE grade C+ in English and maths and for at least 60 per cent of its pupils to be in full-time employment 12 months after leaving, with 90 per cent in employment, education or training on exit.

### **Marketability**

*Why is it attractive?*

2nd Chance, although new to the UK, has built upon an established and effective approach in France. Post-16 education for young people who are at risk of becoming NEET is an area that has not yet been cracked. With the increase in the participation age making it compulsory for teenagers to remain in education or training until 18, there is a need for organisations that specialise in engaging with these hard-to-reach young people.

*How to succeed*

Places at 2nd Chance are filled through young people applying directly rather than any form of referral process. Attracting their interest and commitment to attend the programme means that the 2nd Chance model needed to be designed to be relevant to them and meet their needs. It is set in a specially remodelled building, follows the pattern of a working day

and offers four days in the classroom all together and one day per week as a paid employee at a partner organisation. The salary matches what they would otherwise have received as jobseekers allowance, while being employed encourages them to have genuinely meaningful employment over the course of the programme. For their first intake in June 2013 they received over 150 applications for 50 places.

The nuances of education policy and infrastructure make it difficult to replicate a successful model from one country into another without any adaptation. Organisations like Success For All and Working Rite have spent considerable time researching and adapting their programmes for new areas. Although the 2nd Chance approach draws on the French model, their careful adaptation to the English education system, social need and employment opportunities will be critical for its success.

### **Investability**

The set up and first year costs of piloting the model are being provided through philanthropic investment from trustees and charitable foundations.

2nd Chance have chosen to develop a model that goes beyond what is funded from traditional streams from the Department for Education and Department for Business Innovation and Skills, which makes their funding model more complex than others. Once the concept has been proved, they hope the additional top-up required over and above the traditional funding available will be secured through an outcome payment. At this point securing social investment will play an important role in providing the upfront funding needed.

In return, social investors will need to have a high level of confidence in the contracts provided by the education commissioner, 2nd Chance's ability to attract referrals and attendance of students and, importantly, to achieve the results for young people.