

## **CABINET**

**5 APRIL 2016**

### **GATEWAY 3 CONTRACT AWARD: SOCIAL IMPACT BOND**

Portfolio Holder: Councillor Mike O'Brien, Children's Services

Report from: Barbara Peacock, Director of Children and Adults Services

Author: Chris McKenzie, Head of Performance and Strategic Planning

#### **SUMMARY**

This report seeks permission to award a contract to the supplier as highlighted within section 7 of the report.

The Cabinet approved the commencement of this requirement on 12 January 2016.

This Gateway 3 report has been approved for submission to the Cabinet after virtual review and discussion by the Children and Adults Directorate Management Team and the Procurement Board on 16 March 2016.

#### **1. BACKGROUND INFORMATION**

##### **1.1 Budget & Policy Framework**

1.1 Approval of the submission of an application for a Social Impact Bond for Children's Social Care is a matter for Cabinet.

1.2 Cabinet considered proposals for the use of a Social Impact Bond for Children's Social Care and the potential efficiencies that could be realised for the Council on 12 January 2016. The decisions taken by Cabinet were:

- a) agreed that officers continue to develop the Social Impact Bond (SIB) model and submit an application for £1.2m from the Cabinet Office.
- b) agreed for a procurement process to start for a SIB partner.

- c) requested officers to bring a report to Cabinet following the procurement process (if agreed) to give next steps for implementation.

## **1.2 Background Information**

- 1.2.1 The Cabinet Office defines SIBs as “...designed to help reform public service delivery. SIBs improve the social outcomes of publically funded services by making funding conditional on achieving results. Investors pay for the project at the start and then receive payments based on the results achieved by the project” (Cabinet Office, November 2012).
- 1.2.2 The “results” are based on achieving social outcomes e.g. reduce the number of days a child spends in care. The outcomes are predefined and measurable.
- 1.2.3 There are a number of benefits for the commissioner i.e. the Council:
- Private investment is gained to fund early and preventative action on complex and expensive social issues
  - New services can be developed without the Council having to pay if they do not work (financial risk sits with the investors)
  - There is a rigorous performance framework which could be developed for other services the Council delivers.
- 1.2.4 Increased demand on Children’s Social Care and the subsequent budget pressures has resulted in officers identifying how children’s care services can be delivered differently with low to no investment. Officers researched the potential of SIBs as a means to transform the delivery of early intervention services with children either on the edge of care or who have recently come into care. There are currently 23 SIBs operating in the UK with three focussed on children in/on the edge of care.
- 1.2.5 In December 2014, Medway submitted a report to the DfE (this had been funded by an innovation grant) about children at the edge of care. This report provided an in-depth needs analysis and put forward an evidence based model of delivery using Family Functional Therapy (FFT) to both prevent children going into care and support children to return home where it was safe to do so. Whilst the DfE supported the findings of the report, funding was not available to support the delivery of the recommendations.
- 1.2.6 Whilst officers examined a range of funding options, a meeting was held with Evidence Based Social Investments Ltd (EBSI) to scope the potential for a Social Impact Bond. EBSI has received funding from the Big Lottery and Cabinet Office to support a number of Local Authorities to develop SIBs and has a track record in this area.

1.2.7 The SIB model will cover all aspects of design and delivery including:

- FFT interventions
- Ready investment (EBSI has secured investment through a Triodos bank. This investment is forecast to cost approximately £1.2m over five years)
- Performance management and reporting
- Outcome and payment metrics.

1.2.8 The SIB will focus on 7 to 12 year olds to ensure there is no duplication of effort with the Council's in-house service called SMART. All referrals will come through the Access to Resource Panel so children are not "cherry picked".

1.2.9 Social outcomes will be measured by the number of care days saved. A care calculator has been designed using cost assumptions researched by the Personal Social Services Research Unit (PSSRU) at the University of Kent. In short, the cost saving is calculated as £84 per day, which is monitored over a 2.5 year period.

1.2.10 Over the five years of the programme's direct delivery, it is intended that the service will work with approximately 250 children. If there is a 67% success rate i.e. 201 children gross savings of £12,838,540 can be expected. On a 50:50 saving share with the investors this will result in a net saving to Medway Council of £6,419,270. As part of the budget setting process, these savings have been profiled to meet the savings targets for Children's Social Care.

### **1.3 Funding/Engagement from External Sources**

1.3.1 Funding of up to £1.2m is also available from the Cabinet Office to offset the Council's savings share to the investors. That would result in a net saving of up to £7,619,270. The Cabinet Office has indicated it would be willing to front load their funding across the first two/three years.

## **2. PROCUREMENT PROCESS**

### **2.1 Procurement Process Undertaken**

2.1.1 The commissioning team contacted other authorities who had previous experience of this approach and through this process identified a provider, Evidence Based Social Investments (EBSI). This was the only provider who was successful in securing the funding needed to support this project. Based on this outcome the market we could use reduced to a single supplier.

2.1.2 A procurement process was not deemed necessary for this project as there is only one supplier in the market and therefore a tender exercise would be futile.

- 2.1.3 To ensure the council maintains its obligation to show transparency and ethical purchasing a voluntary ex-ante transparency notice (VEAT) will be issued based on the legitimate grounds that there is only one capable supplier.
- 2.2 The total contract period will be for a maximum of 8 years; comprising of:
- An operational period of 5 years;
  - A monitoring and payment tail of 3 years.
- 2.3 The contract will be a payment by outcomes contract, and the contract payments will depend on the overall success of the programme, based on the level of savings achieved by the Council. The total contract value will have a maximum ceiling of £6.5m, which is calculated at the highest expectation of success.

### 3. BUSINESS CASE

#### 3.1 Delivery of Procurement Project Outputs / Outcomes

3.1.1 The following procurement outcomes/outputs identified as important to the delivery of this procurement requirement have been appraised in the table below to demonstrate how the recommended procurement contract award will deliver said outcomes/outputs.

Outputs / Outcomes	How will success be measured?	Who will measure success of outputs/ outcomes	When will success be measured?	How will recommended procurement contract award deliver outputs/outcomes?
<b>1. Delivery of savings for CSC</b>	Savings have been profiled as part of the star chamber budget setting process	Finance	Through budget monitoring process	Success of venture will be measured on financial savings achieved. Payments to contractor are reliant on savings being delivered
<b>2. Improved outcomes for children looked after and on the edge of care or</b>	Reduction in numbers of LAC	CADMT and Cabinet	Council plan monitoring	Financial savings are dependant on a reduction in the number of LAC

## 4. RISK MANAGEMENT

### 4.1 Risk Categorisation

<b>1. Risk Category: A3</b>	<b>Likelihood: High</b>	<b>Impact: Marginal</b>
<b>Outline Description:</b> Only children most likely to return home are identified		
<b>Plans to Mitigate:</b> Children are identified by Access to Resources Panel and not the service. Children identified will need to have a placement cost of a minimum £82 per day		
<b>2. Risk Category: A4</b>	<b>Likelihood: High</b>	<b>Impact: Negligible</b>
<b>Outline Description:</b> Children come back into care and savings over 2.5 years not realised		
<b>Plans to Mitigate:</b> Every child will be tracked for 2.5 years. If they come back into care, the savings calculator is <b>immediately</b> stopped. If outcomes are not delivered, the risk sits with the investors		

## **5. PROCUREMENT BOARD**

- 5.1 The Procurement Board considered this report on 16 March 2016 where it was agreed that it be referred to Cabinet for decision in accordance with the Contract Procedure Rules for high risk procurements and the Cabinet decisions from 12 January 2016.

## **6. SERVICE COMMENTS**

### **6.1 Financial Comments**

- 6.1.1 The procurement requirement and its associated delivery (as per the recommendations at Section 7), will be funded from private investment through the Social Impact Bond.
- 6.1.2 As part of the budget setting process a net saving of £1.9m has been programmed into the medium term financial strategy. This is predicated on the success of the venture and also assumes that the Cabinet Office grant of £1.2m is awarded and utilised by the end of year 3. The following table identifies the profile of the costs and savings.

<b>Description</b>	<b>2016/17</b>	<b>2017/18</b>	<b>2018/19</b>	<b>2019/20</b>
	£,000	£,000	£,000	£,000
Children's Care: SIB Gross Savings	(256.0)	(1,538.0)	(3,848.0)	(3,848.0)
Children's Care: SIB Payment to Special Purpose Vehicle	128.0	769.0	1,924.0	1,924.0
Children's Care: SIB Draw Down of Grant	(128.0)	(769.0)	(303.0)	0.0
Total	(256.0)	(1,538.0)	(2,227.0)	(1,924.0)

- 6.1.3 Further savings are achievable beyond this 4 year financial plan at the rate of 50% of the saving achieved by the service providers.

### **6.2 Legal Comments**

- 6.2.1 A Social Impact Bond is a funding mechanism with the following features:
- The Council contracts for the delivery of specified social outcomes;
  - The contract between the service provider and the Council provides that payment will be made only and to the extent that the specified social outcomes are achieved;
  - The service provider contracting to deliver the specified social outcomes is a civil society organisation (that is, a charity or social enterprise existing primarily to deliver social outcomes rather than to return profits to shareholders);
  - Capital is provided by third party investors seeking a demonstrable social return as well as a financial return on their investment;

- The capital is at risk and whether it is repaid and the extent to which a financial return is paid are both dependent on the outcomes achieved by the service provider.

6.2.2 The Social Value Act 2012 gives the Council statutory duty to consider at the pre-procurement stage of any services contract:

- How what is proposed to be procured may improve the economic, social and environmental well-being of their areas;
- How the Council may act with a view to securing that improvement in conducting the process of procurement.

6.2.3 The Act applies to all services contracts and services framework agreements (including goods and works contracts procured in combination with services where the value of the goods is less than the services, and where the works are incidental to the services) to which the Public Contracts Regulations 2015 apply.

6.2.4 The Cabinet Office has set up a Centre for Social Impact Bonds to provide a variety of support structures including a template contract to enable local authorities with limited resources to take advantage of an SIB scheme.

### **6.3 TUPE Comments**

6.3.1 TUPE will apply in the usual way when the service are either outsourced, if the services are being provided by dedicated staff or when an incumbent provider is replaced with a new provider following a re-tender.

### **6.4 Procurement Comments**

6.4.1 In line with OJEU regulations a VEAT notice will be used to commission this project due to funding of £1.2m that has been already been secured. If we were to competitively tender this project the council would lose this funding as other providers are not able to gain access to this due to the available monies being granted based on a pre bidding process.

### **6.5 ICT Comments**

6.5.1 No new systems and no changes to existing IT services are expected as part of this procurement.

6.5.2 Third party organisations may need to access existing systems in order to access data that they are permitted to view. A data sharing agreement will need to be established between Medway Council and those organisations.



## 7. RECOMMENDATION

7.1 The Cabinet is recommended to delegate authority to the Chief Legal Officer, in consultation with the Portfolio Holder for Children's Services:

- (i) To publish a VEAT notice setting out the Council's intention to directly award a contract to Evidence Based Social Investments Ltd (EBSI) for the provision of the Social Impact Bond and to consider and determine any objections which may arise from the publication of the notice and following this process;
- (ii) To award a contract for the provision of the Social Impact Bond to Evidence Based Social Investments Ltd (EBSI).

## 8. SUGGESTED REASONS FOR DECISION

8.1 EBSI is the only provider to have secured funding for the Council from the Cabinet Office to part fund the Social Impact Bond, and as such the market we could use reduced to a single supplier.

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### BACKGROUND PAPERS

The following documents have been relied upon in the preparation of this report:

Description of Document	Location	Date
Cabinet report – Proposal for Social Impact Bond	<a href="http://democracy.medway.gov.uk/ieListDocuments.aspx?CId=115&amp;MId=3166">http://democracy.medway.gov.uk/ieListDocuments.aspx?CId=115&amp;MId=3166</a>	12/01/16