

ASSESSMENT CATEGORY - Stepping Stones (Risk Finance)

West London Zone

Amount requested: £150,000

Amount recommended: £150,000

**Adv: Eva Varga
Base: Kensington & Chelsea
Benefit: Kensington & Chelsea,
Brent, Westminster,
Hammersmith & Fulham,**

The Charity

Developed by the criminal justice charity Only Connect, and inspired by the work of the Harlem Children's Zone in the US, West London Zone (WLZ) was established in 2014. WLZ supports disadvantaged children and young people living along the Harrow Road Corridor in Hammersmith and Fulham, Kensington and Chelsea, Westminster and Brent, from cradle to career. WLZ works to coordinate interventions delivered by a number of social sector providers, and ensures that activities are underpinned by an evidence-based collective impact strategy. The target cohort are approximately 13,000 children and young people aged 0-25 living or going to school in the Zone, with a higher proportion in lower ages, because WLZ's model focuses on early intervention and prevention. The children are selected based on risk factors such as parents' unemployment, poor physical or mental health.

The Application

To deliver coordinated intervention at scale, WLZ is developing a Collective Impact Bond (CIB) to fund joined-up provision from autumn 2016. If successful, the CIB will secure sufficient capital to commission the delivery of work that reaches one in five children and young people living in the Zone. The total cost of work delivered in the first 3 years is expected to be £4.8 million, rising to £39 million over the projected 10 year term of the bond. The CIB will be designed so commissioners pay for service delivery on evidence of improved outcomes amongst the target population. The cost of the delivery of services would therefore fall to the providers until such time as payment from the commissioners is received. To cover this lag, social investment raised through the CIB will pay the providers, with social investors repaid once the commissioners pay. WLZ seeks funding to finalise its CIB model, take this to investors, and put first-loss capital in place so that total costs remain manageable.

The Recommendation

WLZ is an ambitious venture bringing together good-quality providers to deliver a comprehensive programme for disadvantaged children and young people. This 'collective impact' will take place at a time when public finances are under pressure. It seeks to find the most effective ways of delivering early intervention in order to achieve long-term savings to the public purse.

£150,000 towards the cost of West London Zone's Collective Impact Bond.

Funding is conditional on West London Zone delivering the following:

- ***an updated social investment model, with details of pricing and revenue for approval by City Bridge Trust officers;***
- ***a report on a completed pilot that provides proof of concept of outcomes by end of 1 February, 2017 the latest;***
- ***copies of correspondence from commissioners that shows their commitment to the work; and***

- ***copies of correspondence from potential social investors showing their commitment to invest.***

Funding History

None

Background and detail of proposal

The WLZ model is built around a “backbone” management team and system whose key functions are to identify the beneficiary cohort, agree contracts with commissioners and raise finance from investors, coordinate the provision of services, monitor performance and refine work as needed to achieve stated targets.

WLZ is currently piloting activities in White City in Hammersmith and Fulham, working with 120 children and young people, supported by a partnership of 8-12 social sector organisations. Data from the pilot will be used to develop the exact payment mechanism for the CIB. The pilot is funded by Big Lottery Fund and John Lyon’s Charity among others. WLZ is currently engaged with a number of social investors, for example Social and Sustainable Capital, to ensure long term finance.

Financial Information

Forecast income in the current year to 31 March 2016 is £742,930, of which £612,930 (82.5%) had been confirmed by 23 February 2016. Forecast income for the following year 2016/17 is £590,570 of which £180,000 (30.5%) had been confirmed by 7 March 2016.

In addition to the charity’s operational 2016/17 budget shown in the table below, it hopes to raise social investment finance, through the Collective Impact Bond, of £1,005,224 in 2016/17. None had been secured as at 7 March 2016, but the charity hopes that a CBT/UBS Stepping Stones grant will help to catalyse this funding.

In 2014-15 and 2015-16 the charity’s reserves policy was to hold funds equivalent to three months’ worth of total expenditure, equating to £131,151 at 31 March 2016. The forecast holding of £77,107 at 31 March 2016 is short of the target at 1.8 months’ worth of expenditure. The 2016-17 reserves policy will be to work towards holding £500,000 in free reserves, equating to just over 12 months’ worth of operating expenditure. This is a comparatively high target holding which West London Zone says is needed to support its operation to secure and distribute £1m of social investment finance through the Collective Impact Bond.

The costs of generating funds are not identified separately in the 2014-15 accounts, and the costs shown in the table below have been provided by the charity’s finance director. The charity advises that its fundraising costs were relatively high in 2014/15 as it was a new venture, developed from an incubating parent organisation (Only Connect). As the charity establishes its fundraising operations it expects the costs of generating funds in 2015-16 to remain similar in terms of actual spend, but to be the equivalent of only 7.1% of income in that year. WLZ intends to disclose separately the cost of generating funds in future financial statements.

Year end at 31 March	2014-15 Independently Examined	2015-16 Forecast	2016-17 Budget
Income and Expenditure	£	£	£
Income	111,214	742,930	590,570
Expenditure	84,002	524,605	470,278
Unrestricted Funds Surplus / (Deficit)	27,212	49,895	117,591
Restricted Funds Surplus / (Deficit)	0	168,430	2,701
Total Surplus / (Deficit)	27,212	218,325	120,292
Surplus / (Deficit) as a % of turnover	24.5%	29.4%	20.4%
Cost of Generating funds (% of income)	49,398 (44.4%)	52,896 (7.1%)	110,979 (18.8%)
Free unrestricted reserves			
Unrestricted free reserves held at Year End	27,212	77,107	194,698
How many months' worth of expenditure	3.9	1.8	5.0
Reserves Policy target	21,001	131,151	500,000
How many months' worth of expenditure	3.0	3.0	12.8
Free reserves over/(under) target	6,212	(54,044)	(305,302)