Connect Fund | Building a better social investment market

How Local Authority social investment can unlock new approaches to some of the region's biggest challenges

A BLUEPRINT & CASE EXAMPLE

The Connect Fund is managed by

Barrow Cadbury Trust

ACCESS The Foundation for Social Investment

CAPACITY

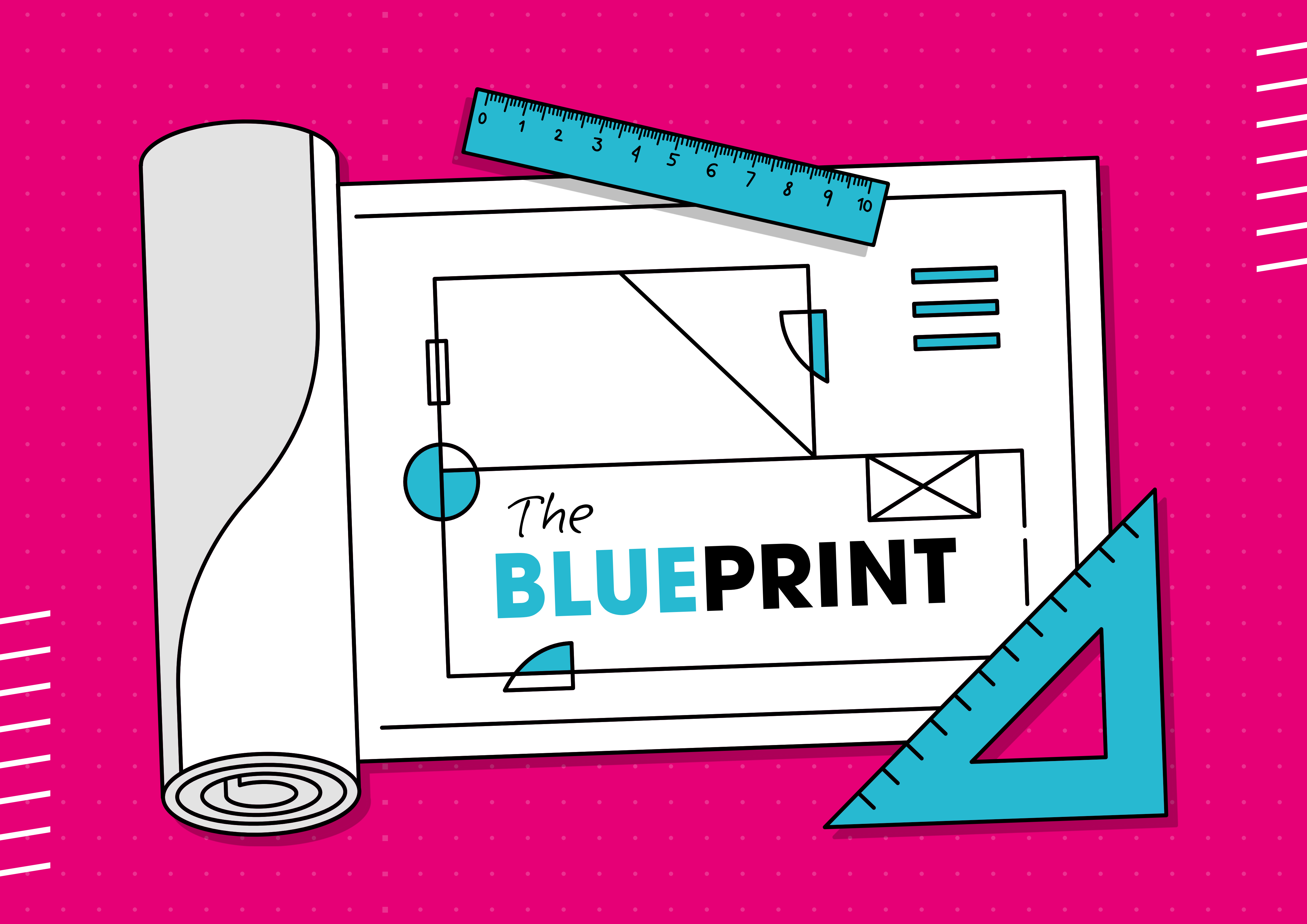
INTRODUCING

JUNO

JUNO (WE ARE JUNO CIC) A NEW TYPE OF CHILDREN'S RESIDENTIAL HOME, MADE POSSIBLE BY A FUNDING MODEL THAT INCLUDES LOCAL AUTHORITY FUNDING, REGIONAL AUTHORITY FUNDING AND PRIVATE AND SOCIAL INVESTMENT FROM A RANGE OF PARTNERS.

TO DATE, £2.675 MILLION HAS BEEN RAISED IN THE FORM OF GRANTS AND SOCIAL INVESTMENT LOANS. THROUGH THIS UNIQUE PROJECT JUNO IS CHANGING THE WAY CHILDREN'S RESIDENTIAL CARE CAN BE DELIVERED – TO IMPROVE QUALITY, ENSURE VALUE FOR MONEY AND RECYCLE PUBLIC FUNDS FOR THE BENEFIT OF ALL.

WEAREJUNO.ORG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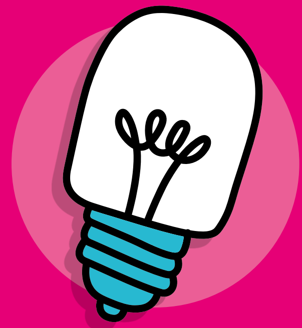


1 STEP 1: CREATING THE CONCEPT

Juno started with an idea. That things should, and could, be done differently - for the benefit of young people. That it was possible to create homes where local young people feel safe, loved, and supported in all aspects of their emotional, physical, and educational development - homes, where young people thrive.

From the viewpoint of local Children's Service and Social Care leaders surrounding this project it was clear something needed to change:

- **an increase of numbers of children coming into care,**
- **a decrease in foster placements,**
- **increasing costs,**
- **a lack of suitable placements locally,**
- **as well as critically poor outcomes for children.**

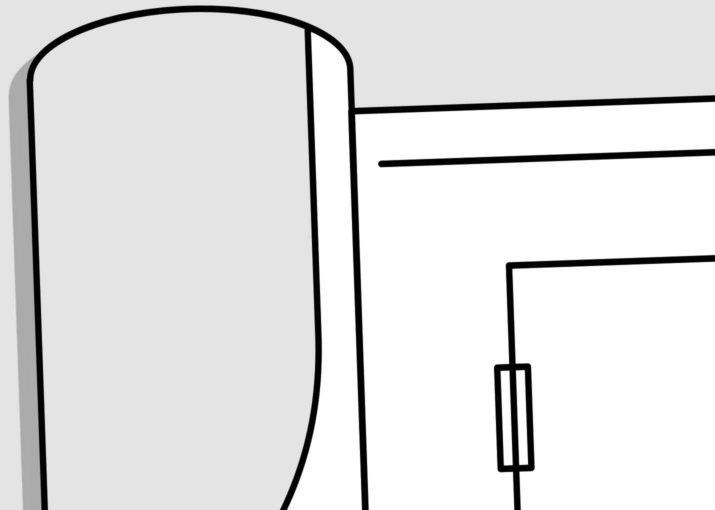
This was evidenced through research that demonstrated since 2010-2020 an additional 15,000 children across the UK were in care. Nearly three quarters of this increased demand had been met by private equity backed providers. Within the Liverpool City Region, 89% of homes are operated by the private sector but less than 8% achieve Ofsted outstanding. The voluntary sector accounts for only 2% of provision. The Competition and Market Authority reported that between 2016 - 2020, private providers were recording profits of up to 22.6%.

Outcomes for children in care are also cause for concern with lower-than-average educational attainment, 24% of those in care are convicted during this time and 24% were reported as having a substance misuse problem whilst in care. 51% of care leavers were not in education, training or employment at age 18.

As a result, the team built a philosophy around creating caring communities, places that look and feel like a family home instead of an institution and a staff team who are emotionally focused, there for long haul, delivering a model of care rooted in Social Pedagogy and Trauma Informed Practice.

WHAT WE WANT TO SHARE

- **Understand the need, strategic context, political and policy landscape.**
- **Be clear about purpose and articulate the case for change clearly.**



2 STEP 2: ENGAGEMENT

At the heart of Juno's development is care-experienced young people. From the outset they helped design what Juno would look and feel like with a 'Young Leader's programme' prioritising their voices and putting them at the centre of the project. This process informed the service design of Juno and key messages included the "need for an emotionally intelligent staff team who are not afraid to love children", "who have time for the children and are not just focused on paperwork" and "homes that don't feel institutional and are genuinely a part of the local neighbourhood."

The team also worked hard to understand the pressures and opportunities from the Local Authority's point of view - working together to get a whole picture, getting under the skin of the way in which Children's residential care currently worked.

Together these steps helped Juno to bring together a plan and understand what success would look like. The team thought ahead about the planned impact of Juno and developed a child centred evaluation project to run alongside Juno's development and measure it.

"When you become part of that home, you should become part of that family"

Jess, 15, Juno Young Leader

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WHAT WE WANT TO SHARE

- Work with stakeholders across a wide range of interest groups, including end users, commissioners and the wider community.
- Shape and reform the concept so you know it's the best it can be.
- Define the impact the new service will have & how you will measure it.

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3 STEP 3: BUSINESS PLAN / FINANCIAL MODELLING

At Juno a long-term business model was developed that anticipated multiple homes - aiming to significantly raise the quality of care whilst still maintaining a competitive price per placement rate.

An extensive feasibility study was undertaken, and a detailed financial model and business plan was produced. A phased approach to growth was planned with a business model forecasting a breakeven position by year 3. A blend of startup finance was sought with an initial investment target of £1.6m.

As part of this phase, a full external legal review of the most appropriate governance model was undertaken. Various options were considered, including Local Authority ownership and joint venture, but ultimately, the decision was made to establish Juno as a CIC in its own right. Subsequently, a Board of Directors was appointed, laying the foundations for an effective governance structure.

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WHAT WE WANT TO SHARE

- **Demonstrate a compelling economic and commercial case that shows how the proposal will work financially. Use skilled and professional insight that considers:**
  - **Startup costs**
  - **Capital funding**
  - **Revenue/income streams**
  - **Asset development and/or ownership**
- **Look to the long term - potential funders want to see financial projections, usually over years 1-5 of operations and beyond.**

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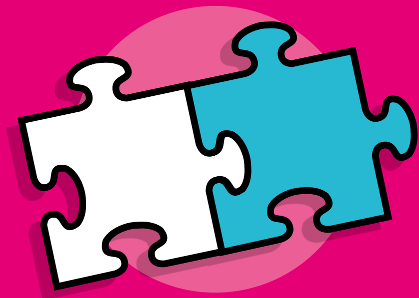

4 STEP 4: PLANNING FOR PARTNERSHIPS

Developing a network of social investors and charitable funders looking to support the project who had aims, values and ambitions that aligned was key.

Initial funders, each played a key role in helping to turn Juno from an idea into a working organisation with operational homes:

- **Wirral MBC** committed first, providing social investment to support Juno in establishing its working capital (however, for Juno this is technically 'debt').
- **The National Lottery** provided grant funding to support establishing Juno's evaluation, the co-production process with care-experienced young people and learning and development for the team.
- **The Segelman Trust** and the **KPMG Foundation** provided grant funding for development support enabling investment in quality teams and the physical building from the outset.
- A loan from **Liverpool City Region Combined Authority** and a combined grant and loan from **Postcode Innovation Trust** followed afterwards making up the first-phase finance package.

For Juno (a new startup with no track record), there was a risk that social funders would be reluctant to invest. The support of the local authority as well as a package of grant funders was critical. Wirral MBC coming on board first really helped to give confidence to the project as it gave a clear signal about demand and confirmed all relevant due diligence had been completed. However, there were several rejections from potential social investors who would only support organisations whose application could demonstrate a clear track record.

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WHAT WE WANT TO SHARE

- **Identify partners with strategic ambitions and shared values that align.**
- **Understand the sequencing and combination of finance types that will be most beneficial. Unique in each case but likely to be a blend of...**
  - **Grant funding to get things going**
  - **Strategic partnerships with commissioners/local authorities to enable delivery of the early phases and to 'de-risk' the project**
  - **Social investors to provide patient repayable finance that enables startup delivery then scale and growth**

5 STEP 5: DOING THE DEAL

Relationship building, developing the strategic case, and listening to young people formed the core foundations of the project and took nearly 1 year.

The period from 'in principle agreement' to finalising the deal with Wirral MBC was a detailed, time-consuming phase where the realities of the commercial and legal requirements had to be explored in full.

Juno submitted their business plans and related financial forecasts. As part of due diligence processes, the council appointed an external, independent analyst to review the submission. Juno's preferred interest rate was 5% but following independent assessment, and due to the fact Juno was a 'new startup' and represented greater risk, the council agreed to a 7.5% interest rate. The loan terms were finalised at £1m over 12 years at 7.5%. However, an initial three-year payment holiday was agreed, and the interest rate would be reviewed every three years. Placement costs were discounted for the first three years and the loan was viewed as a commercial loan by the council, linked to their strategic aims to improve outcomes for looked after children.

The funding supported the initial rental of the first property and covered any 'lag' relating to void costs for 4-6 months. The Wirral MBC loan also supported the initial recruitment and induction of employees and paid the 'start up' salaries for key members of the team.

The Liverpool City Region Combined Authority (CA) had similar commercial issues to consider. The CA supported the Juno ethos and not for profit model and provided £800k at a 5% interest rate, to be repaid over 10 years, with a three-year payment holiday. Both the Wirral and CA loans were unsecured. It is also worth noting that the internal governance and approval process was quite involved, with decisions being taken at internal and external investment panels, Local Authority Growth Directors meetings, Local Authority Children's Social Care Directors and CA Senior Leaders meetings and by the CA CEO.

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WHAT WE WANT TO SHARE

- Consider how you're going to manage your key relationships.
- Recognise that this is often a lengthy due diligence processes to complete.
- Stay focused on the overarching objectives to unblock things together.
- Agree patient terms and payment holidays to get innovation projects off the ground.

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The proposal had to demonstrate compliance with performance frameworks and needed to align to the corporate plan at a local authority level and the requirements of the Strategic Investment Fund at a sub- regional level. Once the case for change was agreed at a strategic level, operational Key Performance Indicators were agreed and monitored through locally agreed processes.

The processes for securing the grant funding were fairly straightforward with grant applications accessible and well established. As normal, ongoing monitoring and reporting is required.

Final investment package values were £2.675 million, made up of:

GRANTS

KPMG Foundation: £300k
Lottery: £250k
Segelman: £75k
Post Code Innovation Trust: £125k

Total Grants:

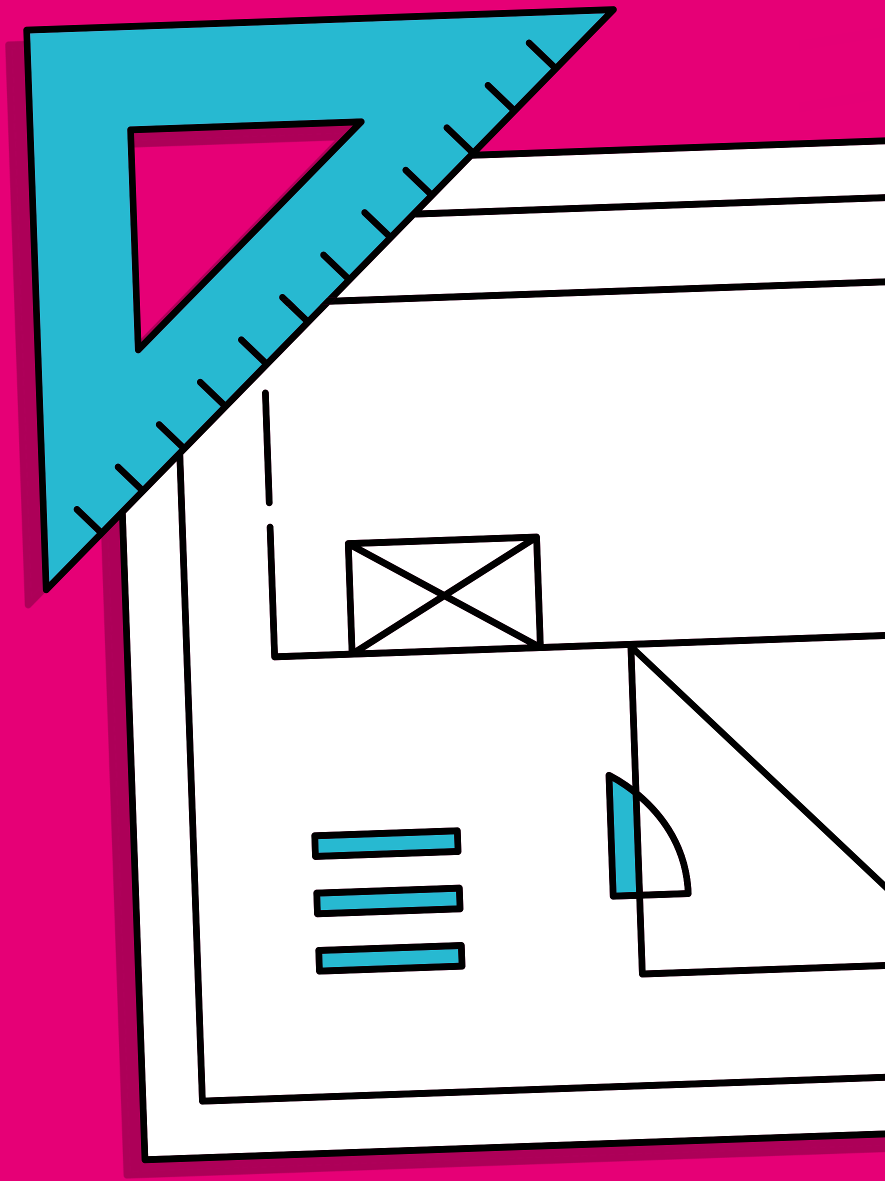
£750k

LOANS

Wirral Council: £1m
Combined Authority £800k
Post Code Innovation Trust: £125k

Total Loans:

£1.925m



ASSET OWNERSHIP

The first property was leased to Juno and as the project has evolved Juno is now seeking to purchase the asset with support from an individual social investor to enable longer term security and further develop the business opportunity. As Juno grows it is expected that a mixture of property ownership and leasing will occur.

6 STEP 6: RUNNING THE SHOW

A bold innovation like Juno was never going to be easy. Juno is operating in challenging economic times, in the midst of a workforce crisis that's having a significant impact on social care across the country. In parallel, inevitably, Juno needs to comply with all the relevant regulatory frameworks, be inspected by Ofsted and meet all requirements before any actual delivery can take place. These real-life delivery pressures and acute staffing challenges have meant that the timelines and financial forecasts as set out in the original business plan changed significantly.

These are the realities of 'running the show' and organisations need to build their own capacity to take account of these as well as strong and trusting relationships with social investors and partners that will help weather these issues. In the Juno example, the hybrid model of grant funding and loans from a variety of sources, helped to build a new way of working that will positively disrupt the market as well as a strong organisation that can cope with change.

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WHAT WE WANT TO SHARE

- **Think ahead to the realities of running the show - think through risk factors and contingency plans recognising inherent optimism bias.**
- **It sounds simplistic, but 'running the show' is how the finance gets repaid. Until the project is generating income, the project can't repay its borrowings.**
- **Questions to ask include:**
  - **How can my finance options make space for contingency and project changes?**
  - **How can investment help to address some of the bigger picture risk factors that we anticipate (e.g. addressing the workforce recruitment challenges that may delay our ability to deliver)**

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KEY LEARNING POINTS

SEQUENCING

The order of things proved extremely important: in securing income, as a new start with higher levels of risk and complexity, getting the local authority on board early was critical and unlocked the potential for other investors to come in. Grant funding at the start is also essential - allowing flexible investment for feasibility and start up without repayment pressure.

PUT PEOPLE FIRST

Co-produced service design at the heart. In simple terms, this means asking the people that are going to use your service what they need, want and aspire to - essential.

BLENDED FINANCE

The right mix in the financial model: Social Investment, philanthropy and public sector funding, whilst all have social aims it does not mean this is not a commercial decision - loans will need to be repaid, interest rates and terms will need to be agreed and financial integrity will be crucial. The right mix means developing models that include grant funding, loans and potentially equity shares. It could also mean discounting costs for commissioners in return for some other longer-term benefits.

IDEAL BUT ALSO REAL

Optimism is essential but there will be challenging obstacles and limiting factors along the way. The reality of getting the show on the road may take longer than you anticipated; which will invariably impact on your cash flows and ability to repay any finance. 'Optimism bias' will creep into most projects and should be factored into financial forecasts, potentially up to around 10%.

STRONG RELATIONSHIPS

At the heart of getting hard, new, complex things done is good relationships built on trust and honesty.

OTHER MODELS AND YOUR EXPERIENCE

The Juno experience is one example, but there are a number of other investment models which have the potential to unlock new ideas that may tackle some of the region's biggest challenges. We are keen to share our learning so far and hear about other experiences and opportunities in order to collectively grow our understanding of what works.

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Share your story and experience by taking part in this learning project - please contact the Capacity team for more details.

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Barrow Cadbury Trust

ACCESS The Foundation for Social Investment

This project is funded by The Connect Fund, managed by Barrow Cadbury Trust in partnership with Access - the Foundation for Social Investment.

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