

SOCIAL INVESTMENT INSIGHTS SERIES

February 2015

Social Investment in Education

Education plays a fundamental role in the development of children and young people and consequently the shaping of the nation, both socially and economically. This edition of the Social Investment Insights Series explores a number of the challenges facing the education system in England, outlines the major government policies attempting to address these challenges and seeks to highlight opportunities where charities and social enterprises may be able to engage with the education system to improve its overall effectiveness in serving the needs of its pupils.

The paper concludes by discussing the opportunities for charities and social enterprises to use social investment to help scale their activities in the education space and we end by highlighting a number of priority areas Big Society Capital intends to explore further.



This research is for information purposes only and has been produced by Big Society Capital in its capacity as champion for the social investment market. It is not investment research or a research recommendation and has not been prepared in accordance with legal requirements designed to promote investment research independence. This research does not constitute an offer or an invitation to buy or sell or a solicitation of an offer or invitation to buy or sell or enter into any agreement with respect to any security, product, service or investment. Any opinions expressed do not constitute investment advice and independent advice should be sought where appropriate. All information is current as of the date of publication, subject to change without notice, and may become outdated over time. Links to third party sites or pages are for information purposes only and such sites and pages are not the responsibility of Big Society Capital Limited and have not have been reviewed or verified by Big Society Capital Limited. Following links to or from any other sites or pages shall be at your own risk.

The Social Investment Insights Series are occasional papers drafted by members of Big Society Capital's team on areas of interest to the social investment market.

Big Society Capital is a financial institution with a social mission, set up to build the social investment market in the UK, so that charities and social enterprises can access appropriate repayable finance to enable them to grow, become more sustainable and increase their impact on society. It is doing this by building a diverse social investment market: encouraging investors to lend or invest money to achieve a social as well as a financial return. Since it was set up as an independent organisation in 2012, Big Society Capital has committed over £165 million in investments to specialist organisations who lend to charities and social enterprises. Over five years Big Society Capital will be capitalised with approximately £600 million, from a combination of English dormant bank accounts and the four main UK high street banks.



EXECUTIVE SUMMARY

The education system can play a fundamental role in the development of children and young people and consequently the shaping of the nation, both socially and economically. The existing structure of the statutory education system in England – in terms of incentives and institutional biases - often means that not enough is done to address underperforming students' needs and narrow the gap between the higher and lower achievers or iron out regional disparities in the quality of educational delivery. Along with other contributory factors, this cements social immobility and leads to long-term inequality. It also constrains economic growth and broader national prosperity.

Education policy remains a highly political area with a large degree of ideological influence. An encouraging cross party consensus is emerging however and progress is being made to reform the education system and improve its effectiveness for all. New budgets have been introduced aimed at reducing variations in performance across groups, autonomy as to how these budgets are spent increased - theoretically allowing for the procurement of tailored solutions to best fit each student's needs - and a growing emphasis on implementing evidence-based interventions. Teething pains around the implementation of these reforms exist (and will do for some time as systems and frameworks are adjusted), however increasingly these will create potential income streams for charities and social enterprises to draw upon for their delivery of education interventions aimed at improving outcomes for pupils who are most in need.

This paper seeks to build on the Young Foundation report '[Social Investment in Education](#)' which we co-commissioned in July 2013, and explores further some of the key issues in the area of education - from early years to post-16 education - alongside a review of recent policy changes, an exploration of the involvement of the social sector in education and some of the future opportunities open to them. The paper will also discuss Big Society Capital's approach to supporting the development of charities and social enterprises in the education sector and the potential role for social investment to help scale their activities.

We would welcome any feedback in response to this paper and any other potential areas where readers feel Big Society Capital could help support charities and social enterprises engage with the education sector through advocacy or social investment.



SOCIAL NEED

Big Society Capital Outcomes Matrix: Employment, Training and Education

Big Society Capital's Outcomes Matrix represents a map of need in the UK. It has been designed from a beneficiary perspective and includes nine outcome areas which reflect what a person needs to have a full and happy life.

The employment, training and education outcomes are shown opposite.

Individual:

The person is in suitable employment, education, training or caring work.

Community, sector and society:

Jobs, education and training opportunities are available for everyone/

This section seeks to outline some of the key challenges facing the statutory education sector in England and its engagement with pupils, especially those from poorer backgrounds.

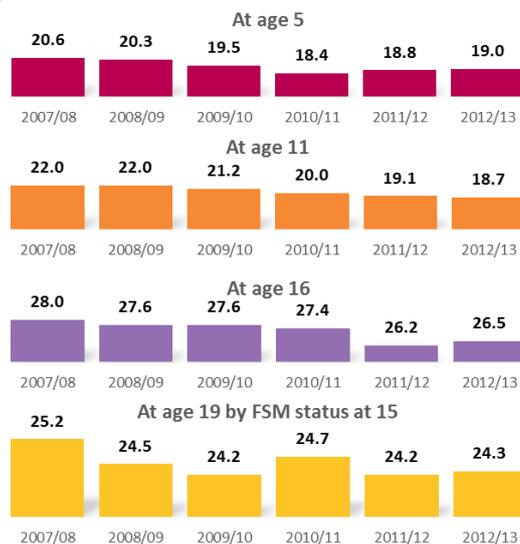
The 'Attainment Gap'

Characterised as the 'Attainment Gap', the contrasting performance in exam results between children eligible for free school meals ('FSM')¹ and those who are not (and who are regarded as being 'better off') shows a significant level of underperformance of pupils from low income backgrounds in comparison to their peers, beginning even before a child even enters the mainstream education system.

Rather than being reduced as pupils progress through the same education system, the under-performance of students from low income backgrounds actually increases as they move through primary and secondary schools and beyond into further education or college². Indeed social class and parental income remains the single strongest indicator of future educational performance³.

Although the attainment gap had narrowed marginally over recent years (Figure 1), recent GCSE data released for 2013/14 has shown an increase in the underperformance of pupils eligible for FSM to 27.0%. The attainment gap remains a significant and sustained challenge for the education system which has not yet been adequately addressed⁴.

Fig. 1: The Attainment Gap (%)⁵



¹ Gov.uk, "Apply for free school meals" eligibility guidance

² Education Endowment Foundation, Annual Report 2013/2014

³ RSA Projects, The social class gap for educational achievement: a review of the literature, December 2010

⁴ DfE SFR: GCSE and equivalent attainment by pupil characteristics, 2013 to 2014 (Revised)

⁵ Education Endowment Foundation, Annual Report 2013/2014 & DfE Attainment gap at age 19 between Free School Meals pupils and the rest



Variation in Attainment and Provision

There is a wide and sustained regional variation in attainment levels. Figure 2 shows the variation in the percentage of FSM pupils achieving 5+ A*-C inc. English & Maths at GCSE and the attainment gap⁶. Figure 3 however shows the variation in the number of schools deemed to be ‘failing’⁷ by region is not correlated with the percentage of pupils eligible for FSM as one might initially expect given the attainment gap data. London shows a lower proportion of failing schools (2.6%) in comparison with areas such as the East Midlands (10.8%) or North East (8.2%) despite having a higher proportion of students eligible for free school meals raising questions around dispersion and delivery.

Fig. 2: School KS2 Performance by Region

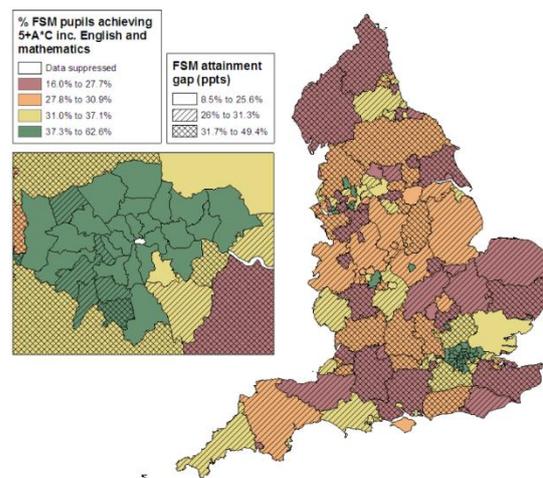
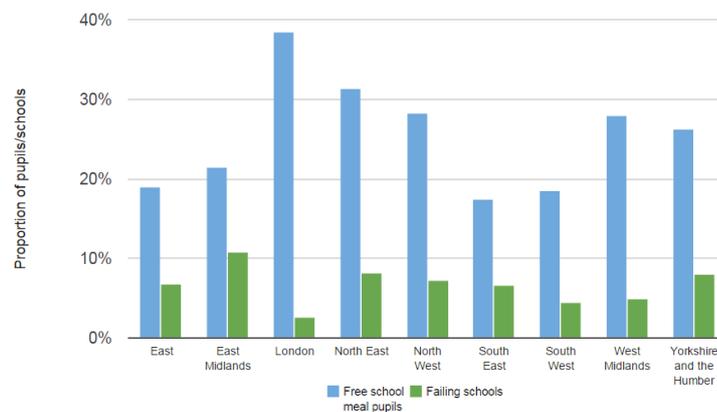


Fig. 3: School Performance at GCSE by Region⁸



Variation in ‘Attainment Gap’

Deeper analysis of the relationship between school performance and the Attainment Gap shows that in most cases improving school-wide performance alone will not, on average, significantly improve the performance of the pupils eligible for FSM unless the school is able to move into the top tier of performance (Figure 4)⁹. Instead, targeted interventions designed to reduce the Attainment Gap are necessary alongside interventions designed to address wider school improvement.

⁶ DfE SFR: GCSE and equivalent attainment by pupil characteristics, 2013 to 2014 (Revised)

⁷ Defined as schools failing to meet government’s ‘floor standards’ for primary and secondary schools or ‘minimum standards’ for 16-18 education

⁸ Joseph Rowntree Foundation, DfE data 2011/12

⁹ The Social Mobility Challenge for School Reformers, FT, 22 Feb 2012



Additionally, as demonstrated in Figure 5, there remains a wide variation in attainment levels between schools with different proportions of pupils eligible for FSM. A significant number of high FSM-schools outperform the national average point score at GCSE level, suggesting it is critical that best practice from top performing schools with a high proportion of students eligible for FSM is captured to build a bigger picture of ‘what works’ for different students¹⁰.

Fig 4: Pupil performance against school performance

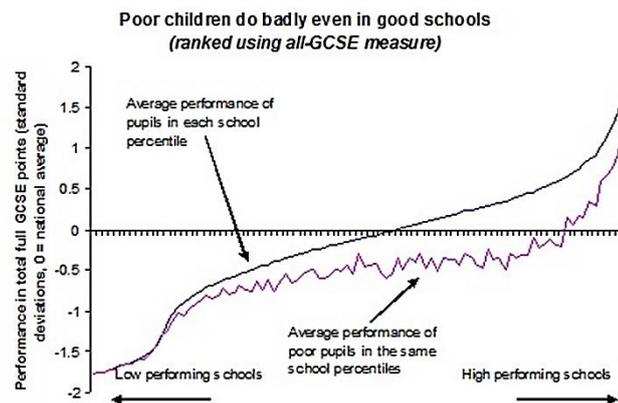
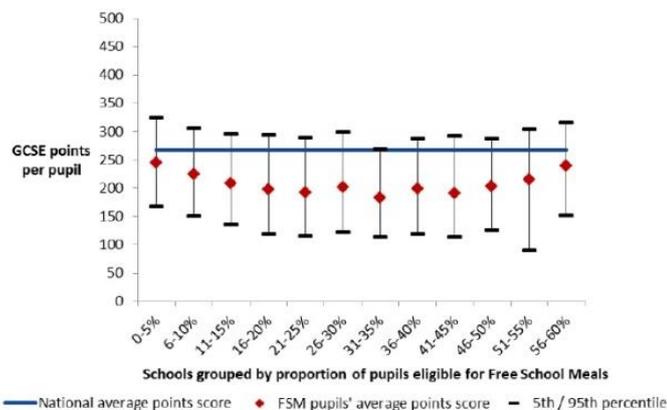


Fig 5: GCSE points by % of students eligible for FSM



The underlying causes of the variance in educational performance within a school are complex and interconnected. The performance of pupils further varies between sexes and ethnic groups, with girls continuing to outperform boys and pupils from white-British and black ethnic backgrounds underperforming many of their peers across age groups¹¹. Further information regarding the Attainment Gap can be found at the [Fair Education Alliance](#).

Not in Education, Employment or Training (NEETs)

Children and young people with low levels of educational attainment are at a much greater risk of becoming ‘NEET’ (Not in Education, Employment or Training) when they leave statutory education¹². 955,000 people aged 16-24 were NEET after finishing compulsory schooling in the second quarter of

¹⁰ TES Magazine – “I’m on the side of the ‘hopeless optimists’”, Kevan Collins, 4 May 2012
¹¹ Parliament Education Committee - First Report: Underachievement in Education by White Working Class Children, 11 June 2014 & DfE SFR: GCSE and equivalent attainment by pupil characteristics, 2013 to 2014 (Revised)
¹² Impetus-PEF, Make NEETs history in 2014, January 2014



2014 - 13.3% of the age group. Young people eligible for free school meals are more than twice as likely to be NEET for at least six consecutive months between the ages of 16 and 19¹³.

Fig. 6: Percentage hourly pay gap, age 22 to 6414

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

Studies have also shown that an extended period of being NEET post-education has a profound effect on life-time earnings and career prospects. A young person who is NEET for just 6-months will, by their forties, lose up to £50,000 in lifetime earnings compared with their non-graduate peers¹⁵.

This issue brings a significant cost to society. Research by York University estimates an average lifetime public finance cost of £56,301 for a young person who is NEET aged 16 to 18¹⁶. The resulting estimated aggregate public finance costs of 16-18 year old NEETs range from £12bn to £32 billion.

The relationships between eligibility for FSM and educational attainment, educational attainment and the likelihood of becoming NEET, and being NEET for an extended period of time and later life chances, highlight one of the most challenging structural problems facing the education system in England.

Special Educational Needs (SEN)

Although the governmental spend on provision for people with SEN is approximately £5 billion per annum, there remains a substantial gap in attainment for those pupils with special needs and those without, suggesting their needs are not being adequately met by existing provision (be it in mainstream or specialist education)¹⁷.

Fig. 7: SEN attainment gap 2008/09 to 2012/13*

(No identified SEN minus any identified SEN)

	2008/09	2009/10	2010/11	2011/12	2012/13*
5 or more GCSEs at grade A* to C or equivalent	44.0	38.8	35.0	31.8	30.8
5 or more GCSEs at grade A* to C or equivalent including English and mathematics GCSEs or iGCSEs	44.9	46.1	47.4	46.8	47.0
Entering English Baccalaureate	.	.	21.2	22.0	31.5
Achieving English Baccalaureate	.	.	16.8	17.0	23.1
Expected progress in English	.	.	31.2	30.3	30.9
Expected progress in mathematics	.	.	37.7	36.5	37.0

* revised data

Additionally, there is a significant difference in number of pupils with SEN who become NEET once they leave the education system identifying another challenge to making the statutory education system in England fair and empowering to all.

¹³ DfE, Youth Cohort Study & Longitudinal Study of Young People in England, 7 July 2011

¹⁴ ONS, Earnings by Qualification, 2011

¹⁵ Impetus-PEF, Make NEETs history in 2014, January 2014

¹⁶ University of York, Estimating the life-time cost of NEET: 16-18 year olds not in Education, Employment or Training, 21 July 2010

¹⁷ DfE SFR: GCSE and Equivalent Attainment by Pupil, Characteristics in England 2012/13, 23 Jan 2014



CURRENT LANDSCAPE

Policy Context

Changes in the Education Budget

Real education spending by government has increased significantly over the past 30 years (although there were also significant changes in pupil numbers across this period), reaching £88.3 billion in 2013/14, over twice the level of spending seen in the end of the 1990s.

Since 2010/11, rising inflation and falling nominal expenditure has led to a sharp decline in the level of real spending on education (Figure 8). The general trend of falling real expenditure on education from 2010/11 to 2013/14 was felt across all areas of the education system bar Higher Education (Tertiary) spending, which is seen to rise 7.6% in real terms over the period albeit due to large accounting adjustments rather than increased budgetary spending (Figure 9).

Secondary education budgets bore the brunt of much of the real cuts, falling 7.6% over the period, and although real term real school budgets have increased by 0.1%, capital spending on school buildings was cut by 60% in real terms over the period¹⁸.

Fig. 8: Public Expenditure on Education (2013-4 prices)

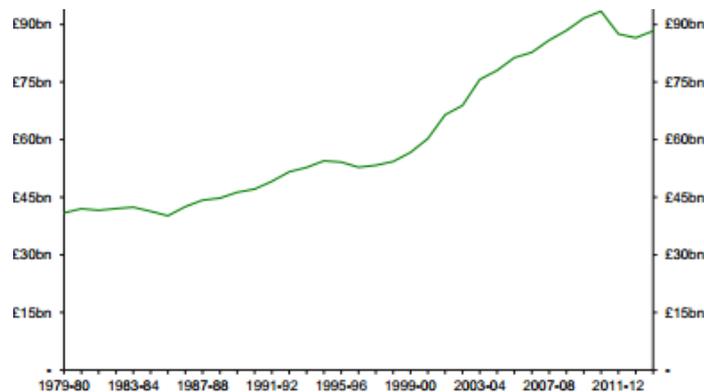


Fig. 9: Major component parts of education spending

£ billion 2013-14 prices						Change 09-10 to 13-14
	2009-10	2010-11	2011-12	2012-13	2013-14	
Pre-primary	5.2	5.1	4.8	5.1	5.2	-0.3%
Primary	27.3	27.2	26.8	26.2	27.1	-0.8%
Secondary	39.0	38.8	37.3	36.9	36.0	-7.6%
Tertiary	14.3	16.6	13.6	13.8	15.4	+7.6%
Subsidiary services	4.5	4.3	4.0	3.7	3.7	-17.4%
Total	91.6	93.4	87.5	86.5	88.3	-3.6%

Note: Total also includes spending on education not definable by level and R&D education

Simultaneously to the period covered by the 2010 Spending Review, the state-funded school population in England is expected to grow from 6.95 million in 2010/11 to 7.14 million children by 2014/15 and the government policy on raising the participation age will mean young people in England will be required to continue in education or training until their 18th Birthday. Consequently declines in real education spending

¹⁸ Department for Education, Spending Review Press Release, 20 October 2010



are being spread over an increasing population leading to even greater declines in levels of expenditure per head¹⁹.

As a consequence, educational institutions will need to find new ways of providing the same quality of education with fewer resources. Falling budgets undoubtedly presents a challenge to the social sector, however this may also present an opportunity for the sector to illustrate how they may be able to use education budgets differently with greater impact.

‘Academisation’ & Budget Autonomy

To address the attainment gap and poor educational performance in many areas of the country, Labour and Coalition Governments have attempted to reform the education system by increasing the level of competition within the educational system and ‘drive up’ the quality of educational provision. Policy changes include the development of academies and free schools which are independent from local authorities and receive their funding directly from the Education Funding Agency.

This has given schools a great deal of autonomy over their budgets and approach, with central government holding them to account through inspections and the eventual threat of special measures and closure if they persistently fail to improve.

Many schools have subcontracted certain responsibilities to specialist providers, such as catering, transport, ITC, occupational health and HR. A number of academies are pushing to use their budget autonomy to subcontract further non-teaching services to private sector providers, a move that has been drawn criticism from many sides.

This direction of travel has created an opportunity for charities, social enterprises and other public bodies with expertise in the education sector to either establish their own educational facilities or sell their expertise and services into schools alongside their private sector peers. These including school improvement such as leadership and teacher training and development, curriculum planning, pre-emptive monitoring and evaluation and policy development. Early movers include organisations such as Challenge Partners, Achievement for All 3As and Right to Succeed.

Pupil Premium

To empower schools to reduce the Attainment Gap, the Coalition Government introduced the ‘Pupil Premium’ in April 2011, providing additional funding of £625 million per annum in 2011/12 which was expanded to £2.5 billion per annum in 2014/15. The additional funding is allocated at tiered levels on a per pupil basis to any pupil who has been eligible for FSM at any point in the past six years (‘Ever 6 FSM’), who have been looked after (‘Pupil Premium Plus’) or who have parents in the armed forces (‘Services Pupil Premium’). The capital is allocated to primary and secondary schools (the pupil premium is higher for primary school pupils to reflect the benefits of early intervention) with the requirement that they target their activities towards supporting the achievement and development of their vulnerable young people whose background means they are statistically more likely to underperform their peers.

These policy changes have created additional revenue streams for charities and social enterprises to provide impactful and cost-effective educational services into schools.

Over time it is likely that the schools will require higher standards of evidence to show how they are using their Pupil Premium budgets to address the needs of their pupils at all age levels. This may create a competitive advantage for organisations incorporate a focus on the needs of their beneficiaries and measurement of their social impact at the heart of their business models.

Early Years Education

The funding and provision of pre-school childcare is rapidly changing. The extension of the two-year-old entitlement to free childcare to 15-hours per week for the most disadvantaged two-year-olds (lowest 40%) in September 2014 and entitlement of all three and four-year olds to receive 15-hours of

¹⁹ Institute for Fiscal Studies, Economic & Social Research Council, Trends in education and schools spending, October 2011



government funded early education per week has opened up opportunities for providers to expand their businesses into new areas. Additionally the introduction of the £50 million Early Year Pupil Premium for three and four-year olds in April 2015 will further support nurseries serving the most disadvantaged children.

It is worth noting that there appears to be evidence of a significant tension between early years best practice (class sizes, qualifications, living wage etc.) and the economics of the Early Years Single Fund Formula (EYSFF) hourly rates, with advocacy bodies stressing that rate levels often lead to government funded places for those most in need being under-funded and requiring them to be cross-subsidised with privately paid-for places²⁰.

Additionally from September 2015, the Government is also introducing the 'Tax-Free Childcare' scheme whereby for every 80p a parent pays for childcare, the government will contribute a further 20p, up to a total of £2,000 per child, per year²¹.

Transitioning from school to employment

Significant governmental focus has been applied to ease the transition from school to employment for young people at risk of becoming NEET by increasing their employability. Within the education system this has included the augmentation of the existing schooling system to support more vocation learning through University Technical Colleges (UTCs), Tertiary Colleges and Studio Schools, the introduction of new vocational qualifications, reforms to the Further Education (FE) College sector to improve the quality of teaching and linking funding to learners progression and their destinations and consequently attempts to better link FE provision to local employer demand.

Other changes of note include the raising of the participation age to require young people to continue in education or training until they turn 17 years old from 2013 and 18 years old from 2015, and the reform of the National Curriculum and the development of qualifications designed to better equip young people with the skills to succeed in their life after school.

Additional central programmes such as the £1 billion Youth Contract, £5 billion Work Programme, £1.5 billion apprenticeship grant and funding programmes and Mandatory Work Activity programme delivered through the Jobcentre Plus have been developed to support young people around the key transition point from school into sustained employment, with varying levels of success. The structure of many of these central programmes has been criticised for failing to target those furthest from the labour market and for their limited engagement of charities and social enterprises. Elsewhere, the Government has promised to increase the number of apprenticeships and traineeships to prepare young people for work

We have seen the development of a number of early intervention payment-by-results programmes, designed to test innovative interventions delivered by charities and social enterprises to support young people at risk of becoming NEET upon the completion of their statutory schooling. These include the DWP's Innovation Fund I & II (2012), DCLG's Fair Chance Fund (2014) and DWP's Youth Engagement Fund (2015).

Other policies of note

Other recent policies of note include the introduction of the 'Progress 8' measure of performance which is designed to more accurately capture young people's performance across a wider range of subjects to inform future policy.

Further emphasis has been placed on improving the standards and quality of teaching and leadership, with the development of the National College for Teaching and Leadership through the merging of the National College for School Leadership and the Teaching Agency in March 2013.

The government continues to work to introduce a new 'National Funding Formula' to simplify the way schools in England are allocated funding and ensure this is consistent across local authority areas which

²⁰ Ceeda, "Counting the cost: An analysis of delivery costs for funded early years education and childcare", October 2014

²¹ Tax-Free Childcare: 10 things parents should know



previously had control over how their budgets were allocated. The first steps towards this was the introduction of a new funding floor for 2015/6 which increases the emphasis on budget allocation on the basis of pupil numbers and indicators of deprivation or low attainment rather than historical spending. The government plans to incorporate the development of a single national funding formula for all schools into the next multi-year spending review planned after the next election²².

Special Educational Needs ('SEN') provision will be transformed over the coming years as a consequence of the recent changes in the assessment criteria put forth by the Children and Families Act 2014. There is now a requirement for a single Education, Health and Care ('EHC') plan to be prepared for young people with SEN, which will map out a joined up package of support for such young people up to the age 25.

Additionally, there have been significant changes to the higher education sector over the course of the last Parliament, with the increased availability of student loans and opening up of provision to include private providers of higher education (many of which specialise in certain industries and operate for-profit such as, for example, the University of Law or Edge Hotel School).

2015 General Election Outlook

Manifestos are yet to be released and it isn't yet clear if Education will form a key issue in the run up to the election. This leaves the education budget vulnerable when combined with the cross party consensus that further budget savings will need to be made in subsequent years.

More will be known in the coming months but below is a short summary of some of the key policy issues in the education sector as highlighted by the Conservative, Labour and Liberal Democrat parties respectively:

Conservative	Labour	Liberal Democrat
Minister: Nicky Morgan	Shadow Minister: Tristram Hunt	Minister: David Laws
<ul style="list-style-type: none"> - Protecting the nominal funding for schools - Making schools and colleges more accountable through new frameworks - Continue the 'academisation' of LA maintained schools to give schools more freedom - Expansion of best academy chains and federations into underperforming geographies - Expansion of the 'Royal College for Teaching' for teacher CPD - Introduce National Funding Formula that accounts for deprivation - Introduce baseline assessment in reception year to measure primary school performance - Create 3 million apprenticeships - Scrap National Insurance contributions for under 21s - Increase emphasis on 'character development' - Tax-free childcare: Govt pays 20p for every 80p a parent spends on childcare, up to £2,000/year/child 	<ul style="list-style-type: none"> - Increase cooperation between private and state schools - Increase collaboration between state schools - Increase teaching quality (require qualifications & continued CPD) - Introduce local bodies tasked with school oversight & intervention - Introduce new vocational qualifications with links to employers and work placements and greater emphasis on English and maths (Tech. Bacc & Degrees) - Increase the number of quality apprenticeships - Guaranteed work placements and training for NEETs - Increase emphasis on overall pupil health & wellbeing - Increase the number of free nursery hours for three and four-year-olds to 25 hours/week - Increase the integration of nurseries & schools to enable working hour based provision - Cut HE tuition fees to £6k 	<ul style="list-style-type: none"> - Protect real term funding for schools, nurseries and colleges - Rule out profit-making schools and Trusts - Allow LA to open new state-funded (non-Academy) schools - Require all teachers in state-funded schools to be qualified - Introduce a new core national curriculum - Increase quality of early-years education - Introduce 15 hours/week free childcare for all two-year olds - At least protect the Pupil Premium - Triple the Early Years Pupil Premium to £1,000/pupil - Extend FSM to all primary school children - Expansion of the 'Royal College for Teaching' for teacher CPD - Create 200,000 more apprenticeships - Create democratically accountable local assessment bodies

²² David Laws oral statement on minimum funding levels, 13 March 2014



Interventions addressing social need – what works & what doesn't

With the development of budget autonomy and increased proliferation of data across the education sector, there has increasingly been a drive to perform evidence-based analysis of the effectiveness of teaching methods and programmes. The Education Endowment Foundation²³, designated as the “What Works” centre for education, have identified three broad levers available to both improve the education system more generally and lower the inequalities within educational provision as summarised in Figure 10 below.

Fig. 10: Education Endowment Foundation’s Key Levels to Educational Improvement

Teaching Quality	Targeted Interventions	Families & Communities
Supporting the improvement of teaching quality & maximising the impact of the interaction between teacher and pupil	Supporting children at risk of not achieving their potential or who have fallen behind their peers when they need it most with the most effective, targeted interventions ²⁴	Helping parents, families and communities to best support their children achieve their potential

Although school management teams have the most control over these levers, outside organisations are often working alongside schools to either directly deliver or provide support for those improvement areas.

The EEF continues to aggregate existing research and robustly test both new and existing, innovative interventions, to help them better understand the underlying effectiveness of such programmes. Best practice will be disseminated to help inform future procurement with a view to improving both the absolute and relative educational performance of underperforming pupils. As at 31st March 2014 the EEF had committed £47 million of funding to 87 evidence based projects with the early results being published as part of the EEF’s Educational Toolkit (Figure 11).

Fig. 11: Education Endowment Foundation’s Education Toolkit

Arts participation	£ £ £ £ £	🔒 🔒 🔒 🔒 🔒	+2 months	Oral language interventions	£ £ £ £ £	🔒 🔒 🔒 🔒 🔒	+5 months
Aspiration interventions	£ £ £ £ £	🔒 🔒 🔒 🔒 🔒	0 months	Outdoor adventure learning	£ £ £ £ £	🔒 🔒 🔒 🔒 🔒	+3 months
Behaviour interventions	£ £ £ £ £	🔒 🔒 🔒 🔒 🔒	+4 months	Parental involvement	£ £ £ £ £	🔒 🔒 🔒 🔒 🔒	+3 months
Block scheduling	£ £ £ £ £	🔒 🔒 🔒 🔒 🔒	0 months	Peer tutoring	£ £ £ £ £	🔒 🔒 🔒 🔒 🔒	+6 months
Collaborative learning	£ £ £ £ £	🔒 🔒 🔒 🔒 🔒	+5 months	Performance pay	£ £ £ £ £	🔒 🔒 🔒 🔒 🔒	0 months
Digital technology	£ £ £ £ £	🔒 🔒 🔒 🔒 🔒	+4 months	Phonics	£ £ £ £ £	🔒 🔒 🔒 🔒 🔒	+4 months
Early years intervention	£ £ £ £ £	🔒 🔒 🔒 🔒 🔒	+6 months	Physical environment	£ £ £ £ £	🔒 🔒 🔒 🔒 🔒	0 months
Extending school time	£ £ £ £ £	🔒 🔒 🔒 🔒 🔒	+2 months	Reading comprehension strategies	£ £ £ £ £	🔒 🔒 🔒 🔒 🔒	+5 months
Feedback	£ £ £ £ £	🔒 🔒 🔒 🔒 🔒	+8 months	Reducing class size	£ £ £ £ £	🔒 🔒 🔒 🔒 🔒	+3 months
Homework (Primary)	£ £ £ £ £	🔒 🔒 🔒 🔒 🔒	+1 month	Repeating a year	£ £ £ £ £	🔒 🔒 🔒 🔒 🔒	+4 months
Homework (Secondary)	£ £ £ £ £	🔒 🔒 🔒 🔒 🔒	+5 months	School uniform	£ £ £ £ £	🔒 🔒 🔒 🔒 🔒	0 months
Individualised instruction	£ £ £ £ £	🔒 🔒 🔒 🔒 🔒	+2 months	Setting or streaming	£ £ £ £ £	🔒 🔒 🔒 🔒 🔒	+1 month
Learning styles	£ £ £ £ £	🔒 🔒 🔒 🔒 🔒	+2 months	Small group tuition	£ £ £ £ £	🔒 🔒 🔒 🔒 🔒	+4 months
Mastery learning	£ £ £ £ £	🔒 🔒 🔒 🔒 🔒	+5 months	Social and emotional learning	£ £ £ £ £	🔒 🔒 🔒 🔒 🔒	+4 months
Mentoring	£ £ £ £ £	🔒 🔒 🔒 🔒 🔒	+1 month	Sports participation	£ £ £ £ £	🔒 🔒 🔒 🔒 🔒	+2 months
Meta-cognition and self-regulation	£ £ £ £ £	🔒 🔒 🔒 🔒 🔒	+8 months	Summer schools	£ £ £ £ £	🔒 🔒 🔒 🔒 🔒	+2 months
One to one tuition	£ £ £ £ £	🔒 🔒 🔒 🔒 🔒	+5 months	Teaching assistants	£ £ £ £ £	🔒 🔒 🔒 🔒 🔒	+1 month

²³ The Education Endowment Foundation was founded by the Sutton Trust in partnership with Impetus Trust in 2011 with a founding grant of £125 from the Department for Education.

²⁴ This has been shown to be especially critical around key transition points between early years/primary/secondary/post-secondary education



Opportunities for Charities & Social Enterprises and their respective business models

As of 2011/12, NCVO’s analysis identified 7,850 non-profit voluntary organisations across the UK delivering education based interventions, generating a collective income of almost £1.5 billion annually²⁵. This does not include the growing number of social enterprises and social businesses established as companies limited by shares by entrepreneurs seeking to create both financial and social value. We outline below a range of impact-focused business models being employed by charities, social enterprises and social businesses in the education market.

Directly Selling into Schools

Given the increasing demand from schools for identifiably impactful services which are aligned to their children’s needs, social sector organisations are increasingly selling their services and interventions directly into schools and colleges.

Case study: Third Space Learning

<p>Problem</p> <p>There is a significant inequality gap in the UK education system, with children from deprived backgrounds far more likely to fail educationally than their better-off peers.</p>	<p>Solution</p> <p>Third Space uses technology to radically change the supply of academic talent in our education system, connecting graduates and teachers from around the world to children in schools across the UK, providing specialist one-to-one support for students at risk of failure.</p>
<p>Revenue Model</p> <p>Schools purchase programmes for individual students, with all sessions taking place in school in addition to normal maths lessons.</p>	<p>Impact</p> <p>Improving the numeracy skills of disadvantaged children means they are more likely to succeed in primary and secondary education, as well as being more likely to secure employment, training or further education when they leave school.</p>

Cross Subsidy Model

Charities such as The Factory Skatepark in Dundee operate cross subsidy models, generating income from alternative means to finance the delivery of impactful educational interventions targeted towards those most in need.

Case study: Factory Skatepark

<p>Problem</p> <p>Young people with low self-esteem, low educational attainment and a lack of role models are more likely not to make the transition into work, training or further education.</p>	<p>Solution</p> <p>Factory Skatepark engages young people through extreme sports and provides homework clubs, youth clubs, volunteering programmes and peer-to-peer education and stewardship.</p>
<p>Revenue Model</p> <p>Factory Skatepark will repay the investment through income generated by the business such as admission fees to Factory Skatepark and Fun Factory (a children’s soft play centre).</p>	<p>Impact</p> <p>Factory Skatepark has over 21,000 registered people who use the facilities and services offered. There were 1,722 attendances at homework clubs, 1,130 attendances at community outreach events and 1,052 attendances at youth clubs.</p>

²⁵ NCVO UK Civil Society Almanac



Delivering Government Contracts

Central government contracting has become rarer in the education space but one area it has grown has been the development of payment-by-result programmes, such as the Department for Work & Pension's Innovation Fund, have stimulated a number of social impact bonds that enable charities and social enterprises such as Adviza, engage with young people whilst at school to help provide them with additional tailored support to reduce the likelihood that they become NEET once they leave statutory schooling. Government contracting is also well established in more employment focused areas such as the delivery of the Work Programme or Youth Contract.

Case study: Adviza

Problem

There are more than three quarters of a million unemployed young people in the UK today. Young people who have been excluded from school or have not achieved adequate GCSEs are more likely to fail to make the transition into work, training or further education.

Solution

Adviza runs the Energise programme which supports vulnerable 14-15 year olds. Through one-to-one mentoring, group work and residential courses, the young people are given tailored support to help them make the transition from education to employment.

Revenue Model

Energise is funded through a Social Impact Bond. Repayment is under a "payment-by-results" contract with the Department of Work and Pensions, out of long-term savings to the public purse of reducing youth unemployment. Social investors take the financial risk, providing the up-front funding in the knowledge that their returns will only be made if the intervention achieves specified targets.

Impact

The Energise project improves attendance, attitude, and behaviour at school, as well as improving GCSE results and routes into employment. In the first year of the programme over 600 young people were referred from 35 schools.



CHALLENGES FOR SOCIAL INVESTMENT

Fragmentation of purchasing system

The 'academisation' of the school system has created a fragmented market place with over 24,347 schools for charities and social enterprises to sell into and less central procurement and purchasing from the Department for Education or local authorities²⁶. Chains of academies are becoming increasingly common to enable schools to coalesce whilst maintaining their independence and entrepreneurialism (to mixed effect²⁷). Nevertheless the cost of marketing into schools is often a barrier for the social sector to expand their provision into new geographies and favours large established players in the education market such as Pearson or Cambridge Education with either the networks or resources to reach their customers. This makes it challenging for smaller charities and social enterprises to operate sustainably unless they can operate at low margins or are able to access the upfront capital required to develop their own sales networks.

Availability of grant funding over repayable finance

The education sector remains one of the key funding areas for Foundations. This can often lead to a selection bias with social investors working with organisations who were unable to access grant funding from foundations. Additionally, the availability of grant finance may mean grant-funded enterprises are able to under-price competing social enterprises attempting to operate sustainably, especially in areas where impact measurement and attribution is harder to measure and thus prove value-for-money against competing offers.

Rapid policy changes

Over the last four years Further Education ('FE') has seen significant reform with both structural and funding changes. Although many of these changes have been welcome, they have led to destabilisation of the system making it difficult for players within that system to take on proactive initiatives and develop new ways of supporting young adults.

Lack of best practice and best product knowledge bank

Although significant progress has been made with the EEF toolkit, there remains a lack of knowledge as to what schools need, the type of pupil, classroom and whole-school educational interventions and changes that are statistically proven to raise performance or pupil development, and the organisations who might be able to deliver such programmes.

Attribution of long term outcomes

In the education system, numerous studies have found early intervention to be crucial in improving the life outcomes of children and young adults. However, it remains challenging to attribute improvements in these outcomes to a specific organisation, intervention or indeed the education system at all given the long-time gap required for the outcomes to manifest themselves.

²⁶ DfE Statistical First Release, *Schools, pupils and their characteristics: January 2014, June 2014*. This Figure includes nursery schools, state-funded primary schools, state-funded secondary schools, special schools, pupil referral units and independent schools

²⁷ EducationInvestor, *Special Report: Year in review – Calm before the storm?*, December 2014/January 2015



PRIORITIES FOR BIG SOCIETY CAPITAL

Our priority is to target those opportunities where we believe Big Society Capital may be able to have a positive impact. Education, employment and training remains one of the most in demand sectors for social investors, regularly topping polls as the most preferred sectors for social investment²⁸.

Big Society Capital's portfolio

Big Society Capital has made a number of investments in education which support outcomes for children and young people including:

- £8 million into Nesta Impact Investment Fund with a total size of £17.6 million. The target is for one third of the fund to be invested into organisations that use technology to have a positive impact on the educational attainment and employability of children and young people.
- £2.3 million into 4 school-based programmes structured as Social Impact Bonds to improve the lives of vulnerable 14-18 year olds by supporting them into employment and/or further education:
 - 3SC Capitalise SIB - Funds a programme in the Cardiff and Newport area designed to help address the root causes of poor educational attainment, and consequently low employment prospects, by focusing on improving pupil's literacy skills and low self-esteem. The Capitalise programme is performance managed by 3SC and is delivered by Dyslexia Action and Include, a subsidiary of Catch22.
 - Energise Innovation SIB - Supports a programme designed to build resilience and help people to progress in their lives, particularly in education and employment. This programme is managed by Social Finance and delivered by Adviza.
 - Triodos New Horizons SIB - Helps tackle youth unemployment. This programme is managed by Triodos New Horizons and delivered by Greater Merseyside Connexions Partnership (GMCP), a charity working with young people in Merseyside.
 - ThinkForward SIB - Funds a school-based support programme to improve the lives of vulnerable 14-17 year olds by getting them into employment and/or further education. This programme is managed by ThinkForward and delivered by Tomorrow's People.
- £35 million into general social investment funds that have made a number of investments in the education sector:
 - FSE Social Impact Accelerator has invested in 4Children, a national charity which supports more than 100,000 families across some of the UK's most disadvantaged communities through its children centres, nurseries and out of school clubs. This investment will enable them to take on at least 50 new children's centres and nurseries over the next three years.
 - Impact Ventures UK has invested into K10, an independent social enterprise that employs apprentices and places them in the London construction industry.

²⁸ Social Investment Research Council, 2014



Future Opportunities

There are number of areas of opportunity for social investment in Education that BSC will be exploring over the coming year including investment into social sector organisations to expand provision, capital for Social Impact Bonds, equity investment into infrastructure platforms and investment to support educational institutions directly.

Investment into Social Sector Organisations to Expand Provision

Delivery of children's services and early years provision

With the changes to the early years market and greater statutory funding, there are a growing number of examples of nurseries taking on social investment, such as London Early Years Foundation which in 2014 received investment from Big Issue Invest and Bridges Ventures to develop ten new nurseries. These examples could be replicated across the provider landscape and we hope to work closely with intermediaries, policy makers and providers to examine different models of social investment in this space.

Provision of school-based interventions

As discussed earlier, the Attainment Gap within schools will continue to present a challenge for the education system. At the same time there are a multitude of social sector organisations operating in this market, delivering interventions to pupils directly as well as interventions to support teachers in providing the best education for those pupils. Existing budgets within schools for learning support and Continuing Professional Development, as well as new budgets such as Pupil Premium, continue to offer a source of revenue for these organisations.

Many of the organisations providing interventions into schools are smaller scale and/or at earlier stages of development and we will continue to work with partners to build up capacity and sustainability of these organisations so, if appropriate, they are able to take on social investment to facilitate their further growth.

Support for employers to take on students from disadvantaged backgrounds

Increasing pressure on employers to recruit employees from diverse backgrounds and the government focus on apprenticeships will likely drive employers to access outside support. A number of social sector organisations have been established to develop models linking firms looking for new staff with potential applicants. In addition to providing support for the employer, these organisations commonly help a student's transition by providing employability skills sessions and mentoring support, thereby increasing the likelihood of a successful and sustained employment placement. We anticipate social investment could be used to expand effective models and support the development of additional services in this area.

Investment into Social Impact Bond Structures

The increasing focus in the public sector to pay for results rather than activities or to trial innovative preventative interventions whilst avoiding the budgetary challenges of 'double funding' has led to a financing need for some social sector organisations and the development of Social Impact Bonds (SIBs) to help address that need. SIBs are thought to be difficult to implement in large swathes of the education space given the savings from improvements in education outcomes achieved earlier in school are often only seen much later in life. Nevertheless there are a number of key areas in the education sector where SIBs could generate better outcomes and savings for the public purse.



Transition from school to employment

The transition from school to further study or employment is a key stage in a young person's development. With the loss of career services in schools and often a lack of support to empower young people to consider their choices, many pupils leave school without a clear pathway and become not in employment, education or training ('NEET'). Initial results from NEET-focused SIB programmes are encouraging albeit at a relatively small scale. We believe social investment could act as a catalyst and enable social sector organisations to lead improvements to young people's transitions into further education, employment or training in a more systemic fashion.

Support for Higher Education institutions to take on students from disadvantaged backgrounds

The £366 million Student Opportunity Fund managed by the Higher Education Funding Council for England (HEFCE) is designed to support students from disadvantaged backgrounds or with disabilities enter and sustain further learning in higher education institutions. Currently there is no link between the allocation of this funding to higher education institutions and its effectiveness in achieving its goals - hence this funding may not be as efficiently spent as possible. There may be the potential for social sector organisations to access investment to deliver interventions that increase the numbers of students from disadvantaged backgrounds or with disabilities enter and sustain a place in higher education, with the potential for outcomes to be funded through the existing Student Opportunity Fund budget on a payment-by-results basis.

Other areas of potential SIB development

Other areas SIBs could potentially be utilised is to prevent exclusion from schools and the associated cost of Pupil Referral Units (PRUs). Local commissioners and agencies could also work together to support the development of young people through payment-by-results models centred around, but not limited to, the education system.

Investment into Infrastructure

Linking schools and local commissioners with impactful interventions

The increasing fragmentation of school provision will slow the dissemination best practice between schools and raise the costs of organisations with impactful interventions selling into schools. We believe there is a role for the development of some form of market infrastructure (e.g. networks or platforms) that provides a mechanism for impactful social sector organisations to access a greater number of schools or local commissioners.

We would like to work with partners to support the development of such networks or platforms that help schools and social sector organisations more readily connect.

Investment into Educational Institutions

Alternative Provision and Pupil Referral Units (PRUs)

The types of organisations providing alternative provision in schools is increasing, with many social sector organisations increasingly developing or expanding their interventions in this area. The Boxing Academy for example, combines the provision of a full-time academic education with added mentoring and support alongside boxing and other sports to create a positive cycle of achievement to young people at risk of exclusion and becoming NEET.

Support for these organisations in developing their business models and scaling could create significant social impact for the pupils as well as wider systemic changes to the education system. We would be



interested in conversations with Alternative Provision providers on how social investment might be able to help them to deliver greater outcomes.

Providers of vocational education

Some of the recent policy changes around vocational educational provision have provided financial incentives and additional freedom for Further Education (FE) colleges to receive investment to undergo substantial reform, consolidation and specialism. FE colleges may be able to use social investment to develop new programmes (e.g. SME hubs), consolidate and restructure, purchase asset or expand internationally.

Another area of interest is the emergence of more vocational models of secondary education, such as Studio Schools or University Technical Colleges, which seek to combine high quality academic and vocational learning to better meet the needs of some children who are less well suited to the established academically orientated system.

Investment in this area could require both large amounts of capital and generate a significant social impact. Often students attending vocational education or FE colleges are from very disadvantaged backgrounds. Improving the quality of vocational education systems has the potential to generate better employment outcomes and increase social mobility.

Others

This list of potential priorities and opportunities is not exhaustive - other areas of interest include SEN delivery or support services, the use of boarding schools as an alternative to care provision, and teacher training programmes.

We hope to pursue 'deeper dives' into specific educational areas of interest where social investment may be able to help develop or scale the work of impactful charities and social enterprises so if you have an enquiry about whether a potential market segment, business model, individual opportunity or programme deserves further analysis, is eligible for investment, or you would like to discuss any area the education system in greater detail please contact [Daria Kuznetsova](#) and [Alex Goodenough](#).

Big Society Capital is a social investment wholesaler, which means we can only invest via social investment finance intermediaries. For further information please see our website: www.bigsocietycapital.com



The information and opinions in this report were prepared by Daria Kuznetsova, Strategy and Market Development Director, and Alex Goodenough, Investment Director, on behalf of Big Society Capital.

Titles available in the Social Investment Insights Series

Growing Social Enterprise Through the Holding Company Model: Groupe SOS (June 2014)

Social Impact Bonds: Lessons Learned (June 2014)

Growing the Market for Charity Bonds (July 2014)

Housing and Social Investment (August 2014)

Health and Social Care (December 2014)

Financial Inclusion and Social Investment (December 2014)

Long-Term Unemployment and Social Investment (December 2014)

The Criminal Justice System, Those It Affects and Social Investment (January 2015)

Social Investment in Education (February 2015)

Arts, Heritage and Sports and Social Investment (coming soon)