Repayable Finance for Innovation in Public Services

The Innovate to Save Playbook

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YLab

ylab.wales

Acknowledgements

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What does this guide offer?

This guide aims to be a practical and informative tool that helps public service organisations - although most likely local and national governments - to stimulate innovation within a challenging context. Informed by experience, it aims to guide teams through the process of planning, developing and implementing a programme of blended finance for innovation.

It outlines why you might choose a mix of repayable and non repayable finance to fuel innovation, especially within government bodies. It also highlights our experience using this method in Wales as a case study, addressing some of the challenges and risks we encountered, and how we mitigated them.

This guide, like our practice, remains a work in progress and will be revised as we complete further iterations of our programme in Wales. It is not intended to be an exhaustive guide for all public service organisations, but is a way to share our knowledge and experiences operating in a specific location within localised conditions.

If you feel something is missing, you have questions or want to talk through your own version of this work, we would love to hear from you.

Introduction

Why is repayable finance a good method for innovation?

"Repayable finance is an increasingly useful tool that governments can use to support innovation in public services"

Repayable finance is an increasingly useful tool that governments can use to support innovation in public services - allowing governments to benefit from the success of innovation and, importantly, reinvest money on a regular basis in new innovations.

By incentivising the practice of innovation, governments can find and develop riskier and more novel ideas to change the way that public services are delivered, improving services and generating savings to the public purse.

Public services currently face considerable barriers to innovation, including;

- **Cuts to local government funding**
- **Time taken to bring about change**
- **Lack of commitment/challenges in developing and maintaining partnerships**
- **Finding and scaling the right ideas**
- **Aversion to risk**

Finding new way to incentivise innovation - through new forms of finance and non-financial support is therefore imperative.

This guide is informed by our experience of building, delivering and developing a programme that supports public and third sector organisations to generate cashable savings and improve services through innovation, using blended finance (grant and loan) and non-financial support.

[1] *www.nesta.org.uk/blog/delivering-public-services-innovation-evidence-from-wales/*

Section 1

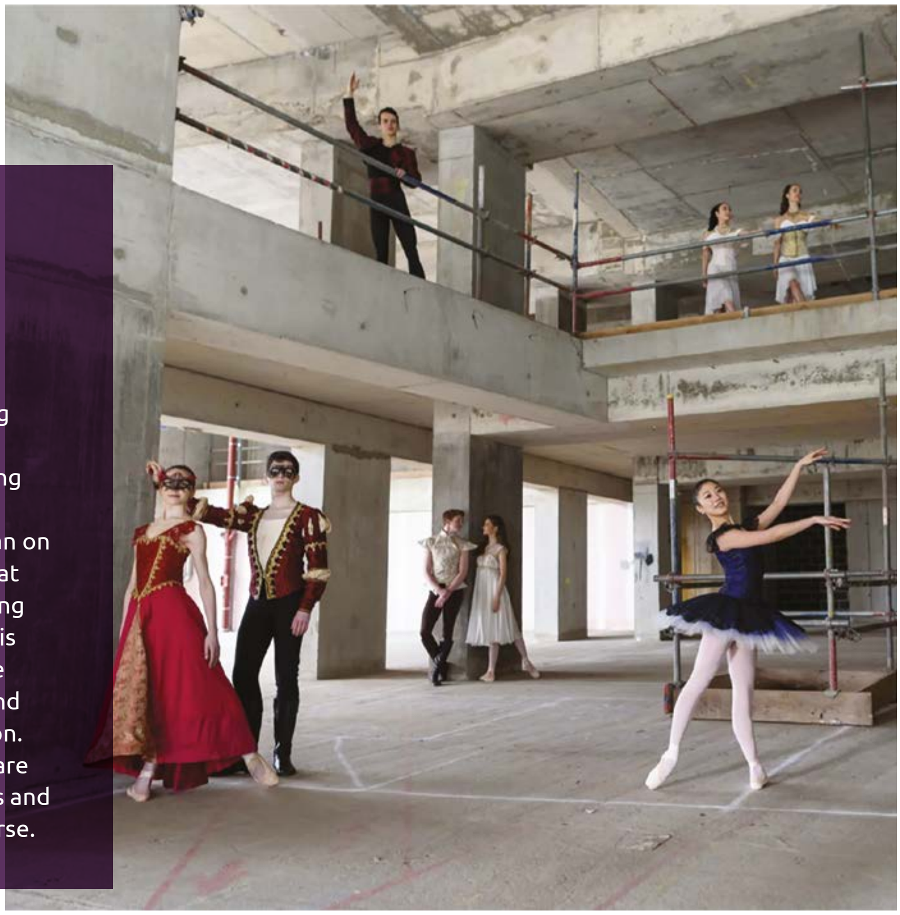
Understanding your finance options

Many different financial tools to incentivise innovation are available to governments but knowing which to use is often tricky. Nesta has written an extensive guide on the range of financial instruments available to support innovation, Funding Innovation; a practice guide to making money work harder, but Table 1 on page 8 presents some examples of mechanisms available to governments to stimulate innovation, along with some of the challenges and advantages involved with their use.

Public services in Wales and the wider UK are struggling to cope under the dual pressures of reducing budgets and increasing demand, creating a greater imperative to build services that are fit for the future. Innovation is acknowledged by many as essential, but there is uncertainty around *how* to create the systemic conditions needed to match the scale and pace of change required.

In a 2015 paper from Nesta, '*Finance for Impact: the case for transforming public finance to better support evidence, outcomes, engagement and innovation*', Geoff Mulgan argues that very little progress has been made on the finance of innovation within the public sector, and that "no government can articulate a coherent approach to funding innovation in its own operations… answering basic questions: what optimal levels of spending might be; how these might be divided between different activities and successive stages, such as incubation and scaling; how risk might be managed; what target rates of return should be etc".

Case Studies



What is Innovate to Save?

Innovate to Save was launched in February 2017 with funding from Welsh Government and was open to all public and third sector organisations delivering public services in Wales. The programme blends grant funding to undertake a Research and Development phase, incorporating prototyping and piloting of the organisations' ideas, followed by the opportunity to apply for an interest-free loan on negotiable terms to implement the project at scale during an Implementation phase. During both phases, tailored non-financial support is offered to project teams, that might include financial modelling, stakeholder mapping and expert help with research and data collection. The intended outcomes of the programme are to find and scale ideas that improve services and generate cashable savings for the public purse.

Funding Tool: Loans

Case Study: Arts Impact Fund, UK

Arts Impact Fund, the world's first impact investment fund specifically for the arts and cultural sector provided unsecured loans of £150,000-£600,000, at affordable interest rates, repayable over a three to five year period.
It supported arts and cultural organisations working in England that are financially resilient, can demonstrate a commitment to artistic impact and deliver social outcomes in at least one of the following areas: youth and educational attainment, health and wellbeing, citizenship and community. Since July 2015, the fund has invested over £7 million in a total of 23 organisations, with the loans set to be fully repaid to partners by 2023. **Arts Impact Fund has co-invested with other lenders in 20% of its deals (by value) and in doing so, has leveraged its capital by 3.78 times, bringing in an additional £6.7m to the arts and cultural sector.**

Recognising an ongoing need for arts and culture organisations to be able to access repayable finance, the newly launched Cultural Impact Development Fund totals £3.7 million and will provide small-scale repayable finance of £25,000-£150,000 to socially-driven arts, culture and creative organisations across the UK.

Funding Tool: Impact Bonds

Case Study: Pay for Success, Massachusetts, USA

The Pay for Success model applied in the Commonwealth of Massachusetts enables the government to finance realised outcomes rather than planned ones. This has been implemented particularly in innovative programmes that reduce the number of chronically homeless individuals with a 'housing first' approach. Through a programme run by Massachusetts Housing and Shelter Alliance, **a 'Pay for Success' contract has housed 729 individuals, with potential savings of up to $11,711 per person.**

Funding Tool: Loans

Case Study: Invest to Save, UK

Invest to Save is a Welsh Government initiative that offers interest-free, (mostly) unsecured loan finance to public and third sector organisations. Projects need to demonstrate the need for upfront investment in a project that has the potential to deliver long-term cashable savings which are used to repay the initial loan. **Over the past 9 years it has invested £174million in 181 projects.**

In 2016 the then Public Policy Institute for Wales undertook a review of Invest to Save and recommended that part of the fund be segmented to undertake a trial that might stimulate more innovative applications. This led to the creation of Innovate to Save.

Please see breakdown featured overleaf

Table 1: Landscape of Funding Tools

Source For	Description	Advantanges	Challenges
Grants	Gift of money, usually linked to commitments on activities, outputs or outcomes.	• Simple, established.	How intensively to manage, can drive dependency. No return to funder.
R&D funding	Stage-gate funding for developing technologies etc., usually grants.	• Suitable for high risk/ reward projects.	Requires greater management. Staging can limit project flexibility.
Grants/equity in accelerators in stage-gate	Grants plus small equity shares for new companies, often linked to non-financial help.	• Higher success rate for startups.	Intensive input needed to achieve successes.
Grants convertible to loans, or grants with royalties	Grants with conditions that make them turn into loans once milestones are met, e.g. on revenues.	• Recycles money. • Drives good behaviours re: financial sustainability.	Managing loan book - requires longer-term engagement/ communication with awardees to check on revenues; management of repayment schedule. Modelling of repayment will often be overly optimistic. Can be gamed if repayment triggers are not set right. Tax/accounting treatment not well established.
Grants convertible to equity	Grants which turn into rights to equity once revenue or other milestones are met.	• Recycles money • Share of high-value projects.	Managing investment, followon funding, getting the conversion triggers right. Only feasible if recipients established with shares. Tax/ accounting treatment and legal enforceability not well established.
Match crowdfunding	Committing money on condition that matched funding is raised through crowdfunding platforms.	• Encourages mobilisation of public money and commitment.	Skews to high income audiences; sums still quite small.
Loans	Money lent to be repaid with interest over agreed timescale.	• Recycles money. • Straightforward offer to recipients (no cession of control or ownership). • Easy to value cost and likely return.	Managing loan book, risk assessment, security and seniority. Is there additionality? Many firms can get loans from other sources.
Project-specific loans	Loans linked to specific projects, e.g. in technology. Repaid only if the projects succeed.	• Recycle money. • Straightforward offer to recipients (no cession of control or ownership). • Attractive to recipient as do not need to be repaid if project fails.	Less secure than loans secured against the firm as a whole (see above). Need to monitor project success to see if loan needs to be repaid (this can be gamed).

Source: 'Funding Innovation: Making money work harder.' London: Nesta: 2018.

Notes

Image: Leonard Cheshire

The Power of Blended Finance

Blending funding types can provide a powerful incentive to organisations to undertake innovation projects, off-setting their own risk by funding initial research and development, as well as providing hands-on support from experts that increases the evidence-base for whether the project is going to have the desired outcomes.

The Innovate to Save Blend

Grant: £5k - £30k
Non-Financial support (equivalent to between £5k and £15k per project)
Loans + support for 1 year

Support provided by Innovate to Save is different to that provided by other existing loan financing programmes for innovation. Its support is given to innovation projects earlier, and is more focused and more intensive. It takes account of the fact that taking on risk finance - in this instance interest free loans - is seen as more of a barrier to innovation than taking on grant funding, and provides small amounts of non-repayable finance backed up with non-financial support to help organisations test and prototype ideas before they implement and scale them.

To date, we've found that small grants - no larger than £15,000 - were sufficient to encourage a large range of organisations to put forward ideas that needed testing and back them up with their own resources. Organisations applying to cohort one of Innovate to Save committed an additional 53p of in-kind support for every £1 of grant funding requested.

However, our experience suggested that small grants don't necessarily encourage major ambition. In version two, we increased the grant ceiling for projects to £30,000.

It's also interesting to look at the value of loans requested off the back of relatively small scale grants. We issued just under £120,000 of grants to cohort 1. Four projects requested loans, totalling £4.5m, giving us a ratio of £37.50 of loan funding requested for every £1 of grant funding issued.

We don't yet know if we have the scale of grant funding correct but we can show that it is possible that grants do not need to be significantly large to remove some of the barriers to innovation that risk-based finance creates.

Section 2

Organisational Readiness

Can you run a programme?

Image: Innovate to Save Bootcamp, Alex Sedgmond

Before starting the programme design process, we recommend trying to determine how strong the appetite and practices for effective innovation are in your organisation. There are some key questions to discuss as part of this conversation that will help you as you move forward.

Discussion Questions

- ☐ What resources do you have for a programme of blended/risk based finance?
- ☐ Do you have partnerships and relationships in place to ensure that the programme can reach the right kinds of people?
- ☐ What is the appetite for new and more risky ideas in your organisation - how much failure can your organisation tolerate?

Resources

Thinking about how a new programme is going to be resourced should be an ongoing activity throughout the design of your programme. Do you have the right team with an appropriate mix of skills, networks, time and appetite for the project? Can you segment enough money and set it aside for the programme?

These questions shouldn't be the main drivers of your programme design - letting them lead can inhibit your ambition - but they should remain a constant to ensure that what you're designing is deliverable.

The Innovate to Save team

Innovate to Save is run by Y Lab (a partnership between Nesta and Cardiff University). The programme employs a full time programme manager and assistant programme manager. They are supported by the wider Y Lab team (who dedicate significant amounts of their time to the programme), including a team of academic researchers, and an engagement and communications manager.

The programme is a collaboration with Welsh Government and the Head of Invest to Save plays an active and engaged role in the programme, supporting all aspects of the work. We are also working in collaboration with Wales Council for Voluntary Action - a representative body for the third sector in Wales.

Relationships

As you begin the process of designing your programme, you should spend time thinking about your key stakeholders, both internal and external to the process. Who can help you reach people with new ideas? Do you need to broaden your pool of applicants? What kinds of support will people need to apply (for example, in writing an application, or in finding partners)? Who's likely to slow your process down or be sceptical or (in the worst case) block the programme and how are you bringing them on board early on?

It's also worth taking the time to understand how your programme can complement (or be constrained by) wider government or public service strategic plans, finance plans, governance, legislation and policy direction. While you don't want these to dictate your programme design, it is worth ensuring that what you do complements and builds on existing policy and practice.

Contracting Innovate to Save

It took a year for us to design and contract the Innovate to Save programme. We hope that this guide might shorten the timescale for you!

In particular, the contracting process was overly (and necessarily) arduous. Ensuring that the objectives of the programme, delivery mechanisms and assurances against the expenditure of public money were suitable to a range of partners and the ambition of the programme to create space for innovation meant multiple rounds of amendments and sign off from three legal teams. Having strong relationships, both internally and externally meant that we were able to keep focused on the vision for the programme over a significant length of time.

Risks

Thinking about the level of risk that your organisation can take informs whether you are in a strong position to build a programme and make clear decisions about:

- The level of grant funding you might offer;
- Types of organisations you might fund;
- How rigorous you will want existing evidence to be for a project's outcomes - how much novelty you might be comfortable with.

It is likely that not everything you fund will work - that is certainly the case with Innovate to Save.

How we talk about failure

A key objective of Innovate to Save is to generate useful knowledge about what works and what doesn't. To that end, an R&D project that fails to show cashable savings or improvements for the people who use the service is only deemed to have failed if they can't tell us why that's the case.

In capturing information about what works and what doesn't we ensure that every investment (grant or loan) has a level of value for others, alongside the financial value that it might generate back to Welsh Government.

Section 3

Building your Programme

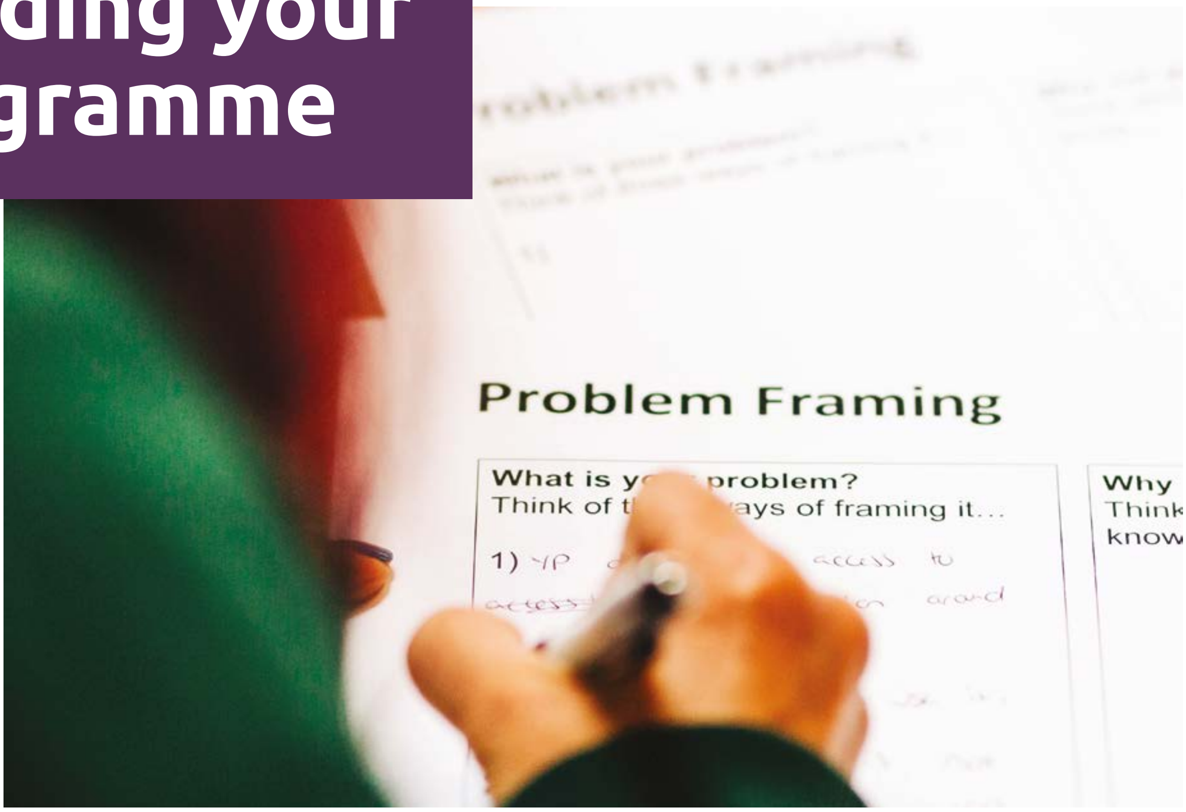


Image: Innovate to Save Bootcamp, Alex Sedgmond

Once you have decided what is important for your programme, it is time to start the design and build. All repayable finance programmes for innovation will look different as they are determined on many factors that are unique to the organisation.

When developing a staged programme of support it is vital to plan each stage fully; taking time to identify objectives and outcomes, the kind of support that can be offered and the amount of time available to complete each stage. As well as ensuring that you are able to deliver your programme, this level of planning will help you communicate your offer effectively to potential applicants - a vital step in making sure people are fully able to engage with your programme and undertake the best work possible.

The following section is intended to help organisations develop the component stages of a loan-based financial tool to help stimulate innovation in public services.

Discussion Questions

- ☐ How much time do you have?
- ☐ Do you have a dedicated team or will you need to identify one?
- ☐ What are the key outcomes you are looking for from your programme?
- ☐ What kind of evaluation and feedback will you look for during the programme?
- ☐ Have you identified your key external relationships?

Phase Development

What we're doing

Innovate to Save runs across three phases

1. Pre-Application Support	2. Research & Development	3. Implementation
3 - 6 months	9 - 12 months	Tailored repayment plan

1. Pre-Application Support (3 - 6 months)

- Helping to develop high-quality, innovative applications
- Briefing sessions - providing information about the programme and a chance to meet the team
- Practical workshops - to provide advice, tools and support for ideas in development
- Support from the Programme Delivery Team - to facilitate new partnerships, critique and develop ideas and provide guidance and information about the programme

2. Research & Development (9 - 12 months)

- Enabling, prototyping, testing, evaluation and iteration of novel, risky and ambitious ideas
- Grant funding between £5,000 and £15,000
- Research and innovation support from the Y Lab team
- Non-financial support and workshops covering a range of topics including, modelling savings, capturing and analysing data and managing organisational change

3. Implementation (Tailored repayment plan)

- Supporting the implementation, evaluation and scaling of new ideas that show the capacity to improve services and generate savings
- Interest free, unsecured loan finance
- Research and innovation support from the Y Lab team
- Non-financial support and workshops covering a range of topics including, modelling savings, capturing and analysing data and managing organisational change

Phasing Innovate to Save

We took the decision to run Innovate to Save across three phases - giving us the chance to focus intensively on:

- Building a high-quality pipeline of applications;
- Supporting rigorous and iterative research and development; and
- Effectively implementing ideas that work.

Working in this way also allows us to build cohorts and networks - potential applicants and partners come together in phase 1, the R&D teams build a peer-support group in phase 2, and implementation projects are able to benefit from ongoing support in phase 3.

Image: Innovation Conversation Event, Mark Hawkins

Phase 1: Pre-Application Support

This phase gives you an opportunity to ensure that the widest range of potential applicants know about your programme. It is a good time to leverage support from key partners and identify people who might act as 'Innovation Champions' in specific thematic areas or locations. Your primary objective is to develop a pipeline of high-quality applications that meet the aims and ambitions of your call.

What support should you offer?

- **Workshops and skill sessions** that help to develop high quality applications.
- **Networking events** to attract potential applicants and provide information about the programme in an informal way. This can also aid collaboration and the formation of teams of applicants.
- Use **social media** to amplify information about the programme, as well as any personal networks of contacts. Target **press coverage** in appropriate publications.

How long should it take?

Dedicating as much time as possible to this phase is imperative, as long as momentum isn't lost with potential applicants. Setting up and delivering a series of workshops or networking events, especially if you are covering a large geographic area, can take at least a few months and there is likely to be follow-up contact with projects to develop their idea to application phase. It is recommended to **spend between 3 - 6 months** delivering this phase.

Make it Useful

Remember that this is the phase that's most risky for people wanting to take part in your programme - they are investing their time and often money in your process with no guarantees about the outcome. To that end, think about how everything you do and everything you ask them to do might be useful to the participant regardless of their success in applying for your programme:

- Design application forms in a way that allows information to be reused in other business cases;
- Design workshops so that new tools and methods can be used in scenarios outside of an application to your programme.

Phase 2: Research and Development

This phase allows projects to develop, test, iterate and trial their idea. There are two primary research questions that each project will look to answer:

- Will the new idea improve the service for the people who use it?

- Will the new idea generate cashable savings for the organisation(s) involved?

At the end of the process, projects should be in a position to deliver a research report and hopefully develop and submit a business case that shows their project is *likely* to improve services and generate cashable savings.

What support should you offer?

- **A grant** to enable the organisation to undertake their research and development.

- A package of **support for conducting research and development**, including expertise on research methods (such as focus groups and routine data analysis), user centred design, piloting and prototyping. Support given includes both advising some projects on work they are conducting, as well as conducting the work on behalf of some of the projects. Consideration needs to be given to the need for ethical approvals and consent procedures when conducting research with service users, including analysis of their personal data.

- **Other non-financial support** that responds to gaps in the organisations' capacity, knowledge or expertise.

  Examples include:
  - Research methods and data collection and analysis;
  - Modelling savings and preparing business cases;
  - Organisational change and preparing for change with new ideas;
  - Leadership development;
  - Marketing and communications support - developing a narrative for the project;
  - Governance and business development - particularly where new relationships had been formed.

- A **programme of events** that bring together groups of projects to develop a cohort, enabling peer-support networks and identifying areas where collaboration could be useful. These events also ensure that regular face to face contact occurs between projects and the programme team, developing relationships and knowledge, and ultimately providing a better level of support.

How long should it take?

Make it as quick as you can in order to generate and sustain momentum, but keep in mind that it can take longer than anticipated to set up an R&D project and that some ideas may be affected by things like seasonality (especially in health related projects). It is best to be as flexible as you can within your established timelines. **A period of 9-12 months should be adequate.**

Phase 3: Implementation

In this phase, projects are offered risk based (loan) finance to implement their idea and, where appropriate scale it internally or by offering the idea to other similar organisations.

What support should you offer?

- **Loan funding**
  In this phase, projects are offered interest free, unsecured loans. There is no upper or lower limit to the amount that can be requested and no fixed time frame for repayment. Both are judged on the following criteria:
  - The amount required to fund the implementation;
  - The rate at which savings can be achieved - at what level and over what time period.

For more information about how to determine the size of your loan fund and how it is apportioned, please go to box below.

- **Support to scale the project.**
  By offering a period of non-financial support alongside loan funding, you are helping to ensure that organisations have the necessary skills to implement their project effectively. As with the research and development phase, these could include help with financial modelling, stakeholder engagement, but may also now focus on organisational change to equip projects in overcoming potential barriers when scaling their idea.

We continue to provide support on research and development in the first year of the implementation phase, to continue generating evidence during the initial scale-up.

How long should it take?

When you issue loans, they will likely be on a **tailored repayment plan**, which may be years apart for different projects. The R&D phase could involve a pay-back exercise to understand the period over which savings are likely to be realised so that loan offers can be structured accordingly.

Innovate to Save Loans

How much should be set aside for a loan fund? The first round of Innovate to Save programme attracted 50 applications for R&D funding but a high attrition rate saw just 8 projects being selected for this phase. Eventually we saw 3 projects being approved for loan finance amounting to £2.2 million proposed investment over differing repayment periods. The smallest request approved for funding was for £400,000, the largest for £1m.

Notes

Services, Savings & Managing Risk

Improving Services

For the purposes of Innovate to Save, we're using the following definition of the term innovation:

"Put simply, public sector innovation involves creating, developing and implementing practical ideas that achieve a public benefit. These ideas have to be at least in part new (rather than improvements); they have to be taken up and used (rather than simply remaining ideas); and they have to be useful. By this definition innovation overlaps with, but is different from, creativity and entrepreneurship."

The 'public benefit' requirement of the programme is as important a feature of Innovate to Save as the cashable saving. A project's product or service innovation must have the potential to achieve public benefit in Wales.

Although no specific definition of 'public benefit' is attached to the programme, the tools and resources used by Innovate to Save encourage projects to take a service-user-focused approach to the design, development, delivery and evaluation of their work.

User journeys, persona development and stakeholder mapping all encourage projects to put the needs and priorities of the public above their own needs.

At the very least, we expect that projects should not make the service worse for the people who use it, whether they are staff of the organisation implementing a new idea or members of the general public.

The impact of cashable and non-cashable savings on repayment

There are a number of scenarios we considered when thinking about how best to structure risk finance to projects, based on the types of savings they are likely to make.

Scenario 1: Cashable savings are equal to or greater than the value of the loan in a single organisation.

The standard loan model is still applicable, providing there is reasonable evidence that the loan can and will be repaid in a timely manner.

Scenario 2: Cashable savings are equal to or greater than the value of the loan but spread across a number of different service delivery organisations in a single project.

The standard loan model is still applicable, however, we might encourage the use of a Special Purpose Vehicle to deliver the savings, with each member contributing to the repayments proportionally to the cashable savings that are made in each of their organisations. This scenario has not arisen with Innovate to Save's cohort.

Scenario 3: Cashable savings are less than the value of the loan but non-cashable savings are significant and will deliver significant additional value, either in a single organisation or spread across a number of organisations.

This is more complicated, and also remains somewhat untested by Innovate to Save. In this scenario, there won't be significant savings that can be used to repay the loan but the value that a project generates might mean that it makes little sense not to support it. In this instance we will need to take a decision as to the amount that is repaid and by whom.

In this instance, we need to consider how and if these projects pay back loan finance via the Innovate to Save programme as repayments can't be made from cashable savings. We also need to consider the fact that innovative projects may be more likely to generate non-cashable savings (or a mix of the two), rather than cashable savings, at least in the short term. Potential financial structures for projects like this might include:

- Seeking additional third party support that's non-repayable, such as a grant;
- Requesting that WG write off the loan on a "payment by results" basis - where the loan is written off as the project delivers non-cashable savings that directly benefit WG at a policy level;
- Requiring that the project repays the loan from other sources - either its reserves or by moving funds from another area.

Managing and modelling risk

In each of the scenarios outlined above, a degree of risk is attached. In the first instance risks can be mitigated using a supported research and development phase, ensuring testing and evaluation prior to taking on risk finance. However, we should acknowledge that there will still be some risk attached and should model this accordingly as it has an impact on the projects you choose to take forward.

An unanticipated risk that was a realistic scenario at one stage in Innovate to Save, was the prospect of a significant loan request, with a repayment flow that could have destabilised the fund - i.e. it didn't start to repay for a number of years, leaving the available pot for new investments depleted. In this scenario a staggering of the draw-down amount was proposed to ensure that the implementation would have been gradual and measured and avoided depleting the main loan fund, however this was unnecessary in the end.

Section 4

Evidencing your programme's impact

"I've learned a lesson that data is really key and if you've got data and you've got hard evidence to support this new innovation, it can help to actually challenge the resisters to change, the barriers to change"

- Innovate to Save participant

Good quality evidence and its value in informing policy decisions is gaining increasing traction in governments across the world. Organisations such as the Alliance for Useful Evidence promote the use of rigorous evidence in order to achieve several outcomes, listed in Figure B1.

Planning and collecting data on the effectiveness of your programme can provide valuable evidence for impact, and determine whether you need to make any changes to bring your desired outcomes to fruition.

Methods that can be used to do this include:

- ☐ **Surveys**
- ☐ **Focus Groups**
- ☐ **Interviews**
- ☐ **Journals**

Figure B1: Reasons for needing evidence

Generating **options** or **making the case**
Commissioning services and products
Developing **funding bids**
Decommissioning and **stopping** doing something
Aligning services with **'customer needs'**
Creating effective **campaigns** and **communications**
Designing more **effective programmes**
Increasing accountability to stakeholders

Source: Alliance for Useful Evidence

Image: Symud Ymlaen Moving Forward, Llamau

Impact monitoring and evaluation

The opportunity to better understand the types of innovation publicly funded innovation programmes support (and don't support) is an important area of research to pursue.

The long term research opportunity available here provides a space to explore the impact of your programme in its own context. For example, does the closely connected nature of Welsh public services enable certain types of projects to emerge and facilitate more effective dissemination into practice?

The connection and potential impact on the people that use public services are a central part of this programme and this also informs all the research undertaken to evaluate it.

How are we evaluating Innovate to Save?

A key aim of the Y Lab partnership delivering Innovate to Save is to understand how and why innovation happens in public services.

By evaluating Innovate to Save, Y Lab has a unique opportunity to follow the development of some of the best new ideas emerging from public services in Wales and explore how innovation funds function and support new ideas, for whom and how.

Our key research question is:

Are the activities delivered in the Innovate to Save programme effective at increasing the quantity and quality of public services innovation in Wales, for which sectors and regions, and how?

Programme evaluation spans all three phases of Innovate to Save. First, as the programme is publicised and engagement begins, second as teams are supported to research and develop their ideas, and finally as successful projects are implemented and evaluated. We are using a mixed-methods approach, including collection of quantitative data from programme participants through e-surveys (at baseline and end), as well as qualitative data from semi-structured interviews.

Key findings from version one of Innovate to Save allowed us to modify the design of the R&D phase for version two. Evaluation findings have also contributed to the way the awareness raising and engagement phase on version 2 ran, and will also inform the content of the workshops for cohort two.

This will lead to the generation of new theory and evidence to inform future innovation funds and policies in Wales and elsewhere.

The Standards of Evidence

Standards of evidence are highly valuable in an repayable finance-based innovation programme. They can help guide the objectives and activities of a research and development project - setting clear boundaries and assumptions about what will and will not be undertaken.

They can also be incredibly helpful in understanding stakeholder appetite for risk taking when it comes to investment. **For example, we set our benchmark for risk at a level 2 standard of evidence for making most investments - we believe that in most cases this should be sufficient for us to make some form of risk based investment in a project.**

However, the appetite for risk within the organisation that's doing the work may be significantly lower, requiring that a higher standard of evidence be reached before an investment is made. Using the standards of evidence we can map and understand these disparities and work on methods to overcome them - either through advocacy work, new investment models or finding additional research funding to enhance the evidence base before risk finance is taken on.

Level 5
You have manuals, systems and procedures to ensure consistent replication and positive impact

Level 4
You have one + independent replication evaluations that confirms these conclusions

Level 3
You can demonstrate causality using a control or comparison group

Level 2
You capture data that shows positive change, but you cannot confirm you caused this

Level 1
You can describe what you do and why it matters logically, coherently and convincingly

Source: Puttick, R. and Ludlow, J. (2012) 'Standards of Evidence for Impact Investing.' London: Nesta.

What Next for Innovate to Save?

In February 2018 we launched a new call for ideas for Innovate to Save in Wales. We selected a new cohort of projects to undertake research and development in Summer 2018 and we'll be supporting them over the next year to test and iterate their ideas.

We are also continuing to develop our implementation projects, issuing our first loans and evaluating their impact over the next 12 - 18 months.

We'll continue to evaluate our programme and, in due course will update this guide with new insights and lessons. In the meantime, we encourage you to keep an eye on Y Lab's communications channels for more information on the projects we're working with and the work that we're doing.

If you're thinking about setting up your own version of Innovate to Save, please do drop us a line - we'd love to know if and how we can help and share lessons with others.

Further Reading

Funding Innovation: A Practice Guide by Vicki Sellick and Amy Solder, Nesta (2018)

Frame Innovation: Create New Thinking by Design by Kees Dorst, MIT Press, (2015)

Radical Help by Hilary Cottam, Virago (2018)

The Mom Test: How to talk to customers & learn if your business is a good idea when everyone is lying to you by Rob Fitzpatrick, CreateSpace, (2013)

Image: Welsh Ambulance Service Trust