BIG SOCIETY CAPITAL

Social investment in children and young people services

An introduction for providers




This briefing is supported and disseminated by Children England, the membership body for children's charities.

Contents

Introduction

A growing number of charities and social enterprises delivering services for children and young people are beginning to use – or at least thinking about using – social investment as a different tool for financing their work.

But this is a new type of finance, and lots of organisations are confused about what social investment is, how they could use it, and how to go about accessing it.

This briefing provides a basic introduction to social investment and the types of products that are available. It is aimed at readers with little or no knowledge of this topic, to help you think about whether your organisation or project might be suitable for social investment. It also provides examples of how other organisations delivering services for children and young people are using social investment, the types of products available and where to find out more.

What is social investment?

Social investment is the use of repayable finance to achieve a social as well as a financial return. This means that the investor will expect their money back (usually with a financial return on top), but the investor is also interested in the social impact that is created by the work that the charity or social enterprises is doing.

Social investment won't be right for every organisation or project. It should be considered alongside other options, such as bank loans, grants and raising funds from donors.

Investments must be repaid, so your project or activity needs to generate enough of a surplus to generate a return for the investor and support your own sustainability, as well as having a social impact. The exact shape of this return will vary depending on the type of investment. For example:

- a loan to develop an organisation could enable you to develop new services or develop trading activities which will generate additional revenues for you, and allow you to pay back the loan
- investment in property with a rental income providing the return
- government social impact bonds pay financial returns to investors based on the extent that providers' outcomes have resulted in savings to the public purse

There are different:

- types of social investment solutions (e.g. bonds, loans)
- ways of accessing investment (e.g. from established funds, directly from individuals, and government programmes that are designed to use investment)
- ways to repay investment (e.g. rental income, savings to public services).

The choice of social investment solution depends on the type of:

- project/activity
- financial sustainability
- risk
- length of investment

Is social investment a good match?

These questions will help you to begin to assess if social investment is a good fit for the project or activity you have in mind, and to identify the best options from the product guide.

1. **What are you seeking to achieve? What is the specific project/activity that requires funding?**
   This might be a specific project or investment could be organisational e.g. expanding activities, delivering new services, working capital.

2. **What is the additional impact that will be created**?
   Can use of investment be justified (e.g. you will be able to support more people, or provide new services, and grow more quickly)? How will you demonstrate your social impact (more rigour around this may be needed with some forms of investment).

3. **How will the investment be repaid?**
   Is there an income stream? What type? E.g. government contract, rental income, selling services or goods to the public, membership fees. What are your margins on these revenues and how will this affect your sustainability? What interest rate can you afford? How will you pay back the investment?

4. **What will the investment pay for?**
   For example: a property or other assets; activity such staff to develop an expanded service.

5. **What is the timescale?**
   What is the likely route to repayment of the investment (refinancing, paying down annually, results payments?) When will you generate enough surplus cash flows to repay the investor? How predictable are your revenues and how might that impact on the repayment profile and schedule? What length of commitment could you make to an investor?

6. **What are the risks and how can they be managed?**
   What might happen to reduce your revenues and surpluses, or otherwise affect your ability to meet your commitments to the investor? Are there risks to organisational stability and culture? How would you manage and mitigate risk – what is plan B?

7. **What alternative funding options are available? What are the pros and cons of these options?**
   For example, bank loans or grants. Do you have security (e.g. an asset that you own or have a long lease over)? What is your risk appetite? Are you able or do you want to increase the liabilities on your balance sheet?

Social Investment Product Guide

There are a number of social investment products available which can be accessed from a range of sources. This guide provides a summary alongside examples of how these products are used in practice by organisations supporting children and young people. Most forms of social investment used by charities and social enterprises are loans, but there are other forms of investment that may be relevant to your organisation's needs and goals.

It is important that charities and social enterprises have choices about the type of investment that they take on, depending on your circumstances and the nature of the project – as well as your risk appetite. You can consider:

1. Raising the investment directly. You will find the range of ways you can do this on page 6.

2. Sharing some of the risk with the investor by using other vehicles such social impact bonds. You can find more details on this on pages 9 and 10.

Investment taken on directly by the organisation
(and recorded on their balance sheet)

What is it?	When might I use it?	Where can I get it from?	Other considerations
Secured loans Loans secured against an asset (usually a building or equipment)	To buy an asset (e.g. housing), or to raise funds from an existing asset you own to fund other projects (e.g. working capital for growth or to refurbish the asset).	Social banks and mainstream banks.	May be cheaper than other investment since the asset makes it less risky for investor. Banks will often only lend a maximum of 70% of the value of the asset. Can be long term. You should be aware of the risk of repossession of the asset if unable to repay loan.
Unsecured loans Loans where the investor does not take security on the organisation's assets	If you don't have assets and want to borrow money to fund working capital for growth of services, investment into a trading social enterprise, or as short term bridging finance.	Social investment funds and CDFIs. Individuals e.g. social angel investors or through crowdfunding platforms*. Investment can use social investment tax relief**. Some charitable foundations.	Likely to charge higher interest than on secured loan, to reflect higher risk. Can be used alongside a secured loan (e.g. as part of a package to buy a building) if you don't have sufficient reserves. Often 3-7 years in term. You will need to generate enough surplus to cover interest and repayments
Blended finance This is a combination of unsecured loan and grant.	To fund growth and development (usually for smaller sums, and smaller or earlier stage organisations).	Could access the unsecured loan and grant from different sources. Some social investment funds can provide both.	Could be a first step to using investment. Could reduce the risk and cost of using an approach with solely loan funding.
Charity bonds Debt from multiple investors that can be traded and transferred	To buy an asset or fund growth. May be relevant if you're seeking to raise profile among investors and the public.	Charity bonds are normally arranged by an adviser who can promote your investment offer to a range of investors.	Usually for established larger organisations to raise £1m-£20m Fixed interest with all capital repaid at end of the bond
Quasi equity Debt where the repayments are more flexible and are linked to a % of future income or surpluses	To fund growth and expansion of services, including payments by results services.	Some social investment funds.	Relevant if you are looking to share risk with investors, but the interest may be higher depending on performance. Typically more complex to structure and monitor.
Equity, inc community shares Shares in an organisation. Investors will be repaid through dividends (dependent on surpluses made by the company) or by selling on their shares.	Can provide start-up funding for social enterprises as well as funding to grow. Community shares are relevant to local communities who need finance to take over local assets or run local social enterprises.	Equity can be invested by venture funds, some charitable foundations, and individuals e.g. social angels or through crowdfunding platforms*. Community share issues often aim to engage local people.	More "patient" investment, and involves sharing risk and ownership with investors. Not relevant to most charities – needs to be a company limited by shares. Community shares can be issued by community benefit societies (which can have exempt charitable status) or co-operatives.

Notes from previous page

***Crowdfunding** – this is a popular way of raising finance by asking a large number of individuals to donate to or invest small amounts of money in a specific cause or project. The UK Crowdfunding Association offers guidance on how this works and can provide links to crowdfunding platforms. Visit www.ukcfa.org.uk.

****Social Investment Tax Relief (SITR) –** SITR is a new government incentive which offers a 30% tax break for individuals investing into a trading charity or social enterprise. It has been introduced to encourage new investment into charities and social enterprises and level the playing field with tax reliefs currently available to more traditional business. Visit www.GoodFinance.org.uk/SITR.

Case study: London Early Years Foundation

£2.75 million debt investment from growth capital fund

Photo cred: London Early Years Foundation

London Early Years Foundation (LEYF) is a social enterprise which runs nurseries in some of London's most disadvantaged areas, subsidising parents to access free nursery places.

LEYF received a £2.75 million debt investment from Big Issue Invest's Social Enterprise Investment Fund with support from Clearly Social Angels (ClearlySo).

The investment has enabled LEYF to develop a cross-subsidy business model whereby profitable nurseries in affluent areas subsidise community nurseries in deprived parts of London.

Find out more on how LEYF used social investment to support families across London.

Case study: Third Space Learning

£750,000 equity investment to expand services

Photo cred: Third Space Learning

Third Space Learning is an online maths teaching resource which connects 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.

In 2014, the business was backed by a select group of angels (high net-worth individuals), including those from ClearlySo through a £750,000 equity investment.

The investment has allowed Third Space Learning to expand its services across the UK and it is now being used in 87 schools across 80 local authorities. It is repaying back investors through income generated from schools who purchase the programme.

Read more on the Third Space Learning case study.

Case study: Factory Skatepark

£500,000 investment from growth capital fund

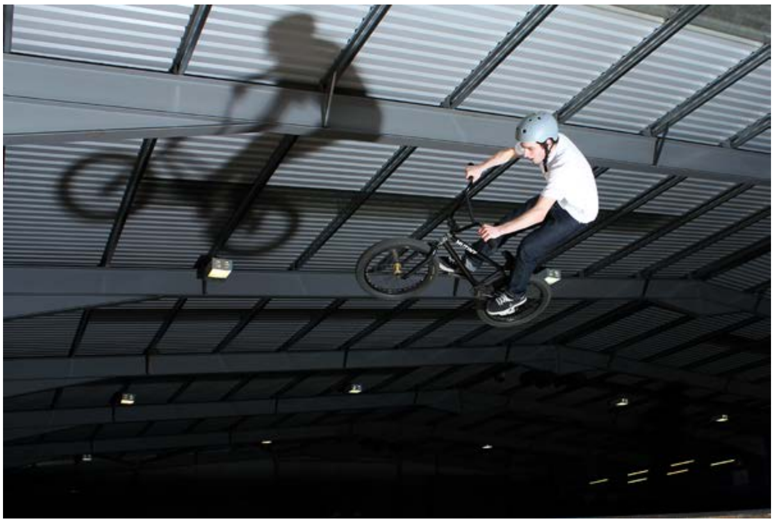

Photo cred: Factory Skatepark

Factory Skatepark is a charity in Dundee that engages young people through extreme sports and provides homework clubs, youth clubs, volunteering programmes, peer-to-peer education and stewardship.

Social Investment Scotland invested £500,000 into the organisation to develop an indoor play centre called Fun Factory for families with young children.

Factory Skatepark will repay the investment through income generated by the business, such as admission fees into the skate park. Long term surpluses generated by the play centre can be invested into charitable activities.

Find out more on how Factory Skatepark used social investment to support young people in Dundee.

Other forms of social investment
(not taken on directly by the organisation)

Social Impact Bonds

Social impact bonds (SIBs) are a three way relationship between an investor, a delivery organisation and an outcomes payer. So far in the UK they have mainly been used to improve the social outcomes of services by making early intervention funding available that will then deliver long-term savings to local or central government e.g. through reduced unemployment rates, re-offending rates, reducing the number of children in care.

Investors pay for the project at the start. If the charity or social enterprise delivers the expected outcomes, the local or national government will make payments based on the outcomes achieved, which allows investors to be paid a return. What this means for you as a charity is that the financial risk of outcomes not being achieved is taken by the investors. However, providers should be aware of additional focus and resources required around monitoring of outcomes.

SIBs are usually driven by programmes commissioned by central government and local commissioners, but can sometimes be led by providers who have identified how they can be used to tackle an issue of interest to commissioners. Investors in SIBs include specialist social investment funds, foundations and individuals.

Case study: Teens and Toddlers SIB

Photo cred: The Teens and Toddlers project

The Teens and Toddlers project in Greater Manchester aims to raise the aspirations of young people (age 13-17) by pairing them as a mentor and role model to a child in nursery in need of extra support.

The programme is funded through a social impact bond as part of the Department for Work and Pensions (DWP) Innovation Fund. Repayment is under a "payment-by-results" contract with DWP, out of long-term savings to the public purse of reducing youth unemployment. Over the three year SIB, 1,300 young people would take part in the programme, with performance measured by improvements in attitude, behaviour, attendance and educational attainment.

Find out more on the Teens and Toddlers programme.

Explore more case studies at www.GoodFinance.org.uk/explore-social-investment/case-studies.

Common questions on social investment

Where do I go if I have a new enterprise idea?
Taking on repayable finance may not be the right first step for a start-up charity or social enterprise – grant funding, sometimes combined with other support (for example from accelerator programmes) may be more appropriate.

In each area there are often more local or focused programmes. There are also a number of national initiatives and specialists who support social entrepreneurs and you may be able to gain support from the School for Social Entrepreneurs, UnLtd or the newly launched Power to Change Programme.

What is the benefit of social investment as opposed to borrowing from banks?
If borrowing from mainstream sources is available to your organisation then this may well be a very cost effective way to finance your social business. However, there are many organisations who are not able to access this finance, and who need to be able to borrow money, or take on investment, from investors interested in social impact as well as financial return.

In addition, specialist social investment finance managers can help organisations to not only access finance, but also provide additional support such as social impact measurement expertise and capacity building support.

My organisation has lots of reserves, why would we borrow money?
Using your own resources may be the right option for funding some activities, as it will be cheaper than borrowing externally. Organisations that hold reserves may still choose to take on investment as:

- Their reserves may be held for emergencies rather than to fund new developments.
- They may want to make best use of the reserves they have built up – i.e. choose to only use reserves to fund activities that could not use repayable finance (e.g. pilots for new projects, research) and bring in external investment to fund activities that generate income.
- 'Softer' benefits of using investment may be attractive (e.g. increased awareness of the organisation by a new group of stakeholders, potential benefits of expertise and an external perspective from the investor as well as the money they bring).
- Organisations with high levels of reserves will have lower perceived financial risk, and therefore may be able to attract investment at more competitive rates – unlike grant funders which are usually less likely to give to organisations with significant reserves.

Is social investment cheaper than commercial alternatives?
The cheapest form of commercial finance is generally secured on property, this is most widely available from commercial banks, though the social banks (such as Charity Bank) will generally offer competitive pricing and may lend to proposals commercial banks would not.

In cases where good quality security is not available, it will often be challenging to raise commercial finance. Where finance is available from banks or peer-to-peer lending platforms, they may demand personal guarantees. For example, Funding Circle provides statistics on its loan pricing, which generally require a personal guarantee.

Social lenders will rarely ask for personal guarantees, and will generally expect a lower rate of interest for equivalent risk. However the cost of social investment depends on the social investor, their motivations for investing, risk appetite and return expectations. For example, a trust or foundation may be willing to provide a loan at lower than commercial rates of interest, whereas a pension fund may have higher financial return requirements to meet their responsibilities to pension scheme members. Many social investors will trade off the return and risk expected with the likely social impact achieved.

For equity finance evidencing the returns that commercial investors will demand versus social investors is more challenging. Anecdotally though, social investors have been willing to back enterprises with strong social impact that commercial investors have declined.

In addition, the Social Investment Tax Relief offers an opportunity for smaller charities and social enterprises to attract unsecured investment from individuals who are able to gain an incentive of a 30% income tax relief and offer lower financial returns than those investors might otherwise have found acceptable.

Where to find investment and support

The social investment market is expanding and there are now a number of social investors across the UK offering a range of investment products and expertise. When deciding which to use, it is important to consider what you value most from an investor. For example, assistance with business planning, access to networks and patience.

There are also lots of organisations providing support, information and advice to help you get on top of social investment.

You can seek advice and guidance through a business support organisation or broker who has expertise in social finance or a professional service partner such as your accountant (although these may not be free at the point of delivery and it will be important to determine any costs).

The Big Potential is a grant programme available to help meet the costs of advice from approved advisory organisations, and to help initially explore whether social investment is right for you. Visit www.bigpotential.org.uk

You can also visit Good Finance to find out more about social investment in general and the current funding available. Visit www.GoodFinance.org.uk

If you want to find out more about the work that Big Society Capital is developing in children and young people's sector, visit www.bigsocietycapital.com//social-issues/family-friends-and-relationships and https://www.bigsocietycapital.com/social-issues/education.

About Big Society Capital

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 invested £261 million in specialist organisations who lend to charities and social enterprises. For more information visit www.bigsocietycapital.com

About Children England

Children England is the leading membership organisation and collective voice for charities working with children, young people and families. It provides a wide range of support to its members, and the wider voluntary and community sector (VCS) enabling organisations to strengthen and enhance their work with children, young people and families. Children England's mission is to create a fairer world for children, young people and families by championing the voluntary organisations which work on their behalf. Find out more at www.childrenengland.org.uk