ENGAGE LONDON
Supporting the Children and Young People's Voluntary and Community Sector

Appetite for Investment?

Social investment for the VCS in London working with children, young people and families: Attitudes and experiences

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In Partnership with

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Partnership for Young London

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UNDERSTANDING THE SOCIAL INVESTMENT LANDSCAPE FOR LONDON'S VOLUNTARY AND COMMUNITY SECTOR

In the context of huge budgets cuts to London's councils, increased applications to independent funders and rising demand for children, young people and families' services, social investment is increasingly being promoted to the voluntary and community sector (VCS) as the solution to finding innovative ways to tackle social problems whilst enabling the sector to sustainably finance itself.

The UK Government has been instrumental in developing social investment institutions and models which aim to deliver financial returns alongside social returns. The Cabinet Office, Department for Work and Pensions, and the Department for Education have all been involved in growing the social investment market. The Childcare Investment Readiness Fund recently offered by the Department for Education promises to support early years and childcare social enterprises expand their presence in the early years market. Big Society Capital, the world's first social investment bank, was launched in April 2012, funded largely by long-term dormant unclaimed bank assets, while the Big Lottery Fund has offered several funding initiatives designed to support social investment.

Despite much talk of social investment's promise, its uptake by London's VCS has been limited. This may be due to many reasons, including the lack of a clear and consistent definition of social investment and its aims, [1] reluctant attitudes towards debt-financing from the sector, [2] and difficulties in accessing capital such as the lack of knowledge or high transaction costs.

A number of trusts and foundations are now experimenting with social investment models. The Esmée Fairbairn Trust launched a social investment fund in 2008, while City Bridge Trust recently launched the Stepping Stones Fund to encourage London-focused organisations to engage with the social investment market either through building capacities, testing new ideas, or seeking risk finance. It's possible that the entrance of independent charitable funders into the social investment market will encourage London's VCS to engage further with social finance as the sector (particularly smaller and medium-sized voluntary and community organisations) is more comfortable and experienced with accessing capital from these types of funders.

With social investment high on the political agenda yet seemingly low on the voluntary sector's, this research was undertaken to assess the attitudes and experiences of London's VCS working with children, young people and families. The findings will inform policy-makers and funders seeking to expand the social investment market in London.

[1] The Alternative Commission on Social Investment. *After the Gold Rush.* March 2015
[2] Policy & Practice, St Chad's College Durham University. *How willing are third sector organisations to borrow money?* Research Briefing, February 2015.

Scope of the project

This report is based on a survey undertaken between December 2014 and January 2015 which was distributed to around 1500 voluntary and community sector organisations registered with Engage London. The information presented in this report gives an overview of the feedback collated. The report will be followed up by a roundtable for key stakeholders. Later in the year Engage London will deliver a regional seminar for the VCS working with children, young people and families in London, including workshops where organisations can learn more about social investment models.

Overall 44 voluntary and community sector organisations responded to the survey, which comprised of 40 questions that were a mix of multiple choice and open-ended questions where respondents could provide detailed comments, as some did. The research is not a quantitative study but can provide some snapshots of attitudes and experiences of the London's VCS who work with children, young people and families regarding of social investment in London.

About the survey respondents

Out of 44 survey respondents, 74% of organisations had heard of social investment (31 organisations)

Almost 60% of respondent organisations employed fewer than 10 members of staff, while just 5% employed over 501 staff. At least one organisation was run entirely by volunteers.

34.1% of organisations worked locally, 38.6% delivered cross borough services, 15.9% worked on a regional basis and the remaining 11.4% delivered services nationally.

In terms of income, the organisations who participated registered their income as follows:

Under 10K – 9 (20.5%)
10-100k – 11 (25%)
100-250k – 3 (6.8%)
250-500k – 6 (13.6%)
500k – 1 million – 4 (9.1%)
1 million – 5 million – 8 (18.2%)
5 million – 10 million – 2 (4.5%)
Over 10 million – 1 (2.3%)

Organisations stated that their biggest source of income came from the following:

Gifts/ donations – 6 (13.6%)
Grants from trusts / foundations / statutory / Lottery – 14 (31.8%)
Contracts – 17 (38.6%)
Trading – 5 (11.3%)
Investment (commercial or social finance) – 2 (4.5%)

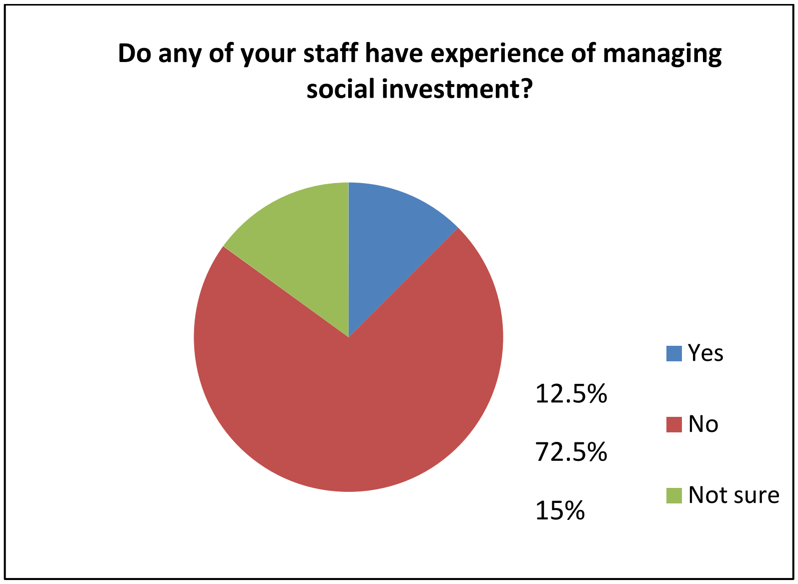
KEY FINDINGS

- Just 7% of respondents to our survey had used social finance (3 out of 44 organisations)
- 74% of organisations had heard of social investment and almost a third (31%) had actively explored social investment but were not currently using it
- Reasons given for not using social investment include not being investment-ready, not fully understanding social investment, internal culture not being ready, unaffordable repayments, and concerns over the suitability of social investment models for non-profit organisations
- The lack of experience and understanding of social investment in the VCS workforce is a key obstacle for the voluntary sector in accessing social finance; 72.5% respondents had no experience of social investment, while just 5% of respondents rated themselves as having very high knowledge
- Secured loans from a social bank were the most widely known form of social investment (64%), followed by unsecured loans from social banks (61%), charity bonds/ crowd-funded loans (54.5%), social impact bonds (48%), equity (39%), community shares (27%) and finally, quasi-equity (14%)
- Attitudes towards borrowing money in the voluntary sector are not the same as in other sectors; just 5% said their organisations had ever taken out a commercial loan, respondents were concerned about their ability to pay back when already operating on a very tight budget, and struggle to see how debt-financing makes good business sense for the non-profit sector
- In order to access social investment, organisations reported needing financial support (76%), general investment readiness support (70%), consultancy support (68%), mentoring (59.5%), and business plan development (43%)
- 12.5% said they would be more likely to apply to a grant-making trust or foundation if part of the funding would be in the form of social investment, 35% said they would be equally likely to apply, 40% said they would be less likely to apply, and 12.5% said that they definitely wouldn't apply
- Of the three organisations currently using social investment, two said they will likely use it again while one said they definitely won't use it again
- A lack of robust impact evaluation models, particularly for smaller organisations that rely heavily on anecdotal evidence, could be a key barrier to accessing social investment for some
- For many smaller organisations, time spent skilling up on social investment is time spent away from front line service delivery
- Many VCS organisations are small, local organisations not looking to scale up but simply to find operating funding to sustain their activities in a climate of reduced grant-giving
- The short-term nature of the commissioning environment for the voluntary sector means that social investment is not considered a viable option by many organisations as they cannot make long-term financial plans regarding investment repayments

Workforce understanding and experience of social investment

While 74% of respondent organisations had heard of social investment, a lack of experience and understanding of social investment in the VCS workforce appears to be a key obstacle to accessing social finance, with 72.5% of respondents reporting that their staff had no experience of social investment. Of the five organisations which said that their staff had some experience of social investment, just two said that staff had experience prior to their organisation exploring it. These two respondents said their staff had gained prior social investment experience in a previous voluntary sector organisation.

When asked to rate how well their organisation understood social investment responses were widely varied, although three fifths of respondents rated themselves as having less knowledge (scores between 6 and 10). Only 5% of respondents rated themselves with a 1 or 2 (very high knowledge), while 37% of respondents rated themselves at 9 or 10 (very little knowledge).



Again, there was a wide range of knowledge about the different models of social investment, however loans (both secured and unsecured) from social banks[3] were the most widely known type of social investment and quasi-equity being the least well known. Just under half had heard of social impact bonds, while just over half had heard of charity bonds / crowd-funded loans.

How well known are social investment models?

Social Investment Model	% who had heard of it
Secured loan from a social bank	64%
Unsecured loan from a social bank	61%
Charity bonds / crowd-funded loans	54.5%
Social Impact Bonds	48%
Equity	39%
Community shares	27%
Quasi-equity	14%

60% of the respondent organisations operated with less than 10 staff. For many, skilling up on social investment requires resources being diverted away from frontline delivery. While organisations are interested in exploring social investment they are also concerned about spending too much time away from service delivery, particularly if there is no guarantee that social investment will be a viable option.

[3] We did not include commercial bank loans a form of social investment in the survey, although this is sometimes included in social finance market analyses

Culture and attitudes towards borrowing money and risk

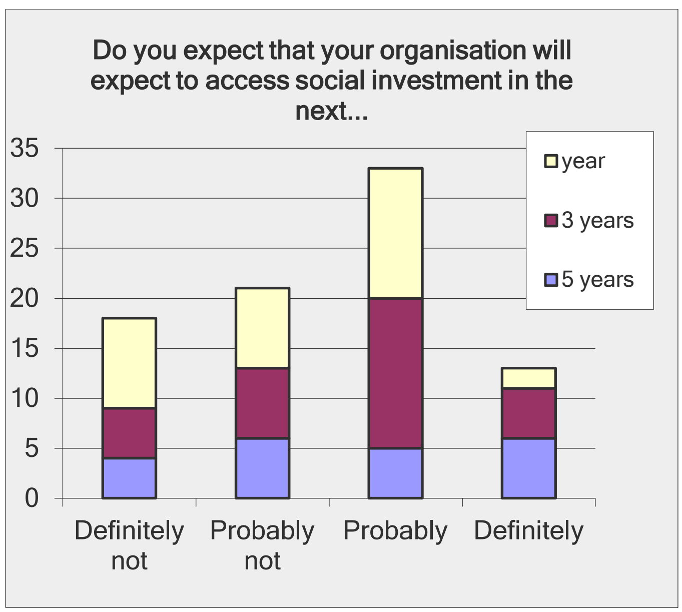
Attitudes towards money and borrowing money in particular, are not the same in the voluntary sector as in the commercial or public sector. Debt-financing is viewed as a high risk business model for the voluntary sector, and a big responsibility to take on when there are people relying on charities being around in times when statutory services are closing. Many respondents were concerned about their ability to make repayments down the line, and ultimately their organisation's financial viability, when already operating on a shoestring. Some struggled to see where finance models which are premised on turning a profit for investors fit into their non-profit making organisations and culture. The risk associated with social investment, which is still largely in an experimental phase with its ability to achieve outcomes unproven, was touched on by several organisations, with one person even describing social investment as "dangerous".

The size of a VCS organisation seems to influence its attitude to borrowing money. Other research into how willing third sector organisations are to borrow money shows that borrowed money is regarded as a resource of at least some importance by fewer than 6% of micro third sector organisations, but this rises to 39% of the biggest organisations.[4] Our research supports this. Our respondents were largely small to medium sized organisations (89% operated on a regional, cross-borough or local level and 75% had a turnover of less than £1 million) and 86% of respondents said their organisations had never taken out a commercial loan. Larger organisations with unrestricted assets and reserves may be more likely to use these in borrowing money, however smaller and many medium sized organisations do not have this security and are not used to borrowing money which affects their attitude towards loans and risk.

It's also clear that there are high transactions, particularly for smaller and medium sized organisations, in exploring and accessing social finance. Staff time spent skilling up on social finance is time spent away from frontline service delivery. Most organisations will not see social investment as a viable option for unless they can identify opportunities to secure long-term contracts to deliver a service. Unfortunately, government contracts rarely provide the long-term security to voluntary sector organisations that they do for the private sector.

Accessing social investment in the future

Organisations were asked if they expect to access social investment in the next year, three years, and five years and the responses were very widely varied. A third indicated that they would "probably" access social investment at some point over the next one to five years.



Evidencing impact is a key requirement for social investment and organisations used a range of assessment models to measure their impact. 28% reported using a Theory of Change, 50% used anecdotal evidence, and 36% used research reports. Most organisations (75%) used survey and evaluations to measure impact however just 6% (2 organisations) said that they

[4] Policy & Practice, St Chad's College Durham University. *How willing are third sector organisations to borrow money?* Research Briefing, February 2015.

had used randomized control trials. A lack of robust impact evaluation models, particularly for smaller organisations that rely heavily on anecdotal evidence, could be a key barrier to accessing social investment for some.

As most voluntary and community sector organisations and social enterprises have limited knowledge and experience of social investment, it's clear that support is needed for these organsations to be able to access it. Organisations reported needing financial support (76%), general investment readiness support (70%), consultancy support (68%), mentoring (59.5%), and business plan development (43%). A number of other support needs were mentioned as follows:

- *"Advice on what it is exactly and on its relevance to our objective"(enhancing awareness of civic obligations and ethical citizenship)*
- *"For social impact bonds we need both a commissioner and investor - it is difficult to access investors and advice on identifying/ approaching commissioners has been lacking."*

Even the organisations that had used social investment reported that it was challenging for some staff and that further support in the future would be welcome.

Some grant-making trusts and foundations are now offering part funding in the form of social investment and respondents to our survey had mixed feelings about this. When asked if a grant-making trust or foundation stated that part of all funding would be in the form of social investment, 12.5% said they would be more likely to apply, 35% said they would be equally likely to apply, 40% said they would be less likely to apply, and 12.5% said that they definitely wouldn't apply.

Many VCS organisations are small, local organisations not looking to scale up but simply to find operating funding to sustain their activities in a climate of reduced grant-giving. Social investment is unlikely to be an appropriate model for these organisations.

The experiences of VCS organisations using social investment

Just 3 out of 44 (7%) of organisations responding had used social finance, and these were very different organisations with very different experiences. Interestingly, all these organisations reported limited understanding of social investment, even after having accessed it, as well as a range of support needs.

Charity A is a large national charity with over 500 staff and a turnover between £1 million and £5 million. This organisation reported using social impact bonds twice to expand a product or service, saying that it took 6 – 12 months to secure the investment depending on the project concerned. The combined value of social investment which this organisation has accessed is £4.5 million to date, invested over a 10 year timeframe with risk managed either through contracts or through a Special Purpose Vehicle. The charity came into contact with investors through Social Finance and although there are various, investment is led by Bridges Ventures. Despite the fact that Charity A says that social investment has been highly beneficial for the organisation and that it will "definitely" use social investment again, it reports very low organisational understanding of social investment generally. They also say that accessing social finance it was easier than expected for staff and the board, however much more challenging than expected for senior management.

Charity B is a borough-based family centre with a turnover of £10 - £100k with fewer than 10 staff. This organisation took out a 10 year unsecured loan from a social bank after a recommendation in order to finance strategic organisational change, with risk managed through their business plan. They reported that it took a year to access the finance, that it was not easy to do so, and that they would be unlikely to use social investment again.

Social enterprise A is a registered CIC with a turnover of £10 - £100k, with no unrestricted reserves or assets. It works cross-borough with fewer than 10 staff and reported a limited understanding of social investment. This organisation raised £25,000 through charity bonds/ crowd-funded loans from the local community in order to sustain the organisation to the point where it could become profitable. This took 2 - 3 months, and was somewhat challenging but this met with expectations of senior management staff. The loans are on a 5 year basis with annual interest of 5% and the full value of the loan will be repaid after 5 years, with risk is managed informally. The organisation reported that they would "probably" access social investment again, however they have limited understanding of social investment, having not heard of any other forms of social investment and indicating that they would need a wide range of support in order to be able to access other social investment models.

CONCLUSIONS

Our research presents a mixed picture with regards to London's voluntary sector's attitudes and experiences of social investment, which is to be expected as the sector itself is highly varied. While most voluntary and community sector organisations are broadly open to social investment and suggest that they would like to access such forms of finance in the next five years, there are a number of obstacles.

A lack of understanding and experience of social investment in the VCS workforce means that there are high transaction costs to exploring these models, drawing resources away from front-line delivery. Some organisations do not carry out impact assessments of the kind required for social investment, nor would it be appropriate for them to do so. The workforce is broadly sceptical of borrowing as a useful and relevant business model for the sector, partly due to the short-term nature of contracts with local authorities which prevent organisations from making long-term financial plans. For some, Government discourse around developing social finance markets and models to tackle social issues can make social investment seem like a mechanism to facilitate the austerity agenda, which the VCS is already feeling the brunt of through increased demand and reduced resources.

It's clear that social investment is not a fix-all solution to the funding crisis. Social investment is not a viable option for many VCS organisations and indeed may never be. For those organisations where it does present a possible model, there are high support needs, even for larger and experienced organisations. Key support needs which came up through our research are financial assistance, general investment readiness support, consultancy support, business plan development, and mentoring.

If the voluntary and community sector in London is to continue to meet rising demand for children, young people and families' services, a diverse funding mix is needed. Social investment is just one part of this picture. Non-profit models are important if the voluntary sector is to continue bringing added value to the economy through its expertise in harnessing and converting people's passions into savings for the public purse, for example through attracting millions of volunteers.[5]

Despite the barriers to accessing social investment, the sector is open to exploring innovative models of financing in order to maintain quality services for children, young people and families. However increasing social investment uptake depends not only change within the sector but also from some funders and commissioners, such as allowing the voluntary sector to maintain the flexibility through which it has traditionally thrived, while at the same time encouraging a more sustainable business and contracting environment for the voluntary sector as a whole.

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[5] Kathy Evans. *You can't put a price on the value of charity work.* The Guardian. 6 November 2014. http://www.theguardian.com/voluntary-sector-network/2014/nov/06/you-cant-put-a-price-on-the-value-of-charity-work

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