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VCSE Social Investment Toolkit

A guide for voluntary organisations on social investment produced for the Children's Partnership – December 2014

The Children's Partnership
Increasing capacity and improving outcomes for children, young people and families

Working with children, for children

Contents

What is social investment?

Social investment is **repayable** finance (**not** a grant or donation) provided to an organisation which mixes both a **financial** and a **social** return for the investor.

Investors **expect to see their money paid back** and social impact generated as a **consequence of their investment**.

When thinking about social investment, therefore, voluntary organisations should consider **both** how they are going to repay the investor and how they will generate social impact as a consequence of the investment.

Why consider social investment?

- Social investment can help voluntary organisations set up projects or invest in interventions where there may not be an easily accessible supply of grants or donations.
- Social investors may offer cheaper finance that mainstream banks for certain projects, reducing costs.
- Some social investments are not as restrictive as grants and social investment may give your organisation more flexibility.
- Some social investors are interested in providing business support and advice as well as finance, and organisations which wish to develop their business skills may find partnering with a social investor beneficial.
- Social investors may be more 'patient' than mainstream investors when agreeing repayment terms because of their desire to create a social, as well as a financial, return.

What risks are associated with social investment?

Social investment is repayable finance and this means that your project/organisation has to generate a surplus in order to repay investors. When considering social investment, the risk of failure or lack of surplus must always be factored into decision making.

The operating environment for your organisation may change during the course of the investment period. For example, if you are using a loan to provide working capital in delivering a local service, the policy environment may change or local authority spending cuts could reduce the budget for that service. It is important, therefore, that you develop contingency plans.

Social investors may want to be involved in the strategic decisions your organisation makes, in order to protect their investment. You should discuss with any social investor the level of involvement and oversight they would wish to have and decide whether you are comfortable with this before agreeing terms.

What kinds of social investment are there?

1. Secured Loans

Loans which are secured against an asset of some kind (building or equipment). Loans are repaid over time (with interest) and if you do not repay the loan, the investor can take possession of the asset that you have set against the loan.

2. Unsecured loans

Loans which are not secured against an asset. Loans are repaid over time (with interest) and if you do not repay the loan, investors can take you to court to recover the debt owed.

Case Study: 4Children and FSE Social Impact Accelerator

4Children was established in 1983 as a charity to shape policy and to campaign in the area of early-years development and family services. It operates a commercial social enterprise to directly service families in some of the most disadvantaged areas in the UK but also to deliver long term sustainable revenue to support the charity’s campaign work.

In order to meet its growth plans on top of mainstream bank lending it needed social investment. The FSE Group provided a £700,000 unsecured loan to enable 4Children to expand its reach from supporting 100,000 children to supporting 150,000.

3. Bond issuing

Bonds are loans which are made up of multiple investors. Similar to conventional loans these are paid over time (with interest) and if you do not meet bond repayments, bond holders can take you to court to recover the debt owed. Bonds can also be traded, making them more ‘impersonal’ than unsecured loans.

Case Study: Golden Lane Housing Retail Charity Bond

In summer 2014, Golden Lane Housing a charity which provides housing for over 1,300 tenants with a learning disability, launched a bond to enable it to buy and adapt 30 high quality homes for 100 people with learning disabilities in partnership with Mencap.

The bond issue raised over £11m in less than two weeks and has been listed on the London Stock Exchange enabling investors to trade the bonds. The bond is due in 2021 and with pay a fixed rate of interest twice a year to investors.

4. Crowdfunding

Crowdfunding is similar to bond issuing, except that it usually takes places through a large number of individuals over the internet (e.g. through a platform such as Buzzbnk or Kickstarter). Crowdfunding is traditionally aimed at an organisation's supporters. Crowdfunding can also involve providing non-financial rewards to investors (such as free access to events or free publications).

5. 'Quasi-equity'

These are debt-based products (like loans) but are more flexible. Rather than paying out an agreed amount on a timescale agreed with the investor, quasi-equity investments can be based on the performance of your organisation – such as profit or turnover. This can be particularly useful for charities, which cannot issue 'equity' (e.g. shares) but need patient finance.

Case Study: London Early Years Foundation

The London Early Years Foundation (LEYF) is a charitable social enterprise that runs community nurseries across London. It aims to give children, of all backgrounds, access to high quality day care provision.

In May 2014, LEYF secured £1.25m from Big Issue Invest and Bridges Ventures' Social Entrepreneurs Fund to start up or acquire 10 additional nurseries around London as part of a long term growth plan to double their reach.

The investment was an example of the 'quasi-equity' approach, with bespoke loan arrangements negotiated with investors and linked to performance, through indicators such as growth, revenue and social impact. One of the investors has also joined the board.

They used a grant through Investment and Contract Readiness Fund to buy in support from social finance intermediary Clearly So to evaluate which investors would be most suitable to ensure that bids were well targeted. They also used the grant to fund a social impact measurement report by CAN Invest.

6. Social Impact Bonds

These can take a variety of forms, but the primary method sees commissioners agree to pay social investors a certain level of 'return', if they are able to meet certain targets (such as reducing reoffending, tackling social isolation etc.). Investors then commission charities and social enterprises to deliver services to achieve these targets, with investors taking the risk if targets are not met.

Case Study: Essex County Council Social Impact Bond

In 2012, Essex County Council signed a contract with Children's Support Services Ltd to manage a scheme to improve outcomes for young people and their families on the edge of care or custody. As part of the contract, Essex County Council will pay Children's Support Service for improved outcomes that lead to long term savings for the council.

Children's Support Services Ltd received £3.1m of investment from a range of investors including Big Society Capital and Bridges Ventures and commissioned ***Action for Children*** to provide Mulit-Systemic Therapy (MST) to 380 young people at risk of entering care and their families over an eight year period.

The outcomes from this service will be compared with a control group by an independent third party and if the savings made by the intervention are large enough, investors could see a return of between 8-12% annual interest on their investment.

What impact does my legal form have on social investment?

Your legal form may limit the opportunities that you have for social investment.

Most investors will expect your organisation to be a registered company (whether limited by guarantee or limited by shares).

If your organisation is a registered charity, you cannot have shareholders and this means that you cannot issue 'equity' in order to raise finance.

If your organisation is a Community Interest Company (CIC), there are a number of restrictions on how you can raise finance. Please read the Office of the Regulator of Community Interest Company's guidance for more information.

Who are social investors?

- Social investors come in a variety of forms and it is important to consider who you may be seeking investment from.
- Some social investors are sympathetic individuals who want to use their wealth to generate social outcomes whilst receiving a return from their investment. These may also be existing supporters of your organisation.
- Others are institutions, called 'social investment finance intermediaries' (e.g. Key Fund, Big Issue Invest, Resonance), which provide, facilitate and structure specialised financial investments for VCSEs.
- Finally, there are 'social banks' (e.g. Charity Bank, Triodos Bank, Unity Trust Bank) which provide conventional finance for VCSEs such as mortgages or secured loans.

Checklist One

- [ ] Do you know what social investment is?
- [ ] Have you considered what form of social investment would be best for your project/organisation?
- [ ] Are you aware of the benefits and risks associated with social investment?
- [ ] Have you considered what restrictions your organisation may face in raising social investment due to your legal form?
- [ ] Have you identified which kind of social investor you are likely to approach?

What is investment readiness?

Investment readiness is the process of preparing your organisation to bid for repayable finance in order to fund your project or organisation.

The journey towards investment readiness varies, depending on your organisation's capacities, financial history and how established your organisation or project is and its track record of delivery.

Central to investment readiness is **robust business planning** which takes into account the financial health and capacities of your *whole* organisation.

What makes an organisation investment ready?

- **A viable, robustly well tested business model** which contains **realistic projections** of likely revenue and factors in risks of project failing to meet targets.
- **A theory of change** that shows how your organisation is going to generate social, economic or environmental improvement.
- **Evidence gathering and evaluation procedures** that make it easy to demonstrate your impact.
- **A good understanding of the 'market' that you are operating within** and potential changes that may affect your business plan.
- **Good relationships with key stakeholders** (service users, commissioners, funders, delivery partners) and ensuring that they understand and support your investment proposal.
- **A strong leadership team** that has the necessary skills to manage the project and investment. You should also consider the impact that changes of personnel may have on your ability to deliver on your plan.
- **Working with your board and trustees** to ensure that they support your plan and understand the risks facing your organisation.

How can I make my organisation investment ready?

- **Map out the skills within your organisation**, your financial strengths and weaknesses and your organisation's external relationships to identify what you may need to develop in order to investment ready.
- **Put in place a plan with a clear timeline and milestones** to improve your organisation's investment readiness.
- **You may need to source new trustees/board members** to improve the skills of your organisation – you can use tools such as NCVO's Trustee Bank.
- **Your organisation may lack the skills to achieve investment readiness on its own, and you may need to bring in outside support to complete this journey.** There are a number of consultants that can provide support for your organisation and organisations such as Big Society Capital run regular events on investment readiness which may be useful.
- **There may be external sources of funding to make your organisation investment ready** such as The Big Lottery Fund's BIG Potential. Some organisations may be willing to give pro bono support to help you become investment ready.

Checklist Two

- ❑ Have you analysed your organisations financial and organisational strengths and weaknesses?
- ❑ Have you put in place a plan to achieve investment readiness?
- ❑ Have you created this plan through consultation with staff, your board and external stakeholders?
- ❑ Have you developed a viable, robustly tested business plan?
- ❑ Have you carried out an analysis of the market and whether there is sustainable demand for your organisation or project?
- ❑ Does your organisation have good evaluation and evidence gathering processes?

How should I prepare for a social investment bid?

You should consult widely with staff, board and beneficiaries about the proposal and ensure that you have their support. Do not be afraid to ask for help from supporters have finance experience. It is important to develop a good understanding of the goals of the social investor or the aims of the fund that you are seeking to apply to so that you can tailor your bid accordingly.

Fully consider the legacy you would like your project or organisation to have and how the social investor can play a role in building that legacy.

You should also evaluate the evidence that you have on your organisation or project and ask: is this enough to convince an impartial and sceptical investor?

If you have bid for investment before (whether successfully or unsuccessfully) what went well and what went badly? Have you learnt the lessons from this experience? Have you acted on the feedback that you have received from previous bids?

What makes for a good social investment bid?

1. A clear narrative on how the investment will support your organisation/project to achieve its objectives.
2. A persuasive case for how your organisation or project meets the goals of the social investor.
3. An easily-accessible presentation of evidence that demonstrates your effectiveness and the long term sustainability of your organisation or project.
4. A realistic budget that shows how the investment will be used.
5. A robust set of outputs and outcomes that will result from the investment – remember social investors want social impact as well as a financial return.
6. A plan for how you will repay investors over time with clear timescales.
7. A factual approach and jargon-free language.
8. A good understanding of the risks facing your organisation or project and any steps that you have taken/will take to mitigate them.

Checklist Three

- ❑ Have you consulted with staff, board, trustees and stakeholders on your proposal?
- ❑ Do you have a good understanding of the goals of the social investor?
- ❑ Have you considered the legacy you would like your organisation or project to have?
- ❑ Have you evaluated the evidence you have for your organisation or project's effectiveness?
- ❑ Have you acted on any feedback you have gathered from previous bids?
- ❑ Have you checked your plan against the eight tips that make for a good social investment bid?

Useful guides and links

Useful guides

Social Investment Explained – A Guide by the Big Lottery Fund, Social Enterprise UK and Matter & Co

Best to borrow? A charity guide to social investment by New Philanthropy Capital

A Brief handbook on Social Impact Investment – A UK Perspective by City of London Corporation

A quick guide to the Social Investment Tax Relief by NCVO

Useful links

A directory of social investment intermediaries by Big Society Capital

A glossary of social investment terms by Big Society Capital

Funding Central – A portal for accessing over 4,000 grants, contracts and loans

KnowHow NonProfit – Social Investment Made Simple – resources for organisation seeking social investment