UNDERSTANDING THE CAPACITY AND NEED TO TAKE ON INVESTMENT WITHIN THE SOCIAL SECTOR

CASE STUDIES

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1. Introduction

1.1. Research Background

The UK social investment market continues to develop and establish itself, surpassing the £200 million mark in value. Several leading investor groups have continued to increase the supply of capital to the market. For instance in 2014-2015, Big Society Capital alone saw £195 million drawn down by intermediaries to support charities and social enterprises. This is in addition to significant investments made by charitable foundations, commercial institutions and individual investors.

Government has supported the growth in supply of social investment through further initiatives including the Social Investment Tax Relief, committing £105 million to Social Impact Bonds in the latest Spending Review, and funds attracting private finance into the market (eg the Arts Impact Fund or Dementia Discovery Fund). A number of initiatives have also aimed to grow the demand for social investment. This includes Access – the Foundation for Social Investment or the Investment and Contract Readiness Fund supporting social sector organisations' ability to attract social investment.

It is, however, difficult to assess accurately the scale of current and potential sector engagement with social investment and we are currently heavily reliant on estimates extrapolated from surveys. This is why, in 2015, NCVO was commissioned by the Social Investment Research Council to investigate how social sector organisations engage with social investment. The overall aim of our research is to improve understanding of the social sector's existing financing arrangements and the role of social investment, using data on the sector's assets and liabilities. The research also seeks to 'go beyond the numbers' where possible to understand more about the profile and characteristics of those who are accessing social investment; about motivations (financing behaviour and decision-making); and about the challenges, barriers and enablers social sector organisations have encountered in engaging with the market.

The financing arrangements of social sector organisations are therefore viewed from three different perspectives that have define the project's three strands of work:

- An analysis of the structure and finances of social sector organisations examining the sector's existing financing arrangements and their assets and liabilities
- A literature review on organisations' financing behaviours from research that has already taken place on the UK social investment market
- Case studies on organisations' social investment journeys.

Defining our terms

The definitions of social investment and social sector organisations often vary. We set out below what we mean by the different terms used in this project:

Social investment is defined in line with the definition used by the Social Impact Investment Taskforce as "*investment that intentionally targets specific societal and/or environmental objectives along with a financial return and measures the achievement of both.*"[1]

We look at the range of **social sector organisations**, broadly defined as *"Impact-driven organisations with partial or full asset-lock. For example: charities that do not engage in trading; charities and membership groups that trade but do not distribute profits; social and solidarity enterprises; cooperatives; and other profit- or dividend-constrained organisations."*

This includes the following types of organisations:

- **Registered charities:** Charities registered with the Charity Commission.
- **Charitable foundations and trusts:** General charities whose primary purpose is awarding grants to other voluntary organisations, institutions or individuals.
- **General charities:** Private, non-profit-making bodies serving persons. This excludes sacramental religious bodies or places of worship as well as organisations like independent schools, government-controlled bodies and housing associations. In this publication we use the term 'charities' to refer to general charities. The data analysis in the document is based on this definition.
- **Community organisations:** Organisations that work with a confined local or regional focus. Community organisations may have a legal status or a constitution but there are numerous groups which have neither.
- **Co-operatives:** An autonomous association of persons united voluntarily to meet their common economic, social, and cultural needs and aspirations through a jointly-owned and democratically-controlled enterprise.
- **Non-governmental organisations (NGOs):** Organisations working in the fields of global development, social and economic justice and the environment.
- **Not-for-profit sector:** All non-profit organisations including those for private benefit (eg a freehold management company or other body where the benefit is for a defined group), those that are non-commercial (eg housing associations), quangos and other organisations close to government (eg universities).
- **Social enterprises:** Organisations that trade for a social purpose or use their activity to achieve social goals, e.g. co-operatives, community businesses and trading arms of charities.[2]
- **Social companies:** companies with social goals that do not distribute their profits and use a non-profit legal status. The primary legal forms included are Community

[1] *Social Impact Investment Taskforce (2014)* ***Impact Investment: the invisible heart of markets****.*
[2] ***NCVO Civil Society Almanac*** *NCVO (2014)*

Interest Companies, Companies Limited by Guarantee and Registered Societies (formerly known as Industrial and Provident Societies).

1.2. Aims and scope

This report captures four organisations' stories about accessing support and investment and the realities of the organisations' social investment journeys. We draw on first-hand testimonies of the individuals who have steered their organisations through making decisions about the suitability of social investment for them. The four case studies were selected to reflect the experiences of organisations of different size and type, with different motivations for seeking support or investment, and achieving varying degrees of success in accessing the support or financing they feel they need.

We cannot claim these stories are representative of experiences in the wider social sector, and for each experience that has been challenging, we do not doubt that there are positive stories that provide an important counterbalance. However, in reviewing contributors' experiences, we found a strong resonance with some of the key themes that emerged in both our review of the available data and the published literature on access to and use of social investment in the UK.

We are grateful to the contributors of each story for their time and particularly for sharing their views and experiences so honestly in support of learning for others. Each organisation contributed its story in hope that others might benefit from what they have learnt, whether that is those who are considering repayable finance, or providers of support or investment who want to understand better the experiences of the sector to tailor their approach. Given the general consensus that more can be done to support the market to function more effectively for a wider range of social sector organisations, paying attention to some of their untold stories – whether or not these have concluded in securing social investment - must surely be helpful. In the words of three of our contributors:

"I'm happy to talk about our experience and I'm really interested in being part of the debate that I think is needed now about how it can be more accessible for smaller organisations."

"I've been inspired by others' stories … I think there should be more of those."

"It's important to pay attention to the stories of those who aren't getting investment as well as those who are."

2. Contributors

Mike Hughes, CEO of TwentyTwenty in the East Midlands shares his experience of social investment over the past four years. Despite mixed success in attracting support and investment, and sometimes feeling the market is not as well set-up for medium-sized organisations as it might be, Mike remains optimistic about the potential of social investment for his organisation and more generally for the sector.

www.twentytwenty.org.uk

Alison Haskins, CEO of Nova in Wakefield, shares the perspective of a consortium for whom an early loan made the difference between surviving their first year or drowning. However, as a membership organisation Nova also has a note of caution to sound about the limitations of social investment as it currently exists for the majority of smaller organisations they work with.

www.nova-wd.org.uk

Simone Newman, the Fair Chance Programme Manager at Depaul UK reflects on the experience of a larger provider who having planned strategically for investment then successfully won a sizeable payment by results contract. Simone reflects on Depaul's initial experience of working closely with investors to achieve social impact. Though it is early days Depaul UK is already able to identify some of the ways in which social investment can make a difference both in terms of impact and in terms of ways of working.

www.depauluk.org

Angela Clements, from Fair for You, shares the perspective of a new venture, an ambitious start-up, which has struggled to access the support and investment it needs. For Angela the experience has been challenging but her hope is that over time, including perhaps by listening more to the stories and experiences, good and bad, of VCSE organisations like hers, the way the marketplace works can be made more user-friendly for smaller ventures and those starting out.

www.fairforyou.org.uk

3. TwentyTwenty

TwentyTwenty is a medium-sized charity that has achieved mixed success in its engagement with social investment so far. Reflecting on its experiences, the organisation has felt at times it is negotiating its way along a path that can feel like it was designed with larger organisations in mind. Being neither a start-up enterprise, nor a large charity with a large turnover or an asset-base, TwentyTwenty is one of many organisations that can potentially feel they are falling through the net of the provision currently available. However, despite the challenges they have faced, the organisation remains appreciative that this path exists, and optimistic that when the time and circumstances are right, social investment could help them deliver on their plans to build up their services and increase their social impact. Their Chief Executive, Mike Hughes, talked to us about TwentyTwenty and their experiences.

TWENTY TWENTY
Bright futures for young people

Established as an independent organisation and registered charity in 2007, Leicestershire-based TwentyTwenty has grown from its inception as the small offshoot of a church group to become a thriving, independent youth charity. Its mission is to help disadvantaged and disengaged young people successfully re-engage with education, overcome personal barriers to success, and develop the skills to find and sustain employment. It does this through its three Lifeskills Centres in the East Midlands which provide a dynamic mix of core qualifications, work-ready skills training, tailored support packages, and work placements with partner businesses to over 600 16-24 year-olds a year. The organisation is confident in the value of its 'strength-based' approach, and its ability to achieve measurable social impact through helping young people turn their lives around. This has been recognised in a highly positive independent Social Return on Investment (SROI) evaluation [Leicestershire County Council, 2013], and numerous national awards including one from the Centre for Social Justice in 2012 for combating educational failure, and one from the Lloyds TSB Foundation in 2015 for outstanding impact, prompting them to make TwentyTwenty their UK Charity of the Year.

After just five years of operation, by 2012 the organisation had increased its turnover to £538,000 and had a track record of successfully raising funds through grants, fundraising and sub-contracting agreements enabling access to money form the Education Funding Agency (EFA). Keen to grow the organisation and provide its vital services to more young people, TwentyTwenty saw building its capacity to win more contracts and possibly to attract social investment as key parts of its longer-term growth strategy.

3.1. The first hurdle – accessing investment-readiness support

The first time the organisation engaged with the social investment marketplace was an attempt in 2012 to receive funding through the Investment and Contract Readiness Fund (ICRF). The ICRF, managed by the Social Investment Business on behalf of the Cabinet Office, aimed to ensure social ventures were better equipped to secure new forms of investment and compete for public service contracts. Its goal was to help organisations with the potential for high growth and ability to deliver social impact, to purchase capacity-building support to help facilitate growth.

TwentyTwenty believed they met the Fund's criteria and having worked hard with the support of a local consultant with social finance expertise, they made their case for support to an approved ICRF provider. However the provider challenged TwentyTwenty's self-assessment about its readiness to take on large scale investment, and the charity was not selected for ICRF funding:

> *"We knew we had a strong proposition given the size of our subcontracting arrangements and obvious growth capacity. We were closely bordering the scale of operation the fund required, but there wasn't flexibility and they didn't accept our case. It felt like the whole set-up favoured much larger organisations."*

Despite this disappointing outcome, TwentyTwenty decided to continue pursuing other investment and support options.

3.2. Getting back on the horse – accessing a 'feasibility' grant

Less than a year later in 2013 TwentyTwenty identified an opportunity to re-engage with repayable finance. This time their focus was not on building readiness in a general sense, but on readiness for a specific purpose - purchasing an asset. The driver was a combination of an opportunity presenting itself to build up some financial security through developing an asset base, and the opportunity to give the organisation a physical base from which to expand its services. After months of negotiating a lease on a building the building in question came onto the market for sale. However, taking on a commitment that would inevitably require a long-term loan for at least part of the costs was too high risk for the organisation's trustees despite their being on board with the idea of repayable finance in principle and having a strong business and commercial understanding. They agreed that the decision would require first undertaking detailed feasibility work.

> *"We had two motivations really: to have a space we could do what we wanted with … and to have an asset to contribute to our balance sheet. The timing was just right but we knew we couldn't just dive in. This was a big decision."*

Through the consultant they had previously worked with, they were made aware of the Social Investment Business My Community Rights Fund which was offering grants of up to £100,000 to help organisations carry out feasibility work in preparation for bidding for contracts or developing plans for asset development and ownership. With the full support of his Trustee board, Mike found it relatively easy to apply, and a short time later TwentyTwenty found they had won a £30,000 grant to help them complete a detailed feasibility study and associated business plan.

3.3. Making decisions about whether or not to seek investment

TwentyTwenty made the most of their grant to undergo a robust business planning process and to complete their feasibility study. Despite feeling the whole process moved the organisation on considerably and built their capacity to pursue their growth plans, in the end they decided against proceeding with the asset purchase. Their decision was based on two considerations. The feasibility study suggested that though the numbers could be made to stack up, the organisation would struggle to generate the kinds of surpluses on its activities that would be needed to repay the finance. However, what emerged as more important was an assessment of priorities as the time-consuming nature of pursuing social investment became clearer. The concern was as much about risk to the organisation's ability to deliver on the frontline as it was about financial risk.

> *"We'd have had to raise a very large capital sum because our service model doesn't have that capacity to generate income in that way. It was like "this isn't impossible but it will take an awful lot of time!" – the thing we had to talk about was that our core business is delivering our services to young people and the bottom line is that this would take time away from delivering those services. It came down to a question of priorities. Social investment is a labour intensive process and favours the larger organisations who can probably second a person to it and say "there, off you go and you lead on that" and they have the time to do it. In a small organisation you're always doing twelve other things already so you just can't take on this as well so in some ways it was a resource decision. We weighed up that, in the end, rather than a benefit, it would be detrimental to our work with young people. Social investment is a bit like buying a house in the most expensive street where you're tempted to stretch yourself … sometimes you have to have the honesty to say, "yes we really want it, but this isn't right for us now", and then walk away."*

3.4. Taking a new path rather than ending the journey

Having decided not to progress plans to seek capital finance, some months later in 2014 TwentyTwenty identified another opportunity, this time for revenue funding, through the Youth Engagement Fund. This is a social impact bond (SIB) which brings together private investors to provide the capital to address social problems, with payment to the provider made through a payment by results system. The investors fund the activity and the government only pays if the intervention succeeds. The organisation was excited to get through the first stage of the application process and submitted an ambitious bid to the value of £1.4million. Mike remembers the fund's recommendation to secure a local financial contribution and liaison with an intermediary as the most time-consuming and challenging parts of the process. In the end TwentyTwenty were not able to secure a local contribution and did not go onto Stage 2. Much was learnt through the process, and a lot of encouragement was taken from the fact TwentyTwenty got so far in such a highly competitive process involving much larger organisations.

The charity's persistence and proactive approach paid off in early 2015 when they built a strong connection with Impetus PEF who have agreed to provide TwentyTwenty with a package of financial, strategic and operational support to help them sustainably develop their scale and impact. With this support on top of the organisation's learning, and their experience of a robust business planning exercise, the organisation feels confident about engaging with future investment opportunities that may arise if these support their strategic goals and they have the capacity to engage.

Learning and reflections

Support to make better decisions is crucial – a better-informed decision can be as important an outcome as attracting investment

Making first-stage support available for business planning or feasibility studies, for example, was useful to TwentyTwenty and Mike believes this kind of support is what is needed to enable VCSE organisations to make better decisions about engaging with social finance. Even if they then decide against seeking investment, as TwentyTwenty did with their original goal to purchase an asset, this is a successful outcome if that decision is the right one for them. The business planning process the organisation was able to undertake with their My Community Rights funding was useful in helping the organisation think strategically. Continued access to this kind of support feels important to TwentyTwenty as the marketplace develops.

> *"It's so important to make this kind of seed funding available for charities to investigate it [repayable finance] as a possibility."*

The market can appear Darwinian in its operation, favouring the large and the already strong over smaller and newer ventures

The market can feel complicated to negotiate and some, like Mike, believe SIFIs (financial intermediaries) may be averse to taking a chance on medium-sized organisations who may make up in potential for what they lack in track record. Even if not deliberately favouring certain kinds or sizes of venture, some of the processes for accessing funding, even for demonstrating eligibility, are resource-intensive and may therefore inevitably favour larger organisations with staff with capacity to do the work that smaller ventures do not have.

> *"It's good the UK is leading the way in developing social investment, even though it is a bit Darwinian … where the already larger and stronger organisations are helped to flourish even more. We often felt we were punching above our weight. Many organisations our size don't want to be left behind on social investment but the scale and resource demands of processes can make it just out of reach."*

"Is it worth it?" can be as important a question to ask as "can we do it?" when pursuing social investment

Having experienced the work involved in securing social investment and the requirements for successful organisations, Mike felt organisations should not overlook the importance of other routes, including high street banks. More clarity in terms of the relative costs of obtaining different types of funding could be helpful in decision-making.

> *"Organisations need a clear sense of how social investment would benefit them, and should consider other options too. If they're doing well with non-repayable finance then the risk involved and the time it takes to secure and service repayable finance might outweigh the advantages. I suspect this is true for many organisations, not just the smaller ones."*

4. Nova

Nova is a relatively newly established voluntary sector infrastructure organisation in the healthcare sector created from the merger of two local organisations in 2013. Prior to the merger, Nova, then known as Wakefield District Wellbeing Consortium (WDWC), received a mixed loan/grant start-up investment in 2011-12 that made all the difference in a challenging first year of operation. Looking back now following a period of growth and change, of which their merger was just a part, Nova recognises how valuable this financing was to them, and more generally the importance of having investors willing to take a risk on new ventures and able to offer small to medium-sized investments. Alison Haskins, CEO at Nova (and WDWC before that) shares her reflections on how repayable finance helped her organisation get started. Though having a positive experience herself, she does however, worry that some of the business models emerging under the social investment umbrella may prove less helpful for large parts of the sector because of the type and scale of their operations.

In 2010 Wakefield District Wellbeing Consortium was set up to deliver public sector contracts. The focus of the Consortium was to make contracting more accessible to local VCSE organisations who would then be able to deliver quality health services at the point of need. The development of the Consortium was facilitated by the PCT in Wakefield, and driven by a development group comprising VCSE organisations. It was formally incorporated in May 2010 and recruited its first staff in March 2011.

Those involved were confident that the Consortium could win contracts and believed in the strengths and capacity of the organisations involved as well as the added value the consortium approach could bring. One of the first challenges for the Consortium was the changing landscape for contract and commissioning in health and social care with the emergence of clinical commissioning groups and shifts in responsibility between health and local authority bodies. Having spent the first few months taking large amounts of time to chase relatively small health contracts and not managing to generate the kind of income they felt possible, the consortium paused to rethink their way forward, and quickly recognised the need to broaden the scope of the contracts they would bid for.

4.1. Starting out as a new enterprise – considering repayable finance

Working with a consultant, thanks to a small amount of funding from a particularly supportive commissioner within the local PCT, the directors of the Consortium identified an opportunity through the Social Enterprise Investment Fund (SEIF). The SEIF ran from 2007-13 and was a Department of Health initiative run by Social Investment Business which sought to invest in and enhance the role of social enterprises providing health and social care services. The SEIF provided a mixture of grant and loan funding. It seemed the best fit with the development of a new health consortium. Looking back at that time Alison reflects that the directors did not actually want a loan and would have preferred two to three years start-up grant funding. However, at the point of applying, this option was no longer available and Nova could only apply for the equivalent of one year's running costs. There were some worries among directors about the risk of taking on repayable finance but when it became clear that through the SEIF they could take on a relatively low risk loan that they could feel confident about repaying in the timescale agreed, the application went ahead and was successful.

4.2. First time lucky with loan finance – the right funding, the right time

The Consortium was awarded a mixed 'one-year grant and five-year loan' arrangement. The award was worth £124,000 and comprised a small capital grant of around £4,000 and an even split of the remainder of around £60,000 revenue grant to cover running costs in the organisation's first year of delivery, and a £60,000 loan with three years to repay at an interest rate of about 6%. Ultimately Alison feels the Consortium was successful and that the process of applying was relatively painless because:

- There was a good match between what the organisation needed and what the fund was offering. There was an element of luck in finding a funder willing to offer a mix of grant and loan in a timescale that meant they had the money when they needed it, and on reflection the consortium benefited from SEIF's willingness to take a bit of a risk:

  > *"We were a brand new consortium even if individual partners did have a good funding track record so looking back they were taking a bit of a risk even if our business case and plans for winning work looked strong."*

- The business directors involved in the Consortium were committed to making it work and benefited from the support of a trusted consultant knowledgeable about both consortia and social finance and building their confidence to take on repayable finance.
- The income-generating potential in winning contracts and generating a surplus on them was realistic. The consortium did not over-promise and was able to feel confident that it could generate sufficient income to pay off the loan and interest over the five years.

4.3. Impact of the finance – surviving the first and most difficult year

As predicted, though in fact not straight away, the Consortium started winning work, but in the end the contracts it started to win were not health contracts. Very quickly the Consortium decided to widen its scope to include large public service contracts that were more broadly in the area of of wellbeing as key to its sustainability in the longer-term, as the health sector was in a state of flux. This decision paid off and in a few months the Consortium had won a large family support contract worth £1.2m over 3 years to Consortium members. The SEIF financing proved useful because this first contract was a complex payment by results contract, co-financed by the European Social Fund (ESF) and the Department of Work and Pensions (DWP).

Though it offered the Consortium the opportunity to prove its worth and brought in a substantial contract for its members, for a new consortium the payment by results basis of the contract would have led to serious cash flow issues if it had not had the SEIF monies to fall back on. Looking back, Alison believes the SEIF financing not only made a difficult first year easier but also had a longer-term impact on enabling the Consortium to establish itself and lay the foundations for future growth. Without the funding they received from SEIF, Alison believes the organisation would not have survived, though she thinks this was about being able to access the amount needed at the time needed rather than there necessarily being anything specific about this type of funding.

> *"It was a very difficult first year … a complex balancing act with different types of contracts, payment by results and a year with no contract income coming in. We relied heavily on the loan and a small amount of PCT money. The loan was key and I'd say it was crucial to our starting up. It wasn't a lot in the scheme of things but without it we wouldn't be here and wouldn't be where we are now. … I don't think it's specifically about its being a loan though we had a bit of flexibility about how that was used in the end which was helpful given our cashflow situation."*

The Consortium found the process of working with SEIF a positive one. Possibly because the programme was managed as chiefly a grant finance programme, the reporting systems for loans were not dissimilar to grant reporting systems and the relationship between the Consortium and the investor turned out to be very straightforward and positive.

> *"The only thing I wish had been different was that it would have been good if we had been allowed a repayment holiday. As we weren't we had to start repaying using the loan, that is using the loan to pay off the loan, because of the cashflow problem. However, everything balanced in the end as the income started to come in ... They proved an engaged investor and very helpful."*

4.4. Reflecting on repayable finance for the future

From its rocky first year the Consortium went from strength to strength, winning other contracts more closely linked to its original health goals, including Healthwatch Wakefield and the local Bereavement Service. By 2013 it was achieving a turnover of about £400,000 a year and had 58 members, of which 20 were delivering contracts. With support from the Transforming Local Infrastructure fund and following a lengthy negotiation period, it merged with the local Council for Voluntary Service, Voluntary Action Wakefield District to become a new entity, Nova, combining its contracting support role with other areas of capacity building on volunteering, business development and organisational development. The organisation is currently thriving and would consider repayable finance again in the future.

> *"We've won contracts and achieved a turnover of £1.4million. About £1m goes straight back out as we're a contracting vehicle for our members just taking a management cost off the top. The model is working well. We'd consider taking on repayable finance again if it was the right thing to do. We already considered a bridging loan to help with cash flow, though we didn't need it in the end."*

Learning and reflections

Alison reflected with us on the value of social investment from the perspective of her consortium, but also thinking more widely about its members, many of them small to medium-sized ventures yet to engage with social investment or to see it as relevant for them.

Having a pool of investors and programmes willing to take risks with start-ups, new ventures and to offer smaller funding options is vital

The Consortium benefited from a programme where investors were willing to take a risk as the Consortium was so new. They see this kind of funding as having a value for the sector.

> *"We made a convincing case about our potential to generate income, particularly from health contracts. However, this was a start-up really so it was risky for the SIB as we had no track record, we were a start-up consortium. It was extremely important and a real benefit for us to get non risk-averse capital and I can see that feels important more generally for the sector."*

When starting out with social investment, having the right kind of support is key - including knowledgeable individuals who can help you negotiate and understand your options and possibilities

The Consortium feels it was lucky to have some very supportive colleagues in the PCT, but also a consultant knowledgeable about both consortia and social investment, able to share information about similar organisations and about opportunities. They found it helpful having someone to guide them and build their confidence to 'put their toe in the water'.

> *"We definitely benefited from having a consultant to guide us through parts of the process, and to share information about options and ideas … one of the things I personally found useful is that I've been inspired by stories of what others have done with investment, I think there should be more of those …"*

Though more could be done to make repayable finance more accessible, other sources of funding remain important for the significant part of the sector for whom social investment business models are not a good fit

Repayable finance could be made more accessible by myth-busting, more support, smaller sums being made available, and better information on the relative merits and costs of grants and loans, including high street loans which may offer a better deal to smaller organisations. Alison also feels strongly that describing smaller organisations as "grant dependent" is too often used as a negative as though they are unwilling or unable to engage with investment or other funding models, whereas the truth is that grant funding remains a necessary part of the funding mix and in some spaces a more efficient way of resourcing work that creates a social impact but that does not have the potential to be profit-generating.

> *"There are so many things the sector does that you simply can't make a surplus on. I'd like to see smaller amounts available to enable smaller organisations to borrow."*

5. Fair for You

Fair for You is a new social business that has struggled to attract social investment. The team feel they have developed a strong business case with a clear potential to create social impact and a financial return on investment, and growing support for their vision and ideas from practitioners and policy-makers with an interest in anti-poverty initiatives. With the additional benefit of a CEO with a background in the financial sector, and a strong team with relevant experience, on paper Fair for You might seem an ideal candidate for social investment. As CEO Angela Clemens reports, the reality has been different, and the lead team have found support, intermediaries and investors difficult to negotiate, relatively risk-averse and with little time to be able to consider a new concept. Their story reflects some of the most common critiques of how the market is experienced by potential investees, and acts as a reminder that despite high profile success stories this is a marketplace in development with a distance yet to travel to match supply with demand

Several of the most recent studies of poverty in the UK's poorest communities draw attention to the role of high-cost lenders in exacerbating rather than alleviating financial hardship. Fair for You is a new and unique ethical family lending provider. It was established to challenge the primacy of high-cost lenders by making affordable credit available for the purchase of essential items required in low income family households. Before setting up Fair for You in 2014, the current Chief Executive, Angela Clements, ran a busy and sustainable Credit Union in Birmingham. It was here, seeing first-hand the impact of high-cost lending on some of the city's most vulnerable and disadvantaged households, that the idea for Fair for You was formulated.

> *"levels of debt in low-income households were spiralling and every high-cost lender there was had moved into the city and it was becoming obvious that credit unions like ours and other social lenders were just not able to offer a real challenge to them. We started to think perhaps there was something to learn from how they were doing so well."*

Based in Birmingham but planning to work UK-wide Fair for You is a CIC owned by a registered charity providing a strong asset and mission lock - a new social business. Once fully up and running it will provide tailored small personal loans for families on low income, working with a range of retailers. Fair for You plans to deliver with the ethos and values of a Credit Union but on a national scale. It will have an online presence offering a digital lending process and is strongly consumer-led having developed its solution to meet needs identified through independent market research. Loans will be flexible with no hidden fees, repayments and pricing of goods will be affordable, there will be no obligatory insurances and warranties, sales staff will not be incentivised, and those who cannot be helped will be directed to help and advice. These are significant points of difference to other lenders and the potential of this model has been recognised by supporters ranging from Church Action on Poverty to the Centre for Responsible Credit.

5.1. Making the case for support

Early in 2014 as the organisation was being set up, the search for financial support and investors for Fair for You began in earnest. Fair for You identified the need for start-up capital as a priority and set about making itself an 'investment-ready' proposition. This involved producing detailed plans and income-generating projections, looking at how to package itself in a way that would appeal to investors, as well as engaging with social investment financial intermediaries as a way to access the support and investment it needed to become fully operational.

At this stage Fair for You felt fairly confident of finding the support it needed:

> *"We could prove the sustainable lending at the credit union, and this proposition would be more efficient with lower cost base. We had a really strong case and had come up with a way of doing things that overcame some of the limitations that credit unions face, including not being able to specialise in one product or being unable to go national."*

5.2. Engaging with programmes and intermediaries

Initially the organisation sought to apply to the Investment and Contract Readiness Fund (ICRF) but after discussing a possible application for a period of several months with a Financial Intermediary, Fair for You decided against proceeding with their application. The main reason for this was the team's feeling that the process was off-putting and overly complex for Fair for You and time-consuming for the amount they would receive, particularly once the intermediary's management fees and other costs have been paid. Fair for You instead obtained its first funding of £30,000 for start-up costs from the Esmee Fairbairn Foundation's Main Fund.

Later in 2014, still seeking support that would more directly put them in touch with potential investors, an initial approach was made to Big Potential, though declined due to the venuture being a new start. The funding from Esmee Fairbairn continued to support the organisation through its research, development, scoping and in making its business case clearer for investors. During this time the organisation pursued funding leads from Foundations to local enterprise partnerships (LEPs), so that by early in 2015 Fair for You was ready to attract support or investment from the mainstream social investment market. They held a series of due diligence events with various supplier partners to help them demonstrate their new concept. A new application was made to Big Potential in May but was declined again.

5.3. Charitable Trusts stepping in where investors have not

In its first 18 months Fair for You generated funding solely from charitable trusts and foundations. With grant funding reaching £220k, it will soon start operations, and with soft loans of over £1m it will trade through its pilot phase.

Fair for You's first Annual Review is positive and optimistic, with the organisation proud of what has been achieved with a relatively small amount of income since being incorporated as a charity. Despite its knock-backs, and its inability so far to attract social investors, the organisation is determined to continue with its efforts to secure investment via the marketplace.

Though accepting there is stiff competition for the support and investment available for new ventures, Fair for You has reflected on some of the other reasons why they feel they may not have been successful so far. One of the factors that stands out in Angela's own analysis is that it has proved difficult to find intermediaries willing to support a venture that is trying an entirely new or innovative and therefore untested approach.

Angela reports that she has found social investors more risk averse than charitable foundations, and has felt on several occasions that there has been too much "trying to fit the proposition to the investor" rather than "fitting the investor to the proposition". For instance, the organisation had conversations with one potential investor who was strongly encouraging them to try to look more like a CDFI even though they were clear about why that was not appropriate for Fair for You. In addition, several times intermediaries have suggested going down an equity route, but Fair for You did not feel this would be appropriate for their business model.

> *"So many times now I've had to sit in rooms listening to people telling me what the package should look like. It isn't that we aren't able to take advice, but it feels a lot of time what is being suggested is just about someone wishing you were offering something more easily understandable, more comparable to other products or services in the marketplace … so the advice is not really based on what would make for the most impact, what would work best, but what would work best for the investor rather than what will work best for people in need and from a business sense."*

Learning and reflections

Angela believes the market could be more accessible. She is committed to keeping trying to attract investment despite finding her experience challenging.

> *"I don't know how you change the world if you don't keep trying … but it's incredibly difficult, sometimes it feels like there aren't any rungs on the social investment ladder, just two slippery poles."*

The marketplace remains complicated and can be hard to negotiate for new social businesses.

Fair for You feel that it has not always been easy to find intermediaries to work with, and found it frustrating sometimes having to access support. In addition, they have felt that events about social investment can seem quite London-centric, with a sense of disconnect between investors and investees in terms of expectations, language and understanding.

> *"It's a maze, bewildering. My worry for people on the outside of this and coming to this new it can seem insular and uncomfortable. I have a financial background and considerable resilience but I have found people more interested in owning the space and identifying the issues. There is so much talk but good initiatives are not getting the backing except from private family based trusts.*
>
> *It sometimes feels like there's something of an investment village."*

It would be good if research was done to 'follow the money', to look at what has been funded

Angela has struggled to find organisations that have been funded to find out what can be learnt both from those who are successful and those who are not. She feels more information about where the funds go would be helpful.

> *"This isn't just about our experience but I have over the past 18 months talked to many peers and clearly organisations with good ideas are just not able to get the funding they need to get them off the ground. We are trying to compete with organisations that have huge chequebooks coming from abroad or private equity firms. I have been personally fortunate to be able to take this time unpaid to pursue a project that I believe in, but many more don't have that luxury and our economy, both local and national, suffers for the Darwinian process that we are put through."*

6. Depaul UK

Depaul UK is one of the UK's leading providers of housing and support for homeless and vulnerable young people. It is a social investment "success story", benefiting from investment-readiness support and recently a contract worth more than £1m through the Fair Chance Fund (a Social Impact Bond). Though it is relatively early days, the Fair Chance Fund contract is enabling Depaul to significantly develop its floating support provision targeting the most socially excluded young people. The 'Fair Chance' Programme Manager at Depaul, Simone Newman, works closely with the organisation's new social investors, and reflects here on some of her own and her colleagues' learning about this new approach to funding their work, the tensions inherent in a payment by results approach to a service for disadvantaged and often disengaged young people, and some of the challenges and unexpected benefits of social investment so far.

Depaul UK helps young people who are homeless, vulnerable and disadvantaged. It runs 38 projects around the UK offering accommodation and support services that: protect young people by finding them a place to call home; prevent young people becoming homeless by rebuilding family relationships via mediation services and offering resettlement support to young offenders; and provide young people with opportunities to progress beyond homelessness and fulfil their potential. It also runs Depaul Nightstop UK, the affiliated body for over 45 Nightstop schemes offering emergency short-term accommodation in the homes of local volunteers on a night-by-night basis.

Between 2009 and 2012 Depaul, like so many others in the sector, was feeling pressure on both its grants and its contracts income, a situation exacerbated by public sector cuts. Depaul continued to work with more than 3,000 young people a year. However, despite having a diverse funding base comprising income from rents and charges, statutory contracts and grants, and fundraising from a range of donors, this was a period of "necessary contraction" in some areas of the organisation's provision.

6.1. Business planning for growth

By the end of 2012 Depaul was keen to pause and undertake a strategic review and business planning process to look at how it could build services back up to previous levels and build sustainable foundations for growth. It was also keen to explore investment possibilities as a part of its future funding mix. With this in mind, in 2012 the organisation applied for and received a grant of £52,000 from the Investment and Contract Readiness Fund (ICRF). This funding and the specialist support it contributed to, helped Depaul with a process of detailed and inclusive review and business planning that spanned 2012-13.

By 2013, with its strategic review completed, the organisation had a clearer vision and sense of direction for ways it might grow and increase its reach and impact. Early in 2014 the organisation received notice of the launch of the Fair Chance Fund. The Fund was created by the Department for Communities and Local Government and the Cabinet Office to improve the lives of the most disengaged young people facing homelessness and with additional support needs but not reaching the threshold of "priority need" for housing and support. The strong match between the programme and Depaul's plans was instantly clear but the payment by results approach of a social impact bond (SIB) on this scale was different to anything else Depaul had done previously, giving it food for thought before progressing with an application.

6.2. Weighing up the risks and benefits of the investment route

The process turned out be highly competitive and far more complex than other bidding or tendering processes Depaul had experienced. This was not just because of the design, partnership arrangements and costings, but also engaging with intermediaries and working through a detailed due diligence process. Simone remembers the decision-making process as complex and considered, involving discussions about risk, addressing not just financial risks but questions about ethics and values, and particularly the issues raised by a payment by results approach when working with disadvantaged clients.

> *"It wasn't a straightforward decision. It needed very careful consideration. There are financial issues, the risk of not being successful, but there is also the potential reputational risk to consider. For instance, the whole ethos of payment by results when you're working with very vulnerable clients is something that throws up ethical issues for organisations like ours to consider. One concern, for instance, is that working in this way can lead to an organisation cherry-picking the easiest young people to get results with. However, Depaul has a really strong value-base … it wasn't hard to be clear that this wasn't what we would be doing, so the way things were set up had to safeguard against this and it did - we wanted to stay focused on the needs of this group who aren't the easiest to work with or get results with but are the ones who most need our support. Because the Local Authorities we partnered with had worked with us before, they were also clear who they wanted to target, which helped us be sure there was no risk there."*

In the end the organisation decided that the benefits – innovation, expansion and increased impact – outweighed the risks, and in October, after months of preparation and hard work Depaul was made an award of £1.6million, one of only seven providers to win investment. The funding is a SIB, where Depaul receives investment to pay for the service and if the agreed outcomes are achieved the investor makes a profit but if not the investor loses out. So the investors take on a lot of the financial risk and have a keen interest in the achievement of monetised outcomes and targets. The three-year investment is paying for floating support and more intensive support for new and vulnerable clients referred by the partner local authorities.

6.3. Social investment - making a difference and working differently

Though it is early days in the life of the programme, Simone sees already how the funding is enabling Depaul to take forward this priority area of work in a focused way. The organisation felt positive and boosted by receiving the investment following such a competitive process, and there was an excitement about the additional support it could now give young people. However, Simone also sees ways in which the programme is making a difference in some of Depaul's working practices – working with investors already seems different to working with other previous funders. Whilst some of these differences are potentially challenging, the experience has brought some unexpected positives for the organisation.

One key difference is seen in the level of engagement with investors and the closeness of that relationship particularly in terms of reporting, scrutiny and feedback regarding performance. For the Programme Manager it feels quite different to the usual grant-giver/grantee relationship or even the commissioner/ commissioned relationship. So far this has been a positive experience in part because of a good level of understanding from the investors, with two having a background in young people's services and/or homelessness (Depaul's investors are Bridges Ventures, the Montpelier Foundation and Big Issue Invest and its social finance intermediary is Social Finance) but Simone reflects that this would be something for others considering this kind of relationship to think about in advance.

> *"They have been quite actively involved so there's an extra layer for me, but because we have these investors who really understand what we're trying to do, the experience so far has been very positive but that's a new experience and one that you need to prepare for."*

Another difference is in the investors' focus on and interest in the outcomes and targets linked to the financing. This has affected what Depaul measure and report on, and how they do it.

> *"In the conversations with the Board of Investors who we talk to on a monthly basis, things are quite tightly supervised, outcomes are broken down to monthly targets, and though it isn't like this, I can see how that could feel a bit mercenary if that isn't how you have previously talked about your outcomes and young people. It isn't a tension for us because that isn't how we talk about or see the young people and that's important. Another difference relates to the outcomes we think are important. Soft outcomes are something we've always recognised as important and this way of funding things means those are not always celebrated unless linked to an outcome We've always looked to equip young people to achieve their own goals and we'll continue to value those soft outcomes, but this is a lot more focused on hard, tangible outcomes and targets."*

Learning and reflections

Depaul's experience of engaging with social investment has brought new challenges but has helped the organisation in its thinking about delivery and outcomes measurement.

The process of achieving investment takes time and is more complex than other more familiar routes

Even allowing that this was a large contract and would have expected a significant investment of time to win, Depaul feel that the process of applying for and then winning the contract was more time-consuming and more complex than other contract tendering processes.

> *"There was a lot of work involved, it was quite intensive and required a real time commitment through the different stages."*

Working differently may be required for some forms of social investment financing, creating a need for cultural as well as systems change

The setting up of new systems for reporting, data collection and performance management processes took time to get right for Depaul. In particular, ensuring that systems can meet the reporting requirements of investors which may be quite different in terms of timescales, frequency and report content, to what the organisation was used to. There was work for the organisation to do in terms of ensuring staff understanding of the project's requirements in regards to data collection and its value alongside frontline delivery.

> *"Whatever investors' expected return is … any slippage against targets is picked up and dealt with quickly. This all makes it a very different way of working. The core work is the same but there is different evidencing needed. That's massively different really, particularly in terms of how we capture data –that's been a real challenge and we have had to really 'up our game', reflecting the importance of evidence gathering in people's roles and having conversations with staff about this to ensure they understand why we are working in the way we are now. In fact we employed a data specialist specially for the project."*

A genuinely outcomes-focused approach has the potential to generate more flexibility and creativity

An interesting positive Depaul have found already is that though working to targets makes it sound as though the funding is imposing a rigid or inflexible structure, in fact the outcomes focus has meant more flexibility about how those outcomes are achieved which Depaul finds helpful. The closeness to investors and the frequency of meetings with them lead to quicker decisions, enabling Depaul to act faster on issues, which is also seen as helpful.

> *"One of the unexpected benefits I think is that it enables you to be a bit more creative. Because the focus is so much on achieving the outcomes, you need to be more creative to achieve them if one area looks like it might prove more tricky. For example we've been able to employ a worker specifically to focus on employment and partnership building to increase access to opportunities as support staff are so busy*

with day to day support. This wasn't in the original bid but in discussing this idea with investors we have been able to reroute finances to cover this cost.