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Commission on Social Investment

"The Local Opportunity"

sobus
strengthening communities

acevo
Public Services

Charity Leaders Network

Executive Summary

Social investment is repayable capital provided to people and organisations aiming to achieve social impact. It is attracting a lot of attention both internationally and nationally, but what role could it play in a locality?

People living together in a locality have a range of needs, those which demand immediate and continuous responses, and also those which are deep-rooted and complex and require longer-term and integrated solutions.

We believe that social investment can help on a number of levels.

i) **Providing local [voluntary organisations] resources to invest in their organisations.** Through the provision of simple loans, social investors could support local charities and social enterprises to strengthen their organisations by supporting cash management, expansion and buying productive assets.

ii) **Supporting the development of new delivery contracts which would coordinate a range of agencies around preventative work.** Social investment makes possible new mechanisms such as social impact bonds, which can stimulate new government investment in preventative services.

iii) **Borrowing the techniques of social investment in planning a coordinated response to deep-rooted problems.** An investment approach can enable the tackling of complex needs drawing on a multi-agency response and over a significant time-period.

The Tri-borough area of London has significant affluence alongside deep-rooted social problems. Here, and in other local areas, there is the potential to tap into private and business wealth for local social impact through the provision of social investment. An investment approach could be used to design and develop a vehicle to pull together local private resources, local foundation resources, and the local knowledge of front-line and second-tier organisations – all contributing to an agenda driven towards achieving real long-term impact in a locality.

Barriers to greater and more effective use of social investment include:

- A lack of knowledge on the part of local organisations about social investment.
- The perceived complexity of social investment.
- The lack of capacity of local organisations to engage with social investment.
- The lack of local "meeting places" within which potential investors and potential investees can discuss combined approaches to tackling needs, and how social investment might facilitate such approaches.

So to overcome these barriers, we need:

- Better local knowledge of social investment.
- More accessible social investment products – e.g. simple loan products.
- A local combined exploration of complex social needs and the role of social investment.

To follow through the Commission's work a taskforce has been convened in Tri-borough to oversee this agenda. The taskforce will:

i) Work to improve local knowledge of social investment. ACEVO has committed to run two workshops in the Tri-borough before March 2015.
ii) Work to create a 'Tri-borough' focussed fund, particularly focussing on simple loan products.
iii) Explore tackling a particular need, and the role of an investment approach and also how resources might be raised from businesses, high net worth individuals, foundations and others in developing a long-term solution.
iv) Explore the use of a technological platform to facilitate the matchmaking of prospective philanthropists and social investors with locally developed solutions.

The Commission has brought together a range of stakeholders who have pledged to implement these actions. It will meet again in March 2015 to receive a progress report from the taskforce.

The Commission's explorations suggest that other places could benefit from the creation of 'social investment action zones'. These would be areas, probably spanning several local authorities, where concerted exploration of the potential of social investment to support charities working to address local need makes sense, and where there is sufficient potential demand for national and local social investment intermediaries to regard these areas as 'local investment markets'.

The Commission and Taskforce set out to make the Tri-borough an innovation trailblazer and commit to making freely available and sharing information about performance of loan funds, underlying social impact, and learning achieved through implementing the strategy set out above.

Contents

Introduction

The Commission

The "Local Opportunity" Commission was set up in January 2014 by ACEVO and Sobus *(the Voluntary sector infrastructure body in Hammersmith and Fulham – previously CaVSA)*.

The Commission brings together representatives from charities working in the Tri-borough area, with those from national social investment organisations, and representatives from national and local government.

David Bowler – CaVSA *(subsequently Vital Regeneration)*
Kieran Boyle – Cabinet Office
Chris Dadson – Social Investment Business
Mat Ilic – Only Connect
Tom Jackson – The Resurgo Trust
John Kingston - Independent *(Chair)*
Daria Kuznetsova – Big Society Capital
Angela McConville – Westway Trust
Gareth Owen – One Westminster
Peter Smith – London Borough of Hammersmith and Fulham
Richard Todd – Social Finance

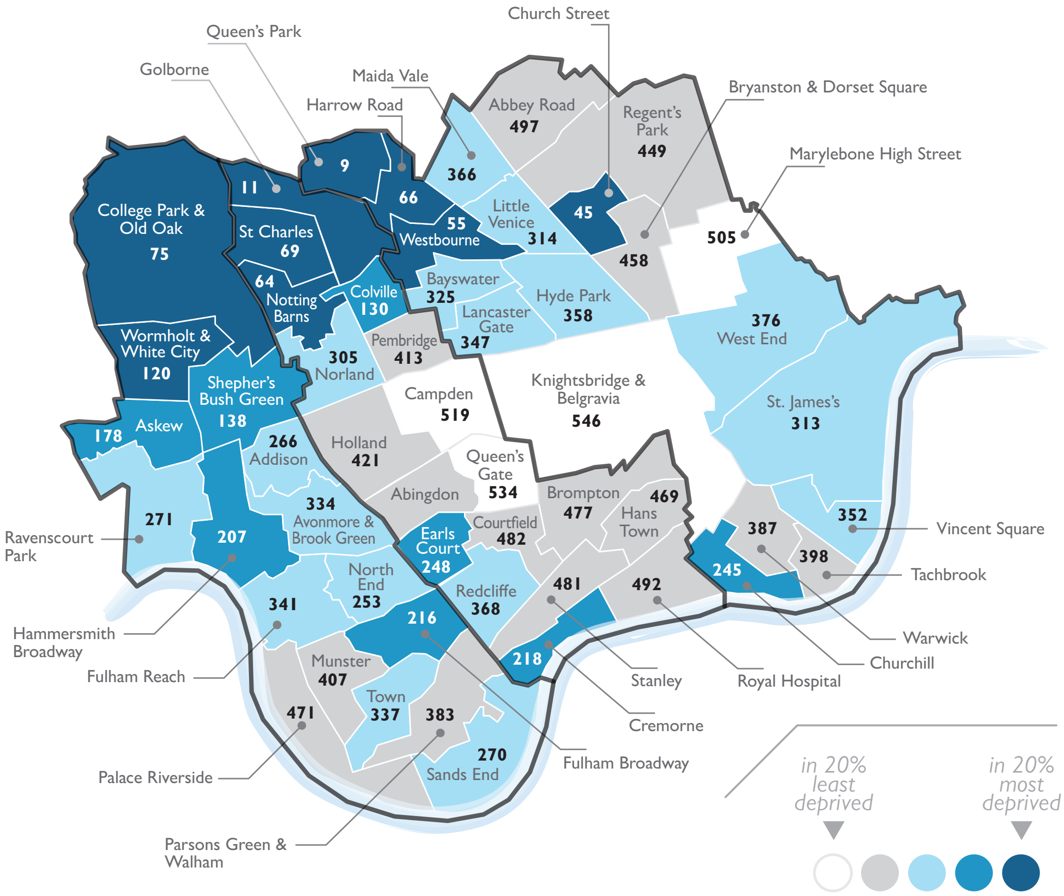
The Commission's remit was to explore the opportunity that social investment presents for stakeholders looking to bring about change and respond to local need.

The Commission met five times during the first half of 2014.

Section 1:
The Locality and the Need

The Tri-borough is an affluent area of London and yet it contains some significant pockets of disadvantage and problems typical of metropolitan centres, such as homelessness, worklessness and drug misuse.

Deprivation is clustered in the north of all three boroughs with 11 wards falling within the top 10% of most deprived wards in England. Nearly one fifth of all households in the Tri-borough area live in areas considered to be in the top 20% most deprived nationally. *(Indices of Multiple Deprivation, DCLG, 2010)*



Average Scores ward level summary of IMD 2010 - Rank in London

The top three wards for the proportion of children in workless households in London are all in Westminster - Westbourne, Church Street and Queens Park respectively, where over 3 in 5 of all children are living in households on out-of-work benefits. College Park and Old Oak, in Hammersmith and Fulham, is fourth highest and Churchill, in Westminster is fifth.

Numbers of rough sleepers in the Tri-borough stood at 173 in 2013. This was almost half of the total figure for London, which was 384[1]. Drug misuse figures are comparable with other areas of London (e.g. there were an estimated 2255 opiate and crack cocaine users in Westminster in 2010/11 - compared to 3027 in Tower Hamlets[2]) though the true cost of drug misuse is likely to be larger due to the high number of people who come into central London to party. Alcohol related admissions are comparatively high at 2662 per 100,000 of population for Hammersmith and Fulham for 2012-13, which compares with a national average of 2031 and a London average of 2148[3].

The need to respond to these levels of disadvantage places a high demand on the various services in the Tri-borough. Across the three boroughs 39,080 people were claiming out of work benefits in February 2014[4]. The impact of the economy undoubtedly has an impact on overall need levels, with the out of work benefit figure down from its peak of 48,660 in August 2009. Moreover there is evidence that the impact of the recent downturn has been felt hardest by the poorest citizens. The proportion of claimants for all out of work benefits claiming for 12 months or more has been creeping upwards since 2009, which suggests that the flow of new benefit claimants is reducing, but also that the flow off benefits for long-term claimants is lower than the general off flow – otherwise the percentage figure wouldn't be increasing. Homelessness acceptances have increased by 102% over the last five years, but have fallen back slightly over the last two years.

There is evidence that despite the strong engagement of agencies working in Tri-borough, past interventions have struggled to get to grips with the multi-faceted disadvantage that is experienced by residents in some of the Tri-borough's poorest wards. Alcohol related admissions have increased by 20% over the last five years[5]. Child poverty decreased by 2% between 2005 and 2010 (however 29,835 children remained in poverty in 2010). There has been very little change in the number of rough sleepers over the past four years[6]. This picture is not universal, and there have been some significant positive changes, for example a 25% drop in the number of children who are the subject of a child protection plan over the last four years[7].

A further pressure on local public spending comes as a consequence of ageing populations. In 2013/14 the three boroughs spent just over £222m on Adult Social Care services out of a total combined budget of £600m[8]. The Kings Fund highlighted in 2011 that national Adult Social Care spend has increased by an annual 5.1% since 1994 and this increase has largely been absorbed by demographic pressures[9]. Efforts to extrapolate this trend forwards, such the 'Barnet Graph of Doom'[10], suggest that, unless things change dramatically, within twenty years social care spending alone could account for a council's entire budget.

These upwards trends in need and demand for public services are taking place at a time when local authorities are universally having to drastically reduce their overall spending. For example the tri-borough authorities have had to make combined savings of £250m from 2010/11 to 2014/15, which in percentage terms is fairly typical when compared with other local authorities. The pressures on demand for services, combined with reducing budgets gives rise to a need to innovate better and more cost-effective ways of responding to need.

Voluntary sector organisations have the capacity to deliver better and more cost effective solutions through their use of volunteers, their on-the-ground presence and the fact that various communities trust them giving them better access to client populations that are typically less well served by public services. As grant funding for the sector, particularly from local authorities, is generally decreasing voluntary organisations are becoming increasingly entrepreneurial in terms of where they seek their funding to enable them to continually support beneficiaries. Some organisations are becoming more proactive in developing solutions that are independent of public funding (see Vital Regeneration/BNP Paribas case study p22).

Traditional funding approaches tend to work poorly for tackling longer-term needs. Public funding in particular has tended for intrinsic reasons to be short-term in duration, bound into political cycles and delivered through siloed contributions from different agencies. This limits interventions to those that have a chance of delivering within the funding timeframe, and tends to favour multiple, unconnected interventions rather than joined-up, multi-agency solutions. This is short-sighted when it comes to tackling some of the longer-term problems that the Commission's work has highlighted.

The merger of the three boroughs has created a powerful opportunity and an impetus towards development of more innovative solutions that target particular pockets of high needs – such as the White City Opportunity Area, and high-need populations such as families facing a multiplicity of challenges. The councils, both independently and collectively, have developed schemes such as 'invest to save' and community budgets that have sought to bring about longer-term change by addressing underlying causes rather than the symptoms of problems. The councils have indicated, by their willingness to explore new innovations with the voluntary and private sectors, a readiness to engage with and support service innovation.

The Tri-Borough. The 3 local authorities that form the Tri-borough arrangement - Westminster, Kensington and Chelsea, and Hammersmith and Fulham – began merging their management structures in 2011 as part of a drive towards efficiency whilst endeavouring to maintain the quality of service delivery. Adult Social Care, Children's Services and Libraries are the three departments with a wholly unified structure across the three authorities, whereas Environment, Leisure and Residents Services and Transport and Technical Services are two departments that operate on a Bi-borough basis with a unified structure across Hammersmith and Fulham and Kensington and Chelsea. The three boroughs retain their political sovereignty and their separate identities.

The local affluence, and particularly the high-levels of individual wealth within parts of the Tri-borough, provides a further potential source of funding that could be directed towards meeting some of the area's long-term needs.

There are already charitable foundations like the Kensington and Chelsea Foundation that act as broker organisations, helping to channel private wealth from high-net-worth individuals to worthwhile causes. There is additional potential to use some of this funding as investment in the Tri-borough's capacity to address some of its longer-term problems.

Section 2:
Social investment, what is it?

The BIG Lottery has recently published a guide on social investment written by Social Enterprise UK (SEUK)[11]. We have drawn heavily on the BIG Lottery guide for this section and are indebted to the Lottery for permission to use this material.

Social investment is repayable capital provided to people and organisations aiming to achieve social impact.

Social investment is not a replacement for grants, donations or other revenue funding. Grants are typically provided to fund projects, and often can only be spent on these projects. Social investment, by contrast, is investment in the organisation. It is money that is provided to help organisations purchase equipment, meet immediate financial commitments (a bridging loan) or grow their businesses. Investors are typically looking to make a financial return on their investment, if only the return of capital. Investors will be paid back at a future point, either from cash flow or income generated via the investment.

There will always be some needs where grants will be a better option than investment. There is no point for a charity to look at social investment if it doesn't have a clear idea about how (and when) it will be able to pay it back.

Social investment is often conceived as a response to key challenges that voluntary organisations face:

i) Social investment is largely about access to capital (on a par with non-VCS organisations), in order to:
Purchase physical assets e.g. buildings,
Support an organisation's working capital needs
Finance growth and development.

ii) It can be used to develop new sources of income for VCS organisations (e.g. in the Social Impact Bond model, where investors provide organisations with an income to deliver an intervention that releases savings elsewhere in a system – income that wouldn't be forthcoming without the presence of an investor.)

iii) In addition there is an additional benefit that comes from the engaged relationship between investor and investee. The presence of a social investor can for example help organisations increase their effectiveness through requiring them to improve their financial and business processes, and to be very clear on their priorities and objectives.

Access to Capital

There are two main types of social investment aimed at helping organisations access capital: debt and equity. A third form of investment (quasi equity and patient capital) is also geared towards supporting organisations with their capital requirements. Quasi equity and patient capital sit somewhere between debt and equity and combine features of both.

(i) Debt i.e. loans (secured/unsecured)

Secured loans – these work like mortgages on a house: an investor provides an organisation with a loan against an asset (often a building or equipment) as 'collateral'. The investee repays the loan on an agreed basis (e.g. regular monthly payments) often including interest on top of the capital repayments. If the loan isn't repaid, the investor may have the right to take possession of the asset and sell it to recover the debt.

Unsecured loans – an investor provides an organisation with a loan that isn't secured against an asset. The investee repays it on an agreed basis, often with an agreed amount of interest on top.

ii) equity

An investor puts some money into an organisation in exchange for part ownership of the business. The investor gets a right to share in any dividends, which are paid out from profits. They may also sell their shares in the business to someone else as the business grows and those shares become valuable.

It is important to note that most charities and social enterprises cannot and do not sell shares and therefore cannot and do not distribute profits to shareholders. But CICs Limited by Shares, community benefit societies and some other co-operative and company structures can enable some organisations to issue shares and pay dividends within certain guidelines: this means they can still be recognised as social enterprises with a social purpose.

Access to capital constitutes the vast majority (estimated 95%) of social investment, and despite the growth of Social Impact Bonds it is likely to continue to constitute the vast bulk.

As a source of income as a spur to develop innovative solutions

iii) SIBs

Social impact bonds (SIBs) are a form of investment product that provide a source of income for charities and social enterprises to deliver preventative contracts, where public funding will only be released if improved outcomes are delivered. The investor puts in money up front and carries the risk in case improved outcomes are not delivered. If the social enterprises and charities deliver the anticipated outcomes, and the expected savings to government, the local or national government pays back the investors with interest.

An investment Approach

Social impact bonds are an attempt to break out of the restrictions of public spending constraints by enabling the raising of investment in advance of the moment when public funding becomes available. However social impact bonds are limited in the range of situations to which they can be applied. [For a case study of a SIB – see appendix 1] SIBs tend to work best when:

- There is a discreet client group with which to work.
- There is a clear link from intervention to outcome.
- There is an existing intervention that is known to work
- Outcomes can be measured clearly, and sufficient data exist to establish a baseline.
- The savings from the intervention accrue to a single agency.

Many of the longer-term needs in the Tri-borough do not lend themselves to a SIB. There is role nonetheless for an 'investment approach' or the application of an 'investment mindset' in tackling some of these more complex problems.

An 'investment approach' is one that takes the elements that contribute to improved outcomes from the investment relationship and applies them to the process of generating better outcomes whatever the means by which this is resourced. Elements of the investment relationship that support better outcomes include the stronger performance incentives that are part of an SIB, the impetus towards developing better interventions, and the stronger incentives for different agencies to work together.

An investment approach applied to philanthropic capital and money from foundations for example, and potentially to public money, could increase the capacity of these inputs to leverage positive change and deliver better outcomes.

Sources of Social Investment

i) Specialist social investors – e.g. Charity Bank, Triodos, Barclays, Big Issue Invest, CAF Venturesome
ii) Foundations – e.g. Esmee Fairbairn, Lankelly Chase
iii) Individuals – e.g. through crowd sourcing

Table 1 shows how different parts of the market are served by different providers, and segments the market by size of organisation.

	Risk Capital	Bridging	Debt Finance
Small	- Incubators & Big Venture Challenge - CAF Venturesome Big Issue Invest - Local trusts & foundations	- Big Issue Invest - Keyfund	- Charity Bank - Keyfund
Medium	- CAF Venturesome - Big Issue Invest - Nesta Impact Investment Fund	- FSE Group -SIB / SASC - Keyfund	- Charity Bank - Keyfund
Large	- Bridges Ventures - LGT Impact Ventures Fund - Nesta Impact Investment Fund	- FSE Group -SIB / SASC - Keyfund	- Charity Bank - Ecology - Unity Bank - Charity Bonds - Triodos

▲ **Table 1;** *parts of market, providers, segments by size of organisation.*

Section 3:

Gaps and Opportunities / Tri-Borough and Local Level

Supporting VCSE organisations to respond to continuous need.

The bulk of demand for social investment is from VCSE organisations with capital requirements, needed in order to resource their ongoing capacity to provide services to local citizens.

The needs of VCSE organisations are changing as they become less dependent on grant funding, and as more are delivering public services and becoming more active in commercial markets. In order to respond to these opportunities charities and social enterprises often need investment to grow their capacity, to acquire staff or assets ahead of contract delivery, and to bridge periods when they need to spend money ahead of receiving revenues. The move towards outcomes based payments (payment by results) provides an additional impetus towards organisations accessing capital to invest in delivery of the service prior to being paid.

Social investment also has the capacity to support organisations to adopt social enterprise business models. As social sector organisations diversify away from grants, some are choosing to generate income by selling products and services into commercial markets and in-so-doing also generate a social benefit. Social enterprises have a need for investment, as any private business does, and yet the needs of the social sector (because it generates a social impact as well as a commercial return) are less well understood by the investment community.

Although the social investment market is a lot more developed than it was during its pioneer days ten to fifteen years ago, there remain gaps, particularly around the availability of smaller-scale investments. The market for larger-size and asset backed investments is proportionately better served, in part because economies of scale kick in with larger loans, making larger loans cheaper to provide.

Other market players have noted a lack of availability of smaller amounts of capital. A new Foundation is being set up by Big Society Trust to increase access to social investment. By blending grant and investment capital, this Foundation will enable the provision of smaller size and riskier investments into social sector organisations. It will also engage in funding of capacity-building programmes to support VCS organisations in becoming ready to take on investment. The Foundation will work collaboratively alongside Big Society Capital, Cabinet Office and Big Lottery Fund, who all play leading roles in growing the social investment market.

The evidence heard by the Commission suggests that in Tri-borough a lack of availability of small amounts of capital is coupled with limited knowledge on the part of social sector organisations about social investment. ACEVO's Social Sector Tracker which in 2014 recorded attitudes to social investment of 128 leaders of disproportionately larger charities (compared to a cross-section in Tri-borough) found that 64% agreed with the proposition "I feel confident that I understand social investment" - 36% did not feel strongly either way or disagreed. The Cabinet Office has done a lot to support the growth in understanding of social investment across the VCS by funding programmes like the Investment and Contract Readiness Fund, which has helped a significant number of organisations to go on to access investment.

For local organisations that were part of the Commission the process of being engaged in this exploration has been a learning journey, expanding their knowledge and understanding of social investment. Despite the best efforts of social investment intermediaries, levels of understanding of social investment in local places are generally quite low. Social investment remains a relatively new concept, and few charities have direct experience of using it. The Social Investment Business, a national provider of social investment, carried out a trawl of its database and found that only four charities from within the Tri-borough had accessed loan finance (borrowing £767,100 in total). Seventeen organisations had accessed various forms of investment readiness and organisational development grants totaling £2,812,013[12]. When asked if they had ever taken on a loan, only 23.6% of respondents to ACEVO's Social Sector tracker said that they had.

A survey of charities and social enterprises in Tri-Borough suggests that there is a small vanguard of more developed charities and social enterprises that could (and in some cases have) benefited from social investment. There are a greater number of smaller, medium-sized and sometimes larger voluntary organisations that don't exhibit similar understanding of or show immediate potential to access capital. Many of these organisations are strongly rooted in local communities. Because of their local connections many are well placed to innovate and develop solutions that have potential to scale. Our concern is that this is not happening to the extent it could because organisations lack understanding of social investment and of where to access it.

There are 574 VCSE organisations in Hammersmith and Fulham that are known to Sobus, the CVS body, and of these 172 (20%) have a turnover of below £10k. A further 20% are small organisations with an income between £10k and £100k. Social investment is not likely to be suitable for all organisations. As noted in the previous section some of the smallest organisations are unlikely ever to be in a position where taking on repayable capital is right for them. For these organisations grants will continue to be needed. However there are likely to be organisations of all sizes, even smaller ones that could benefit from access to smaller amounts of capital at certain times in their lifecycles. We look at the kind of investment that could make a difference in the next section.

Addressing longer-term needs

A more systemic approach underpinned by collaborative working over the longer-term may improve results in grappling with longer-term need.

The Commission heard that a barrier to greater collaborative working around long-term need is the lack of "meeting places" where conversations of this kind can take place. The current culture of working within the voluntary sector is set up to support 'business as usual', where opportunities for charity leaders to come together are limited, and when these happen, they are often structured around pre-set agendas or particular issues, which narrow the scope.

The kind of new solutions that might go further towards tackling longer-term need are more likely to come from expansive conversations, where agendas are not defined by current programmes, and where there is scope to meet alongside wider stakeholders such as representatives of businesses, the social investment sector, and foundations - individuals who also have a strong interest in improving a place and complimentary resources and capacities to bring to bear.

A report produced by ResPublica for the Civil Society and Innovation Unit in 2010 came to a similar conclusion calling for the creation of collaborative spaces to support social action and early stage social entrepreneurship which they called "Community Labs"[13].

Section 4:
Making a difference

To support more organisations to be in a position where they can take on social investment there needs to be change on both the demand and the supply side of the social investment market.

a) Better local knowledge of social investment

In Tri-borough we found that knowledge about social investment and where it can help is generally not widespread, particularly across smaller and medium-sized organisations. There were widespread misconceptions in some parts of the sector, such as the belief that social investment can be used as a replacement for grants. We also saw a lack of awareness of where social investment might be able to help, due mostly to lack of familiarity with social investment and some inaccurate assumptions based on what people have picked up from the media. A number of charity leaders for example believe that social impact bonds are social investment.

The lack of local knowledge of social investment is in part accounted for by the remoteness of providers of social investment from the day-to-day lives of most local charity leaders. The vast majority of 'social investment intermediaries' work nationally and most are based in central London. Although the Tri-borough wards are within central London, leaders of voluntary organisations, particularly of the smaller and medium-sized ones, are used to looking to second-tier organisations operating within their borough, such as CVSs, for much of their information and to answer their training needs.

A recently published report by the Design Council and Cabinet Office makes a similar point: "Social start-ups were very familiar with grant funders and incubators, often having strong existing networks, but had lower levels of awareness of later stage social finance opportunities such as Social Investment Bonds or social lenders".[14]

The national social investment intermediaries and Big Society Capital have invested significantly in local engagement over the last few years, however knowledge of social investment remains centralized. Building better local knowledge of social investment would do much to bridge the knowledge deficit at the local level.

This could include:

Supporting capacity of local infrastructure organisations so that they

- Can offer information and advice about where to apply for social investment and how to apply.
- Have knowledge of the various kinds of social investment and make recommendations based on an organisation's needs.
- Understand what is involved in becoming investment ready, and can provide basic investment readiness advice and support.

b) More accessible social investment products – e.g. simple loan products.

There is a deficit of small-scale capital available in the form of straightforward loan products. The vast majority of social finance currently invested takes the form of asset-backed deals and loans that are otherwise too restrictive, or large to be of value to all but a small minority of organisations. A 2010 figure quoted by Boston Consulting Group showed that 84% of lending was secured lending, 11% unsecured lending, 3% quasi equity and 2% equity[15]. The same report went on to forecast 2015 demand for social investment and predicted a significant about-turn with 58% of demand forecast to be for unsecured lending and 27% for secured lending. ACEVO's 2014 Social Sector Tracker Survey found that 43.6% of charity leaders who responded said that their organisation might think about taking on a loan or repayable finance, and 48% of these said they would use it for non-asset related purposes.

Given the changing markets within which many voluntary organisations operate, there are likely to be more organisations that could benefit from more flexible and smaller investments.

We are not alone in making this observation. In an informal study into the financial characteristics of social enterprises in the north west region of the UK and their ability to take on the type of funning currently offered by the social finance market Helen Heap found that only 9 social enterprise out of 372 (2.5%) could be considered within the market for investment as currently available[16].

A report prepared by researchers in the North East for the Northern Rock Foundation found that the market for secured finance is well supplied, and suppliers are confident that they can meet future demand. The supply of riskier investment finance, including unsecured loans, is not well developed. The report's authors find that demand for riskier finance is rare, but that there are signs that demand may grow with support and nurturing of potential investees[17]. These findings corroborate our impressions of the market in west London, and we believe are likely to be fairly universal in their applicability to other places.

Some investors such as Big Issue Invest and CAF Venturesome already offer some finance in the form of small-scale loans. We judge that expanding this market would have the impact of making social investment available beyond the small number of organisations for which it is useful in its current form.

A local (or locally badged) loan fund

Several local areas and one notable region in the UK (the north east) have set up or are in the process of setting up local social investment funds. For example Kent County Council established a £3m fund in 2012, of which 10% of the funding is to be provided in business support. Another example is the 'Backing our Bristol' initiative which is a fund set up by Bristol City Council, Bristol Credit Union and the John Pontin Trust and which aims to "make investments in projects that offer commercial viability and also produce social, economic and environmental returns for Bristol and its People."[18]

Local funds are a good idea because they can be developed with an understanding of local needs and issues foremost in mind. Locally based investment managers have a better understanding of their target market (the local VCS), and their knowledge of the market can help them invest in organisations that might be seen as too high risk by investors remote from the locality - in the way that CDFIs do currently. A local fund can also act as a catalyst for bringing in other local investors – both private, voluntary and public – and for catalysing interest from the VCSE sector. In some places where there are local funds the provision of accompanying business and investment readiness support has been made a priority both in order to support organisations using social investment, and to create a pipeline for future demand.

Early experience of local investment funds suggests that it is important to ensure that the type and size of loan provided can cater to the variety of needs likely to be experienced by local social sector organisations. Equally local markets will not grow to maturity overnight, and an amount of patience, alongside the application of investment readiness support and support to help local organisations understand social investment is likely to be invaluable in nurturing local demand.

The Social Investment Business (SIB) is leading the development of Local Impact Funds, which are place based social investment funds that aim to attract inward investment to LEP areas – to help build a strong local social economy.

LIFs are composed of two parts: a wrap-around business support programme that delivers a pipeline of sustainable and investment ready organisations, and a growth funding pot that provides (primarily unsecured) lending of under £250,000 to charities and social enterprises that are able to demonstrate economic and social impacts within a local area.

10 LEPs so far have included allocations for a LIF in their economic strategies (totalling £30m of European Regional Development Funds, ERDF). It is possible that other LEPs will become interested in LIFs once the first cohort of 10 or more LIFs is established in 2015.

SIB has also invested in and established its first pilot LIF for the Liverpool City Region which it launched in January 2014, and which is now making investments into local social enterprises in the Liverpool City Region.

c) A local combined exploration of complex social needs and the role of social investment.

The Commission found that the lack of "meeting places" is a barrier to exploring how to tackle longer-term needs and the role that social investment could play. What is needed in order to facilitate such an exploration is more scope for charity leaders and other key stakeholders to come together and interrogate agendas around longer-term needs.

This process could involve on-going engagement with representatives from social investment organisations, from local foundations and businesses as well as charities. An exploration has to be community-led starting out with an understanding of what is going on in an area, and there needs to be local leadership coming from civil society organisations. Social investment is itself not the answer to local need, but as part of a local ecology and as one element within the compendium of tools available to local agents social investment can provide a powerful aid.

There is a real need for second-tier "infrastructure" organisations to help local stakeholders to come together, and support this agenda. Local CVSs are in a good position to be providing meeting space, bringing together stakeholders from different sectors, and providing leadership and an impetus for getting to grips with some of the issues requiring an understanding of complexity and longer-term time scales.

We recognise the need to upskill and support CVSs so that they can take advantage of this opportunity and exercise their potential leadership role more fully. ACEVO and Sobus have pledged to work together to map the challenges and capabilities that Sobus and the other infrastructure bodies in the Tri-borough will require to take on these roles, and to record the impact of effective local leadership.

An approach that starts out with the presumption that a SIB or another mechanism is the solution is unlikely to get to grips with the real problems. Nonetheless through partners working together, it is highly probable that innovative solutions will emerge, and there is scope to develop solutions to leverage private, public and voluntary resources in new ways.

Platforms such as Spacehive already exist to allow raising of funds towards worthwhile projects. Potential donors make pledges and only contribute money if the project reaches its fundraising target. The use of a platform such as Spacehive within the Tri-borough would be an important complement to greater collaborative efforts to generate solutions that work.

A new initiative led by the charity Vital Regeneration in partnership with Westminster City Council, Dolphin Square Foundation and bank BNP Paribas provides an example of how resources can be leveraged differently for combined greater impact. Vital Regeneration provides a scheme to support people in temporary accommodation in Westminster to start their own business.

Vital is establishing a community interest company with BNP Paribas and the council which will act as an investment vehicle channeling investment into start-up micro enterprises operated by the charity's temporary accommodation clients. Seed funding for the investment fund, which is provided by BNP Paribas and the council will be rolled out as small scale investments of around £3k - £5k in these micro enterprises as straightforward loans or through a quasi–equity arrangement and will be backed by intensive business advice and mentoring, provided by volunteers drawn from BNP Paribas staff.

Additionally Dolphin Square has pledged to acquire 5 two-bed homes, which will be offered on affordable rents as short term (minimum 12 months) lets for a number of successful micro entrepreneurs to ease their transition from temporary to permanent accommodation. This project blends private and public funding, creates a new micro investment vehicle aimed at addressing the needs of a niche group of disadvantaged people and draws in the assets of a charitable foundation to offer an innovative approach to tackling both economic inactivity and homelessness in the centre of London.

Section 5:
Words into action

Through the process of meeting together over the last six months, the Commission has developed momentum towards undertaking some practical actions that will benefit the Tri-borough as an outcome of its work.

The moment of publishing this report is an opportunity to widen the conversation and bring in other stakeholders with contributions to make.

To follow through on the Commission's work a taskforce will be convened to oversee this agenda. The taskforce will:

1) Work to improve local knowledge of social investment. ACEVO has committed to run two workshops in the Tri-borough before March 2015.
2) Work to create a 'Tri-borough' focussed fund, particularly focussing on simple loan products.
3) Explore tackling a particular need, and the role of an investment approach and also how resources might be raised from businesses, high net worth individuals, foundations and others in developing a long-term solution.
4) Explore the use of a technological platform to facilitate the matchmaking of prospective philanthropists and social investors with locally developed solutions.

The taskforce will report back to the Commission in March 2015 with outcomes from its work.

The Commission and Taskforce set out to make the Tri-borough an innovation trailblazer and commit to making freely available and sharing information about performance of loan funds, underlying social impact, and learning achieved through implementing the strategy set out above.

Appendix 1: CASE STUDY
Essex and H&F SIB

Social Finance is a social investment intermediary with a mission to develop new funding models that better address social need. The social impact bond (SIB) model was an early initiative that Social Finance developed.

In Essex Social Finance was involved in developing a SIB to support teenagers at risk of entry into the care system. Development work looked at how a SIB might help address this issue via an intervention called multi-systemic therapy (MST) that has a proven international track record of success in working with teenagers with behavioural problems. The intervention is quite expensive and local authorities have been reluctant to commission it because of its cost. This appeared to be a prime case for a SIB, where the risk would be transferred to investors, and Essex County Council would repay back the investment only if there was an improvement in teenagers staying out of care.

Investors put £3.1 m into a newly created company, Children's Support Services (CSS). The charity Action for Children has been commissioned to deliver MST as part of a package with some social work oversight. The contract management aspect involves tracking with Essex CC statistics on who's entering care when, who's leaving when – and whether the profile of those entering and leaving care is better than it would have been without MST. The measurement of each child takes place over 2.5 years. There's a payment every quarter. Investors are only paid if outcomes are better than what Social Finance think would have happened otherwise. If things go to plan investors are repaid what they've put in plus a bit of extra for the risk they've taken.

There are eight investors in Essex, a mixture of charitable trusts and foundations.

In the Tri-borough, Social Finance was commissioned to explore whether a SIB could be developed to support families with multiple and complex needs where isolated public service interventions are failing and where entry to care exists. The Tri-Borough has three times as many families coming into contact with Children's Services as are eligible for the Central Government funded 'Troubled Families' programme.

Since the Children's Services department was the main funder, the cost of care placements was the principal financial driver. Social Finance discovered that families where the child ultimately entered care had been known to social services for 9 years, had an average of 7 referrals to Children's Services over this time, and the cost of their total journey was £300k.

Social Finance explored whether there was a new approach through which to deliver improved outcomes to these families. They weren't able to identify a single approach however a number of common principles and features that were perceived to be effective were identified. A business case was then developed to indicate the level of success that would be needed in order to deliver savings.

Social Finance made recommendations for a 3-year pilot to explore feasibility of a SIB. Some issues encountered that required further exploration included:

a) it was really hard to establish a baseline – this would have meant accessing multi-agency data, which was very hard to come by even with Cabinet Office and Mopac support.
b) The lack of long-term data meant that it was particularly hard to work out which families to target with an early intervention. If you work for a long time with a family you can predict relatively well the percentage likelihood of a young person entering care, but working with younger children, far more in advance of the point at which care entry is likely to happen, it becomes far harder to predict this.

c) There wasn't an existing intervention (like multi systemic therapy in Essex) that could be taken off the shelf.
d) Introducing a new service to meet a specific need risks duplicating existing activity. Perhaps the more salient question is how to change existing service provision and package it so it's more relevant to families.

The complexity of 'real life' situations will only on rare occasions be susceptible to being answered effectively through a SIB.

SIBs are capable of supporting investment in longer-term need only where:

- there is a discreet issue or need
- outcomes can be defined and progress measured against these outcomes.
- the savings from the intervention accrue to a single agency.

Nonetheless even when SIBs are not developed, there are often valuable lessons learned that have the potential to improve the way that need is answered in a locality.

Appendix 2: CASE STUDY

West London Zone for Children and Young People: a backbone organisation for collective impact

West London Zone for Children and Young People is a place-based initiative developed by crime–prevention charity Only Connect that aims to transform the life chances of every child and young person from a disadvantaged background across three square miles of the Tri-Borough (Westminster, Kensington & Chelsea and Hammersmith & Fulham) and Brent. It proceeds from the recognition that many interventions – delivered piecemeal, mostly reacting to problems, and lacking long-term financial sustainability – are struggling to make a transformative impact on inequality and social mobility. Only Connect still sees too many young people entering adulthood without the start in life they needed to ensure a safe, law-abiding and productive future.

Despite huge public and private investment, the proximity of some of the world's wealthiest neighbourhoods, the presence of hundreds of highly-skilled teachers, family workers and youth workers, life for many children and young people living in West London remains poor, brutal and, in some cases, short.

WLZ is inspired by two models of change. One is the Harlem Children's Zone in New York which was set up to do 'whatever it takes' to support children and young people to grow up safely. Its 'cradle to college' pipeline of integrated services (which collect data and rigorously evaluate impact) are organised for the task, so that they work together with the focused objective of supporting the child. The other is the collaborative model of working known as 'collective impact'. This represents the effort of multiple players – practitioners, policy makers and funders to co-ordinate their approaches around a shared strategy facilitated by a single backbone organisation.

WLZ is developing as that backbone organisation in West London, facilitating the collaboration between voluntary, private and statutory services so as to join up and scale services to create an uninterrupted pipeline of support throughout the life of each child from 0-25 years. Partner agencies will include children's centres, schools, youth clubs, mentoring and tutoring organisations, national and local government, public health commissioners, primary care trusts, charities and businesses. Successfully delivering this pipeline requires alignment of partners activities with local authority objectives and the introduction of long-term private capital.

WLZ believes social investment is key to securing sufficient capital for enacting systemic change. Social impact bonds (SIBs) represent a huge innovation and opportunity to secure long-term private capital; they have focused the attention of policy makers and officials on performance and outcome measurement and on financial management.

WLZ aims to deliver an innovative social impact bond structure, moving away from a single commissioner, single outcome SIB, instead creating a SIB that includes a number of outcomes across childhood linked to improved academic achievement; involve philanthropic outcome buyers to reduce the burden of commissioners identifying cashable savings; and work collectively with multiple delivery partners to enable smaller organisations to benefit from regular, long-term financing. Social investment is key to ensuring sustainability of the collective approach because of its promise of long-term support.

It is WLZ's aim that by joining and scaling up services, the sum of the parts will be greater than their individual value. By transparently sharing data, referrals, evaluation methodologies and impact assessment, the outcomes for children will be better in a collective than amongst organisations working on their own. More broadly, the partnership will develop a community vision for its children and young people, challenge existing systems, influence policy and mobilise further funding to generate systems change. Through this long-term effort, WLZ aims to achieve a tipping point whereby the 12 year olds see the 16 year olds in their area going to college and work and understand there is a real alternative to crime and welfare in their own neighbourhood.

Appendix 3: CASE STUDY

West Lindsey Community Assets Fund

A grant & loan fund to help local community groups to start-up and scale community enterprise and assets.

In 2012, West Lindsey District Council (WLDC), Lincolnshire, partnered with CAN Invest, a charity and SIFI, to launch the Community Assets Fund (CAF). *The aims of the fund are to:*

- Help local community enterprises to become more sustainable and have greater social impact in their communities;
- Leverage national and regional funds into West Lindsey through matching commitments
- Help bring social investment to rural communities in a way that genuinely meets local needs, also enabling WLDC to recycle funds and move organisations away from grant dependency in the long-term.

Funding themes are: Community halls, social enterprises, community-owned assets and businesses, sports clubs, and communities living within decommissioned MoD/RAF sites (a particular priority in WLDC).

The fund is delivered by CAN Invest in partnership with The Plunkett Foundation, with additional support from Community Lincs and Community Action Officers from the Council.

Support offered:

- Feasibility and development grants of up to £10k, with the aim of a) supporting projects which are likely to take on larger investment for significant impact, or b) improving financial sustainability/impact through funding new activity or capital works to reduce costs

- Flexible blended capital (grant/loan mix). Amounts from £10k to £150k.

    - o Grant/loan mix determined based on ability to pay and projected social impact
    - o Loan component is typically unsecured, up to 10 years duration with 3%-5% interest rates (variable to incentivise greater social impact).

- Range of (free) business advisory and support to build community/organisation capacity. Funding typically used on consultancy/feasibility studies, asset purchases, development or refurbishment, salaries.

As of October 2014:

- 31 organisations supported, with £566k funding allocated (including 41% on capital works and 35% on feasibility grants)
- In principle and secured match from other funders of £856k, with a further £171k match identified for live projects.

Example investments active and pending include:

- o £40,000 grant/loan mix over 5 years, with interest rate tied to social impact KPIs to support a local social enterprise to renovate a building to develop a community cafe. The cafe will support people with mental health issues and the organisation also supports young people in the area with music and arts projects.
- o £20,000 interest-free loan to secure investment in a sports facility at a decommissioned MoD site. Key funder was unable to provide funding for the VAT payable for the works. The CAF's loan therefore enables the project to go ahead with a bridging loan at minimal risk.
- o £50,000 convertible loan, with up to 50% of the loan convertible to grant if social impact KPIs are met, to develop the facilities of a local sports club. The investment structure will ensure that the club maintains a focus on wider community use so that the asset's use is maximised and used for other sports and social events when not used by the core members.

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[2] http://www.apho.org.uk/default.aspx?QN=HP_DATATABLES
[3] Public Health England Figures (http://www.lape.org.uk/data.html)
[4] DWP/ NOMIS
[5] Public Health England Figures
[6] https://www.gov.uk/government/collections/homelessness-statistics
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[7] Source DfE (147 children were the subject of a child protection plan in 2009/10 compared to 108 children in 2012/13)
[8] Adult Social Care, Tri-Borough Service Plans and Proposals, Cabinet Meeting, 27th June 2011, Appendix 2
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