Social Investment Toolkit

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What is social investment?

Social investment is the use of repayable finance to help an organisation achieve a social purpose.

Charities and social enterprise can use repayable finance to help them increase their impact on society, for example by growing their business, providing working capital for contract delivery, or buying assets.

Social investment is repayable, often with interest. Charities and social enterprises may generate a surplus through trading activities, contracts for delivering public services, grants and donations, or a combination of some or all of these. This surplus is then used to repay investors.

Social investors providing this money includes specialist banks, individuals, charitable trusts, as well as organisations and funds that have been specifically set up to make social investments.

Each has different reasons for doing what they do but what all social investors have in common is:

- They expect to get their money back, often with interest
- They want to see positive social change take place as a result of their investment. In other words, they are investing in impact.

Social investment is not suitable for everyone, and it should be considered alongside other options. It is important to look at the range of finance options available to your charity or social enterprise before deciding.

Social investment is not a grant or a donation.

Why social investment….or why not a grant?

Despite the obvious advantages of grants, it can be a never-ending process of applications. There are some reasons why taking on an investment alongside a grant (blended finance) or instead of one may be in the long-term interests of your organisation.

Flexibility: social investors can help where there might not be a not be access to grants. Investors may be flexible to amending the business plan if it does not seem to be working, an investor may help move towards a business model to one that's more likely to succeed.

Active involvement and support: Investors are more likely to want to get actively involved to offer organisational support, which can be very useful as long as comfortable with it.

Less restricted: Social investment tends to be less restricted to projects and outcomes than conventional grant funding, giving your organisation freedom to use it most effectively; it can also mean less distraction chasing grants.

Business discipline: Social investment can also help organisations increase their effectiveness through the review of organisational policies, financial and business processes, and to be very clear on their priorities and objectives

What are the risks?

- It is important to remember that as social investment is repayable finance, organisations must be generating a surplus in order to make repayments. The risks involved in maintaining this surplus must always be considered. It's always good to have money in the bank but that doesn't mean that taking money or investment from other people is necessarily the right decision. Investment does come at a cost and it must be decided whether the potential benefits outweigh this.

- There might be changes to the operating environment through the duration of the loan. An example might be using a loan to provide working capital to better deliver a service, the policy environment may change such as spending cuts reducing budgets. Therefore, contingency plans should be factored into business planning.

- Some social investors may wish to be involved in strategic organisational decisions. Therefore, it is very important that the level of expected involvement is discussed and agreed upon to manage expectations.

Types of social investment

Borrow:

Blended – part grant, part loan

A package of funding that is a mixture of investment, that needs to be repaid and a grant that does not need to be repaid. For example, a grant of £20,000 alongside a loan of £50,000 that needs to be repaid over 5 years with 10% interest

Charity bonds

A tradable loan from a group of social investors to a charity or social enterprise over a fixed period of time with a fixed rate of interest. For example, if you issued a £2million bond over 5 years at 2% interest in 2017, you would pay the social investors £40,000 interest each year and repay the £2million in 2022

Secured Loan

These are loans which are secured against an asset such as a building. The loan is repaid with interest over time and if it cannot be repaid, the investor can take possession of the asset

Pros: Interest rates may be lower than unsecured loans
Cons: Risk of losing your building or asset if you can't repay the loan
Social consideration: Can social investors offer you a better deal than a high street bank?

Unsecured loan (incl. overdrafts)

An investment that is not secured against an asset (a building or equipment). An investor provides your organisation with a loan and you repay it on an agreed basis, usually with an agreed amount of interest on top.

Pros: You don't need to own an asset to get one.
Cons: Interest rates are likely to be higher than a secured loan.
Social consideration: Is the investment helping you create more social impact?

Loan case study:

Ipswich Recovery Hub

The Recovery Hub Ipswich is a Community Hub that provides residential accommodation to recovering addicts who require ongoing support with their issues once they have completed an intensive rehabilitation programme. Key to the success of the Recovery Hub programme is mutual aid and peer mentor principles. The Recovery Hub will be the focus of recovery in Ipswich, establishing a community of people in the town to support each other, building resilience, inspiring others to recovery, and to demonstrate that people can, and do, recover from addiction and lead fulfilling lives.

“We approached a lot of funders to raise the finance needed to make the Recovery Hub idea a reality and were successful with a few small grants, but despite understanding and appreciating the social and health impact our scheme would create, the statutory and large grant making bodies weren’t able to provide the seed money we needed. Thankfully, Foundation East was prepared to support the venture without the need for us to provide security, so long as we had a solid business case and had a business support package with Social Incubator East in place.

“We heard about Foundation East through our relationship with The East of England Co-Operative. The East of England Co-Operative are members of Foundation East. Working with Foundation East to develop our application was really useful. Our loans manager, Valerie Jarrett challenged our business plan, our thinking and our model to help us firm up our application. Their ongoing support and guidance is still helping us shape our business,” Simon advises.

Recovery Hub's social impact goes far beyond creating employment, as Simon explains. “This is a unique model for a sustainable social franchise, with those going through the hub becoming recovery assets in their own right. It’s different to other recovery approaches because it’s set up to be part of, not separate to, the community from the outset.”

Shares

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 Community Interest Companies (CIC) 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.
*Some charities will also have a CIC that is limited by shares as trading subsidiaries.

Community shares

A withdrawable, non-transferrable equity investment into a cooperative or community benefit society. It is a form of equity because the investors get a share of the organisation.

Case Study - Community Benefit Society:

Eden Rose

Faced with the perennial issue of raising funds, the trustees of Eden-Rose Coppice Trust came up with an innovative solution, the establishment of a new not-for-profit community benefit society. An in-depth study of the third sector along with business advice sourced from the 'Making Local Woods Work' project, a partnership between Plunkett Foundation, Forestry Commission England and Hill Holt Wood helped Eden Rose formulate an exciting way forward.

The new CBS, Eden-Rose Community (ERC) allows people to invest in the future of their community "It's a unique opportunity to be able to invest in something that is going to provide a sustainable future for your local cancer care charity and become an integral member of a community" Jo Brooks, Lead Manager.

ERC will adopt and expand upon the already productive commercial activities previously being provided by the charity, allowing the Trust to focus on its core objective, to provide cancer care in a tranquil and natural setting.

It will be a not-for-profit enterprise that is run by the community for the community. ERC is operated on a 'one member, one vote' principle, as set out in its Community Benefit Society, Model Rules.

Furthermore, The Eden-Rose Community Limited became the 100th organisation to receive the Community Shares Standard Mark – which was developed by the Community Shares Unit, run by Co operatives UK and Locality, with support from the Financial Conduct Authority (FCA) to certify offers that meet national standards of good practice.

Match funding was secured from the Booster Programme, funded by Power to Change and run by the Community Shares Unit. For every £ invested, they will match funded it, leaving £40,000 needing to be raised via the sale of community shares which was achieved in 2019.

Other

Quasi-equity

An investment that reflects some of the characteristics of shares but without your organisation offering up equity. Rather than paying back a set amount each month, your repayments are typically based on the performance of the organisation – such as profits or income. For example, you receive an investment of £50,000 and agree to pay the investor 2% of your annual income for 5 years.

Crowd-funded investment

An investment that is raised via an online platform and not secured against an asset (a building or equipment). A 'crowd' of individual investors put (mostly) small amounts towards a loan to your organisation and you repay it on an agreed basis, usually with interest on top. Crowdfunding can also involve providing non-financial rewards such as free events or free merchandise.

Social Impact Bonds

A Social Impact Bond (SIB) is a payment-by-results contract where social investors pay for your organisation to deliver a service – for example, helping homeless people to find a home – and the Government repays the investors with interest if the service is successful.

Case Study:

Mental Health and Employment Partnership – Social Impact Bond

Mental Health and Employment Partnership (MHEP) aims to provide support to individuals living with severe mental health illness to help them achieve competitive, paid employment through Individual Placement and Support (IPS) services.

MHEP is the first Social Impact Bond (SIB) designed to support individuals with severe mental health issues into fulfilling work as an integral part of their treatment. Over three and a half years, the programme aims to work with 2,624 people three local authorities (Haringey, Tower Hamlets and Staffordshire). This is a payment-by-results contract co-commissioned by The Cabinet Office and the Big Lottery Fund, with outcome payments generated by achieving outcomes linked to three key areas: initial engagement, entry into employment, and employment sustainment. There are 4.8 million people with a health condition or disability in the UK who are not in work. The employment rate of working age adults who are accessing secondary mental health services is just 7%, however 90% of these people state that they would like to work. While unemployment in the UK has fallen overall, the number of people claiming Employment and Support Allowance and Incapacity Benefit has risen by 15%. MHEP is utilising an intervention based on Individual Placement and Support (IPS) principles, whereby work is used as a fundamental part of a person's treatment, rather than the traditional model of treatment and stabilisation followed by employment. IPS is based around a set of eight simple principles that include a focus on rapid job search, securing paid work, employment support integrated into clinical teams and provision of ongoing in-job support. There is now very strong international evidence that 'place then train' models – and IPS in particular – are much more effective than traditional approaches (such as vocational training) in successfully getting people into work.

MHEP's target outcomes include improved well-being and self-reliance for the individuals concerned, and an increased number of job seekers entering and sustaining quality employment. In 2016/17 the organisation engaged 559 individuals, 133 of whom started in employment, with 91 people sustaining a job for more than 6 weeks

Social Investment Tax Relief

Social Investment Tax Relief is a tool that can be used in combination with other products.

A tax break for individual investors into charities and social enterprises. Investors get 30% of the cost of their investment off their next income tax bill so, provided certain conditions are met, if an investor makes a £100 investment into your organisation, they can claim £30 back. Investors can't sell their shares or have their loan repaid for 3 years, although they can receive interest on loans.

Social property funds

Funds managed by a specialist firm, who raise money from investors, and then use the funds to buy property that can be used by a charity to deliver its services. The charity leases the property from the social property fund.

Getting ready for social investment:

Investment readiness is a term synonymous with social investment. Whilst it may seem obvious what is meant by it, different investors may have very differing ideas about whether an organisation is ready or not.

However, although there is not a single way of judging whether an organisation is investment ready there are some broad areas that might be covered such as:

- A strong, skilled leadership team that is skilled in key areas – finance, marketing, business development, governance.

- A robust business plan which takes in account the financial health and capabilities of whole organisation.

- An organisational theory of change illustrating the social impact and monitoring and evaluation procedures that demonstrate this.

- What you do, who your customers are – business strategy/market potential, what products are offered, how you differ

- Good relationships and support from key stakeholders such as service users, commissioners, partners and funders.

- How you do things, how well you do them and how you know – vision, capacity, resources, track record, social impact

- How you manage your finances – systems in place, knowledge of financial procedures, cashflow status

Journey Towards Social Investment – checklist:

Organisation has a legal form ☐

Organisationally able to take on repayable finance? ☐

Does the organisation have assets? ☐

If so, asset lock? ☐

Up to date business plan? ☐

What is the investment for?

Kick start organisation ☐

Maintain cashflow ☐

Grow and innovate ☐

Buy an asset ☐

Support existing activities ☐

Generate surplus income for repayments? ☐

Aware of social impact and how to demonstrate this ☐