

## ‘Swimming against the tide’

### *Access Foundation Strategy Consultation*

#### A suboptimal environment

It has been over five years since the election of the Coalition Government which made growing the social investment market one of its priorities for civil society, and over three years since the creation of Big Society Capital – the institution primarily charged with supporting that goal.

According to the latest available data<sup>1</sup>, the level of social investments per year is currently around £200m in size, which is not significantly larger than when the Coalition stated its goal to grow the market in 2010.

This view that the level of social investment has not grown substantially is endorsed by the annual report of Big Society Capital, which has only seen £36m of its capital drawn down – although it expects this to increase over the next three years.

Interest in social investment on the demand side has also not increased over the past five years. Charity Finance Group, Institute of Fundraising and PwC’s *Managing in the New Normal* 2015 report found that 83% of respondents had not increased their appetite for social investment. A similar trend has been observed in Social Enterprise UK’s regular surveys of social enterprises (many of which are charities).

In 2011, 25% of respondents had applied for a loan. This fell to 20% in 2013.<sup>2</sup> The size of loans being asked for had also fallen from £250,000 to £150,000 in the period between the two surveys.

Although for some organisations there are ‘cultural’ barriers to accessing finance – the primary reason behind the lack of growth in the market is wider market conditions of the charity sector.

The recent NCVO, CFG et al *financial sustainability review*<sup>3</sup> found that the charity sector’s income has stagnated since the financial crisis and that technically, it is still in recession. This is primarily driven by a £2.3bn fall in government contract and grant income since 2009/10. With government income likely to continue to fall over

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<sup>1</sup> Social Investment Compendium, 2014 Edition, Big Society Capital  
[http://www.bigsocietycapital.com/sites/default/files/pdf/20140912\\_Market%20Intelligence%20Compendium\\_2014\\_FINAL%20\(2\).pdf](http://www.bigsocietycapital.com/sites/default/files/pdf/20140912_Market%20Intelligence%20Compendium_2014_FINAL%20(2).pdf)

<sup>2</sup> Fightback Britain, SEUK, 2011 & The People’s Business, SEUK, 2013

<sup>3</sup> A financial sustainability review – change and adaptation in the voluntary sector as the economy recovers, NCVO et al, 2015 [https://www.ncvo.org.uk/images/documents/policy\\_and\\_research/funding/financial-sustainability-review-of-the-voluntary-sector-july-2015.pdf](https://www.ncvo.org.uk/images/documents/policy_and_research/funding/financial-sustainability-review-of-the-voluntary-sector-july-2015.pdf)

the next five years, foundations and trading unlikely to make up for this reduction, many charities will find it challenging to be sustainable.

Moreover, the current fundraising situation could impact on charities. Fundraising is one of the main ways that charities seek to generate 'unrestricted' income – this is money that is likely to be used to pay off loans. Seeking to pay off social investment loans via contracts, for example, is challenging as this income is typically restricted and margins are small (our data from members on public service contracts is most make no surplus, with a significant minority reporting losses of up to 25%).

The upcoming Spending Review will be an important factor in long term planning for many charities. If the government reduces the level of austerity over the coming Parliament, this may encourage more charities to borrow to invest. However, if the Spending Review maintains cuts at the levels predicted in the last Autumn Statement or increases them to pay for additional tax cuts, this could have a negative impact on sentiment.

Growing the social investment market must be taken in this context, and social investors, social investment intermediaries and policy makers should seek to plan post-2020 (when this environment may have improved) rather than pre-2020. Social investment is, hopefully, a tool which will be here for a long time.

Access' strategy should be ***“mitigate current market conditions where possible, build the pipeline for when market conditions improves”***.

The first half of this approach should be focused on *lowering the cost of capital as much as possible* – achieved through a blended capital approach (with the blend favouring the demand rather than the supply side in order to avoid dependency in the SIFI market). This also recognises that the demand side needs to be supported because of market conditions.

The second half should be achieved through capacity building in a broad sense, recognising that the number of organisations on the cusp of achieving social investment in the medium term will be limited due to market conditions, but in the longer term *could be significantly expanded*, if organisations have the capacity to access it.

## ‘Capacity crunch’

Market conditions have led to a reduction in the charity sector’s capacity to engage with social investment. In part this is due to an overall decline in the capacity of the sector as charities have cut back on internal development. In the *financial sustainability review*, we termed this the ‘capacity crunch’.

This describes the situation in which a charity or voluntary organisation has used all its ‘spare capacity’ to deliver its objectives rather than identifying new opportunities or developing itself. Once this situation is reached, a charity or voluntary organisation is unable to free up new resources to, for example, prepare a bid for social investment without having to cut back on existing work. This places charities in a difficult position and often on a downtrend in terms of sustainability.

Charities, like all organisations, need to invest in the skills and capacity of their staff if they are to function effectively. The financial position of the sector has meant that many organisations have cut back on investment in their staff in order to focus on front-line service delivery. An indication of the scale of this retrenchment can be seen in the fall in training between voluntary organisations - most of which is spent on training and development - by 43% since 2007/08.

The UK Commission for Employment and Skills (UKCES) survey of 2013 found that 17% of voluntary organisations not investing in training cited lack of funds as the reason, compared to 10% in the private and public sectors. Given the continued pressures on the sectors finances and the policy of funders in the charitable and public sectors to reduce the amount of ‘core’ funding given to charities, it is likely that the number of organisations unable to invest in staff development will only increase.

This will significantly undermine the ability of the sector to engage in social investment in the medium term and potentially in the long term if it is not corrected. If demand for social investment is to be increased, the capacity for the sector to engage with social investment must be increased. This cannot come from existing resources because of the reduction in the capacity that has been outlined above. It must, therefore, come from outside of the sector.

There is also a wider cultural problem within the sector linked to increased scrutiny that has seen charities criticised for not spending enough on ‘charitable activity.’ Charities are, therefore, more likely to build up their own capacity if they are given resources specifically for that purpose, rather than seeking to use existing (and tight) budgets to do so.

## Barriers to capacity building

CFG members identified the following factors as barriers to capacity building:

- Too busy
- Courses or development opportunities are too distant
- The cost is too high

These barriers are particularly apparent for small and medium sized organisations.

Organisations have also reported significant interest in improving financial skills.

Given the focus on social investment over the past few years, there is a significant level of 'social investment fatigue' which may act as a barrier to any capacity building that is couched in terms of 'social investment readiness'.

## Bursaries, Webinars & Peer-to-Peer – An approach to capacity building

Recognising the need to grow the social investment for the (hopeful) return to growth in the charity sector, Access should build its capacity building strategy around the following principles:

- Demand-led rather than supply-led - so as to not crowd out incentives for SIFIs to invest in their own capacity building programmes.
- Broad based around core financial skills and business planning - which will enable organisations to be in a strong position to access social investment in the future, recognising that these skills underpin the future performance of the market.
- Low cost and easily accessible across the country.
- Not packaged as 'social investment readiness or training'

We also recommend that the capacity building program is not limited to those organisations on the verge of social investment. We believe that SIFIs should be encouraged to use their own resources to bring these organisations through the pipeline and that funding will have the biggest impact on those organisations *furthest* away from the social investment market. Efforts to build the capacity of these organisations now will reap significant benefits in the long term.

In terms of delivery, we believe Access should focus on three main methods:

- Webinars – which are low cost, time efficient and eliminate concerns around distance. This would be appropriate for those furthest away from the social investment market and would focus on the most basic skills.
- Bursaries for existing courses and training – which would reduce cost and enable the development of more advanced skills around bidding and adapting, restructuring and growing their organisation. This would be appropriate for organisations that are closer to being social investment ready without necessarily having a plan to bid for social investment at present.
- Peer-to-Peer visits – which would enable organisations that are close to the social investment market to meet with those that have used social investment to benefit their organisation. This would be appropriate for organisations that are in the early stages of social investment readiness. This would be broad based and would involve facilitation rather than direction.

These methods would be low cost, broad based and would fit the needs of charities on the demand side rather than focusing on ‘the low hanging fruit’ from the SIFI side, which is less in need of subsidy.