SOCIAL INVESTMENT INSIGHTS SERIES

July 2016

Governance and Social Investment

Exploring the experiences of charity and social enterprise Boards with social investment.

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The Social Investment Insights Series are occasional papers drafted by members of Big Society Capital's team on areas of interest to the social investment market.

Big Society Capital is a financial institution with a social mission, set up to build the social investment market in the UK, so that charities and social enterprises can access appropriate repayable finance to enable them to grow, become more sustainable and increase their impact on society. It is doing this by building a diverse social investment market: encouraging investors to lend or invest money to achieve a social as well as a financial return. Since it was set up as an independent organisation in 2012, Big Society Capital has committed over £165 million in investments to specialist organisations who lend to charities and social enterprises. Over five years Big Society Capital will be capitalised with approximately £600 million, from a combination of English dormant bank accounts and the four main UK high street banks.

EXECUTIVE SUMMARY

There's been a great deal of debate around the role of social investment in the future funding mix for the voluntary sector, particularly with the changing role of charities in recent years, the challenges that they face with increased demand for services combined with reduced funding. However charity trustees have largely not been involved in this discussion to date, and it's often cited that a key barrier to charities using social investment is the caution of charity boards in this area.

We know that social investment can bring opportunities to enable charities and social enterprises to grow, develop new services and form new partnerships to increase their impact. But we're also aware that social investment can present challenges for Boards. They have to balance their roles in driving their organisations to increase their impact on the one hand as well as managing risks around taking on repayable finance, and also get to grips with new funding models in the process.

Over the last year, we've spent more time understanding the Trustee perspective of charities who have used investment – in order to share their experiences more broadly, so that other charity and social enterprise Boards, where relevant, can consider whether this is the right thing for their organisation.

There are some common themes from these discussions – with both large and small organisations:

- **Shared ambition between the Board and management team to grow their impact**
- **Getting the right mix of skills and experience on the Board in the first place is key**
- **Board role in embracing risk & opportunity to deliver mission in additional ways against asking the right questions and protecting the organisations' assets**
- **Key ingredient for success is the underlying trust between Executive and Board**

These themes are set out in more detail in this paper, and we're pleased to have contributions from the Charity Commission, Association of Chairs, and Trustees Unlimited, a social investor and a charity chair as well. We've also included several case studies from our discussions, highlighting the diversity of organisations using social investment and giving interesting insights into the governance aspects.

***What do Trustees think needs to improve if social investment is going to be more readily used as a tool to deliver impact*?**

- Boards need to be strengthened with private sector and other agencies potentially playing a role in finding Trustees with necessary skills, whilst still maintaining focus on mission and impact
- Providing information for Trustees, to help them make sense of the funding landscape and enabling more informed decisions
- Encouraging more discussion around the opportunities and risks of social investment at Board level earlier in their thinking around strategy, rather than when looking to fund a specific project.
- Demystifying common questions around risks and responsibilities which can raise red flags
- Sharing stories & learnings and reaching more Trustees & Non-Executive Directors

We don't expect to address all these issues, particularly around strengthening governance in general, but we will work with partners over the next year to help tackle some of the themes raised. An organisation that has a strong Board, well informed about the range of funding options available to them will clearly be better placed to deliver impact longer term, and social investment may well be part of the solution for many more organisations as a result. We look forward to working with charities, social enterprises, their Trustees & Non-Executive Directors and organisations working to support stronger governance in the sector to enable more of the opportunities around social investment for the sector to be realised.

Geetha Rabindrakumar, Head of Social Sector Engagement, Big Society Capital

PART 1: INTRODUCTION

What is social investment?

Essentially social investment is repayable finance for charities and social enterprises, where investors get their money back but are motivated by the social benefit that is delivered by their investment as well as the financial return on their investment.

There have been significant developments over the past few years to help increase the supply of social investment for the charity and social enterprise sector, but some forms of social investment have existed for many years, particularly lending by some Trusts and Foundations to charities.

Social investment can take many shapes and forms. Sometimes it's about large charities raising significant sums, such as Golden Lane Housing, a charitable subsidiary of Mencap, raising £11m capital from investors through a listed charity bond issue, in order to buy and adapt homes to enable more people with learning disability to live independently. It can also be about people investing into community assets or enterprises they care about – for example FareShare South West accessed a £70k loan from individuals using Social Investment Tax Relief (SITR) to provide working capital to grow their social enterprise catering arm.

Role of the Board at different stages

1) Why do charities start considering social investment and what is the Board's role in initiating this?

"There was a shared agreement between the Board and management around the future direction and ambition to reach as many people as possible."

Themes arising:

- There was a clear shared vision between Board and Executive around a drive to maximise impact, and to deliver more for their beneficiaries which underpinned their decision to explore social investment.
- For organisations who have experienced financial difficulties, but with a viable plan for sustainability, "sometimes social investment is the only game in town", one charity chair told us. They looked to social investment to enable their long term survival and ability to deliver meaningful impact.
- Whilst the Board and Executive will share a common vision, it is usually the management team that initiates the discussion around social investment at Board level (often for specific projects), rather than Boards prompting this discussion as part of strategy development.
- It was reiterated many times that getting the governance and make up of the Board right was a prerequisite for engaging with social investment. "A balance of mindsets and experience is needed including those with commercial outlook as well as those that hold the organisation to account against its charitable purpose".

2) Process of accessing and approving investment

"Trustees do have in the back of our minds that theoretically we could be personally liable. The risk is very low, as the Board would need to be dishonest and thoroughly negligent, but given that Trustees are entrusted with the charity's mission and assets, it is right that they should treat investment with caution."

Themes arising:

- An initial conversation needs to be had to open up the debate – Boards don't want to be rushed in their thinking.
- Whilst decisions will be taken jointly, Boards may place reliance on views of more experienced trustees, and a couple of advocates may be needed or more detailed review may be delegated to a Finance sub-committee
- The Board needs to understand where the assurance around risks of taking on investment has come from. What processes will be put in place to manage the investment (people, skills, systems)?
- The Board has a role to ask the right questions and act as a check – but several trustees noted the Executive's responsiveness and good preparations for the challenges.
- A sense of trust in the relationship between the Board and Executive underpins charities and social enterprises underpins a constructive process as the risks and opportunities are explored.
- Finding capacity to explore a new area could be a challenge, and accessing support by finding the right external advisors (which may be financial or legal) was often key.

3) Monitoring/implementation

"Make sure you don't just focus on social investment, but on what you'll deliver with the funds."

Themes arising:

- Whilst successfully accessing investment feels like a key milestone, implementation of the project that is intended to use investment is equally if not more important.
- If it's for a new activity (for example, setting up a new enterprise), ensuring there was the appropriate expertise to run the venture was key.
- Existing regular financial reporting was usually used to flag whether there were any issues with making repayments, and for many organisations, no additional monitoring was needed at Board level. Traffic light reporting could be used for projects where needed.
- For some forms of social investment (e.g. Social Impact Bonds), more developed monitoring around impact is required – this may not involve the Board directly, but charities that have already progressed their impact reporting found these requirements easier to meet.
- Building strong relationships and ongoing dialogue with investors helps ensure that organisations are supported through any unforeseen challenges during the period of investment.

4) Impact on organisation

"Social investment is a great way to raise funds, increase impact and increase awareness of the charity's work. As a sector, why aren't we just getting on and doing it!"

Themes arising:

- Social investment has enabled several organisations that have used it to successfully grow their impact – the case studies in this document highlights a range of ways in which organisations have made use of the opportunity.
- Boards that had made a first decision to access social investment seemed to be more confident in subsequent decisions around using social investment again to help deliver their mission
- Governance of charities and social enterprises and the make up of their Boards needs to change over time at different stages of an organisation's growth and development – which may also be linked to an organisation's journey in using social investment.

PART 2: EXTERNAL CONTRIBUTIONS

The view from the Charity Commission

Sarah Atkinson, Director of Policy and Communications

Investment can be a major source of funding for charities and the Charity Commission has produced guidance on investment for charity trustees to support them in confidently making decisions about investments that comply with their duties, and give them a framework for making those decisions.

As regulator, our interest in investment matters is the proper exercise of charity trustees' duties and powers, the proper use of charitable property and the promotion of public trust and confidence in charities. Our guidance sets out how charities can make social investments as investors within the legal framework that currently exists.

Where charities are looking at raising funds through social investors and where the proposed investment is, for example, a loan for a fixed term and at a fixed rate, we take the view that charities do have the power to enter into such an agreement with an investor if they consider it to be in the interests of the charity. Crucially, this also means that social investments made to a charity must be in furtherance of the charity's own charitable purposes – otherwise a charity cannot accept the funds.

As an investee, a charity needs to recognise that it has to repay social investors as they have legitimate entitlements and expectations to receive a financial return – for example, interest payments on a loan at a specified rate over a specified time period. This might be a new experience for a charity that is used to receiving grants to further its aims and managing relationships with donors not investors, and this could be a significant issue in times where a charity's usual sources of funding may be ending or reducing.

Charities as new or inexperienced investees should have governance procedures in place in order to regularly review their financial health and the viability of any project being financed by social investors. This might mean reviewing the skill set of their trustees and staff – perhaps recruiting trustees in a different way or employing specialist staff depending on the scale of the investment. Research conducted for us by the Institute of Voluntary Action Research in 2013 showed that an engaged board supported by confident and skilled management was a key factor contributing to success in securing and managing social investment. Confidence and readiness for investment is a key consideration for trustees. As with any other aspect of charity strategy, trustees should feel confident to make bold and even radical decisions on social investment as long as they are mindful of their duties and responsibilities in reaching the decision and they know they have the information they need.

The role of the Chair

Alice Maynard, one of the founding trustees of Association of Chairs

One of the fundamental tasks for Chairs is to ensure that the charity has sufficient funds to do its job properly. It's incumbent on Chairs to ensure a broad spread of income sources – avoiding the 'eggs in one basket' syndrome, since this unduly exposes their organisation to economic pressures and fluctuations in public attitude. Securing funding to develop and enhance the organisation (rather than money tied to a specific outcome) is judicious, if not crucial to its wellbeing. Social finance has the potential to offer this, often providing more flexible funding than traditional sources.

So how can Chairs carry out this role well? Firstly, they need to be aware of what's going on in the social finance field. A Chair doesn't have to be an expert, but they need to be canny enough to harness knowledge and expertise from around the Board table and amongst the executive. This doesn't absolve the rest of the Board from its role in raising sufficient funding in appropriate ways; nor does it remove the requirement to monitor the impact and outcomes of its financial choices. Part of the Chair's role in this regard is to make sure trustees ask good, insightful questions. Sometimes the simpler the question, the more insight it generates!

Equally critical is keeping a clear eye on the mission of the organisation – ensuring that both finance sought and activities funded are mission consistent. Alongside mission consistency, focusing on maximising impact from the activities funded applies whatever the funding mechanism.

Many Chairs will need help to understand the technicalities of social finance. Some will also seek additional support to understand the opportunities that it presents. Good Chairs will see this is as business as usual. Social finance may be a relatively new term, but innovation in fundraising has been around for a long time, and this is no different.

Getting your governance right for social investment

Gerald Oppenheim - Chair, The Camden Society

In the last 10 years there have been many significant changes to the financial environment in which charities operate, but one of the most important has been the rise of what has come to be called social investment. This term covers several different approaches that charities can take to bring investment into the way they work and are financed.

I confess that I was sceptical about the approach when it started. However once sitting round a charity board table as a trustee, and learning how social investment could really support and develop a charity, my view changed.

For the Camden Society, social investment provided the major impetus to a significant change in the way the charity looked at its strategy and the key was how the trustees approached the issue in governance terms as well as how the Chief Executive and senior staff viewed the opportunities to develop existing and new services for people with learning disabilities.

The Charity provides care and support services for individuals and their families or carers but also employment and training projects for people with learning disabilities. Some of these are long-standing run through trading and spot contracts from local authorities for training places, but increasingly through a social investment approach.

This is best illustrated by two of the cafés run by the charity under the ‘Unity Kitchen’ brand - at Southwark Council and in the Queen Elizabeth II Olympic Park, used to train apprentices with learning disabilities in catering skills and then find them jobs on their graduation
.
In order to support the charity’s finances whilst it grew its enterprises, the Trustees decided that a short-term loan over 3 years would be appropriate and took a loan through Big Issue Invest.

The Camden Society had to compete with commercial providers to win both contracts to run the cafes. The implications for the Trustees were clear that in order to run the cafés, to further the charity’s strategy and to use the enterprises to train our apprentices, it would mean taking a much overtly commercial approach than the charity had been used to.

Trustees must be able to understand business plans, challenge and seek assurances from the Chief Executive about the financial implications. Taking out social investment loans over a number of years means repayment with interest (however benign the rate may be) and trading from enterprises or income from service contracts must be sufficient not just to cover costs but to generate surpluses over time from which loan repayments are made and that will also contribute to the charity’s overall financial health.

This is about calculating the financial and reputational risks, taking sound professional advice not just from the Chief Executive but from those with the professional skills to make sure business plans for catering and other enterprises are realistic.

Above all operating with social investment finance makes it ever more important to have the right skills round the Board table, not always easy to achieve, but showing you can make an impact for your beneficiaries is more important than ever to justify the investment.

A longer version of this article was published in the January issue of Governance magazine.

What are social investors looking for?

Holly Piper, CAF Venturesome

Governance – the good, the bad and the very publically-ugly – is an area that we at CAF Venturesome are paying more attention to.

We have been looking closely at our approach to governance, particularly focusing on:

- What the warning signs of poor governance are;
- The extent to which poor governance poses a risk to the organisation and our social investment; and,
- How we can support better governance in our investee organisations

Where we have seen social investments fail there have generally been failings in governance. Therefore there is enormous value to be gained from raising the profile of governance and the issues associated with it. From a social investor's viewpoint we would like to see some emphasis and discussion around:

- Increased assessment by the trustees, both of the effectiveness of the organisation but also of the board itself. Detailed reviews are often only undertaken after a crisis when it is often too late to change anything. We like to see some retrospection from boards, for example as to whether their risk assessments are actually appropriate, on an ongoing basis.
- Clear involvement in leadership and strategy; it sounds obvious but this too often comes only from management.
- Trustees recruited based on the board's skill gaps; chosen from a wide, and diverse, pool of candidates rather than being people you already know, or individuals chosen for their usefulness in fundraising. This should help to foster open and constructive discussion amongst the board. The high profile/professional/pillars-of-the-community who cannot commit sufficient time are a comfort on paper only; whereas the holy grail of a diverse and committed board is an enormous asset to an organisation.

The people involved in a charity are of fundamental importance to its success – their attitude, skill, commitment and relationships carry the performance of organisations. It is very easy for us to focus on the things we can review and tick like business plans and financial models – we continue to remind ourselves how important people are, and this should be reflected in the conversations all social investor have. We can, and have, made a difference to social organisations where governance is a concern by making our social investment conditional on particular improvements in governance (for example, asking them to strengthen their financial governance by appointing new trustees with strong finance expertise).

We welcome this debate and hope that it can encourage a genuine reflection on the effectiveness of boards and how to advance risk-based challenge and oversight whilst pushing forward with appropriate risk taking. Easier said than done no doubt.

Getting the Board ready for the conversation

Ian Joseph, Chief Executive, Trustees Unlimited and Managing Director, Russam GMS

The UK Civil Society Almanac 2016, published in April by NCVO, suggests that it has taken six years for the voluntary sector to get back to pre-recession levels of income. However it is a tale of two sectors where most of that increase went to very large organisations. Sustainable levels of income continues therefore to be at or near the top of the agenda for most boards.

Public sector income, a key part of the sector's funding, is lower in real terms than what it was in 2010. Many charities have been focussing their efforts on fees and trading and this income stream has continued to rise. Of course one source of funding is social investment and whilst not a silver bullet or suitable for all charities, many charities are looking to social investment as a tool to help them deliver against their objectives.

The notion of borrowing money, whilst commonplace in the commercial sector, is still anathema to many boards who have historically relied on grant income and/or classic voluntary income. But for many organisations social investment is just the thing they require although the decision to decide whether social investment is right needs to start with robust debate in the boardroom.

There are many things a board needs to consider when thinking about social investment including the fundamental question as to why to borrow, for example, is it to invest in a new project, acquire an asset or in some way to leverage fundraising. The board needs to look closely at its financial modelling and its investment readiness. Even if investment is the right thing to do, there are questions about its structure (e.g. debt or equity) and its source (e.g. specialist funds, institutional, foundation or private individuals). Indeed access to funding can be sought via many different routes such as issuing bonds, listing on an exchange or even via crowd funding. None of these things are straightforward and it means that the board needs to have a mix of high quality people with the right skills to think through the issues. A board recruitment strategy that includes a skills audit and a broad market search for the best candidates is essential.

Social investment is a specialist area and it is the collective responsibility of a board to protect the assets of a charity and ensure it is delivering against its purpose. If social investment is to be considered seriously the board should seek external specialist guidance. It should also ensure that at the most basic level, it is operating effectively as a board with sound decision making, strong and appropriate relationships with the executive, good management information and quality financial controls. Governance has never been more important and the decisions made in the boardroom affect the lives of many people beyond its walls. For some boards the decision to tap into social investment will be transformative for the organisation and its beneficiaries. The question is whether the board is ready for the conversation!

PART 3: CASE STUDIES

London Early Years Foundation – shifting to a social business approach

Background

LEYF have an ambition to change the world one child at a time. Too many parents, want work but are locked out of the workplace because of childcare, and so too many children, especially those from disadvantaged background, are missing out on high quality early education that can set them up for life.

LEYF is the UK's largest child care social enterprise, running nurseries across London, including in some of London's most disadvantaged areas. They subsidise 48% of parents to access a free place to ensure that children from all backgrounds are able to access high quality nursery provision.

Use of investment

In 2014, LEYF secured £1.25m in unsecured loans from Big Issue Invest and Bridges Ventures, two organisations running social investment funds. With ambitious growth plans, LEYF has grown from 24 nurseries in 2014 to 38 in 2016, and aims to reach 5,000 children by 2017. In 2015, LEYF secured a further £1.5m from the same investors. Social investment is being used to fund the refurbishment and set up costs for new nurseries, with repayments to investors made through the fee income generated.

CEO perspective

June O'Sullivan, CEO of LEYF, has led the organisation through a transition since 2006 from a traditional charity model, to becoming a social business (whilst retaining the charity structure). The key drivers for this transition have been moving to ensure financial self-sustainability and a drive for growth and to scale LEYF's impact ("it's not good enough to be providing 12 nurseries").

LEYF went through a process of changing their governance and board make up before accessing investment. Key issues that June highlights for charities moving to a more enterprising approach:

- Getting the right Board members – more business experience and skills are needed at Board level, but ensuring that one type of trustee does not dominate
- How to adapt the charity governance systems and processes to enable social businesses to be fast moving in decision making
- How to make decisions that weigh risk with impact

June stresses both the critical nature of the relationship between the CEO and FD in exploring social investment, as well as the need to get into the headspace of investors, and to become well versed in the terms, products and language that is used, in order to be better positioned to negotiate with investors.

Finally, from a governance perspective, the success of getting capital is much higher when the organisation has "a solid Chair, a Treasurer willing to take a keen interest in the process, and a Board that has fully appraised the deal."

Read more on June's perspective of social enterprise governance.

Teens and Toddlers – a charity well placed to deliver through a social impact bond

Background

Teens and Toddlers works to inspire disengaged young people from disadvantaged areas to succeed at school, in work and in the community.

Young people with low self-esteem, low educational attainment and lack of positive role models are more likely not to make a successful transition into work, training or education, and are more likely to become parents at an early age.

Teens and Toddlers targets two groups of children simultaneously, raising the aspirations of young people (age 13-17) by pairing them as a mentor and role model to a child in nursery in need of extra support.

Use of social investment

In 2012, they started delivery of a DWP programme in Greater Manchester to reduce incidence of NEETs – this was funded through a social impact bond (SIB) programme, with £3.25m upfront capital provided by social investors. The investors are repaid under a payments by results contract with the DWP, out of long term savings to the public purse of reducing youth unemployment.

Over the three year SIB, 1,300 young people will take part in the programme, with performance measured by improvements in attitude, behaviour, attendance and educational attainment.

Trustee view

Tony Clinch, a Trustee, felt that the charity was well placed to deliver a SIB programme. The charity already had a history of measuring outcomes, and its approach was moving towards obtaining external validation of impact. The rigorous monitoring and evaluation requirements of a SIB therefore helped moved the charity in a direction that was aligned to its strategy.

The Board is felt to be balanced, including significant business experience and this has contributed to the confidence and support from Trustees in driving the charity to consider social investment, and the support provided to the management team as the details of the investment were worked through.

One concern raised by Tony was that the investment model should ensure adequate resources for front line delivery – critical for the service provided, and to mitigate risks around outcomes.
With all the additional complexity of a SIB structure, and performance management involved, it's still vital to "ensure that standards are maintained at the sharp end of delivery".

Golden Lane Housing – using commercial investment approaches for social benefit

Background
Golden Lane Housing (GLH) is a charitable subsidiary of Mencap providing quality supported housing for people with a learning disability so that they have a choice about where they live, who they live with, and what type of support they receive.

There is a huge need for supported accommodation for people with learning disabilities who often live in large institutions which are far away from home, or stay with family members who are increasingly unable to cope.

Use of investment
In 2013, GLH raised £10m through an unlisted charity bond arranged by Triodos, and in 2014, they raised £11m in 8 days in the first ever charity bond to be listed on the London Stock Exchange (through Retail Charity Bonds plc, arranged by social finance adviser Allia), with a significant amount of coverage in the press. GLH are using the investment to buy and adapt housing for people with learning disabilities. Rental income, including housing benefits, is used to pay interest to investors and cover the costs of management and maintenance. Their social impact report shows tenants are more confident and engaged in their local communities, with improved health outcomes for individuals and their parents.

Trustee perspective
The driving role of the Chair behind GLH's approach is evident – with a clear vision of what GLH needed for the future, the Chair evaluated the existing skills on the Board, and then recognised that in order to raise investment, the Board needed more commercial property finance expertise to complement expertise from other sectors (social housing, public sector, legal) and lived experience from people with learning disabilities.

Having established the right Board for GLH's strategy, the investment proposition was relatively straightforward. Rohan Jensen, Trustee, felt that it was easier for the Board to support the decision to access investment as the "key basics were in place as the charity runs like a business with a strong operation, leadership, and financial management".

During the process of considering the options, the executive team were responsive in iterating the financial scenarios to ensure risks around interest rates and housing benefits were understood.

Rohan says that for GLH, the investment vehicle they used exists in the commercial world, so it was important "not to reinvent the wheel, as we were just trying to attract different investors".

In a climate following the financial crisis, there was appetite for a more social dimension to investment, and "investors really got retail charity bonds – it was a straightforward sell, and the charitable objectives and social need were clear and compelling."

Street League – accessing investment without property assets

Background

Street League's vision is to end youth structural unemployment in the UK. Around 750,000 16-24 year olds are out of work in the UK, with increased likelihood of unemployment, poorer health and involvement in crime. Streetleague works with 16-24 year olds who are not in employment, education or training (NEET), referred by partners such as Job Centre Plus. They provide a structured football and education "Academy" programme, which develops employability skills over 10 weeks. 4 out of 5 academy graduates move onto jobs or training.

Use of investment

Street League are seeking to grow, and need working capital funds to support the set up of new academies. They have grown from 6 locations to 13 locations in 2 years. As a charity without a fixed asset base, they have used investment from a range of sources to support their growth, including philanthropy, grants, unsecured loans (from Social Investment Scotland and Venturesome), as well as hands on support from Impetus PEF to help take the organisation to the next level of development. In 2016, Streetleague accessed an unsecured loan from Social Investment Scotland's Community Capital Fund which was funded by investment from individuals using Social Investment Tax Relief (SITR). Where they have taken on loans, this is being repaid through income earned from contracts with colleges and others.

Trustee perspective

Mike Parker, Chair of Trustees sees that appetite for social investment is likely to be a "question of options – if you believe you have other options, a charity is not going to take on debt".

The decision to take on investment had to balance the higher risk with use of investment to increase the pace of growth, against the additional social impact that could be created – and the timing of Streetleague's expansion chimed with the increased awareness and appetite from government and others to address high numbers of young people who are NEET. The Board was very conscious of the higher risks of using an unsecured loan, with no assets to fall back on to repay investors if plans fail, and the access to grants alongside investment was a key driver in this decision.

As part of strong governance in general, Mike has taken an active role as Chair, spending time with all of the executive management team as well as the Chief Executive to help strengthen relationship and trust between the Board and executive team.

Furnistore – using social investment to buy premise

Background
Furnistore are a small charity, working with local agencies in Redhill to help families across south east Surrey who may be in difficult or emergency situations to get furniture and household appliances at a significant discount or no cost. They have 8 staff and all the trustees contribute to the running of the charity in ways outside of their Board roles, for example in providing IT and marketing support.

Use of investment
Furnistore took on a £160,000 loan from Charity Bank to purchase premises so that the charity could establish a permanent base. The support they provide to low income families and loan repayments are funded through sales of second-hand furniture to the general public. Having a permanent base has given the charity the opportunity to plan and consider its impact for the long term, and build its supporting infrastructure.

Trustee perspective
For a Board that is elected every 3 years, there was a healthy debate by Trustees over whether to take on a large loan over a long period. There had been some previous changes in the makeup of the Board, and the existing Board were all in favour of using investment.

There has also been ongoing discussion on the charity’s reserves’ policy, with agreement that at least 1 year’s loan payments should be held in reserves.

One commercial finance offer that was on the table initially required personal guarantees from Trustees for the loan, and inevitably, the Trustees were not willing to “put their houses on the line.”

Ed Baker, chair of Trustees says “It was a very big decision to make before we made it, but felt like an infinitely smaller one once we’d done it.”

Having taken this first step, there is now greater appetite to use investment to secure storage facilities which are currently rented. The basic advice to other Boards is to “do the sums, run the numbers, and if it works, do it!”

Emmaus – providing investment to charities with the support within a federated structure

Background
Emmaus communities provide a home and meaningful work to people who have experienced homelessness and social exclusion. Emmaus has a federated structure, with each community being an independent charity, and Emmaus UK providing support across the movement.

Emmaus currently has 27 communities across the UK, supporting 750 Emmaus companions, and are looking to be able to support 1,000 companions by 2020. It can take between 2-10 years to set up a thriving community using grants. Social enterprise has always been at the core of any Emmaus community and is becoming increasingly important with declining grant income. With ambitious growth plans, Emmaus has also started to use social investment in order to facilitate growth.

Use of investment
Emmaus UK has set up a £2m revolving fund and £5m loan fund mortgage facility to be able to provide investment to new and growing communities. The investment has a dual purpose – to support the long term financial sustainability and growth of communities, but also to increase the financial capacity of Emmaus members.

The loan package offered is tailored to suit the business plan of members (so interest charges may vary over the time period of the project for example).

Emmaus Hastings acquired a site for its new community in 2009 and opened in 2011. The project was built in 3 phases, with fundraising challenges, and the need to raise £160,000 for the final part of the accommodation. They accessed the majority of this from the Emmaus UK loan fund.

Trustee perspective
David Cooper is Chair of Emmaus Hastings, and highlights the tensions that can arise on a Board from "people who've joined the Board to do good" and "people who want to do good and do business."

Keith Tolladay, Treasurer of Emmaus UK highlights the role that the Emmaus UK fund has played in building different and stronger connections in the federation – both in terms of capacity building and also review of Emmaus communities' sustainability plans and oversight of investments and review of how projects have fared on implementation.

Totnes Community Development Society – a community-led organisation developing a significant urban housing and enterprise project

Background

Totnes Community Development Society (TDCS) was set up by the local community in Totnes (as an IPS for the Benefit of the Community) to deliver an ambitious community-led development project on a brownfield site. The aim of the Atmos Totnes project is to build genuinely affordable housing, and enterprise and community facilities, owned by the community. The land is currently in private sector ownership, with the masterplanning being led by TCDS in partnership with a commercial developer who will own a smaller part of the site once TCDS secure planning

The development responds to needs identified within the community, which includes addressing the fact that young people are currently leaving the area due to lack of employment and housing opportunities. Local residents and businesses have been involved in designing Atmos Totnes alongside commissioned consultants. To facilitate this community-led project TCDS are using a new route to planning: the Community Right to Build which came in as part the Localism Act 2011.

Use of investment

TDCS are currently nearing the end of the pre-development phase for the project, which has been funded through a combination of grants, loans on varying terms (for example where repayment is only due if the project is successful) and a loan from the social finance provider Venturesome.

The social investors providing finance for the early stages of the project will look to the impact that will be generated over the lifetime of the project to evaluate the ultimate social "return" on their investment as well as any financial return.

Non-Executive Directors perspective

The Board of Directors at Totnes Community Development Society are local residents and have managed the investment and grants process within the project.

"A social return on any money going into the project is essential to the effective use of any loan or gift funding. We are very clear that social investment has a major role to play in enabling viable community-led development projects both in terms of when the design work is underway, as well as through the build project itself." Dave Chapman, Totnes Community Development Society.

Several of the Board are essentially professional volunteers who manage the strategic direction of Atmos Totnes on behalf of the community. They are also facilitating the project on the ground, which involves several thousand members of the community.

At this stage, carrying out both governance and day-to-day management is felt necessary for the Board of this organisation, given the complexity of a major project like Atmos Totnes, and the nimbleness needed in decision making. Longer term, as the organisation develops, the membership of Totnes Community Development Society is likely to widen locally. This would mean a change to roles within the Board and any executive bodies associated with it at that point.

GET INFORMED

SOCIAL INVESTMENT FOR BOARDS

In September 2016, Big Society Capital will be launching the GET INFORMED campaign to help board members of charities and social enterprises understand the risks and opportunities of social investment.

For more information, please visit www.bigsocietycapital.com/get-informed.

Big Society Capital would like to thank all the external writers above for their contributions to this piece.