BIG SOCIETY CAPITAL

SOCIAL INVESTMENT INSIGHTS SERIES

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Long-Term Unemployment and Social Investment

This edition of the Social Investment Insights Series outlines the challenges and opportunities for social investment in tackling the issue of long-term unemployment for people aged 25 and over. It outlines our evidence about social need, provides an overview of the current market, identifies the opportunities and challenges for social investment and suggests priority areas of focus for Big Society Capital.

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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

Unemployment carries significant costs for individuals, society and the government. For the purposes of this paper we have focused on how social investors can support social sector organisations tackling the issue of long term unemployment which we have defined as people who have not been in work for the last twelve months or more and are aged 25 or over. Beneficiary groups covered include: disabled people; the elderly; the financially excluded; people with addiction issues or mental health needs; homeless people; and ex-offenders.

There are multiple government funding streams to provide employment support, including the coalition government's flagship employment service the Work Programme (a scheme designed to help the long-term unemployed and disadvantaged to find work and leave benefits) and Work Choice (a specialist voluntary programme providing pre-employment and in-work support for disabled people who want to work 16 hours or more).

The three main business models being used by social sector organisations (SSOs) in this sector involve either:

- increasing reach or access to existing jobs;
- providing employability support; or
- supporting self-employment.

Each of these business models face specific challenges when it comes to accessing social investment. However, there are also broader 'systemic' challenges for SSOs including for example for many SSOs who work with beneficiary groups with multiple needs.

Whilst the existing social investment landscape already caters to the various capital needs of these SSOs, through investment funds like Big Issue Invest, CAF Venturesome, Key Fund and Impact Ventures UK, we have identified additional opportunities for social investors. These include: supporting social sector bids in the re-tendering of large Department for Work and Pensions (DWP) contracts such as Work Programme 2 and Work Choice 2; bridging funding silos to support holistic commissioning; and supporting mutualisation and joint ventures.

We welcome any feedback on this issue and the specific opportunities outlined in the paper.

SOCIAL NEED

Big Society Capital Outcomes Matrix: Employment, Training and Education	
Big Society Capital's outcomes matrix represents a map of need in the UK. It has been designed from a beneficiary perspective and includes nine outcome areas which reflect what a person needs to have a full and happy life. The employment, training and education outcomes are shown opposite.	**Individual:** The person is in suitable employment, education, training or caring work. **Community, sector and society:** Jobs, education and training opportunities are available for everyone

In September 2014 there were 1.96 million adults aged 16 plus who were unemployed in the UK (defined as people who have been actively seeking work within the last four weeks and are available to start work within the next two weeks). The Office for National Statistics labour market statistics published in November 2014 states that the UK unemployment rate was 6% (where the unemployment rate is defined as "the proportion of the economically active population (those in work plus those seeking and available to work) who were unemployed"[1]) and there were 688,000[2] individuals (481,000 adults aged 25 plus) who are classified as long-term unemployed.

Disabled people, in particular, have a disadvantage in securing full-time employment due to the barriers they face in accessing education and training. Out of the estimated 6.5 million people of working age who could be considered disabled under the Equality Act 2010 definition, 2.9 million are in employment, 440,000 are currently unemployed, and 3.2 million[3] are economically inactive (where economically inactive is defined as people out of work and not seeking or available to work[4]).

Unemployment carries significant costs for individuals, society and the government. Firstly, unemployed individuals often lose the skills they have previously acquired. They lose the opportunity to develop their social networks and often fail to develop or maintain a link between effort and reward. Being unable to find a job for more than twelve months can also have a significant impact on a person's confidence, well-being, employability and finances, and worsens social exclusion as existing social networks degrade.

Secondly, for society, unemployment can represent a loss of output in production and a loss in consumer spending. Unemployment also represents a waste of resources for the economy as companies and factories may have idle resources.

Finally for government, Jobseeker's Allowance and Employment and Support Allowance benefit payments represented a direct yearly cost to the government in 2013/2014 of £5.3 billion and £9.6 billion[5], respectively. Furthermore, as individuals move from unemployment in to employment, the government not only stops paying these benefits, but it also may start receiving income tax revenue and national insurance contributions, making the immediate cost of unemployment a two-fold impact for the government.

[1] http://www.ons.gov.uk/ons/rel/lms/labour-market-statistics/november-2014/statistical-bulletin.html
[2] http://www.ons.gov.uk/ons/rel/lms/labour-market-statistics/november-2014/table-a01.xls
[3] https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/266373/disability-and-health-employment-strategy.pdf
[4] http://www.ons.gov.uk/ons/rel/lms/labour-market-statistics/november-2014/statistical-bulletin.html
[5] http://transparency.number10.gov.uk/assets/client/pdf/dwp-expenditure.pdf

CURRENT MARKET

Policy Backdrop

While there are multiple government funding streams to provide employment support, this paper focuses on four key programmes.

1. The Work Programme

In June 2011, the coalition government launched its flagship employment service, the Work Programme, a scheme designed to help the long-term unemployed and disadvantaged to find work and leave benefits. This initiative is the largest single programme of its kind and involves service delivery contracts with private and third sector organisations worth £3-5 billion[6] in total over five years. The Work Programme replaced a number of existing programmes and pilots with a single commissioned programme. The organisations are paid largely by their results ("PbR"). The more people they help to find work, the more they are paid.

Overall, 1.6 million people have joined the Work Programme in the last three years, with 330,000 entering sustained employment. More than 300[7] third sector organisations are involved in the programme's delivery, according to the Department of Work and Pensions (DWP). However, the number of social organisations actually receiving referrals and delivering the programme (as they are sub-contracted by a few large prime providers) is thought to be much lower.[8]

The Work Programme has been criticised for its effectiveness, as a result of the unpredictability of referral flows, the challenging nature of the referrals passed to SSOs in the supply chain (working as sub-contractors), instances of 'creaming and parking' (preferentially working with jobseekers that are more 'job ready') and the high performance levels set for payment for working with individuals with complex needs.[9]

2. Work Choice

Work Choice is a specialist voluntary programme providing pre-employment and in-work support for disabled people who want to work 16 hours or more. The programme was introduced by the DWP in 2010 and 74,440 people have started since the beginning of the programme. Job outcomes for Work Choice are much higher than for comparable job seekers on the Work Programme (although the fact that Work Choice is a voluntary programme explains a large part of this difference). Looking at a six month cohort of starts between Q4 2013-14 and Q1 2014-15, there were 9,970 starts of which 4,560[10] (45.7%) had obtained a job.

3. European Social Fund

The European Social Fund ("ESF") funds support to find employment for disadvantaged groups in England. It is one of the European Structural and Investment funds for 2014 to 2020. The ESF has three broad objectives: promoting sustainable and quality employment and supporting labour mobility; promoting social inclusion, combating poverty and any discrimination; and investing in education, training and vocational training for skills and lifelong learning.

[6] http://www.publications.parliament.uk/pa/cm201213/cmselect/cmpubacc/936/936.pdf
[7] https://www.gov.uk/government/news/massive-boost-for-the-big-society-as-almost-300-voluntary-sector-organisations-named-as-part-of-the-work-programmeme
[8] http://www.nao.org.uk/wp-content/uploads/2014/07/The-work-programmeme.pdf
[9] http://www.shaw-trust.org.uk/media/294741/refinement_or_reinvention_the_future_of_the_work_programmeme_and_the_role_of_the_voluntary_sector.pdf
[10] https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/341154/work-choice-official-statistics-august-2014.pdf

4. Skills Funding Agency

The Skills Funding Agency (sponsored by the Department for Business, Innovation & Skills) had an annual budget of £4 billion for 2013-2014 yet only a small proportion of this is for unemployed adults. In 2013-2014 provision for the unemployed was 4%, which amounts to £93 million[11]. Two key trends in the evolving commissioning landscape are the concerted shift in government employment funding, moving from a local to national level and an emphasis on PbR contracts.

Interestingly, in line with these trends, other government initiatives, such as the Ministry of Justice's probation reform programme 'Transforming Rehabilitation' (see our Insight Series on Justice) are also employing social sector organisations that deliver employment outcomes in their supply chains, which may need to access social investment to fund their working capital needs in these programmes.

Social Sector Provision

According to NCVO in 2011-2012 there were just under 2,000[12] charities whose primary objective was employment and training. However, this figure does not differentiate between those targeting youth and adult employment. According to the 'First Billion' report, prepared by strategy consultants Boston Consulting Group, the value of contracts in 2012 for employment services for long-term unemployed and marginalised groups is £900 million. The social sector had only a 20%[13] share. Through our research, the three main business models we have identified are:

1. Increasing reach / access to existing jobs, by both improving access to jobs through specialised matching services and up skilling beneficiary groups through training and support. For example, Timewise Recruitment is a recruitment consultancy specialising in placing candidates in jobs, either full time or part time, where the job offers an element of flexibility (for example women who want to continue working after they have had children). The revenue stream for this model comes from both government contracts (for pre-employment support) and potential employers (through the matching process).

Case Study: K10

K10 is a social enterprise that provides apprenticeship training and work experience in the construction industry (including disabled people and ex-offenders). K10 provides a tailored recruitment platform for the construction industry, while providing relevant employment skills. Impact Ventures UK has supported the organisation through the provision of a loan facility, to allow the organisation to continue to scale.

2. Providing employability support through creating specialised job opportunities (temporary, part or full time) for specific beneficiary groups through creating sustainable trading models with a business to business or business to consumer focus.

Case Study: GoodWill Solutions

GoodWill Solutions is a logistics and warehousing Community Interest Company where the business offers training programmes and support into employment, for ex-offenders, the homeless and disadvantaged youths. Its revenue comes from offering logistics services to industry. The organisation was a Big Venture Challenge winner, and accessed £250,000 patient, unsecured debt from CAF Venturesome and Big Issue Invest to scale the business.

[11] https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/322531/SFA_Annual_Report_2013_to_2014.pdf
[12] http://data.ncvo.org.uk/a/almanac14/what-activities-does-the-voluntary-sector-undertake-3/
[13] https://www.bcg.com/documents/file115598.pdf

3. **Supporting self-employment** by providing funding and support to individuals to set up enterprises and franchises. For example, Fredericks Foundation which offer loans and business support to individuals who can demonstrate that their application for funds from a mainstream lender was turned down. A second example is Fair Finance, a social business based in London offering a range of financial products and services designed to meet the needs of people who are financially excluded, including loans to the self-employed individuals and micro-businesses. The revenue for these business models comes from a mix of income from interest payments and grant support.

Case Study: Midlands Together

Midlands Together buys empty properties in need of refurbishment or redevelopment, and employs ex-offenders to help them gain work experience in the construction industry. The organisation has raised £3 million through a fully subscribed charity bond issue, to allow it to scale its operations, following a £1.6 million raise by their sister company, Bristol Together in 2011. The investment is serviced and repaid through selling the redeveloped properties. This is a both an interesting example of a social venture scaling its operations through a charity bond issue, as well as a good example of an innovative revenue model, with plans to scale to other cities.

CHALLENGES FOR SOCIAL INVESTMENT

Each of the business models identified earlier in this paper face specific challenges when it comes to accessing social investment. SSOs looking to increase beneficiaries' reach and access to existing jobs face challenges around the financial viability of their business model, given the reported difficulty of getting referrals through prime contractors and the small margins achieved through delivering government contracts such as the Work Programme. These organisations can be stretched for resources given the time lag and resource intensive nature of raising awareness of the positive impacts of employing particular beneficiary groups amongst prospective employers and the payment of a placement or success fee.

Whilst SSOs offering employability support may have a clear revenue model, these enterprises can be difficult to scale, given the high level of support needed by the beneficiary groups in question. SSOs assisting beneficiaries into self-employment provide both high touch support alongside capital to their beneficiaries. This makes financial viability without grant subsidy challenging.

In addition to the business model specific challenges detailed above, SSOs active in this area face broader 'systemic' challenges. For example, many SSOs are working with beneficiary groups with multiple needs. Accordingly, effective interventions may require a holistic approach. However, many of the potential funding streams for SSOs are siloed (as commissioners themselves work in silos), which creates a hurdle to delivering effective interventions.

Economic cycles and macro-economic factors also have a significant impact on the ability of SSOs to deliver job outcomes for their beneficiaries, particularly during recessions. Moreover, SSOs are also facing challenges in the current commissioning environment due to the declining budgets of commissioners, a shift to large commissioning contracts risks associated with PbR.

OPPORTUNITIES FOR SOCIAL INVESTMENT

Our research has shown that the social business models outlined have the same financing needs as traditional businesses. The existing social investment landscape already caters to the various capital needs of these SSOs, through investment funds like Big Issue Invest, CAF Venturesome, Key Fund and Impact Ventures UK.

Case Study: The House of St Barnabas

The House of St Barnabas is a not-for-profit private members club in London. The club charges membership fees and provides work experience to disadvantaged groups through an Employment Academy offering hospitality skills training and work experience. The organisation has secured a £500,000 loan on its property from Charity Bank to expand its operations.

Through provision of working capital, risk capital, growth capital and in some instances secured financing SSOs can scale the provision of their existing services, develop new and innovative services and bridge differences in cash flow timings. Beyond this existing provision, we have identified the following specific opportunities in this space:

Supporting social sector bids in the retendering of large DWP contracts such as Work Programme 2 and Work Choice 2

The outsourcing of public services and the commitment by DWP to facilitate social investment, coupled with the shift towards PbR creates an opportunity for SSOs to play a greater role in service provision. There is a specific opportunity for social investment through risk-sharing models, as the re-tendering process for both the Work Programme and Work Choice programme is likely to start in 2016-17. Social investors could help the sector compete in public markets by supporting social sector bids (both at the prime and sub-contractor level), by ensuring SSOs are supported through the bidding process and during the negotiation of referral volumes, contract pricing and agreeing performance targets. Social investors could also assist with any performance management systems.

Bridging funding silos to support holistic commissioning

Given the significant need to continue supporting disabled people to become economically active, social investors could consider supporting cross-departmental commissioning. By engaging local authorities, clinical commissioning groups and housing associations in the structuring of a PbR programme, funding silos could be joined-up to provide holistic employment support to disabled people or people with mental health needs. This approach could also tie-in well with the localism agenda, as this could include working with Growth Deal areas to develop co-commissioned models and services.

Supporting mutualisation and joint ventures

There may be an opportunity for social investors in supporting the ‘spinning-out’ of public bodies delivering employment services. Social investors could be a catalyst for the creation of joint ventures (in addition to providing working capital), which would ensure the social mission of these organisations is protected in the mutualisation process.

Case Study: Remploy Employment Services

Remploy Employment Services is a non-departmental Public Corporation and is one of the key providers for the DWP, managing around 50% of volumes on a national basis for the Work Choice programme. The DWP has announced its intention to sell the company to a prospective private bidder in early 2015.

Funding organisations that support specific beneficiary groups to set up their own social businesses

Social investors could play a role in supporting ventures that seek to provide finance and support to certain disadvantaged groups to in turn set up their own ventures (alongside government or grant programmes such as Start Up Loans), given their understanding and experience of the social issues they are attempting to tackle and their ability to form peer-to-peer networks to continually learn from each other and re-iterate their model.

PRIORITIES FOR BIG SOCIETY CAPITAL

Current investments

Big Society Capital has made a number of investments supporting better employment outcomes for vulnerable groups to-date including:

- Investing £1.6 million in five DWP Innovation Fund projects to support PbR programmes that improve outcomes for vulnerable young people by improving educational outcomes and transition from school to employment, further education or training.

- Investing £10 million in Impact Ventures UK, an impact-first fund that provides growth capital for social enterprises that have the potential to scale and increase the delivery of their social impact. The fund has been supporting the scaling up of K10 (see case study).

- Investing £8 million in Nesta's Impact Investment Fund that supports social ventures using technology and innovation to solve specific social issues (including the employability of young people) in the UK.

Priorities

Beyond the opportunities outlined earlier, Big Society Capital is interested in working with development partners, such as grant-making organisations or corporates that provide grants and other support to SSOs in this sector, in order to leverage both their operational expertise and capital. These partnerships could provide follow-on investment to SSOs, through the creation of 'mixed' funding packages that support social business models which need an element of subsidy as well as provide access to the operational expertise of these partners.

Big Society Capital is also keen to continue supporting interventions that focus on preventing disadvantaged groups facing the prospect of long-term employment, by supporting organisations that focus on tackling youth unemployment.

Case Study: Big Venture Challenge

Big Venture Challenge ("BVC") will work with around ten Social Ventures in 2015 that focus on unemployment. Each year BVC has a thematic cohort (in 2013 this was 'Health' and in 2014 it was 'Youth and Education'). The cohort's focus will be on both preventative and reactive solutions to some of the social issues in the employment market.

The above list is not exhaustive so if you have an enquiry about whether a potential investment is eligible for investment please contact us through the enquiries form on our website at: www.bigsocietycapital.com

Please note that Big Society Capital is a social investment wholesaler, which means we can only invest via social investment finance intermediaries.

The information and opinions in this report were prepared by Natasha Malpani, Investment Associate and Jared Tausz, OnPurpose Associate, on behalf of Big Society Capital.

Titles available in the Social Investment Insights Series

Growing Social Enterprise Through the Holding Company Model: Groupe SOS (June 2014)

Social Impact Bonds: Lessons Learned (June 2014)

Growing the Market for Charity Bonds (July 2014)

Housing & Social Investment (August 2014)

Heath and Social Care & Social Investment (December 2014)

Financial Inclusion & Social Investment (December 2014)

Long-Term Unemployment & Social Investment (December 2014)

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