# WHAT DO CHARITY LEADERS THINK ABOUT SOCIAL INVESTMENT?

February 2015

Social investment has had increased prominence in the charity sector over the past few years, with more charities looking at alternative ways to fund their work. Big Society Capital's aim is to increase access to social investment for charities, and our work needs to be shaped by an understanding of the charity sector's appetite and needs in this area.

ACEVO, the membership organisation for Chief Executives of charities, undertook a survey entitled 'The Changing Face of Charity: ACEVO Social Sector Tracker New Markets Survey 2014'. Within this was included a sub-section of questions directly related to social investment. The survey was distributed to its membership, and responses were self-selective. In total, 128 charity CEOs responded.



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 invested  £158 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.

# FOREWORD

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More charities are looking at alternative ways to fund their work and as a result social investment has been the subject of increased interest and scrutiny. At Big Society Capital, our aim is to increase access to social investment for charities and social enterprises, and our work needs to be shaped by an understanding of the charity sector's appetite and needs in this area. At ACEVO, our mission is to be the leading collective voice of charity and social enterprise leaders and to encourage innovation, enterprise and professionalism across the social sector. Together, we created the following survey to better understand how charities and social enterprises are responding to the challenge and opportunity of social investment. The responses are below. What does it tell us? While it is difficult to draw general conclusions, there are some emerging trends:

- **Charities are in a confident mood with reasonable appetite to consider social investment:** Despite the challenges of the economy and funding environment, over two thirds of the charity leaders felt that their organisation was well placed for expansion. Although 76% of the charities had never taken out a loan, 44% felt that repayable finance could be beneficial for their charity. This indicates that there should be more demand for loans from charities, which is also supported by recent research, such as CAF Venturesome's *In Demand*, and growing interest over the past year from our discussions with charities.
- **CEOs think that their trustees would consider social investment:** Of the charity leaders who thought that repayable finance could be beneficial, 83% felt that their trustees would definitely or possibly consider a loan. This seems much more positive than might be expected, given that trustees are often considered to take a more cautious approach than their management teams.
- **Social investment is seen more positively by larger charities and/or those seeking to grow:** Not all charities can or should use repayable finance. From the responses, social investment is more likely to be helpful for organisations that are larger (income of over £1 million) or that have plans to expand through contracts for public services, or enterprise activity. It's also striking that nearly 80% of charities who had already taken out a loan felt that further investment could benefit their organisation – perhaps evidence that successfully accessing repayable finance has increased their confidence and ambition to scale up their work further.
- **Future demand is not just for buying assets:** 75% of loans taken out by charities were used to buy properties and other assets, and we know that around 90% of social investment historically has been in secured loans. The charities' responses indicate that there is potentially increased demand for loans to finance other areas such as cash flows for contracts or investing in staff. The increased level of unsecured loan funds for charities now available, for example those managed by Social and Sustainable Capital and FSE, could be relevant in meeting this need.
- **Social investment isn't only about taking out loans:** Whilst the survey was framed in terms of charities' appetite for borrowing, there are other ways to access social investment that don't involve charities taking on debt. For example, renting property for service delivery from a social property fund or accessing funding through Social Impact Bonds, where investors take the financial risk associated with outcomes-based contracts.
- **Understanding social investment and navigating the landscape:** It's commonly cited that social investment is an area that charities find difficult to engage with, so it's encouraging that 64% of CEOs surveyed felt that they understood social investment. There is clearly more progress to be made to increase awareness and understanding within the sector. Based on the survey responses, charity CEOs would most commonly look for information on social investment through digital channels rather than through attending events, perhaps unsurprising given the pressures on their time.
- **Charity investors:** The ethical and responsible marketplace remains beyond the purview of many charities. Many charities identify a lack of appropriate products in the marketplace as a significant barrier. These issues are explored in detail in ACEVO's "Good with Money" report. There needs to be more charities putting the onus on their advisers and investment managers to develop an approach that reflects their mission and values, if this is going to significantly shift in future.

# METHODOLOGY

ACEVO undertook a survey entitled ‘The Changing Face of Charity: ACEVO Social Sector Tracker New Markets Survey 2014’. Within this was included a sub-section of questions directly related to social investment.

The survey was distributed to its membership, and responses were self-selective.
In total, 128 charity CEOs responded.

The geographic spread of respondents within England was reasonably balanced, and participation of Welsh, Scottish and Northern Irish charities broadly representative of population.

A disproportionately high number of respondents were CEOs of larger charities, with more than half running charities with more than £1 million income. This means that the data for these larger organisations is reasonably representative. e.g.

| | Annual income | No. of respondents | Number in the UK | % of total |
|---|---|---|---|---|
| **Micro** | Less than £10k | 4 | 82,391 | 0.005% |
| **Small & medium** | £10k - £1m | 49 | 74,072 | 0.07% |
| **Large** | £1m - £10m | 52 | 4,270 | 1.22% |
| **Major** | £10m+ | 21 | 533 | 3.94% |

There was also a very high representation of organisations feeling confident about their current position – two thirds said they thought their organisation was well placed for expansion.

Despite these caveats around how statistically robust this survey was, it does provide an important insight into how charities currently perceive social investment.

# SURVEY RESULTS

## What do charity leaders have planned for their organisations?

75% of organisations are aiming for expansion in the next 12 months. Of these

- 39% are planning to set up a social enterprise
- 43% are planning to start bidding for public service contracts

62% of organisations think their organisation is well placed to expand. Of those that don't, the main reason (for 61%) was a lack of financial capital

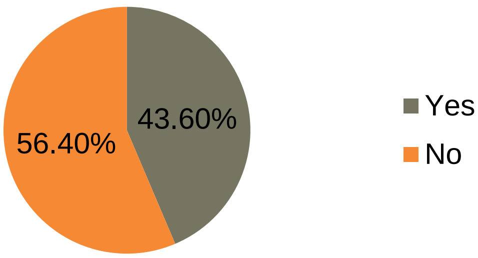
## Experience of taking on repayable finance

76% of organisations have never taken on a loan. Those that have tend to be organisations with a higher turnover

- No organisations under £10,000 had taken on a loan
- One organisation of £10,000-£250,000 had taken a loan from a social investor to invest in new staff
- One organisation of £250,000-£500,000 had taken a loan from a high street bank to manage cash flow of a contract
- Four organisations of £500,000-£1 million had taken on loans. All were to buy property, with an even split between taking it from social investors and high-street banks
- Ten organisations of £1 million -£10 million have taken on a loan. Most used it to buy or refurbish property or assets (seven), followed by to manage contract cash flow (three) and to invest in new staff (one). There was an even split between taking it from social investors and high-street banks, plus one organisation that had taken it from a charitable trust.
- Nine organisations of £10 million have taken on a loan. All used it buy or refurbish property or assets. Most secured it from high-street banks, with only one taking it from a social investor and one from a charitable trust.

# Appetite for using repayable finance

The split between those who thought repayable finance might be beneficial to their organisation was reasonably balanced.

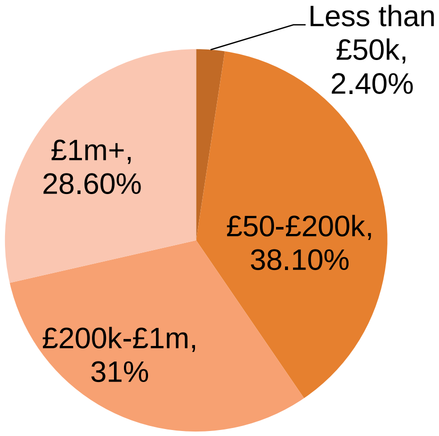



The following groups were even more likely to think it would be beneficial:

- Organisations with a larger turnover tended to be more positive, particularly the £1 million-£10 million turnover (61% thought it might be beneficial) and £10 million+ (53% thought it might be beneficial).
- Organisations that had taken a loan previously (78% thought it might be beneficial).
- Organisations with a particular expansion plan, particularly plans to set up a trading arm (93%), plans to set up a social enterprise (63%) and plans to start bidding for public service contracts (71%).

Of the organisations planning to use repayable finance most planned to use it to buy or refurbish a property or asset (71%), followed by to invest in new staff (26%) and to manage cash flow for contracts (21%).

The expected amounts needed were as follows:




Of the charity leaders who thought repayable finance might be beneficial:

- 38% thought their trustees would definitely consider a loan, with a further 45% saying their trustees would possibly consider a loan.
- Only 17% said their trustees would be unlikely to consider a loan, and none said their trustees would never consider a loan.

# Understanding social investment

## 64% of organisations said they understood social investment

49% of organisations said they thought social investment would be relevant to their organisation. This is broadly in line with those who said they thought repayable finance was relevant (43%).

Organisations with a larger turnover tended to be more positive, particularly the £1 million-£10 million turnover (64% thought it might be beneficial) and £10 million+ (67% thought it might be beneficial).

62% thought that social investment is a useful tool for charities and social enterprises. Again, the larger turnover organisations tended to be more positive, particularly the £1 million-£10 million turnover (77% thought it might be beneficial) and £10 million+ (82% thought it might be beneficial).

# Information sources

When finding out more about social investment, the main sources were:

Websites: ACEVO (63%), Big Society Capital (46%), Social Enterprise Orgisations (27%), Other umbrella (26%)

Personal contacts: Ask my peers (38%), Speak to someone I know is an expert (38%)

Events: ACEVO event (17%), BSC event (5%)

Digital content: Online video (9%)

# Charities as investors

Almost half of organisations have never considered ensuring their deposits or reserves are invested in social responsible funds (41.3%).

A quarter (25%) had considered it and decided against it. The dominant reasons for this were a lack of suitable funds (46%) or a lack of information (31.4%).