

# Social Investment and its Impact

## The Evaluation of Charity Bank in the North



## Acknowledgements

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# Executive Summary

## 1. About Charity Bank in the North

Charity Bank in the North (CBN) is a £9.75 million programme which runs from 2006 until 2016. It was funded by Yorkshire Forward, the regional development agency. Its aim is:

***to help grow the voluntary and community sector (especially social enterprises) so that they can make a greater contribution to the region's economy, to encourage investment in deprived wards, and to help voluntary and community sector organisations become more financially sustainable and entrepreneurial in their outlook.***

This is the final report of the evaluation of Charity Bank in the North, the research for which started in 2008.

**The funding was designed to provide a package of support to the region's voluntary and community sector (VCS).** It was intended to engender a form of 'cultural shift' in approaches to funding: not just in funded organisations but more broadly in the sector across the region.

CBN included three main elements:

- **Investment Readiness Programme** consisting of workshops (First Steps and Next Steps) together with one to one support for VCS organisations interested in exploring loan funding and establishing themselves on a more sustainable footing.
- **Key Fund Yorkshire** providing combined grant and loan funding at levels up to £50,000
- **Charity Bank** providing larger amounts of loan funding to VCS organisations

Headline information about CBN is contained in the following box.

### Charity Bank in the North: Facts and Figures

- Programme launched in 2006; investment readiness programme and support for Key Fund Yorkshire ran until 2010; and Charity Bank fund runs until 2016.
- £9.75 million invested by Yorkshire Forward in Charity Bank in the North; of which £7.5 million established a loan fund for the sector
- 605 organisations supported through the Investment Readiness Programme
- By March 2011 51 organisations had received offers of Charity Bank loans (with a total value of £11.7 million)
- 205 organisations received Key Fund Yorkshire support (with a value of £1.3 million); of which 62 organisations were offered loans (with a total value of value £870 thousand)

## 2. Changing Contexts for Social Investment

**Charity Bank in the North was designed to assist the voluntary and community sector in Yorkshire and Humber prepare for lower levels of regeneration grant funding**, which had been crucially important for development in parts of the sector. As such CBN anticipated many wider policy changes and the growing interest in social investment.

**Levels of loan funding to the sector nationally and regionally are comparatively low, especially compared to the private sector.** This has led to the sector being termed 'under capitalised' and this has slowed its development. Levels of loan funding to small and medium sized charities (those with annual incomes of less than £1 million) are particularly low. This was seen as a key market for CBN.

**The voluntary and community sector in Yorkshire and Humber is one of great variation.** This is particularly in terms of the sources of funding: for example funding from the statutory sector makes up over the half the income of charities in some parts of the region (South Yorkshire, York and Bradford) but less than a third in North Yorkshire and the East Riding. Furthermore the 'density' of charities varies with over five times the number of charities per 10,000 of the population in Craven than in Wakefield.

## 3. Processes

**A role for Charity Bank in the North has been to act as a demonstration project** revealing the potential to the sector of using loan finance. As such it has very much been delivered during the early development phase of a social investment market in the region.

**All aspects of Charity Bank in the North were held in high regard;** the programme was seen to have worked well and addressed unmet needs.

**As a demonstration project, Charity Bank in the North has evolved and responded to emerging needs and issues.** Examples here include the reworking of advice and support, greater efforts to market CBN to North Yorkshire and the Humber, and the move for Charity Bank who were in commercial offices in Leeds to a community-owned building in York.

**Key Fund Yorkshire and Charity Bank were both found to have robust processes for assessing applications and monitoring loans.** Although social benefits are considered in appraisal, a future challenge for both organisations will be around how they invest to have a greater social, environmental and economic impact.

## 4. Performance of the Fund

The Charity Bank in the North Programme runs until 2016. **Over 600 organisations were supported by the Investment Readiness Programme (which ran until 2010).** Over 100 loan agreements have been signed and Key Fund Yorkshire and Charity Bank have made £17.81m of investments. Both organisations intend to continue to develop the support for the sector in the region in the future.

**Loan activity was slower than originally anticipated** but has increased markedly; the Key Fund element of the programme was delivered on time and significantly Charity Bank has a strong loan pipeline of 30 potential loans with values at just under £10 million.

**Demand for loans has been strongest in West Yorkshire and weakest on the Humber.** This pattern has been consistent since the start of CBN. However, demand for loans has increased in North Yorkshire.

**Organisations benefiting from all aspects of the programme tend to have low or fluctuating operating margins**, reflecting the wider financial profile of small to medium sized voluntary and community sector organisations. Charity Bank tends to invest in organisations with relatively high levels of unrestricted funds; whilst Key Fund Yorkshire (making much smaller loans) invests in more highly geared organisations.

**Default and bad debt levels for both Key Fund Yorkshire and Charity Bank are extremely low;** and the fund therefore has the potential to reach a level of longer term sustainability. That is repayments are sufficient to meet administrative costs and provision for bad debt. However, it was evident that further revenue support is required to develop new loan applications and to support organisations.



## 5. Outcomes for the Sector

**Key Fund Yorkshire and Charity Bank have broadly complementary investment portfolios.** This reflects their different lending and support offers. However, both were largely focused on supporting smaller and medium sized organisations; those most poorly served by commercial banks.

**The reach of both lending portfolios is broadly similar** and it was notable that Humber (less than 10 percent of loans) was under represented, with greatest lending taking place in West Yorkshire (over 40 percent of loans).

**It was unrealistic for the Investment Readiness Programme to transform attitudes to funding;** however what seems to have happened is that the understanding of issues of sustainability, and in particular what can make an organisation resilient, has developed in the sector. Although possibly by necessity, the CBN programme has contributed to this change in understanding. There appears a case for ongoing support on these issues, and especially around the importance of financial management and governance in organisations; although for the moment it is less clear how these may be funded.

**Loans are becoming more recognised as playing different roles in the funding of the sector,** including the formalisation of a financial position, supporting incremental growth and enabling something to be built. They would not be for all organisations, but could play an important part for some. Many organisations reported that an outcome of the Investment Readiness Programme was that they now understood this more clearly.

## 6. Strategic Benefits and Impact

**The main strategic benefit of Charity Bank in the North is that it has the potential to become a sustainable fund.** It was intended to demonstrate the possibility of a loan fund to the voluntary and community sector in the region, and to provide support to organisations seeking to use finance more effectively. It has largely achieved these objectives, although to some extent this will also be an ongoing process.

**Research with five case study organisations highlighted the importance of providing guidance, revenue support and loan funding in one package.** These organisations were Point Blank Theatre, One in a Million, ORB Community Enterprises, Target Housing and Humber Forest School. They took different legal forms, were of different income levels, and accessed different parts of the programme.

**The organisations did not pass through the different elements in a linear way,** with this being seen to make the package of support more effective.

**The case study organisations using CBN loan funding during the research, found that this came at a critical time in their development.** In particular it enabled them to grow far more quickly than they would have otherwise been able to.

## 7. Social Return on Investment Pilots

**Social Return on Investment (SROI) was piloted in two organisations, Doncaster Refurnish and Point Blank Theatre.** It was found to be incredibly useful in identifying the array of benefits organisations can have and in identifying possible indicators of impact.

**Worked examples were undertaken to demonstrate the use of SROI.** Whilst SROI has the potential to improve outcomes measurement, for it to be effective, it requires organisations to be collecting monitoring data on outcomes systematically and routinely. Without this it is difficult to calculate the full SROI. Moreover, there are challenges for organisations which contribute to outcomes which may only be fully observed in the long term (for example support to young people).

**There are particular challenges in using SROI for loan funding.** SROI is traditionally used to calculate the impact of organisations and the impact of particular grants or income streams. As repayable funds, loans are different and as such the benefits need to be calculated in terms of what the loan has enabled which would not otherwise have happened. As such its calculation may be different for physical capital, working capital and loan guarantee investments.

## 8. Conclusion

There are six main findings and associated lessons for future social investment practice to come from the evaluation: **The voluntary and community sector in Yorkshire and Humber is incredibly diverse in terms of its funding, the level of activity in different places, and also its resilience in the face of public expenditure cuts.** Charity Bank in the North has had to respond to this diversity by tailoring its support to different places and the differing needs of organisations. Responding to such diversity is centrally important to the success of any social investment policy.

**The implementation of Charity Bank in the North has occurred during a period of considerable political, policy and economic change.** The programme was designed to respond to the rapid decline in regeneration grants; but as the effects of this decline worked through, the far more significant challenges have been around supporting organisations as the public policy funding landscape undergoes a period of transformation. This has been in terms of funding but also new areas of activity for the sector.

**Changing attitudes and approaches to funding takes time.** Developing and agreeing viable investments in voluntary and community sector organisations can take upwards of two years; although in some cases it may only require a few months. Social investment policies need to work both on developing viable investments but also in a wider programme of changing approaches to funding and loan finance in particular.

**Charity Bank in the North has met or exceeded its key targets.** It assisted over 600 organisations. Over 100 loan agreements have been signed by Charity Bank and over 200 loan/grant agreements by Key Fund Yorkshire. There is also a strong pipeline of potential investments. Key issues to arise have been around the need for a range of support, from loans of differing sizes, the mix of loans and grants, and a wider programme of support.

**There is scope to improve how investment for social returns is undertaken.** This is not a straightforward process. On the part of the sector the measurement of social returns remains variable and development here would help both in terms of accessing loan finance but also public sector contracts. On the part of social investors, there is some scope to include the assessment of social impacts in investment appraisal and monitoring. More broadly public sector funders also need to provide assistance and support.

**Social return on investment** is a relatively new approach for estimating the social impact of organisations. It is not however a panacea either for all organisations or all types of investment. Its strengths lie in providing a framework for typically larger organisations and for those with relatively easily quantified outcomes. The value of the other activities undertaken by the sector should be supported and recognised.





Charity Bank loan to The Lighthouse Group £995,000 (2009)

# Introduction

## 1.1 Charity Bank in the North Initiative

Charity Bank in the North (CBN) is a £9.75 million programme which runs from 2006 until 2016. It was funded by Yorkshire Forward, the regional development agency. The aim of the programme is:

***to help grow the voluntary and community sector (especially social enterprises) so that they can make a greater contribution to the region's economy, to encourage investment in deprived wards, and to help voluntary and community sector organisations become more financially sustainable and entrepreneurial in their outlook.***

This is the final report of the evaluation of Charity Bank in the North, the research for which started in 2008 just after the launch of the programme. During the course of the research interviewees commented that:

***the programme will succeed if it drills down below the level of bankable investments where the market is growing - the key is to go beyond the mainstream***

***the Programme is a catalyst and a demonstration to the clearing banks***

CBN included three main elements:

- i. **Investment Readiness Programme** consisting of workshops (First Steps and Next Steps) together with one to one support for VCS organisations interested in exploring loan funding and establishing themselves on a more sustainable footing.
- ii. **Key Fund Yorkshire** providing combined grant and loan funding at levels up to £50,000 (and receiving £1.5 million of CBN support)
- iii. **Charity Bank** providing larger amounts of loan funding to VCS organisations

This funding was designed to provide a package of support to the region's VCS. It was intended to engender a form of 'cultural shift' in approaches to funding: not just in funded organisations but more broadly in the sector.

Much has changed since the research began, in terms of the policy landscape, the economic climate, and public funding, but also in terms of debates around how the sector is funded and the support it requires. CBN was conceived at a time when the primary concern was with developing the sustainability of the voluntary and community sector, then faced with the prospect of substantial falls in regeneration funding to the region. The economic and political landscape formed in the wake of the financial crisis of 2008 is however of a very different magnitude, the full effects of which will not be known for some time.

## 1.2 About the Evaluation

The evaluation was commissioned in March 2008 by Yorkshire Forward and addresses the following issues:

- assessment of the outcomes and net impacts (qualitative and quantitative - including the geographical distribution of impacts and evidence of changing voluntary sector approaches to funding)
- review of the performance of the capital base
- review of the loan fund performance and potential impact on future ability to lend
- review of social enterprises benefiting from the fund with respect to their move towards sustainability
- assessment of the strategic benefits of Charity Bank in the North
- assessment of value for money
- review of sustainability.

The evaluation framework developed and agreed in 2008 set out a series of themes to address these issues. More information about the evaluation framework is set out in Annex 2. The main themes of the evaluation are:

- effectiveness of fund management processes
- performance of the fund
- outcomes for the sector
- strategic benefits and impact.

These are used to provide the main structure of the report. The following section provides the context for the initiative and how this has changed over time. We have also undertaken a small pilot study to explore the readiness for outcomes measurement in investee organisations, and in particular how Social Return on Investment may be used.

## 1.3 A Note on Terminology

Throughout this report the term Voluntary and Community Sector (VCS) is used. This is intended as a broad term for the sector and includes: the third sector, civil society and social enterprise. It also includes the various legal forms which organisations may take, including registered charities, industrial provident societies, community interest companies and companies limited by guarantee.



Charity Bank loan to the Geographical Association £170,000 (2010)

# Changing Contexts for Social Investment

## Summary

**Charity Bank in the North was designed to assist the voluntary and community sector in Yorkshire and Humber prepare for lower levels of regeneration grant funding**, which had been crucially important for development in parts of the sector. As such CBN anticipated many wider policy changes and the growing interest in social investment.

**Levels of loan funding to the sector nationally and regionally are comparatively low, especially compared to the private sector.** This has led to the sector being termed 'under capitalised' and this has slowed its development. Levels of loan funding to small and medium sized charities (those with annual incomes of less than £1 million) are particularly low. This was seen as a key market for CBN.

**The voluntary and community sector in Yorkshire and Humber is one of great variation.** This is particularly in terms of the sources of funding: for example funding from the statutory sector makes up over the half the income of charities in some parts of the region (South Yorkshire, York and Bradford) but less than a third in North Yorkshire and the East Riding. Furthermore the 'density' of charities varies with over five times the number of charities per 10,000 of the population in Craven than in Wakefield.

## 2.1 Introduction

The launch of Yorkshire Forward's Charity Bank investment on 9th November 2007 was a significant development in working strategically to sustain and enhance the contribution the voluntary and community sector can make to the region.

Regional development agency and European Union Structural Fund programmes have sought to support the voluntary and community sector since the mid 1990s, including the development of a strategic framework for enhancing the social economy. However, a key concern at the launch of Charity Bank in the North was that voluntary and community sector organisations be placed on a more *sustainable footing* both in terms of organisational development and their financial position. This emphasises the importance of organisations developing their capacity for business planning, and adopting more entrepreneurial strategies towards income generation, involving public service contracts and trading (see for example Chapman et al 2006 and Shutt and Kumi-Ampofo 2005).

The Charity Bank investment reflects this growing understanding, in terms of the different roles voluntary and community sector organisations can play but also the vulnerabilities facing the sector. The investment was designed firstly to add to the range of finance opportunities available to social enterprises, voluntary organisations and community groups, but secondly to link new forms of finance with business support and technical assistance. This was intended to assist in generating the outcome of greater financial stability within the voluntary and community sector. A third intention was to create a legacy of a financial intermediary capable of sustaining the purposes of the programme after its formal closure.

As part of the preparation for the investment in CBN, a report was commissioned from the New Economics Foundation (*Understanding and meeting the demand for social enterprise investment and support in Yorkshire and Humber, 2005*) to assess levels of supply of, and demand for, loan funding. This report found that:

- provision of loan funding for the voluntary and community sector was described as 'patchy' with both variation across the region (North Yorkshire and the Humber being less well served) and a gap in the provision of smaller loans (less than £25,000). It was also noted by finance providers that 'demand needed to be stimulated' and structured investment support was also required
- the demand for loan funding was found to vary considerably across different sizes of organisations (smaller organisations being less certain of what loan funding might mean), that the types of funding varied (from small scale requirements for working capital from smaller organisations through to larger and longer term investments by larger organisations).

Conclusions from the report suggest that there was a demand for a regional or sub-regional fund, accessible to voluntary and community sector organisations, and with tailored ongoing support.

It is also worth highlighting key features of CBN provided to us in stakeholder interviews. CBN is seen as having a *long lasting legacy* for the region, sustained with or without support in the future. It was also noted that loan finance and engaged funding are very much part of a *cultural and behavioural change* in the voluntary and community sector, addressing attitudes to risk and demonstrating the potential of loan funding on organisational and sector development and growth.

Finally, loans enable benefits in the future to be brought forward in time. How organisations understand and use loans, and in particular the rates of return from investment (a component of the *cultural change*) provides a key evaluation question.

## 2.2 Funding Debates: from Grants to a Social Investment Market?

Finance and funding issues have been perennial concerns of the voluntary and community sector over many years, revolving around the overall availability of resources, the struggle to secure continuation resources, and the transactions costs and conditions associated with generating, coordinating and managing resources (Alcock et al 1999, Carrington 2005). Whilst finance and funding preoccupations usually top lists of issues facing the sector, they may also act as a disguise for a wider set of organisational and business development concerns, such as limits to managerial and operational capacity.

In the last ten years or so, the financial sustainability of the sector has become much more of a policy and practical concern, running partly in parallel with central government's growing interest in the current and potential role of the sector in shaping and delivering public services and acting as a voice for different communities (HM Treasury 2002, HM Treasury/Cabinet Office 2007; HM Government 2011). This has included debates around the



growth potential of social enterprises, and about the kinds of policies which might remove barriers to their development. An overview of finance issues in the sector notes that demand for funds from all sources is likely to remain high, competition will intensify, and there will be *'increased pressure (on funders and on fund-seekers) to make every penny work harder, to encourage ingenuity in financing work, to demonstrate efficiency and cost effectiveness, to share or pool resources and efforts'* (Carrington 2005: 110). At the same time, there has been a reassessment of the role of grants in the funding mix developed by voluntary and community sector issues.

The debates of the last 10 years focused on three main sets of issues:

- **support for the sector on funding and finance**
- **growing awareness of 'access to finance' issues** in the sector (the demand for finance), and
- the gradual emergence of **a new market of finance providers, packages and products** – the 'supply' side of finance (Bolton and Kingston 2006, Bolton et al 2007, Pharoah 2007).

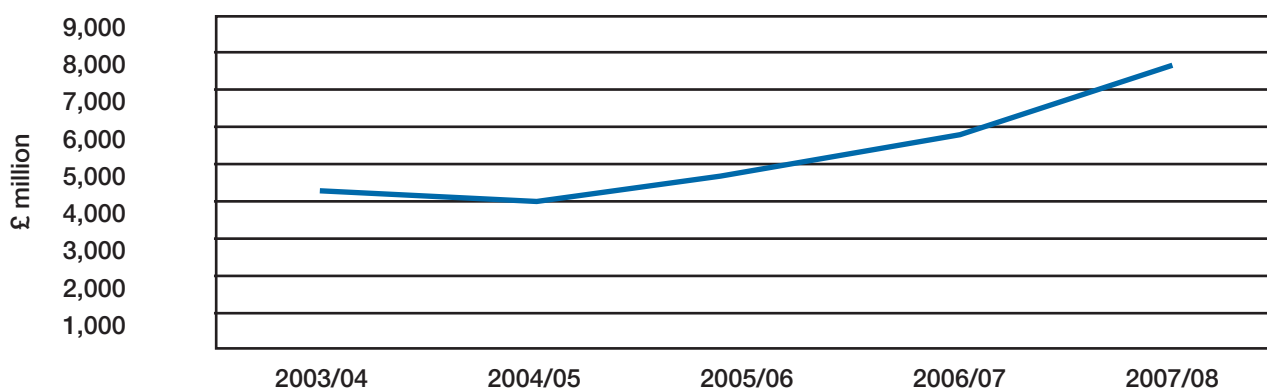
Latterly, proposals from the Commission for Unclaimed Assets (2007) have been carried forward into the proposed Big Society Bank which as part of wider proposals seeks to scale up the social investment market, with all its attendant features (HM Government 2011).

These debates also need to be seen within a dramatically different context for the sector and social investment. The original design was primarily in response to the vulnerability of organisations which had grown successfully through the use of regeneration programme grants. The events since 2008, the financial crisis and recession, the change of government, and public expenditure cuts all bring new challenges and to some extent opportunities for the sector.

## 2.3 Lending to the Voluntary and Community Sector: An Underserved Market?

Successive NCVO Almanacs have charted the increase of liabilities on the balance sheets of registered general charities (Clark et al. 2010). It should be stressed that the findings presented here only relate to one part of the voluntary and community sector: companies limited by guarantee and community interest companies are not included. The table below shows an 80 percent rise in liabilities due after one year over the period 2003/04 to 2007/08, and a 31 per cent increase for the final year on which data are available. Over the 2003/04 to 2007/08 period both the total income and expenditure of charities grew by approximately 19 percent and by about three per cent for the final year on which data are available. The level of liabilities has clearly grown apace during this period and the likelihood is that a significant proportion of this will be the use of loan funding (see Ludlow 2010 and SQW 2007 for a more detailed discussion).

**Chart 2.1: Creditors due after one year (liabilities of general charities)**



Source: NCVO, GuideStar Data Services

Note: (£million, 2008 prices)

However, long term liabilities continue to be largely used by large charities as a means of finance. Using standard size classifications for charity size<sup>1</sup> table 2.2 shows: the distribution of credit; the ratio between long term credit and expenditure; and the ratio of total credit to current assets (a gearing ratio).<sup>2</sup>

1. Standard size bands: micro charities (less than £10,000); small charities (£10,000-£100,000); medium charities (£100,000-£1 million); larger charities (£1 million to £10 million); major charities (over £10 million).

2. The common analysis of debt structures uses a gearing ratio, which is commonly defined as: (short term debt & overdrafts + long term debt) / total net assets

**Table 2.1: Credit and Organisational Size**

|                                                 | Micro       |             | Small       |             | Medium      |             | Large       |             | Major       |             | Total       |             |
|-------------------------------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
|                                                 | 2006/<br>07 | 2007/<br>08 | 2006/<br>07 | 2007/<br>08 | 2006/<br>07 | 2007/<br>08 | 2006/<br>07 | 2007/<br>08 | 2006/<br>07 | 2007/<br>08 | 2006/<br>07 | 2007/<br>08 |
| <b>Creditors due within one year</b>            | 90          | 100         | 226         | 201         | 1,031       | 1,028       | 2,240       | 2,211       | 3,226       | 3,656       | 6,812       | 7,196       |
| <b>Creditors due after one year</b>             | 30          | xx          | 95          | 120         | 553         | 523         | 1,956       | 1,886       | 3,248       | 3,737       | 5,882       | 7,680       |
| <b>Creditors due after one year/expenditure</b> | 14%         | xx          | 5%          | 6%          | 10%         | 9%          | 20%         | 18%         | 24%         | 26%         | 19%         | 23%         |
| <b>Gearing ratio (total liabilities)</b>        | 3%          | xx          | 5%          | 3%          | 8%          | 8%          | 17%         | 16%         | 18%         | 17%         | 14%         | 15%         |

Source: NCVO, GuideStar Data Services

Note: 1. (£million - unless stated); 2. We have excluded some data (marked xx) for micro charities for the 2007/08 year as it was estimated based on small sample sizes.

Table 2.2 reveals that 77 per cent of credit (short and long term) for the 2007/08 year is taken up by organisations with turnovers of greater than £1 million: these organisations account for 76 percent of expenditure in the sector. This is a considerable change over a 12 month period, as the corresponding figure for credit in large organisations was 84 percent in 2006/07.

Table 2.2 also presents a gearing ratio for different sizes of charities. On average the gearing ratio for general charities is 15 per cent, but again, higher for large and major charities. For charities with turnovers of less than £1 million the gearing ratio is less than 10 percent. A comparative figure for private businesses (not stock market quoted) is 43 percent (Bank of England 2003a and 2003b). Reasons given for the comparatively low gearing ratio in VCS organisations, especially smaller organisations, are typically attributed to a combination of demand, supply and market intermediary factors. Charities and their trustees are more likely to be risk averse than private businesses and are also less likely to secure commercial loan finance.

## 2.4 The Loan Market in Yorkshire and the Humber

The government's National Survey of Third Sector Organisations (NSTSO) in 2008 contained a question: '*How satisfied or dissatisfied are you with access to loan finance for your organisation*'. Figures for Yorkshire and Humber are broadly similar to the national (England) picture: **six per cent of respondents are fairly or very satisfied with access to loan finance** in the region compared to seven per cent nationally. There is some variation in satisfaction levels across the region but in no local authority area does this exceed ten percent.

Respondents to this question could indicate 'non-applicable' and together with 'don't know answers' may be taken to represent those groups who currently do not consider loans as a funding option. If we take this information to be statistically representative to within +/- 2 per cent at the Yorkshire and Humber level (as per Ipsos MORI guidance), based on what we know about the NSTSO and the voluntary and community sector in the region (excluding 'under the radar' organisations) this suggests that at most between 4,515 and 4,935 charities would be interested in loan finance, with a much smaller proportion ever likely to take up loan funding. These figures exclude 'below radar organisations' - those which are not required to report in any form to a registrar (e.g. the Charity Commission, FSA, Companies House).

To put this in context we sought to find out which organisations used loan finance at the moment. We undertook an analysis of a sample of 522 charity accounts to get a picture of the current use of loans and other borrowing by registered charities in the region. The sample of 522 included all registered charities located in Yorkshire and the North East<sup>3</sup> with an annual income of more than £500,000 whose 2009-10 accounts have been submitted with and made available by the Charity Commission. This is of course a partial picture, but is intended to provide the most up to date assessment possible.

3. The nature of the data meant it was not possible to disaggregate data for Yorkshire and the Humber and the North East; nor was it possible to secure adequate data on organisations with turnovers smaller than £500,000.



The financial profile of the sample (including their borrowings) is outlined in tables 2.2-2.3 below.

Table 2.2 shows that the Charities in the sample had a total annual income of £2.1 billion, total expenditure of £2 billion and total borrowings of £440 million. The mean level of borrowing was £6.4 million but the median was £540,000. This difference can be explained by large variations in amounts owed: seven charities had borrowed more than £5 million and the largest amount borrowed by one charity was £328 million; by comparison ten charities had borrowed less than £50 thousand and one had borrowed less than £1 thousand.

**Table 2.2: Financial profile of the sample**

|                       | £ms   |
|-----------------------|-------|
| <b>Balance sheet:</b> |       |
| Total Income          | 2,066 |
| Total Expenditure     | 2,023 |
| Net Assets            | 2,218 |
| Fixed Assets          | 3,139 |
| Current Assets        | 771   |
| Total Liabilities     | 1,560 |
| <b>Borrowings:</b>    |       |
| Borrowing Liabilities | 440   |
| Mean borrowings       | 6.4   |
| Median borrowings     | 0.54  |

Source: CaritasData

Table 2.3 shows that only 69 organisations (13 per cent) actually had borrowings. Total borrowings represented 13 per cent of total expenditure and the average (mean) level of borrowing as a proportion of expenditure was 7 per cent (increasing to 57 per cent when organisations without borrowings were removed).

**Table 2.3: Borrowings of the sample in detail**

| <b>Lending Variable</b>                              |     |
|------------------------------------------------------|-----|
| Number of organisations with borrowings              | 69  |
| Proportion of organisations with borrowings          | 13% |
| Total borrowing as a proportion of total expenditure | 22% |
| Mean borrowing as a proportion of total expenditure  | 7%  |

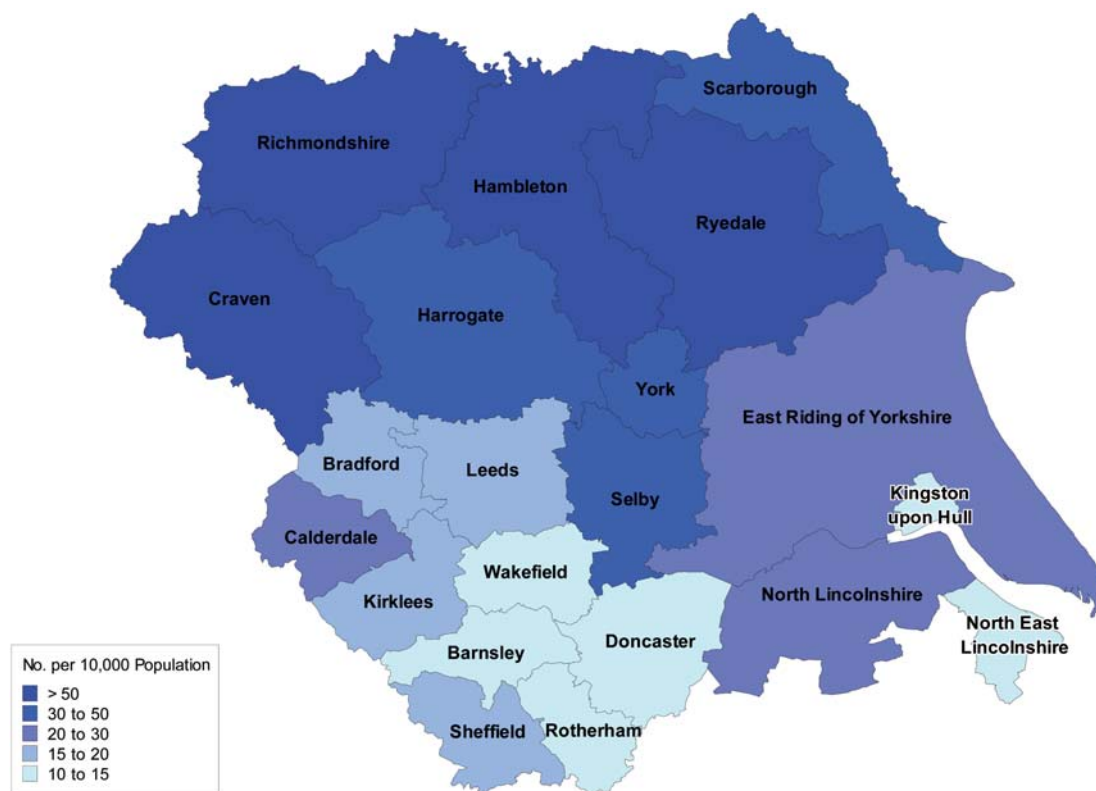
Source: CaritasData

This analysis is intended to provide some context on the existing scale of the lending market to charities. The overall position is that relatively few charities use loan finance and whilst many indicate some interest it shows that the development of the market is probably at a relatively early stage. Growth in this market may come from different sources and across different sectors. This issue is explored in a subsequent section in terms of the reach of Charity Bank in the North.

## 2.5 A Region of Variations?

Research undertaken as part of the Northern Rock Third Sector Trends Study (see Crowe 2011 for a summary) and drawn upon in a recent research report on the Big Society (see Wells et al 2011) highlighted the variation in the sector across the region, particularly in terms of the size of the sector in different locations, its sources of funding, and its vulnerability. These issues are reflected in the following map and charts.

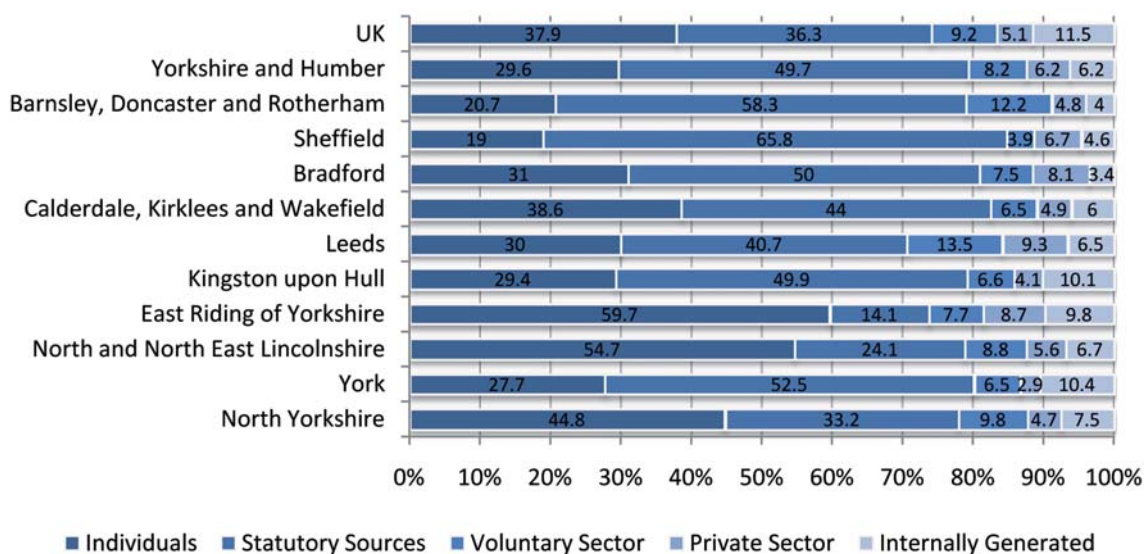
**Figure 2.1: Relative Scale of the Sector**



Source: GuideStar Data Services/ Northern Rock Foundation Third Sector Trends study

The above map shows the number of voluntary and community sector organisations per 10,000 of the population in each of the local authority districts in Yorkshire and Humber. It reveals a marked difference between Doncaster, Barnsley, Hull, Rotherham, North East Lincolnshire and Wakefield (less than fifteen organisations per 10,000 of the population) and Craven, Richmondshire, Hambleton and Ryedale (all more than 50 general charities per 10,000 of the population). Indeed, per head of the population there are over five times the number of charities in Craven (highest density) than in Wakefield (lowest density).

**Chart 2.2: Income sources of general charities in Yorkshire and Humber, 2006/07**



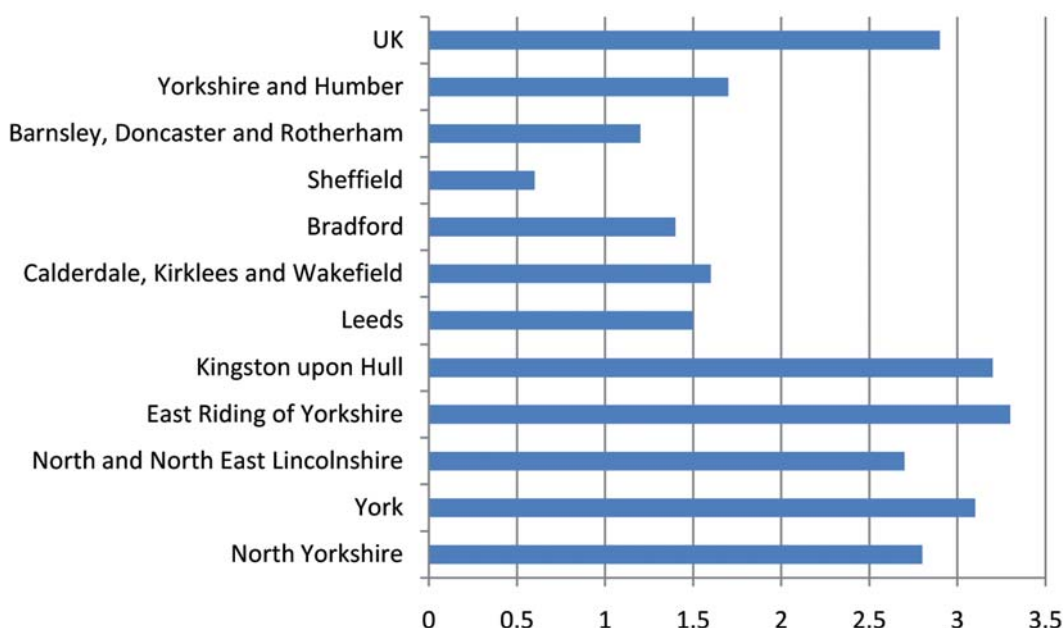
Source: GuideStar Data Services/ Northern Rock Foundation Third Sector Trends study

The above chart reveals marked contrasts in the proportion of income from statutory sources across the region.

Statutory sources of income are very significant in South Yorkshire but far less so in North Yorkshire and North and North East Lincolnshire; in each area individual donations account for over 50 per cent of income. The figure suggests that charities in South Yorkshire, Hull and York are likely to be harder hit by reductions in public expenditure.

The following chart reveals how resilient charities in particular areas may be to adverse funding shocks. It uses the simple measure of the assets a charity holds against annual expenditure. The findings reflect the preceding discussion: charities in South Yorkshire appear more vulnerable, although using this measure charities in Hull appear less vulnerable. Of course, variation will be more marked within localities and a few 'outliers' may explain some of the marked differences.

**Chart 2.3: Funds held by general charities in Yorkshire and Humber (2006/07) - Years of expenditure**



Source: GuideStar Data Services/ Northern Rock Foundation Third Sector Trends study

Interviews with funding advisers, typically working in local infrastructure organisations, undertaken over the last two years reflected on these issues and the main challenges facing their clients. They emphasises the following:

- **changing times:** the most common response to changes in the voluntary and community sector policy and funding environment was that we were in a period of 'changing times' in which the implications for the sector as a whole were unclear. All respondents anticipated a period of contraction across the sector with organisations shrinking or closing. However, most recognised that there would also be new opportunities; although how agendas around the 'Big Society' are translated into practical action is as yet unclear for many. It was noted that the effects of the reduction in regeneration programme funding had already worked through, reductions in statutory funding and core grants would work through over the next two years. The latter process would affect many more organisations. Concerns were raised that support of the voluntary and community sector needed to go beyond seeing it in some way as a cheaper option
- **needs of the sector:** there was some consistency here that the most commonly identified need was around funding. However, it was also noted that recruiting good trustees with relevant skills, attracting volunteers and having strong organisational development were all important. On the last point, many funding advisers highlighted the continuing need for more organisational development in the sector
- **approaches to funding:** some funding advisers highlighted that many organisations in the sector were still unaware of the (grant) funding opportunities which existed and that they could be successful in securing grant income (e.g. from charitable trusts and the Big Lottery Fund). As a consequence organisations may continue to struggle - whether through having poor premises or through not having sufficient staff in key posts. Of course, organisations also needed staff resources to apply for funding and to be able to give priority to these. There was also a consistent message from funding advisers that organisations need to undertake greater levels of financial planning and anticipate problems that may arise, notably around cash flow. It was felt that the support was in place to provide this. It was also noted that the region was well served with funding advice and that the Investment Readiness Programme had added a new dimension to this

- **region of variations:** Some obvious examples were around the effect of regeneration funding on the sector; some funding advisers now recognised that regeneration funding, whilst delivering on regeneration goals and community participation during the course of programmes, had not helped to build sustainable organisations. It was also recognised that in some parts of East and North Yorkshire and smaller unitary authorities that there were a relatively small number of organisations well placed to take up opportunities presented by new funding and service delivery models
- **demand for loan funding:** the funding advisers were found to have a clear understanding of different funding options available for voluntary and community sector organisations. Many highlighted that they had sign posted organisations seeking loans or loan advice to CBN. The support available through the Investment Readiness Programme was also seen to be important. However, some concerns were raised around the range of loan funding available: with a comment that there would be benefits in the provision of smaller amounts of loan funding (less than £50 thousand) being available (something addressed by Key Fund Yorkshire's part of the programme)
- **importance of relationships with funders:** this was seen as a two way process, and examples were given as to where the voluntary and community sector or the statutory sector had not given sufficient attention to building and sustaining working relationships. In a period of considerable change such relationships were deemed to be very important.

## 2.6 Conclusion

Demand for higher levels of loan finance is dominated by large charities, often able to secure finance from commercial banks. There is some circumstantial evidence that many commercial lenders have, following the banking crisis, further withdrawn from lending to charities.

Loan funding will not be relevant to the majority of VCS organisations in the region; but there are a significant number who have the *potential* to benefit from it and represent the target market for CBN and other social investors. Of course, the ability to borrow also depends on lending terms: for example, lower security levels may have increased the number of borrowers albeit with an increase in risks. Charity Bank generally requires security for lending unlike Key Fund Yorkshire, but the terms imposed by both organisations are very different.

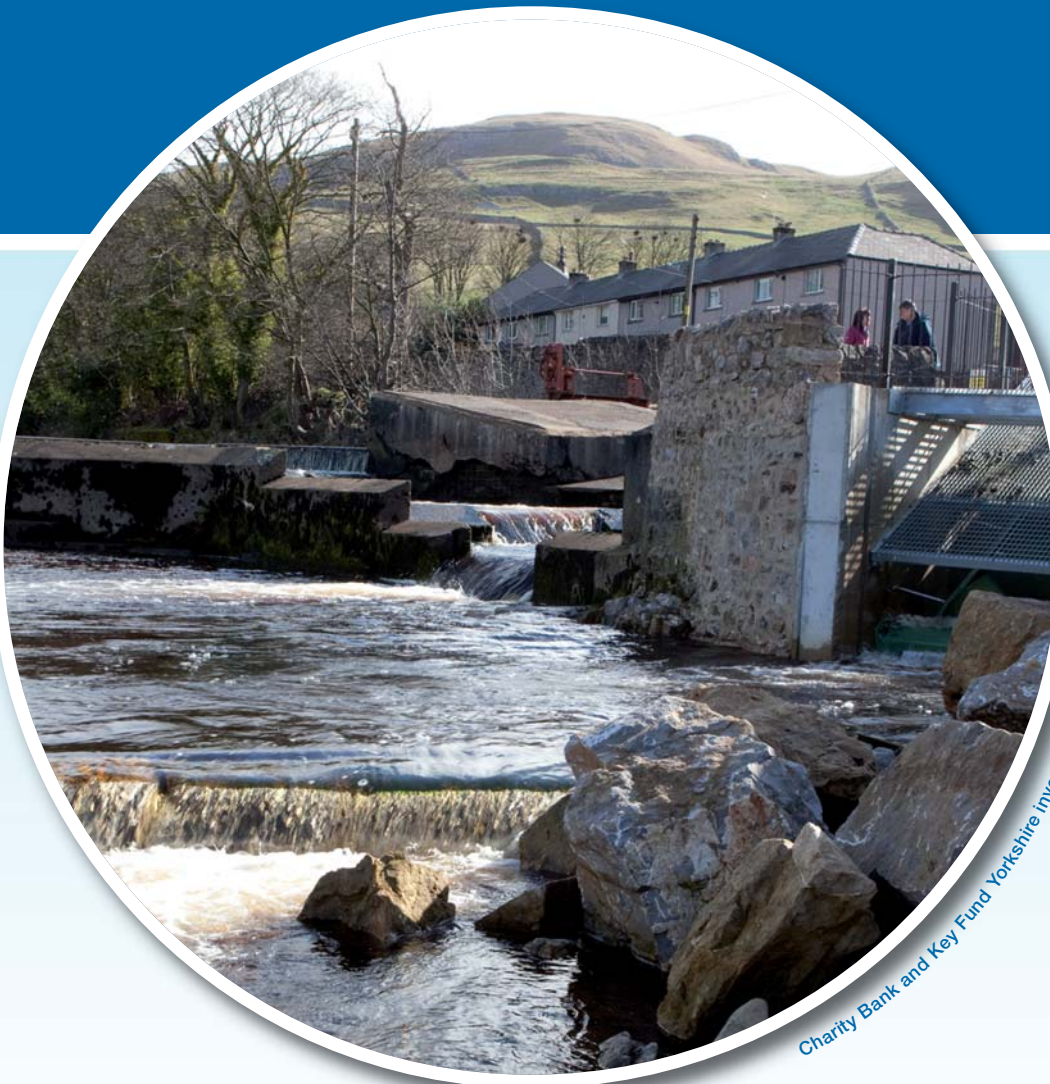
In this context Charity Bank in the North's output targets to reach in excess of 800 organisations appear impressive. Moreover, it is reaching organisations which are not being served, on the whole, by commercial lenders. But in practice either loan finance may not be appropriate at a particular moment in time, or substantively, they face other barriers to making best use of loan finance, for instance around their financial management capacity (see Joy et al. 2011 for a recent research report for NESTA on the establishment of the Big Society Bank).

Despite the array of data available on civil society activities (much discussed in this section), relatively little data is readily available on the finances of the sector and in particular the significance of long term debt finance for small and medium sized charities. If the social investment market is to grow, this area needs to be addressed.

We also highlight that there is considerable variation in the voluntary and community sector across Yorkshire and the Humber, particularly in its funding. Any region-wide programme needs to recognise and work with this variation.

The most common response in our interviews with funding advisers from across the region was that the current climate in which the voluntary and community sector operates is one of changing times: although it was clear that substantial reductions in public funding would have significant effects across the sector, it was unclear how these would be experienced. Equally, it was noted that certain types of organisation - typically better developed and with a clearer service offering - were better placed to take advantage of new opportunities which may emerge.





Charity Bank and Key Fund Yorkshire Investment in Settle Hydro £130,000 (2009)

# Processes

## Summary

**A role for Charity Bank in the North has been to act as a demonstration project** revealing the potential to the sector of using loan finance. As such it has very much been delivered during the early development phase of a social investment market in the region.

**All aspects of Charity Bank in the North were held in high regard;** the programme was seen to have worked well and addressed unmet needs.

**As a demonstration project, Charity Bank in the North has evolved and responded to emerging needs and issues.** Examples here include the reworking of advice and support, greater efforts to market CBN to North Yorkshire and the Humber, and the move for Charity Bank who were in commercial offices in Leeds to a community-owned building in York.

**Key Fund Yorkshire and Charity Bank were both found to have robust processes for assessing applications and monitoring loans.** Although social benefits are considered in appraisal, a future challenge for both organisations will be around how they invest to have a greater social, environmental and economic impact.

### 3.1 Introduction

This section explores the processes involved in implementing the three main elements of the initiative: the Investment Readiness Programme (workshops, one-to-one support and mentoring); the Key Fund (grant/loan mixes and loans); and the Charity Bank (loans). Each is considered in turn and draws on a range of data (from feedback forms, the survey and stakeholder interviews). A consideration of how the three elements of the initiative work together is also made.

### 3.2 Development of Charity Bank in the North

Section 2 of this report reflected on the changes to the operating environment of Charity Bank in the North. The funding for the Investment Readiness Programme (IRP) and Key Fund Yorkshire from CBN have ended, leaving the main part of the programme, the lending activity of Charity Bank in Yorkshire and the Humber to continue. The summarises some of the main developments in CBN:

- **changes to Charity Bank Operations** in Yorkshire and Humber: Charity Bank has reorganised its operations and relocated its offices from Leeds to York, and into a community building. The end of the IRP also brought a greater focus on lending, needed to sustain its operations. The majority of loan assessment processes are managed from its head quarters in Tonbridge and as with all applications for Charity Bank loan funding, all applications go to a central credit committee. Charity Bank also now focuses on loans with values of over £50,000 and requires 70 percent loan to value for most lending (down from 85 percent). The latter reflects trends in the wider banking market and the increasingly subjective value of community assets.
- although the main elements of the IRP ended in 2010, Charity Bank has run 10 further **workshops** in the region. These have had a stronger lending focus. These have typically been in conjunction with local infrastructure organisations and included participation of organisations such as Key Fund Yorkshire and funding advisers (such as the South Yorkshire Funding Advice Bureau)
- Charity Bank has also changed its approach to **business development**, working in partnership with other organisations (including accountants and solicitors) and with staff members within Charity Bank given responsibility for each of the four sub-regions. Areas which have traditionally been under represented in the portfolio have also been targeted for business development support, notably, Hull, East Riding and North Yorkshire
- a strong focus of Charity Bank is on capital investments, which are typically of a larger scale and require a **longer time to develop** from inception (often two to three years). Charity Bank had a key role working with charities over this period to realise developments.

It was noted that no loans by Charity Bank in Yorkshire and the Humber had **defaulted**, although a few had required contract renegotiation. This was seen to be a reflection of the approach to lending taken by Charity Bank.

Interviewees for the research emphasised that a culture change by staff and trustees of voluntary and community sector organisations was a long term process; something which Charity Bank could support but needed to be undertaken carefully and without compromise to credit standards. An example of how this might happen would be through charities being subject to independent reviews of governance and management as part of a condition of loan funding. This may lead to, for example, establishment and use of risk registers and attracting trustees with specific skills (notably around finance and legal issues).

In terms of demand for loans and particular sector opportunities, opportunities were seen around green energy production, around social housing, and around projects working with ex offenders. In the first two cases, these were seen to offer strong security (i.e. in property) together with a very stable income base (through longer term supply contracts).

### 3.3 Investment Readiness Programme

The Investment Readiness Programme (IRP) consisted of workshops delivered by Fit for Funding (First Steps) and the University of Huddersfield (Next Steps), One to One support (Charity Bank) and a range of mentoring provision (arranged by Charity Bank).

From the analysis of feedback questionnaires, the workshops were found to have been delivered effectively across the region and were well received. The reach (coverage) and impact of the workshops are considered in the next section. It was noted that the marketing of the Next Steps workshops could have been better, something picked up by the Programme's own advisory council.



Each workshop was promoted jointly through local channels (e.g. with the South Yorkshire Funding Advice Bureau in South Yorkshire) and attracted representatives from 10-12 organisations. Attendance varied to some extent, and it was reported that attendance of the Next Steps workshops had fallen away towards the end of the series.

The workshop providers noted that ‘something different’ would be required for future programmes - in part reflecting the constraints brought by delivering two hour sessions. Suggested alternatives included mentoring or coaching relationships, although these are provided by other parts of the programme. But in terms of *this* programme, providers highlighted that “*We would not do anything differently*”.

Fewer comments were made concerning the one-to-one support, although all providers and funding advisers suggested that this support is very important and they were well aware of what was available.

However, wider concerns were voiced around the slow start to the mentoring programme. It was accepted as being an important part of the programme but that it was proving more difficult to “sell” to the voluntary and community sector. The case for support from professional services (legal, banking and accountancy) was seen as good in principle, but that voluntary and community sector organisations may be resistant to this support.

### 3.4 Key Fund Yorkshire

Provider, case study and funding adviser interviews highlighted that Key Fund Yorkshire’s investment processes were very thorough (outlined below). It was highlighted that Key Fund Yorkshire focuses on enterprise and growth whereas Charity Bank focus on loan repayment: suggesting a more formal consideration of wider outcomes in the Key Fund Yorkshire processes.

**Table 3.1: Key Fund Yorkshire: Investment Policy Process**

|                                                                                                                                                                                                                                                                    |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 1. <i>Key Fund receive an initial enquiry form</i>                                                                                                                                                                                                                 |
| 2. <i>A series of eligibility checks are performed on this by an officer but these are also validated by a different staff member. Key Fund can then see whether the investment is viable</i>                                                                      |
| 3. <i>A Full Application is requested (including pen pictures of key staff and trustees/directors, planning consents, quotes for works, and job descriptions)</i>                                                                                                  |
| 4. <i>A full assessment is carried out</i>                                                                                                                                                                                                                         |
| 5. <i>A visit to the organisation takes place, to clarify loose ends and confirm existence and activities of the organisation</i>                                                                                                                                  |
| 6. <i>The Assessment Report is completed</i>                                                                                                                                                                                                                       |
| 7. <i>The Report goes to an Internal Assessor</i>                                                                                                                                                                                                                  |
| 8. <i>The Proposal then goes to the Investment Panel (a group of senior social enterprise, business, public sector and investment specialists). This group is very challenging in terms of the questions it asks of applicants.</i>                                |
| 9. <i>Full Offers are made and monitoring begins</i>                                                                                                                                                                                                               |
| 10. <i>Monitoring is undertaken monthly until the funds are drawn down and spent. After this monitoring is six monthly until the loan is repaid. A traffic light risk system is used on monitoring. The majority of the portfolio has green/amber assessments.</i> |

Key Fund Yorkshire noted that investments being rated ‘red’ or at risk are primarily because they are not providing all the assessment information as required.

### 3.5 Charity Bank

The Charity Bank operates within the regulatory regime of the Financial Services Authority. This means that they cannot act as shadow directors to organisations and need to exercise caution in the range of advice they can offer. The development of applications was found to work well and organisations appreciated the supported provided (from case study research with five organisations). Monitoring processes were also found to be reasonable, requiring quarterly monitoring reports and audited annual accounts. During the course of the research, information on social impact and outcomes was additional and gathered through quarterly telephone discussions with the organisation.

### 3.6 Links between the CBN Partners

The Providers and most Funding Advisers stressed that the CBN initiative was well integrated. Typical responses from Funding Advisers include:

*"I am very positive about CBN...all features fit together well".*

*"CBN has a high and good profile and a 'regular presence on the circuit' ... they are well marketed"*

*"I have very good working relations with all parts of the Programme"*

*"The IRP and Charity Bank are very well run ... they fill a gap in the market and need more resources"*

Some respondents believed that the two sets of workshops could have been more integrated, although in practice it was noted that this would have been difficult. Splitting the contract between the two workshop providers was also found to help in sharing the burden of delivering outputs and exploit the strengths of both parties. The attendance of the Charity Bank at all workshops was also much appreciated and noted that they were not partisan in terms of promoting Charity Bank loans, but rather promoted funding to the sector as a whole.

A more critical voice highlighted the possible tension between the need to Charity Bank to deliver a regional programme whilst also being part of a national organisation. It was appreciated that this tension was difficult to reconcile. A local funding adviser, who had made two unsuccessful referrals noted that they would not use Charity Bank again.

Despite these negative comments, it should be stressed that the majority of interviews with funding advisers from across the region were very positive.

### 3.7 Links with other Support Providers

During the CBN programme, other providers included: voluntary and community sector infrastructure bodies (organisations such as Councils for Voluntary Service, but also the South Yorkshire Funding Advice Bureau); Business Link and the projects it funds; and other finance providers (notably the Social Investment Business, the Co-op Bank and the Unity Trust Bank). These different sets of relationships were found to have developed over time and most recognised the time it takes for a new initiative to "find its feet".

Links with other finance providers were found to be positive and clear, with evidence of cross referrals being made. On the whole relations with Business Link were also found to be positive, although some concerns were voiced around the relationship between CBN and the Social Enterprise programme. This area probably needs to be explored further.

Where links existed with CVSs they were found to be good and CVS staff spoke positively of CBN. However, it was noted that CBN did not have strong relations with all local support and development organisations in the region: examples cited during the programme included York and Hull.

### 3.8 Impact Appraisal and Monitoring

The evaluation team undertook a desk review of a cross-section of Charity Bank and Key Fund Yorkshire investments in order to understand how the social impact of investments was identified through the application and appraisal process and then measured through post-investment monitoring.

#### *Appraisal and monitoring process*

The appraisal processes of both Charity Bank and Key Fund Yorkshire focus on the financial viability of the investment and the ability of the potential investee to repay the loan. It involves a range of due diligence activities, including financial risk and market analysis, to produce an assessment of the proposed investment activity and the organisation applying for funds.

Charity Bank and Key Fund Yorkshire also make an initial assessment of social impact. This involves a number of activities:

- ensuring that the organisation applying for funds is ‘not-for-profit’, either through charitable status or through its use of trading surpluses (as set-out in its memorandum and articles of understanding)
- a review of the organisation’s charitable/social objectives or mission statements
- identifying possible beneficiaries of the investment activity
- outlining the possible social outcomes/impacts accruing to beneficiaries

Through this process a number of output targets for the investment are set. These relate to economic impact of the project and focus on economic activity measures such as jobs created or safeguarded and organisations assisted. However, these often relate to the investee organisation (i.e. new jobs created within the investee) rather than their beneficiaries so do not provide a full measure of economic impact. Moreover, these measures were also required for contract monitoring purposes by Yorkshire Forward.

This process provides Charity Bank and Key Fund Yorkshire with evidence that the organisation applying for funds has a social purpose and that the funds provided will be used to further that purpose. If either funder is not satisfied that the funds will be used in this way the application will not be approved. However, the process does not put in place any social output or outcome targets for the investee organisation to achieve: this means that the social impact of investments are not measured systematically post-investment which in turn means there is no basis for aggregation to determine the overall impact each funder is making. Both Key Fund Yorkshire and Charity Bank recognised the shift towards ‘impact funding’. For example, the assessment procedures of the Charity Bank are changing to include the appraisal of impact in its review processes.

### **Evidence of social impact**

It was clear from our review of the Charity Bank and Key Fund Yorkshire investment portfolio that a number of investments are having a social or environmental impact. A good example here is investments in environmental projects that produce electricity from renewable sources: projects which should contribute to reductions in CO<sub>2</sub> emissions. If this information was monitored systematically the net amount of CO<sub>2</sub> savings could be measured on a project or programme basis to provide an estimate of the environmental value created<sup>4</sup>.

### **Towards a programme wide framework for measuring social impact**

Charity Bank and Key Fund Yorkshire are both interested in improving their approach to monitoring and evaluating the social impact of their activities. We feel that this could take place at two levels: the *investment* and the *programme*. In both cases the key will be to standardise the ways in which data is collected through a standardised framework of economic, social and environmental indicators which capture the broad range of activities undertaken. This type of approach would support investment level evaluation but could also be aggregated for a programme estimation of impact (and potentially generate benchmarks of returns from different classes of investment). These issues are discussed further in the section on social return on investment.

## **3.9 Conclusions**

Two comments from funding advisers seem to sum up the processes:

*“It is easier than I first thought. Charity Bank has been good to work with... but we’ve probably had limited impact... the organisations we’ve encountered are sharp and enterprising.”*

*“Funding and support for small organisations is crucial. I think it is still an open question as to whether the VCS will take up loans [in large numbers]. But the sector needs to be more open to funding options. Growth may come through new organisations seeing opportunities ... and not necessarily focusing on the existing base.”*

These also raise the continuing challenge in Charity Bank finding opportunities for loan funding. These may require a focus around particular agenda, where for example there are growth prospects for social enterprise (e.g. around social care or health and environmental services).

---

4. Government guidance on how to calculate the value of a tonne of CO<sub>2</sub> indicates that the value of non traded CO<sub>2</sub> is £50 per tonne (DECC (2008) Carbon Valuation in UK Policy Appraisal: A Revised Approach)



Charity Bank loan to the Sri Guru Nanak Sikh Temple £50,000 (2011)

# Performance of the Fund

## Summary

The Charity Bank in the North Programme runs until 2016. **Over 600 organisations were supported by the Investment Readiness Programme (which ran until 2010)**. Over 100 loan agreements have been signed and Key Fund Yorkshire and Charity Bank have made £17.81m of investments. Both organisations intend to continue to develop the support for the sector in the region in the future.

**Loan activity was slower than originally anticipated** but has increased markedly; the Key Fund element of the programme was delivered on time and significantly Charity Bank has a strong loan pipeline of 30 potential loans with values at just under £10 million.

**Demand for loans has been strongest in West Yorkshire and weakest on the Humber.** This pattern has been consistent since the start of CBN. However, demand for loans has increased in North Yorkshire.

**Organisations benefiting from all aspects of the programme tend to have low or fluctuating operating margins**, reflecting the wider financial profile of small to medium sized voluntary and community sector organisations. Charity Bank tends to invest in organisations with relatively high levels of unrestricted funds; whilst Key Fund Yorkshire (making much smaller loans) invests in more highly geared organisations.

**Default and bad debt levels for both Key Fund Yorkshire and Charity Bank are extremely low**; and the fund therefore has the potential to reach a level of longer term sustainability. That is repayments are sufficient to meet administrative costs and provision for bad debt. However, it was evident that further revenue support is required to develop new loan applications and to support organisations.



## 4.1 Introduction

This section examines and provides an assessment of the sustainability of the fund, the capital base and loan performance.

In terms of **fund sustainability** the test here is that the fund would continue to exist without additional assistance from Yorkshire Forward. The long term indicators of this are that Charity Bank funds are at the same or a greater level after the project ceased (2016). At this stage it is possible to make an interim assessment of this by drawing on monitoring data supplied by Charity Bank. We are also able to draw on survey and case study evidence to explore the likelihood of this outcome being achieved.

In terms of the **capital base and loan performance** (which will drive the sustainability of the fund) we explore the balance of risk across investments, loan disbursement and repayment performance (capital and interest) and assess these against expectations (contained in contracts).

## 4.2 Progress Towards Output Targets

### Summary

The following table outlines the progress of the programme in achieving its main contracted targets.

**Table 4.1: Output Achievement**

| Output                                                                                  | Contract | Achieved<br>(end Dec 10) | Variance |
|-----------------------------------------------------------------------------------------|----------|--------------------------|----------|
| No. Businesses assisted through the Investment Readiness Programme                      | 449      | 605                      | +156     |
| No. Businesses assisted through direct lending/<br>grant/patient capital (Charity Bank) | 449      | 96                       | -353     |
| No. Businesses assisted through grants/patient capital (Key Fund)                       | 205      | 220                      | +15      |
| Private sector investment levered (£million) <sup>5</sup>                               | £60      | £16.3                    | -£43.7   |

Source: Yorkshire Forward

There have been more than 600 eligible attendees or participants in the IRP, through the First and Next Steps workshops and the additional workshops run by Charity Bank. Key Fund Yorkshire has achieved its targets before the end of the programme. The area of greatest concern is around the take up of Charity Bank loans, although it should be stressed that this target extends through to the end of 2015/16: 96 organisations have received assistance through direct lending/grant/patient capital to date against a target of 449, this is up from 44 organisations at the end of 2009. All organisations involved in the programme highlighted that uncertainty due to public sector funding and the Big Society policy agenda had meant charities were currently being more cautious.

5. This target is to be achieved by 31 March 2010 and represents cumulative progress by CBN in expanding the lending capability.

## Building the Capital Base

During the spring 2010 the lending targets for Charity Bank were re-profiled. They are set out in the following table, and the following text considers the loan portfolio in relation to these.

**Table 4.2: Annual lending targets**

| Year    | Annual Lending Target (£ million) | Cumulative Lending Target (£ million) |
|---------|-----------------------------------|---------------------------------------|
| 2007/08 | 2.1                               |                                       |
| 2008/09 | 5.7                               | 7.8                                   |
| 2009/10 | 2.2                               | 10                                    |
| 2010/11 | 6.8                               | 16.8                                  |
| 2011/12 | 7.6                               | 24.4                                  |
| 2012/13 | 8.1                               | 32.5                                  |
| 2013/14 | 8.6                               | 41.1                                  |
| 2014/15 | 9.1                               | 50.2                                  |
| 2015/16 | 9.8                               | 60.0                                  |

Source: Yorkshire Forward

## Charity Bank Loan Pipeline and Portfolio

At the end of March 2011 the loan pipeline for Charity Bank included 30 potential loans with a cumulative value of £9.8 million. Some concerns were raised around this in earlier phases of the evaluation although it was also noted that activities such as the Investment Readiness Programme can take time to translate into full loan applications and loans being made.

The following table shows the number and value of loans and grants approved by Charity Bank and Key Fund Yorkshire.

**Table 4.3: Charity Bank/Key Fund Yorkshire Loans and Grants Approved (March 2011)**

|                           |                              | Number (£ thousand) | Value         |
|---------------------------|------------------------------|---------------------|---------------|
| <b>Charity Bank</b>       | Heads of Terms (HOTs) signed | 39                  | 9,576         |
|                           | HOTs issued but not signed   | 12                  | 2,144         |
|                           | <i>CB Total</i>              | <i>51</i>           | <i>11,720</i> |
| <b>Key Fund Yorkshire</b> | Grants                       | 198                 | 421           |
|                           | Loans                        | 62                  | 870           |
|                           | <i>KFY Total</i>             | <i>205</i>          | <i>1,291</i>  |
| <b>Total</b>              |                              |                     | <b>13,011</b> |

Source: Charity Bank

Note: Heads of Terms (HOTs)



By March 2011 Charity Bank had approved loans of £11.72 million (up from £4.08 million the previous May). The total target set in the contract is £16.8m including investment by Key Fund Yorkshire and other private sector leverage. With loans approved during March, Charity Bank in the North had achieved a total of £17.81m exceeding the re-profiled target by just over £1 million.

An issue not addressed in the target framework established by Yorkshire Forward is fund disbursement (i.e. the amount of funding actually drawn down by investee organisations). Additional data provided by Charity Bank show that, at the end March 2011, 31 investees had drawn down loan funds worth £5.85 million: 61 per cent all loans agreed (HOTs issued) and 80 per cent of all proceeded loans (HOTs signed).

A further important aspect of fund performance is loan repayment. Data provided by Charity Bank shows that, at the end of March 2011, 27 loan recipients had repaid £1.38 million of loan funding (24 per cent of drawn funds) including four that had repaid the full amount.

Since the establishment of Charity Bank, 47 loan applications have been declined, with a value of £8.85 million. This is for a variety of reasons but typically because of credit risks, such as the organisation lacking capacity to realise the loan objectives, poor risk management, or insufficient evidence of revenue streams which would follow the loan. Charity Bank has also successfully referred some applicants to commercial banks.

### Geographic Distribution of Interventions

The following table sets out the geographic distribution of interventions made by the IRP programme. Overall it shows a reasonable balance across the region. Research in the first two years of the evaluation raised concerns around the reach of the programme into the Humber and North Yorkshire sub regions but this more recent data suggest that some of the concerns have been overcome, especially given the relative size of the voluntary and community sector in these two sub regions.

**Table 4.4: IRP Programme Beneficiaries by Sub-region (May 2010)**

|                 | First Steps |     | Next Steps |     | CBN 1:1  |     | Other    |     | IRP Total |     |
|-----------------|-------------|-----|------------|-----|----------|-----|----------|-----|-----------|-----|
|                 | <i>n</i>    | %   | <i>n</i>   | %   | <i>n</i> | %   | <i>n</i> | %   | <i>n</i>  | %   |
| North Yorkshire | 78          | 19% | 19         | 22% | 13       | 22% | 30       | 26% | 120       | 19% |
| South Yorkshire | 95          | 23% | 28         | 24% | 14       | 24% | 22       | 19% | 149       | 24% |
| The Humber      | 95          | 23% | 12         | 14% | 8        | 14% | 13       | 11% | 123       | 19% |
| West Yorkshire  | 144         | 34% | 43         | 41% | 24       | 41% | 51       | 44% | 242       | 38% |
| <b>Total</b>    | 412         |     | 102        |     | 59       |     | 116      |     | 634       |     |

Source: Charity Bank

Note: To avoid 'double-counting' of organisations, the IRP Totals relate to the total number of organisations assisted, not the total number of cases of assistance.

The following table considers the geographic distribution of investments by the Charity Bank and Key Fund Yorkshire. Here the pattern is different from above and more marked, with higher levels of investment activity in West Yorkshire. This pattern has changed somewhat over the life of the programme. Although charities in West Yorkshire have consistently received higher levels of CBN investment there have been a higher proportion of investments in North Yorkshire in the past 18 months compared to the first two years of the programme (and may reflect the returns of a concerted effort to increase interest from North Yorkshire and the Humber). The lack of investments in the Humber over the course of the programme raises questions about the reach of lending into this part of the region despite increased IRP activity, but also may simply reflect the extent to which charities there can be considered investment ready. However, the variation is largely in line with the distribution of Yorkshire & Humber's population.

**Table 4.5: Loans/Grants by Sub-region (March 2011)**

|                 | Charity Bank Loans |              |                                 |                                | Key Fund Yorkshire Loans/Grants |              |                                 |                                |
|-----------------|--------------------|--------------|---------------------------------|--------------------------------|---------------------------------|--------------|---------------------------------|--------------------------------|
|                 | <i>Number</i>      | <i>Value</i> | <i>Per cent<br/>(by number)</i> | <i>Per cent<br/>(by value)</i> | <i>Number</i>                   | <i>Value</i> | <i>Per cent<br/>(by number)</i> | <i>Per cent<br/>(by value)</i> |
| North Yorkshire | 14                 | 3,485        | 28%                             | 30%                            | 36                              | 147          | 18%                             | 11%                            |
| South Yorkshire | 10                 | 1,990        | 20%                             | 17%                            | 68                              | 503          | 33%                             | 39%                            |
| The Humber      | 4                  | 460          | 8%                              | 4%                             | 25                              | 97           | 12%                             | 8%                             |
| West Yorkshire  | 23                 | 5,785        | 45%                             | 49%                            | 76                              | 544          | 37%                             | 42%                            |
| <b>Total</b>    | 51                 | 11,720       |                                 |                                | 205                             | 1,291        |                                 |                                |

Source: Charity Bank

### 4.3 Financial Performance of Supported Organisations

This section sets out the findings from analysis of 2005/06-2007/08 account data of a sample of loan and grant recipients and beneficiaries of the Investment Readiness Programme (IRP). This is the period before the programme was launched. The aim of the analysis was to explore in more detail the financial performance of beneficiaries, and identify any patterns and trends across and between the different aspects of the programme using a standardised set of variables.

GuideStar Data Services were commissioned to provide detailed account data for 2005/06-2007/08 (i.e. information on income and expenditure) on beneficiaries of every aspect of the Charity Bank in the North programme. The final data set contained 165 cases of which:

- 12 had received a Charity Bank loan
- 17 had received a Key Fund Yorkshire loan-grant package
- 20 had received one-to-one support through the IRP
- 132 had attended an IRP workshop.

Although not representative of the wider group of programme beneficiaries (data was only available for organisations that are registered charities), the sample nevertheless provides the basis for improving our understanding of the financial performance of funding and support recipients. The main findings from this analysis are outlined below.

Through the analysis a number of findings have emerged:

- medium sized organisations with an annual turnover of between £100 thousand and £1 million are the main beneficiaries of all aspects of the programme
- the programme primarily benefits financially healthy organisations with ‘fluctuating’ or ‘growing’ financial performance, particularly in terms of the distribution of loans and grants
- however, low or negative operating margins are a common feature of beneficiary organisations of all sizes, and high levels of negative operating margins within loan and grant recipients are a concern
- when an organisation is experiencing a decline in revenues, it is far more likely to have a low or negative operating margin than more stable or growing organisations.
- the level of unrestricted funds held by loan recipients varies considerably and between funder.
- Charity Bank loan recipients tend to have access to high levels of unrestricted funds in total and relative to expenditure compared to Key Fund Yorkshire recipients.
- Key Fund Yorkshire loan recipients are more likely to be highly geared, and therefore appear to be higher risk investments

It should be stressed that these findings represent a baseline pre-support position. Over time we would expect them to change – with both incomes to grow and for the financial health of organisations to improve.

The findings are not necessarily surprising and probably reflect the broader financial health of the voluntary and community sector. However, the rationale for accessing loan finance is typically to put an organisation on a more sustainable footing, for example through securing an asset base which can generate income. Some interesting patterns also emerged with what appeared to be organisations with very high debt ratios (the ratio between debt and assets). The rationale here may be twofold and is illustrated by the following examples: a small organisation securing a substantial loan for a building but which will provide very strong income streams; or where an organisation uses a loan to fund working capital by taking on more staff to take advantage of an immediate opportunity which will generate a new income stream in the short term.

#### **4.4 Sustainability of the Fund**

The capital investment in Charity Bank in the North creates the potential of a sustainable loan fund for the region's voluntary and community sector. The interest rate policy of Charity Bank, most recently at 6.5 percent for secured loans and 7.5 percent for unsecured loans in theory provides the basis to cover lending related administration costs and make provision for bad debt, as well as to generate surpluses for future lending. The current levels of bad debt have been very low, with no loan write-offs from the Charity Bank portfolio in the region.

The risk levels of the Charity Bank and Key Fund Yorkshire portfolios vary, although to some extent the mixed loan-grant programme of the Key Fund helps to mitigate some of its risks. Both lenders were also found to have thorough practices for monitoring loans and were able, over the period of the study, to either provide or signpost organisations to additional support where necessary. This was found to be an important role of the engaged or patient funder. Nonetheless, at some point both lenders may need to make decisions around bad debt and its management.

This is largely a positive assessment of the sustainability of the fund. However, there does seem an ongoing need for some revenue support which would fund the promotion of social lending and meet some of the support needs of organisations. This is particularly important in the context of the time and support organisations may need to develop a robust and viable project for investment.

#### **4.5 Conclusion**

The approach of Charity Bank has evolved over the course of the CBN programme. Activities include a greater lending focus to business development activity and greater work in North Yorkshire and the Humber resulting in a growing loan pipeline. However, many capital loans can take up to three years from inception to loan drawdown: business development work undertaken recently may take some time to be reflected in loan agreements.

The lending targets for Charity Bank in the North have been re-profiled and these targets have been met, although are short of the original planned targets. The average size of loans has also risen. It was noted that that Charity Bank has had considerable success in making some large loans; and it was noted that there were further large loans in the pipeline. Significant changes in lending activity would not be expected over a 12 month period and the changing public expenditure context was dampening demand.

The conclusions from the changes in loan book and reflections from funding advisers are that Charity Bank has increased its profile in the region and that business development activities are generating more interest in loans from charities in the region.



Charity Bank loan to the Burton Street Foundation £300,000 (2011)

# Outcomes for the Sector

## Summary

**Key Fund Yorkshire and Charity Bank have broadly complementary investment portfolios.** This reflects their different lending and support offers. However, both were largely focused on supporting smaller and medium sized organisations; those most poorly served by commercial banks.

**The reach of both lending portfolios is broadly similar** and it was notable that Humber (less than 10 percent of loans) was under represented, with greatest lending taking place in West Yorkshire (over 40 percent of loans).

**It was unrealistic for the Investment Readiness Programme to transform attitudes to funding;** however what seems to have happened is that the understanding of issues of sustainability, and in particular what can make an organisation resilient, has developed in the sector. Although possibly by necessity, the CBN programme has contributed to this change in understanding. There appears a case for ongoing support on these issues, and especially around the importance of financial management and governance in organisations; although for the moment it is less clear how these may be funded.

**Loans are becoming more recognised as playing different roles in the funding of the sector,** including the formalisation of a financial position, supporting incremental growth and enabling something to be built. They would not be for all organisations, but could play an important part for some. Many organisations reported that an outcome of the Investment Readiness Programme was that they now understood this more clearly.

## 5.1 Introduction

This section explores two main issues: the reach on CBN into the sector and organisational sustainability. The section considers whether the different elements are reaching their target markets and their contribution to organisation sustainability. These can be considered the two main outcomes for the programme. In terms of reach we draw primarily from monitoring data (including workshop attendance forms), supplemented by stakeholder interviews, and for organisational sustainability we draw on a mix of sources (case studies, monitoring data, a survey of assisted organisations and feedback forms).

Interviews undertaken with funding advisers suggested that the issues of reach were difficult to address:

***“Organisations are not given the hard sell...CBN is responsive and understanding”***

***“There is very little interest in loan funding...few are interested...the only interest is from larger organisations”***

***“Groups do not know where to access funding and need training to do so. It is often the basic things - such as making applications...organisations want advice provided on their doorstep”***

***“I am neutral on loan funding. It is ok for some (social enterprise). It is only suitable for organisations with a guaranteed income.”***

***“Newsletters and websites don’t always work ... you need to get out there ... [as CBN does]”***

Against this backdrop the reach of the Charity Bank and Key Fund Yorkshire is considered in turn.

## 5.2 Reach of the Charity Bank

### *Investee organisational category*

Table 5.1 below provides an overview of the number and value of loan agreements according to investee’s organisational category.

**Table 5.1: Charity Bank loans according to area of work**

| Area of work                             | Number of investments | Proportion of all loans | Total loan values (£000s) | Proportion of all loan funds | Ave loan value (£000s) |
|------------------------------------------|-----------------------|-------------------------|---------------------------|------------------------------|------------------------|
| Community work and development           | 12                    | 31%                     | £2,370                    | 25%                          | £198                   |
| Education and training                   | 4                     | 10%                     | £2,160                    | 23%                          | £540                   |
| Environmental activities                 | 4                     | 10%                     | £360                      | 4%                           | £90                    |
| Health and social care                   | 2                     | 5%                      | £370                      | 4%                           | £185                   |
| Housing and accommodation                | 4                     | 10%                     | £966                      | 10%                          | £242                   |
| International Aid                        | 1                     | 3%                      | £22                       | <1%                          | £22                    |
| Religion                                 | 4                     | 10%                     | £1,550                    | 16%                          | £388                   |
| Second tier or umbrella activities       | 1                     | 3%                      | £1,000                    | 10%                          | £1,000                 |
| Sport, leisure and arts activities       | 4                     | 10%                     | £525                      | 5%                           | £131                   |
| Support for children and/or young people | 3                     | 8%                      | £252                      | 3%                           | £84                    |
| <b>Total</b>                             | <b>39</b>             | <b>100%</b>             | <b>£9,576</b>             | <b>100%</b>                  | <b>£246</b>            |

Source: Charity Bank  
Date: March 2011

This demonstrates that the largest proportion of loans made by Charity Bank have been in community work and development (31 per cent). The remaining categories are distributed more evenly with 10 per cent of loans in the areas of education and training, environmental activities, housing and accommodation, religion, and sport, leisure and art organisations. There have been comparatively fewer loans in the areas of support for children and/or young people (8 per cent), health and social care (5 per cent), and international aid and second tier or umbrella activities (both 3 per cent).

Organisations involved in community work and development also account for the largest proportion of loan funding allocated by Charity Bank (25 per cent) although the remaining categories are distributed less evenly than for the number of investments. Investees involved in education and training received 23 per cent of all loan funds, religious organisations received 16 per cent, organisations working in housing and accommodation and second tier or umbrella organisations each received 10 per cent and the remaining categories received five per cent or less of loan funds.

Although the small number of organisations in several categories mean the data should be treated with some caution the average size of loan received by different types of organisations is also revealing. Of the categories in which three or more loans have been made the largest average loan was in education and training organisations (£540 thousand), followed by religious organisations (£388 thousand) and organisations working in housing and accommodation (£242 thousand); typically reflecting the underlying asset values in these sectors. Even though organisations involved in community work and development received the highest number and total amount of loans, the average loan amount was only £198 thousand. Organisations involved in sport, leisure and arts activities (£131 thousand), environmental activity (£90 thousand) and support for young people (£84 thousand) also received comparatively low average loan amounts. These findings are not necessarily surprising and reflect the asset values of these sectors and the nature of the loans.

### *Investee organisational annual income*

Table 5.2 below provides an overview of the number and value of loan agreements and disbursements according to investee's annual income (registered charities only).

**Table 5.2: Charity Bank loan portfolio according to annual income**

| Organisation size   | Number of loans | Proportion of all loans | Total loan values (£000s) | Proportion of all loan funds | Ave loan value (£000s) |
|---------------------|-----------------|-------------------------|---------------------------|------------------------------|------------------------|
| Start-up            | 2               | 9%                      | £175,000                  | 2%                           | £87,500                |
| Small (under £100k) | 8               | 35%                     | £714,750                  | 10%                          | £89,344                |
| Medium (£100k-£1m)  | 9               | 39%                     | £3,637,380                | 49%                          | £404,153               |
| Large (over £1m)    | 4               | 17%                     | £2,958,200                | 40%                          | £739,550               |
| <b>Total</b>        | <b>23</b>       | <b>100%</b>             | <b>£7,485,330</b>         | <b>100%</b>                  | <b>£325,449</b>        |

Source: Charity Bank/CaritasData

Date: March 2011

This demonstrates that Charity Bank has invested relatively evenly according to organisation size but that larger loan values have been concentrated, unsurprisingly, in larger organisations. Small and start-up organisations represent 44 per cent of loans made but only 12 per cent of loan value (the average loan is £89 thousand). By contrast medium organisations represent 39 per cent of loans made and 49 per cent of loan value (average loan: £404 thousand) and large organisations represent just 17 per cent of loans made but 40 per cent of loan value (average loan: £740 thousand).



### Investee sub-regional location

Table 5.3 below provides an overview of the number and value of loan agreements and disbursements according to the investee's sub-regional location.

**Table 5.3: Charity Bank loan portfolio according to sub-regional location - March 2011**

| Sub-region      | Number of loans | Proportion of all loans | Total loan values (£000s) | Proportion of all loan funds | Ave loan value (£000s) |
|-----------------|-----------------|-------------------------|---------------------------|------------------------------|------------------------|
| West Yorkshire  | 17              | 44%                     | £4,220,130                | 44%                          | £248,242               |
| North Yorkshire | 10              | 26%                     | £3,031,500                | 32%                          | £303,150               |
| South Yorkshire | 8               | 21%                     | £1,864,200                | 19%                          | £233,025               |
| The Humber      | 4               | 10%                     | £460,000                  | 5%                           | £115,000               |
| <b>Total</b>    | <b>39</b>       | <b>100%</b>             | <b>£9,575,830</b>         | <b>100%</b>                  | <b>£245,534</b>        |

Source: Charity Bank

Date: March 2011

This shows that almost half of Charity Bank loans (44 per cent) are in organisations based in West Yorkshire, a quarter are in North Yorkshire organisations (26 per cent), a fifth are in South Yorkshire organisations (21 per cent), and only one in ten loans are in organisations from The Humber (10 per cent).

Table 5.3 also shows a similar pattern in terms of the value of loans provided: organisations based in West Yorkshire received nearly half of loans by value (44 per cent), organisations in North Yorkshire received a third (32 per cent), organisations in South Yorkshire received a fifth (19 per cent), and organisations in The Humber received only a twentieth (five per cent).

However, there was less disparity in the average size of loan received. Organisations in North Yorkshire received the largest loans on average (£303 thousand) followed by organisations in West Yorkshire (£248 thousand), organisations in South Yorkshire (£233 thousand) and organisations in The Humber (£115 thousand).

## 5.3 Reach of the Key Fund Yorkshire

### Investee organisational category

Table 5.4 below provides an overview of the number and value of loans and grants according to investee's organisational category. It was not possible to construct the same categories for the Key Fund Yorkshire portfolio as were used for the CBN portfolio - the two organisational category sections are therefore not directly comparable.

**Table 5.4: Key Fund Yorkshire portfolio by organisational category**

|                                                      | Advice, education, employment and training | Health and social care | Community activity | Housing and Homelessness | Leisure, recreation, sports and arts | Environment and Conservation | ICT      |
|------------------------------------------------------|--------------------------------------------|------------------------|--------------------|--------------------------|--------------------------------------|------------------------------|----------|
| <i>Number of investments</i>                         | 5                                          | 8                      | 7                  | 4                        | 14                                   | 4                            | 3        |
| <i>Percentage of investments</i>                     | 11%                                        | 18%                    | 16%                | 9%                       | 31%                                  | 9%                           | 7%       |
| <i>Total grant value</i>                             | £39,666                                    | £43,867                | £45,000            | £30,000                  | £114,000                             | £40,000                      | £30,000  |
| <i>Percentage of grants by value</i>                 | 12%                                        | 13%                    | 13%                | 9%                       | 33%                                  | 12%                          | 9%       |
| <i>Mean grant value</i>                              | £7,933                                     | £5,483                 | £6,429             | £7,500                   | £8,143                               | £10,000                      | £10,000  |
| <i>Total loan value</i>                              | £76,334                                    | £75,533                | £193,772           | £199,765                 | £437,300                             | £80,000                      | £170,294 |
| <i>Percentage of loans by value</i>                  | 6%                                         | 6%                     | 16%                | 16%                      | 35%                                  | 6%                           | 14%      |
| <i>Mean loan value</i>                               | £15,267                                    | £9,442                 | £27,682            | £49,939                  | £31,236                              | £20,000                      | £56,765  |
| <i>Total funding provided</i>                        | £116,000                                   | £119,400               | £238,772           | £229,765                 | £551,300                             | £120,000                     | £200,294 |
| <i>Percentage of total funding provided by value</i> | 7%                                         | 8%                     | 15%                | 15%                      | 35%                                  | 8%                           | 13%      |
| <i>Mean total funding provided</i>                   | £23,200                                    | £14,925                | £34,110            | £57,441                  | £39,379                              | £30,000                      | £66,765  |

Date: June 2009

This shows that the largest proportion of Key Fund Yorkshire investments were in organisations working in the area of leisure, recreation, sports and the arts but that the remainder of investments were distributed relatively evenly between the remaining categories. There were fourteen investments (31 per cent) in organisations working in leisure, recreation, sport and the arts, eight investments (18 per cent) in organisations working in health and social care; seven investments (16 per cent) in community activity; five investments (11 per cent) in organisations working in advice, education, employment and training; four investments (9 per cent) each in housing and homelessness and environment and conservation; and three investments (7 per cent) in organisations working in ICT.

Table 5.4 also shows that this general pattern was repeated within the distribution of loan and grant funds according to value: the fourteen organisations working in leisure, recreation, sport and the arts received 33 per cent of grant and 35 per cent of loan funds; the eight organisations working in health and social care received 13 per cent of grant and 6 per cent of loan funds; the seven investments in community activity received 13 per cent of grant and 16 per cent of loan funding; the five organisations working in advice, education, employment and training received 12 per cent of grant and 6 per cent of loan funds; the four organisations working in housing and homelessness received 9 per cent of grant and 16 per cent of loan funds; the four organisations working in the environment and conservation received 12 per cent of grant and 6 per cent of loan funding; and the three organisations working in ICT received 9 per cent of grant and 14 per cent of loan funds.

## Investee organisational annual income

Table 5.5 below provides an overview of the number and value of loans and grants according to investee's annual income.

**Table 5.5: Key Fund Yorkshire by organisational size**

|                                                      | New start | Small (under £100k) | Medium (£100k-£1m) | Large (over £1m) |
|------------------------------------------------------|-----------|---------------------|--------------------|------------------|
| <i>Number of investments</i>                         | 8         | 12                  | 23                 | 2                |
| <i>Percentage of investments</i>                     | 18%       | 27%                 | 51%                | 4%               |
| <i>Total grant value</i>                             | £63,000   | £93,666             | £165,867           | £20,000          |
| <i>Percentage of grants by value</i>                 | 18%       | 27%                 | 48%                | 6%               |
| <i>Mean grant value</i>                              | £7,875    | £7,806              | £7,212             | £10,000          |
| <i>Total loan value</i>                              | £278,000  | £279,334            | £585,900           | £89,765          |
| <i>Percentage of loans by value</i>                  | 23%       | 23%                 | 48%                | 7%               |
| <i>Mean loan value</i>                               | £34,750   | £23,278             | £25,474            | £44,883          |
| <i>Total funding provided</i>                        | £341,000  | £373,000            | £751,766           | £109,765         |
| <i>Percentage of total funding provided by value</i> | 22%       | 24%                 | 48%                | 7%               |
| <i>Mean total funding provided</i>                   | £42,625   | £31,083             | £32,685            | £54,883          |

Date: June 2009

This shows that around half of Key Fund Yorkshire investments (twenty three in total) were in medium-sized organisations compared to just over a quarter (twelve) in small organisations, around a fifth (eight) in news starts and less than one in twenty (two) in large organisations. It also shows that medium-sized organisations received 48 per cent of grant and loan funds; small organisations received 27 per cent of grant and 23 per cent of loan funding; new starts received 18 per cent of grant and 23 per cent of loan funds; and large organisations received 6 per cent of grants and 7 per cent of loan funds.

### Investee sub-regional location

Table 5.6 below provides an overview of the number and value of loans and grants according to investee's sub-regional location.

**Table 5.6: Key Fund Yorkshire portfolio by location**

|                                                      | South Yorkshire | West Yorkshire | North Yorkshire | The Humber |
|------------------------------------------------------|-----------------|----------------|-----------------|------------|
| <i>Number of investments</i>                         | 19              | 19             | 4               | 3          |
| <i>Percentage of investments</i>                     | 42%             | 42%            | 9%              | 7%         |
| <i>Total grant value</i>                             | £132,200        | £154,667       | £25,666         | £30,000    |
| <i>Percentage of grants by value</i>                 | 39%             | 45%            | 7%              | 9%         |
| <i>Mean grant value</i>                              | £6,958          | £8,140         | £6,417          | £10,000    |
| <i>Total loan value</i>                              | £534,272        | £547,393       | £101,334        | £50,000    |
| <i>Percentage of loans by value</i>                  | 43%             | 44%            | 8%              | 4%         |
| <i>Mean loan value</i>                               | £28,120         | £28,811        | £25,333         | £16,667    |
| <i>Total funding provided</i>                        | £666,472        | £702,059       | £127,000        | £80,000    |
| <i>Percentage of total funding provided by value</i> | 42%             | 45%            | 8%              | 5%         |
| <i>Mean total funding provided</i>                   | £35,077         | £36,950        | £31,750         | £26,667    |

Date: June 2009

This shows that Key Fund Yorkshire investments were concentrated in South and West Yorkshire (both 19 investments) with very few in North Yorkshire (4 investments) and the Humber (3 investments). This pattern was repeated for the value of funds allocated: organisations in South Yorkshire received 39 per cent of grant and 43 per cent of loan funds; organisations in West Yorkshire received 45 per cent of grant and 44 per cent of loan funding; organisations in North Yorkshire received 7 per cent of grant and 8 per cent of loan funding; and organisations from the Humber received 9 per cent of grant and 4 per cent of loan funding. It should be stressed that Key Fund Yorkshire had a target to make 40 percent of investments in South Yorkshire due to requirements of this contract.

## 5.4 Comparing the Charity Bank and Key Fund Yorkshire portfolios

Table 5.7 below provides a comparison between key features of the Charity Bank loan portfolio and the Key Fund Yorkshire loan-grant portfolio.

**Table 5.7: Comparison of the two loan portfolios**

|                                     | Charity Bank | Key Fund Yorkshire |
|-------------------------------------|--------------|--------------------|
| <i>Number of investments</i>        | 39           | 45                 |
| <i>Total value of investments</i>   | £9,575,830   | £1,575,531         |
| <i>Mean value of investments</i>    | £245,534     | £35,012            |
| <b>Organisation size (%):</b>       |              |                    |
| <i>New start</i>                    | 9%           | 18%                |
| <i>Small (under £100k)</i>          | 35%          | 27%                |
| <i>Medium (£100k-£1m)</i>           | 39%          | 51%                |
| <i>Large (over £1m)</i>             | 17%          | 4%                 |
| <b>Organisation sub-region (%):</b> |              |                    |
| <i>South Yorkshire</i>              | 21%          | 42%                |
| <i>West Yorkshire</i>               | 44%          | 42%                |
| <i>North Yorkshire</i>              | 26%          | 9%                 |
| <i>The Humber</i>                   | 10%          | 7%                 |

This shows that Charity Bank made 39 investments worth a total of £9.6million compared to 45 investments worth nearly £1.6 million by Key Fund Yorkshire. Charity Bank's mean investment was £246k compared to £35k Key Fund Yorkshire.

Table 5.7 also shows Charity Bank and Key Fund Yorkshire supported broadly similar organisations. The main differences are however in terms of the purpose and types of the loans. This suggests that the two funds were to a large extent complementary. Interviews with funding advisers also confirmed this and suggested that there was little competition for investments. Critically, both offered different sizes of investment: Key Fund Yorkshire through loans which are generally less than £50,000, and Charity Bank in terms of loans over £50,000 and typically in physical capital developments

Placing this data in context it should be noted that in 2005/06 85 per cent of UK charities had an income under £100 thousand, 13 per cent had an income between £100 thousand and £1 million, and 2 per cent had an income of over £1 million (Clark et al 2010). This indicates that medium and large organisations are significantly over represented in both lenders' loan portfolios whilst small organisations are significantly under represented. However, this is to be expected as it can be hypothesised that most small charities will not require loan funding. These findings reflect those of the Futurebuilders (Wells et al 2010) and Adventure Capital Fund evaluations. (Thake and Lingayah 2008). Lending to smaller organisations involves relatively high transaction costs which typically for commercial lenders make loans uneconomic.

Table 5.7 also shows that the Charity Bank portfolio comprises 21 per cent South Yorkshire based organisations, 44 per cent West Yorkshire organisations, 26 per cent North Yorkshire organisations and 10 per cent organisations based in the Humber. By contrast the Key Fund Yorkshire portfolio comprises 42 per cent South Yorkshire based organisations, 42 per cent West Yorkshire organisations, 9 per cent North Yorkshire organisations and 7 per cent organisations based in the Humber.

Placing the portfolios in context, Charity Commission data indicates that there are 10,662 registered charities in Yorkshire and the Humber of which 2,059 are in South Yorkshire (19 per cent), 3,493 in West Yorkshire (33 per cent), 1,786 in The Humber (17 per cent), and 3,324 in North Yorkshire (31 per cent) (Crowe 2011). This suggests that neither the CBN nor Key Fund Yorkshire portfolios are particularly representative of the population of charities in Yorkshire and the Humber.

## 5.5 Sustainability

It was not possible to fully assess the impact of Charity Bank in the North on the sustainability of the sector. Feedback questionnaires from the Investment Readiness Programme workshops suggest that organisations had generally gained a greater understanding of issues around sustainability. However, it was accepted that two hour workshops serve to build awareness and increase understanding, but that change in the sector took longer and was an incremental process.



Interviews with funding advisers suggested that the following wide cross section of opinion with respect to voluntary and community sector sustainability.

“The ‘mindset of the VCS is too risk averse ... this is a barrier”

“With the end of grants we need to engender a large cultural change in the VCS ... the key is change the way of thinking and that means being ‘a little bit more business minded’ Getting organisations to think about surpluses would be a huge change”

“I would define sustainability as the ability to maintain your organisation through being self sustaining ... generating income and not relying on any other external bodies to support what you’re doing. Sustainability brings empowerment”

“Having services and products which are relevant, required or in need ... if they are not the people won’t pay for them”

“I see the market for Charity Bank finance as being too small. There are lots of risk averse organisations. Charity Bank should be more flexible and offer payment holidays and patient capital. There is nothing appealing about it. The remit is wrong, the main support needs are about organisations, their management and access to grant funding.”

“Sustainability cannot ever be achieved [i.e. it is probably more of a goal and process than a steady state]”

“I can see greater funding pressures ... loans are for well established organisations who can pay back”

Interviews in the region also highlighted a reluctance to embrace the idea of an organisation becoming totally self-sustaining in financial terms; rather, sustainability involves a set of strategic governance and management practices beyond financial considerations. Box 5.1 below presents recent contributions to the debate about voluntary and community sector ‘sustainability’.

#### Box 5.1: A debate about understanding voluntary and community sector ‘sustainability’

##### 1. from the ‘BELVI’ (*Building effective local VCS infrastructure*) report (2007) (Macmillan et al 2007)

*The financial sustainability of a voluntary organisation is a measure of the organisation’s ability to win sufficient financial resources to deliver its core work on an ongoing basis. There are five key elements to this definition:*

*A clear understanding of the **core work** of the organisation – i.e. that which must be undertaken to justify its raison d’être*

*A clear understanding of the **overall costs** of delivering the core work – i.e. the minimum annual income the organisation needs to continue*

*A realistic long-term **income strategy** to cover those costs – and/or sufficient **reserves** to cover a shortfall.*

*Sufficiently good **financial management** to keep track of costs and income in a meaningful way*

*Appropriate arrangements for **financial governance** so that the trustees are properly in control of the finances, and are properly involved in all financial decisions.*

*As a general rule, we would suggest that an organisation with a long term mission cannot be considered financially sustainable unless it is:*

*certain (or 99% certain) that it has the resources to continue its core work for at least 12 months;*

*fairly confident (at least 75% certain) that it can continue its core work for at least 24 months.*

*Note - The strategy to cover core costs could come from: specific external funders supporting the core work; charging for services (at realistic levels) and charging appropriate overheads on other (non-core) projects (with full cost recovery).*

##### 2. from the South Yorkshire Sustainability Route Map (2007) (Dawson and Hedley 2008)

*Sustainability: “A position reached by an organisation that allows it to fulfil its mission in a financially stable manner, within a timescale that is understood”*

The report also noted the shift in the emphasis away from the idea of 'sustainability', and more towards the notion of '**resilience**'. The argument is predicated on a need for a more realistic sense of what the financing of voluntary and community sector organisations involves:

*the term 'sustainable' has come to have an unfortunate connotation. It is often taken to mean the holy grail of 100 per cent trading income. This ignores the fact that for most charities and voluntary organisations, including those that are socially enterprising, grants are, and will continue to be, an important part of the funding mix.*

*'financial resilience' is a better descriptor than 'sustainability'. It suggests organisations that are better able to withstand financial shocks: for example, a major funder withdrawing a grant. It also suggests that gaining financial strength, progressing towards a healthy balance sheet, and securing an appropriate level of reserves is difficult and on-going, rather than a one-time fix... Improving financial resilience is, in our experience, an on-going struggle, 'a journey rather than a destination'.*

(Venturesome 2008: 2)

It may be that building 'resilience' or 'adaptability' are better ways of describing the outcome of support for the third sector through CBN and other initiatives.

What exists is a plethora of understandings around sustainability, enterprise and the resilience of organisations. Many organisations are financially secure through trading income, but there are marked variations by sector, purpose and size.

## **5.6 Conclusion**

The reach of the Charity Bank loans and Key Fund loan-grants in the Humber and amongst small organisations is less than expected. There may be contextual reasons to explain this: varying financial needs of organisations across the region and the likelihood that demand for loans will be stronger from medium and large sized organisations.

Understandings of the needs of the sector with respect to funding vary, again reflecting the diversity of the sector. The notion that loans are a replacement for grants was found to be not necessarily helpful. Loans can help achieve different things, as two respondents highlighted when asked what the benefits from loans are:

*It formalises a financial position. But this needs to be placed in context. I rail against the obsession with assets and I would strongly advocate incremental development [to build sustainable organisations].*

*It allows an organisation: to take up an opportunity; to get something off the ground; and to build something*

The issues around the reach of CBN also suggest that benefiting organisations come from a far wider pool of organisations than those supported by previous regeneration programmes (notably Structural Funds and the Single Regeneration Budget). This is an interesting finding given the premise of the programme to address 'grant dependency'. It shows that the reach of the IRP in particular was far wider than regeneration grant programmes; and far wider than the loan elements of the programme. The full effects of the IRP may therefore only become fully evident in the longer term; however, given the relatively small amounts of support (two hour workshops), it is more likely the further and ongoing activities in the region will be required to promote the usefulness of loans and the approaches to making more resilient organisations.



Charity Bank loan to Emerge CIC £192,500 (2009)

# Strategic Benefits and Impact

## Summary

**The main strategic benefit of Charity Bank in the North is that it has the potential to become a sustainable fund.** It was intended to demonstrate the possibility of a loan fund to the voluntary and community sector in the region, and to provide support to organisations seeking to use finance more effectively. It has largely achieved these objectives, although to some extent this will also be an ongoing process.

**Research with five case study organisations highlighted the importance of providing guidance, revenue support and loan funding in one package.** These organisations were Point Blank Theatre, One in a Million, ORB Community Enterprises, Target Housing and Humber Forest School. They took different legal forms, were of different income levels, and accessed different parts of the programme.

**The organisations did not pass through the different elements in a linear way,** with this being seen to make the package of support more effective.

**The case study organisations using CBN loan funding during the research, found that this came at a critical time in their development.** In particular it enabled them to grow far more quickly than they would have otherwise been able to.

## 6.1 Introduction

This section explores the wider strategic benefits of the programme and the impact it has had on five case study organisations. Each is taken in turn.

Charity Bank in the North has operated in an environment of considerable economic and policy change - some of which were anticipated in the programme but many were not, and could not have been anticipated. The financial crisis and ensuing implications for credit availability has meant that in many cases Key Fund Yorkshire and Charity Bank have been seen as secure and supportive lenders. Some commercial lenders have withdrawn credit from the voluntary and community sector market, although this may again of course change.

Secondly and partly driven by the financial crisis the future funding environment for voluntary and community sector organisations is more uncertain than it was three years ago. This may explain, and as we discuss later in more detail, why few larger property based investments have emerged. Such investments would typically involve 20 or 25 year repayment periods and require greater certainty on the part of investees that business plans are viable. However, there appear strong prospects for long term lending in sectors such as community-owned micro regeneration and rural broadband provision; sectors where long term risks are also relatively low.

Despite these considerable changes, the review of the investment books, the survey evidence and case studies suggest that viable investments are being made and to organisations with prospects of growth. What was striking however, were the low and negative operating margins of many investee organisations and the proportion of organisations which had experienced fluctuating income performance.

As we discuss later, a notable finding is the profile of investee organisations: it is quite disparate and is largely oriented to organisations securing their funding through service contracts and service level agreements. An expectation had been that it would be organisations which historically received the majority of funding through grants. Discussions with funding advisers suggested that these organisations were highly vulnerable and most were contracting with some returning back to volunteer led organisations and in some cases closing. The market for CBN is much wider than the original rationale that it would support '(regeneration) grant dependent' organisations suggests – and in fact is more representative of the wider voluntary and community sector.

## 6.2 Strategic Added Value

This section makes an assessment of the Strategic Added Value (SAV) of CBN and draws on standard headings recommended by the Department for Business Innovation and Skills. These include the role of CBN in the following terms:

- Strategic Leadership and Catalyst
- Strategic Influence
- Leverage
- Synergy
- Engagement.

### *Strategic Leadership and Catalyst*

Charity Bank and Yorkshire Forward developed CBN and it marked a break, to some extent, with previous grant funding programmes for the voluntary and community sector. It built on previous experience of funding 'lead in funds' in the region which had been pioneered by Key Fund, and supported by Yorkshire Forward from 2002. The initiative, at its launch, was unique amongst RDAs. The initiative was intended to leave a legacy even if the institutional arrangements for regional policy, the regional development agencies were to change or cease. This has indeed been the case. With hindsight this reflects a very sound decision. As levels of default and bad debt are low, this suggests that CBN has the potential for sustainability.

There is considerable policy interest in financing the voluntary and community sector at present and in particular in new models of *social investment*. This includes proposals to establish the Big Society Bank but also the interest of specialist lending institutions (such as Triodos and Unity Trust Bank). The Big Society Bank and the emergence of new social lenders, for example from the charitable foundation sector, may lead to a greater diversity of financial products for the voluntary and community sector - from equity arrangements through to loans and grants.

Nonetheless, the design of CBN has responded to the needs of the sector facing significant reductions in regeneration funding, a strategic goal to establish a legacy for the sector, and to bring greater exposure to the sector of the benefits of loan finance.

### **Strategic Influence**

Investment in CBN is seen as *part* of the future for financing voluntary and community organisations. CBN developed three models: the Key Fund Yorkshire Grant-Loan mix; the Investment Readiness Programme (IRP); and Charity Bank Loans. However, it should be stressed that it built on the approach developed by Key Fund in the region from 2002.

Interviews with stakeholders, with funding advisers out with the programme, and from a survey of beneficiary organisations suggest that CBN's components are well understood and that key relationships which underpin referrals are well established. The three components are seen as complementary. However, it was noted that Charity Bank loans and the IRP as new activities in the region did require time to realise their full benefits. That they did, in a relatively short time frame in which a complex programme was run, is a very positive finding.

The investment in CBN appears well accepted by voluntary and community sector infrastructure organisations and the voluntary and community sector itself as part of new approaches to funding. Although there has been resistance to this, sufficient organisations see opportunities and benefits.

### **Leverage**

Data from Charity Bank suggests that against a target for private sector leverage of £42 million, the bank had by the end of December 2011 secured £16.3 million in additional deposits. This is against the initial capital investment of £7.75 million by Yorkshire Forward. However, the latter gives Charity Bank a greater capacity to lend if effective demand is forthcoming.

At an investee level, the Key Fund Yorkshire survey respondents reported overwhelmingly that the investment would result in additional income secured, the majority of which would be through service contracts. Case study interviews, across five organisations, reported that the IRP support and investments would help organisations access funding, again largely through public service delivery.

### **Synergy**

Working relationships between different initiatives were found to exist, notably in terms of referrals and the sharing of intelligence between the components of the CBN but also at the time with Business in the Community and Business Link's Social Enterprise programme. These could in places be better but generally there was a sense that the initiatives were well integrated.

Looking ahead, links with existing and new support organisations appear to be a key challenge for Charity Bank in the North, as the terrain for support is reshaped and must respond to greatly reduced public funding. It may be that new funders emerge providing social investment support and it may be that social enterprise is considered by the new Local Enterprise Partnerships. However, for the moment, these issues are unclear. There may also be geographic issues to address with current plans for social investment being highly focused on London.

### **Engagement**

We interpreted this criterion around the reach of CBN to the sector. Findings from the National Survey of Third Sector Organisations and the NCVO Almanac highlight that loan funding is relatively new for many in the sector. The relative delivery performance of CBN across the region also suggests that there have been greater lending opportunities in West Yorkshire and South Yorkshire than elsewhere. This reflects in part legacies of previous funding regimes (i.e. a more investment ready market in these sub-regions) and related variation in the composition of the sector across the region. The challenge for the programme is to respond to these variations.

### **Conclusion**

Charity Bank in the North was a strategic success because it anticipated some key changes in the region, it provided a package of support, and it has the potential to exist without direct public funding. Nonetheless the current funding climate and new policy foci present wide ranging challenges including:

- the need to continue to develop the demand for, and organisational capacity to manage, loan funding



- the position Charity Bank in the North takes in terms of social and financial returns and the extent to which there is government commitment to funding purely social returns
- the reworking, development and growth of the social investment market and the potential for a more complex array of funders and intermediaries to emerge
- sustaining a geographically based programme in the context of a greater policy focus on localism (instead of regions) and the possibility of sectorally rather than geographically based funders emerging.

### 6.3 About the Case Studies

The evaluation included a longitudinal case study element: five supported organisations were selected and tracked through the course of the evaluation. The case studies largely involved qualitative research (site visits, interviews with key staff and analysis of project documentation). They allow for the exploration of the funding options organisations considered, why they chose CBN and progress to date in terms of the impact of funding on the organisation. Moreover, they also allowed an understanding of the range of economic and social outcomes the organisations have and may realise and to what extent these can be attributed to CBN.

We selected organisations to illustrate the different elements of the programme; we also did not select organisations which had progressed in a linear way through the programme as a whole. Our focus was therefore on:

- selecting beneficiaries from each of the main CBN programmes (Charity Bank loans, Key Fund Yorkshire loans/grants, CB 1-2-1 support and the other IRP programme elements)
- selecting beneficiaries from each of the four sub-regions of Yorkshire and the Humber
- selecting organisations working in different fields of activity (from community development to service delivery) and at different geographic scales (neighbourhood to regional).

We did not seek to select on issues of organisational size or investment amount.

The case organisations are not representative of all beneficiaries of Charity Bank in the North: they do however, illustrate key aspects of the operation of the programme. The case studies selected are summarised below:

**Table 6.1: CBN Evaluation Case Studies**

| Organisation                    | Support Received            | Location/<br>Sub-Region | Legal Status                             | Income<br>(year end)     |
|---------------------------------|-----------------------------|-------------------------|------------------------------------------|--------------------------|
| Humber Forest School Ltd        | KFY Loan                    | East Riding<br>Humber   | Company Ltd<br>by Guarantee              | Start up                 |
| ORB Community Enterprises       | CBN 1-2-1<br>Support        | Harrogate<br>N Yorks    | Charity                                  | £51,862<br>(March 08)    |
| One in a Million                | CBN 1-2-1 and<br>Next Steps | Bradford<br>W Yorks     | Charity                                  | £127,130<br>(Sept 08)    |
| Point Blank Theatre Company Ltd | KFY and CB<br>Loans         | Sheffield<br>S Yorks    | Charity                                  | £144,631<br>(June 08)    |
| Target Housing Ltd              | CB Loan                     | Sheffield<br>S Yorks    | Charity /<br>Company Ltd<br>by Guarantee | £1,169,058<br>(March 08) |

They show a wide range of income bands, including Charities and Companies Ltd by Guarantee and a start-up organisation.

## 6.4 About the Organisations and Support Provided

### *Humber Forest School*

Humber Forest School is a relatively new organisation employing three staff at the time of the investment. The philosophy of Forest Schools is to encourage and inspire individuals of any age through positive outdoor learning activities. Humber Forest School runs programmes tailored around group participants. They seek to engage with young people through a safe, relaxed and encouraging environment in order to provide an enjoyable and rewarding woodland adventure.

**It has received a Key Fund Yorkshire grant of £5,000 and a loan of £5,000.** These funds are for working capital which allows for the transportation of children between schools and the Forest School sites.

### *The Orb Community Enterprise*

ORB Community Enterprises was set up in 2006. The broad objectives of the Orb are skills development and social inclusion through supporting young people in North Yorkshire with mental health problems engage in all aspects of music production and performance, as well as helping with generic skills such as time keeping and attendance. Key activities at the facility include: DJing, music production and recording, live music rehearsal, sound and lighting engineering, IT (for example using the Internet to develop personal interests, and an art space for young artists to develop their skills).

**Orb has to date received CBN IRP 1-2-1 support.** They have so far had 13 hours of support. This has focused on issues of budgeting, full cost recovering, financial management and governance. They have also been supported to apply for ProHelp support (an initiative to provide professional advice and mentoring).

### *One in a Million*

One in a Million (OIAM) is a sport and arts based charity based in Bradford. It delivers informal and alternative educational services such as extended school sports and arts activities. The organisation is based at Bradford City Football Club. The origins of the organisation lie in providing sports based activities, mainly football, in deprived areas - for instance offering after school football sessions to a local comprehensive school. OIAM has now moved to more targeted work where they are contracted to provide activities to 'hardcore, hard-to-reach, excluded' groups deemed at risk of social exclusion (such as 'pre-NEETS' and NEETS). The objective of the organisation is to engage children through activities that 'give them a chance' and enable them to gain valuable skills and experience outside the mainstream school system.

OIAM has to date attended a **Next Steps** workshop and received **CBN IRP 1-2-1 support**. The latter has to date included seven and a half hours of support and included advice on financial management, tendering and funding.

### *Point Blank Theatre Company Ltd*

Point Blank Theatre Company Ltd (Point Blank) was founded in 1997 and has three main strands of activity:

- **national touring company** producing a new show every one or two years
- **delivering a schools, children and young peoples programme** focusing on drama and theatre activities but also promoting emotional intelligence, cultural diversity and tolerance, citizenship and literacy skills
- providing a **community programme** at different levels from 'entry' level support particularly to marginalised and disadvantaged groups, 'intermediate' support around more structured training and apprenticeships, and an 'advanced' programme for emerging artists who lack practical experience.

Point Blank has obtained **loan funding from Charity Bank** of £149,206 (repayable over 20 years at 6.5 per cent), and **loan and grant funding from Key Fund Yorkshire**. This includes a loan of £90,000 (£40,000 at 6.75 per cent from project funds, £50,000 at 6 percent from Key Fund's legacy, both repayable over 60 months) and a grant of £10,000. The funding of £249,206 has enabled it to buy the Riverside public house in Sheffield and for it to establish a trading arm called Riverside Live. This provides it with a performance venue and office space.

### *Target Housing*

Target Housing was established in 1990 in collaboration with South Yorkshire Probation Service, South Yorkshire Housing Association and a local charity, the Grace Tebbutt Trust, which provided a loan for the first three years as

working capital. The initial purpose was a simple one: to provide accommodation for offenders referred by the Probation Service and for those judged by Probation Officers to be at risk of offending. The rationale being that this would release the Probation service from day-to-day tasks associated with homelessness.

Target Housing provides predominantly, but not exclusively, accommodation with support for single homeless adults, males and females, between the ages of 18 and 65, who are in conditions of need, hardship or distress, and who are offending, have offended in the past or who are at risk of offending.

Target Housing has received a **£551,200 loan from Charity Bank**. This is at 6.5 percent interest and is repayable over 25 years; with the loan now being drawn down and further loans agreed. The funding is to purchase up to eight properties. Target Housing also has a £127,000 investment from Futurebuilders England Ltd. This is a combination of a grant and loan. These two investments provide 85 percent of the funds Target Housing require, with the remaining coming from internal funds.

## 6.5 How CBN Support Helped

Each of the organisations was at a very different point of organisational development when it received support. Humber Forest Schools, One in a Million and ORB Community Enterprises place considerable emphasis on 'organic' or 'incremental growth'; of these, only Humber Forest School has taken on a small amount of loan funding (£5,000). One in a Million is continuing to identify options for growth and is at the point of seeking funding to undertake feasibility work around different funding options; nonetheless it has experienced quite rapid incremental growth - from £25 thousand five years ago to the prospect of around £500 thousand last year.

Target Housing and Point Blank Theatre are both in a somewhat different position: they have both been awarded significant sums of funding from CBN (both Charity Bank and Key Fund in the case of Point Blank Theatre). This greater exposure to loan funding is reflected in quite rapid development plans: in Target Housing's case through the growth of a property portfolio to house high risk groups (from offenders on bail through to at risk groups with mental health conditions); and for Point Blank Theatre through the purchase and operation of the Riverside site in Sheffield (including a pub, community theatre, and green space).

More specific changes in the last year which are documented through the case study research include:

- Humber Forest School: focus on running taster days for schools in Humber and with funding primarily used for working capital
- One in a Million: the continued focus on developing funding options to support young people excluded or at risk of exclusion from school
- ORB Community Enterprises has moved site from Harrogate to Knaresborough

Point Blank Theatre has gone through a series of organisational and staffing changes during the last couple of years but believes that this has contributed to greater resilience - not least through confirming the most appropriate organisational and staffing structure. Its activities now focus on the following:

- 'Northern Lights' which is the schools and community programme and which is run on a far larger scale than in the past
- the Point Blank Theatre, which is the national touring programme, and this has reduced in size and may do so further in the future
- the Riverside café and bar which is the commercial trading activity of the organisation. In time it will offer a social kitchen - providing work and training activities, as well as a microbrewery
- Riverside Live is the live events and emerging artists initiative
- An environmental trust which is new and is based around establishing the riverside area as a conservation area.

Target Housing has experienced far fewer changes during the course of the last two years.

These factors outline the broad and changing context in which CBN beneficiaries are operating.

## 6.6 Changing Needs

Each of the organisations highlighted that funding was the main pressure they faced; with most organisations reporting that the prospect of public sector funding cuts was and would have a significant bearing on their organisations.

However, each of the organisations also saw considerable opportunities for the charity and social enterprise sector with greater policy interest in delivering activities outside statutory provision. Examples here included greater local flexibility in the schools budget (which would benefit Humber Forest School and One in a Million), the possibility of free schools, and greater opportunities for non-custodial provision for offenders (Target Housing).

Both Target Housing and Point Blank Theatre highlighted that the capital investment had served to raise their profile with potential funders, and that CBN funding also served as something of a 'kite mark' in proposals - that is receipt of CBN support was seen to validate the work these organisations were doing.

## 6.7 Organisational Capacity and Market Position

Each of the organisations was found to be well run and found to have strong and appropriate levels of governance. Humber Forest School noted that it was seeking to expand its trustee numbers, but would only do so when the right person was found. For the charities considered in the research, there was found to be an appropriate balance and separation of responsibilities between board members and trustees on the one hand, and senior management positions on the other. This was felt to have led to a strong ethos in each of the organisations on sustainable growth. Management capacity in each of the organisations was also found to be very strong. These were also considered important factors in organisations considering loan funding or having taken on loan funding, and reflected the consideration of these issues by CBN.

The market position of each of the organisations was in relation to the changing needs organisations had and due to funding pressures - an example here was the end of programmes such as the Future Jobs Fund which had supported two of the case study organisations. Each organisation was very clear around the risks posed by the reduction in public sector funding whether to grant programmes or to the award of contracts. Nonetheless each of the organisations recognised the importance of developing strong relations with funding bodies. In the case of Humber Forest School, a relatively new organisation, these were still at an early stage but were being developed with schools as well as with key partner organisations (such as woodland owners and other forest schools).

Both Target Housing and Point Blank Theatre demonstrated how the capital investment had been used to showcase an activity and to attract potential funders. In the case of Point Blank Theatre this had helped with funding but also to develop its position as a hub for arts based community organisations - often leading contracts on behalf of other organisations. Target Housing noted that considerable changes to the Supporting People agenda and funding within local authorities (including the end of ring fencing) may open up the sector to greater competition from national organisations and the private sector. Nonetheless it believed it was well placed and emphasised the importance of capital funding.

## 6.8 Support from CBN

None of the cases had received significant additional support from CBN in the past 12 months (except for loan capital advances in the case of Target Housing and continuing support for Point Blank Theatre). Humber Forest School and ORB Community Enterprises were no longer seeking loan funding in the short term. Their growth plans did not require this, although both reflected that they were clear how they could use loan funding in the medium term should plans to grow transpire. Point Blank Theatre continues to receive in-depth non-financial support from Charity Bank and Key Fund Yorkshire.

One in a Million has continued to grow significantly over the period and was considering different options for the future. These may result in loan funding being required.

Both Target Housing and Point Blank Theatre had drawn down considerable amounts of loan funding and were on track with repayments.

The case studies were very positive about the support they had received. One case not currently proceeding with loan funding noted that 'they are there when I need them', noting that CBN would be a first contact for loan funding. Another case study highlighted that 'I cannot recommend anyone better than Key Fund and Charity

Bank together'. Both the IRP support provided (workshops and one to one support) and loan support was highlighted as being very good. It was noted that the key feature of the loan support which was valued was the support throughout the process of applying for loan, drawing the funding down and making repayments.

## **6.9 Outcomes**

Both Point Blank Theatre and Target Housing highlighted that the loan funding received from CBN had brought considerable benefits to their organisations and supported their growth at a key stage. Both reflected that they would not necessarily have received support on the same terms from commercial lenders, again demonstrating the additionality of the programme.

Point Blank Theatre noted that the main outcome for them had been the purchase and development of a building, which in turn had led to greater support being provided to beneficiaries, as well as the possibility to open the building up to the public.

For the other organisations assisted through the IRP or through small amounts of funding the direct and immediate outcomes from the support are less apparent. All stated that they were better placed to take on loan funding in the future, that they were more 'business like' as a result of the IRP; these were changes which the organisations believed had helped developed relations with funders. Making direct attributions to the IRP is however difficult; it has often provided important guidance to organisations which were already moving in a particular direction. Importantly, they stressed that their investment plans would not have been realised as quickly without CBN.

A fuller assessment of social outcomes is made in a subsequent section on social return on investment.

## **6.10 Conclusion**

The research found that Charity Bank in the North had brought wide ranging strategic benefits to the region. Having a base in the region had also helped in the promotion of the programme, and this was reflected in the three aspects of the programme. There was some concern that the programme's reach had not been as far as it might have been; but given the context of funding change and the limitations of any programme, its approach has been reasonable.

The case study research reveals that the IRP programme has a wider array of benefits than providing possible loan applicants for Charity Bank and Key Fund Yorkshire. That is, these elements of the programme have helped organisations make choices around their investment needs. Each of the case study organisations considered was found to be well run with appropriate levels of organisational development. The organisations were very clear as to the funding pressures they faced, and to some extent for those yet to seek loan funding, the case research coincided with time of the organisations waiting for greater clarity around future funding opportunities, before proceeding with loan applications. This is entirely understandable. Each of the organisations could be characterised as seeking to undergo a period of sustainable growth, albeit that this growth may be at different rates. The support from CBN was generally found to have been very well received and at the very least clarified investment support needs, and for Target Housing and Point Blank Theatre seen to have come at key stages in the organisations' development.





Charity Bank loan to the Westwood Mission Trust £105,000 (2010)

# Social Return on Investment Pilots

## Summary

**Social Return on Investment (SROI) was piloted in two organisations, Doncaster Refurnish and Point Blank Theatre.** It was found to be incredibly useful in identifying the array of benefits organisations can have and in identifying possible indicators of impact.

**Worked examples were undertaken to demonstrate the use of SROI.** Whilst SROI has the potential to improve outcomes measurement, for it to be effective, it requires organisations to be collecting monitoring data on outcomes systematically and routinely. Without this it is difficult to calculate the full SROI. Moreover, there are challenges for organisations which contribute to outcomes which may only be fully observed in the long term (for example support to young people).

**There are particular challenges in using SROI for loan funding.** SROI is traditionally used to calculate the impact of organisations and the impact of particular grants or income streams. As repayable funds, loans are different and as such the benefits need to be calculated in terms of what the loan has enabled which would not otherwise have happened. As such its calculation may be different for physical capital, working capital and loan guarantee investments.

## 7.1 Introduction

Charity Bank and Key Fund Yorkshire require investee organisations to be operating within the social economy to be eligible for investment. Both funders' investment decisions therefore include a short assessment of each applicant's charitable, social or environmental aims and the extent to which returns associated with those aims will be furthered through the investment. Although this process provides assurance that the organisation seeking investment is engaged in charitable or social rather than for-profit enterprise, the volume or nature of the social returns were not measured systematically following investment. This position has recently changed with impact now reviewed.

The evaluation piloted Social Return on Investment (SROI) for two organisations supported by CBN. SROI is a methodology for valuing the benefits of the activities of voluntary and community sector organisations. It was first developed in the 1990s in the United States and has since been developed in the United Kingdom by the New Economics Foundation. The past few years have seen growing interest in the use of SROI from national and local funding organisations from the public sector, grant making trusts and lenders. In 2009 a Government Guide to SROI Guide was published by the Cabinet Office in conjunction with the SROI-Network (Nicholls et al).

SROI provides a framework for measuring the value of activities to all key stakeholders in that organisation (whether employees, volunteers, trustees, services users or funders). At its heart SROI seeks to place monetary values on the impacts of an organisation to different stakeholders of an organisation: these are wide ranging and include funders, employees and volunteers of the organisation, its service users and the partners of organisations. Further information about SROI is contained in Annex 4.

The pilots sought to provide evidence of the social impact of investments, and assess the utility for CBN of using SROI in the future. Two case studies were used: Doncaster Refurnish (Key Fund Yorkshire); and the Point Blank Theatre Company (Charity Bank and Key Fund Yorkshire).

## 7.2 Case study 1: Doncaster Refurnish

Doncaster Refurnish's main activity involves collecting unwanted but reusable furniture (*reuse*) and reselling it (*resale*) to local people on low incomes. In delivering this activity Doncaster Refurnish also provides training and volunteering opportunities to help individuals improve their employability and gain work. The *reuse* activity covers the whole of the Doncaster borough. It is funded through a sub-contract with refuse collection company SITA UK who have a contract for borough wide refuse collection with Doncaster Council. The *resale* activity is undertaken through three retail outlets across the borough in areas that are accessible to people from low income groups. In addition to items collected through the reuse contract, goods resold include returned or warehouse damaged furniture provided by a well known national retailer.

Doncaster Refurnish has a long standing funding relationship with the Key Fund Yorkshire dating back to 2004 during which five separate funding packages totalling £248 thousand (£165 thousand in loans; £83 thousand in grants) have been provided. The two most recent investment packages (worth £145 thousand) are of particular interest to this evaluation as they were secured after 2007/08 when CBN first made its investment in Key Fund Yorkshire. However, the earlier investments are important as they provide the context for the Doncaster Refurnish-KFY relationship: Doncaster Refurnish considers the support they have received from Key Fund Yorkshire over the past seven years as a catalytic factor in their growth and development.

### Outcomes of the work

Doncaster Refurnish's activities result in outcomes across the three main areas associated with 'triple bottom line' impact assessment:

- **economic:** for example, they provide opportunities for disengaged individuals to gain skills and experience that will help them find work
- **environmental:** for example, they reduce waste by recycling household goods
- **social:** for example, they provide affordable goods for people on low incomes

As part of the SROI process we identified each of Doncaster Refurnish's key stakeholders, the nature of their relationship, how this is translated into social and environmental outcomes, and how these could be measured for SROI purposes (for more detail on this see Annex 4). This process revealed a series of key social outcomes for Doncaster Refurnish's stakeholders. These outcomes and their *monetised* indicators are outlined in Table 7.1.

**Table 7.1: Monetised indicators for Doncaster Refurnish's outcomes**

| Social/Environmental Outcomes                  | Monetised indicator                                                                                                    | Stakeholder                                                                              |
|------------------------------------------------|------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------|
| Reduction in waste                             | Reduction in annual landfill tax paid by DMBC/SITA, or; Shadow cost of reduction in CO <sub>2</sub> emissions          | DMBC/SITA, <i>and</i> , the wider public                                                 |
| Reduction in re-offending                      | Value of wages that each offender would have forgone had they re-offended and returned to prison                       | South Yorkshire Probation Service, <i>and</i> , Volunteer Ex-Offenders                   |
| Increase in employment                         | Cumulative annual salaries received by volunteers who gained employment (as an indicator of the quality of employment) | Volunteer referral bodies (main ones are A4E and JCP), <i>and</i> , Volunteer Jobseekers |
| 'Feel good factor'                             | Total resale value foregone of the items given away                                                                    | Local people (1): reuse collection customers                                             |
| Increased access to affordable household items | Price paid for item less price the customer would have had to/been prepared to pay from other retailers                | Local people (2): reuse retail customers                                                 |

### Valuation

Within the scope of this evaluation it has not been possible to collect the data required for each of the monetised indicators in Table 7.1. This would require further in depth data collection with each of the stakeholders concerned. However, it has been possible to produce a worked example for three indicators to provide an indication of the level of social or environmental return that has been accrued. The outcome of these worked examples is demonstrated below with more detail provided in Annex 4. Note that in each case a number of assumptions are used in making an assessment of overall impact.

- **increase in employment for volunteers:** by increasing employment for its volunteers Doncaster Refurnish creates social value of at least £68,788 each year. This figure only includes volunteers who move into employment with Doncaster Refurnish. It does not include volunteers who find employment elsewhere as this data was not available. The majority of volunteer referral bodies do not pay for these volunteer placements: only South Yorkshire Probation Service provide funding of £15,000 per year. This activity therefore produces an annual social return on investment ratio of 4.59:1 or four pounds and fifty nine pence (£4.59) for every pound (£1) invested
- **increase in 'feel good factor' for reuse customers:** by enabling a 'feel good factor' for local residents who take advantage of the *reuse* service, Doncaster Refurnish creates an estimated £176,680 of social value each year. As the reuse contract with SITA is worth £300 thousand per year this activity produces an estimated annual social return on investment ratio of 0.59:1 or fifty nine pence (£0.59) for every pound (£1) invested
- **reduction in waste:** by reducing the amount of waste that is sent to landfill Doncaster Refurnish creates an estimated £42,364 of social value each year. As the reuse contract with SITA is worth £300 thousand per year this activity produces an estimated annual social return on investment ratio of 0.14:1 or fourteen pence (£0.14) for every one pound invested.

These examples highlight the broad nature of the concept of social value and the different approaches to monetising social outcomes. For volunteers outcome value can be captured through the tangible economic benefits of finding employment. Likewise the value of environmental impacts can be calculated from landfill tax savings (albeit from the perspective of the local authority rather than wider society). However, for reuse service users outcomes are not as economically tangible and the value of each outcome is individually very small (£40) but this activity creates a greater volume of social value due to the high volume of people supported (4,417).

## 7.3 Case study 2: Point Blank Theatre Company

Point Blank Theatre Company Ltd (Point Blank) has three main strands of activity: a *national touring company* producing a new show every one or two years; a *schools, children and young peoples programme* focusing on drama and theatre activities but also promoting emotional intelligence, cultural diversity and tolerance, citizenship and literacy skills; and a *community programme* supporting people from marginalised and disadvantaged groups, providing structured training and apprenticeships, and opportunities for practical experience for emerging artists. Point Blank received a Charity Bank loan of £149,000 and a £90,000 loan-£10,000 grant package from Key Fund Yorkshire. The funding of £249,000 has enabled Point Blank to buy a public house in Sheffield for use as a performance venue and office space.

## Outcomes of the work

Pont Blank's activities result in economic and social outcomes for their beneficiaries:

**economic:** for example, they provide opportunities for disengaged individuals to gain skills and experience that will help them find work

**social:** for example, they support children and young people to improve educational attainment and social development.

As part of the SROI process we identified each of Point Plank's key stakeholders, the nature of their relationship, how this is translated into social outcomes, and how these could be measured for SROI purposes (for more detail on this see Annex 4). This process revealed a series of key social outcomes for Point Blank's stakeholders. These outcomes and their monetised indicators are outlined in Table 7.2.

**Table 7.2: Monetised indicators for Point Blank's social outcomes**

| Social Outcomes                             | Monetised indicator                                                                                   | Stakeholder                                                                                                      |
|---------------------------------------------|-------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------|
| Improved educational attainment in literacy | Costs to the public purse to age 37 arising from failure to learn to read in the primary school years | Children and young people, and, Schools/Teachers                                                                 |
| Increased employment                        | Cumulative annual salaries received by beneficiaries who gained employment                            | Adult beneficiaries, including, substance misusers, unemployed, people with mental health problems, ex-offenders |
| Improved confidence and self-esteem         | To be determined                                                                                      | Children and young people, and, Adult beneficiaries                                                              |
| Improved health and well-being              | Contingent value of additional hours spent engaged in leisure activities                              |                                                                                                                  |
| Reduced social isolation                    | Contingent value of additional hours spent engaged in social activities                               |                                                                                                                  |
| Reduced substance misuse                    | Average amount saved on spending on illegal substances                                                | Adult beneficiaries (substance misusers)                                                                         |
| Reduced re-offending                        | Value of wages that each offender would have forgone had they re-offended and returned to prison      | Adult beneficiaries (ex-offenders)                                                                               |
| Improved family relations                   | Average increase in spending on family activity (i.e. leisure)                                        | Parents                                                                                                          |

This highlights that some social outcomes are not easily associated with a monetary value. For some outcomes (i.e. improved family relations) proxy indicators can be developed but for others (i.e. improved confidence and self-esteem) the benefits are less tangible. SROI analysis is a developing area and as it evolves it is possible that methods and indicators for monetising these less tangible outcomes will be developed and their usage standardised.

## Valuation: a worked example

It has not been possible to collect the data required for each of the monetised indicators in Table 7.2 within the scope of this evaluation. This would require further in depth data collection with the stakeholders concerned. However, it has been possible to produce a worked example for one indicator to provide an indication of the level of social return that has been accrued. The outcome of this worked example is demonstrated below with more detail provided in Annex 4. Note that a number of assumptions are used in making an assessment of overall impact.

- **improvement in educational attainment (literacy):** the work undertaken by Point Blank through the Reading is Fundamental programme is estimated to be between £22,399 and £26,549. At this stage a social return ratio cannot be calculated.

This example demonstrates the importance of long term tracking data on programme beneficiaries to the accurate estimation of SROI. Point Blank's end of programme evaluation demonstrates that an improvement in attainment is evident in a proportion of beneficiaries but it does not indicate the extent to which the improvement is sustained over time. Without this information an estimation of deadweight and attribution is not possible without a series of assumptions that are open to challenge.



## 7.4 Towards a full estimation of SROI

One of the advantages of the SROI process is that it provides a social return ratio which describes the amount of social value created for each pound (£) invested. It has not been possible to calculate a full social return ratio for either case study because there is not sufficient evaluative data available regarding most of the outcomes identified and further data collection would have been beyond the scope of the evaluation. A further challenge in using SROI is to evaluate the impact of loan funding, as loans do not in themselves pay for activities which directly deliver services. Both issues are discussed in more detail below.

### *Data collection*

For both case study organisations there is sufficient evidence to suggest that the outcomes identified are being achieved to some extent. However for most outcomes, data had not been collated on a systematic basis. For example, Doncaster Refurnish were aware that a number of volunteers had gone on to find work following their placement but, with the exception of those actually employed by Doncaster Refurnish, they did not have information about exact numbers employed, the nature of the employment secured, and the extent to which this could be attributed to their volunteer placement. The SROI process requires detailed data on each outcome, in particular around rates of attribution and drop off, in order that an accurate estimation of social return can be made.

### *Establishing impact - the challenge of attributing change to investment and support*

SROI was developed to facilitate the assessment of social return where money has been directly invested in the delivery activity or activities. For example, a grant funder might invest £100,000 in an organisation to support ex-offenders, the main outcome of which might be a reduction in re-offending with a social value of £500,000. In SROI terms this means for every pound (£1) invested by the funder social value of five pounds (£5) is returned - a ratio of 5:1.

However, loan funders such as Charity Bank and Key Fund Yorkshire do not typically fund the direct delivery of services. Rather they provide capital for physical assets (Point Blank) or working capital to cashflow a range of activity delivered by the organisation (Doncaster Refurnish). Furthermore, the relationship between Charity Bank in the North and the organisations they support is more than simply financial and the organisational benefits extend beyond the finance provided. Both cases regarded the funding provided as catalytic factors in their organisational growth and development.

The level of social value creation attributable to Charity Bank in the North is therefore difficult to establish: it extends beyond the activity facilitated by the loan funding but probably not as far as the total social value created by the organisation as a whole. A simple solution would be to ask each organisation to assign a proportion (percentage) to the extent to which they feel the social outcomes they have achieved are attributable to the support they have received (that is, how much of the outcome could have been achieved without support?) (see Cowling 2010, a similar approach to this was used to establish attribution during the Economic Evaluation of the Small Firms Loan Guarantee (SFLG)).

## 7.5 Conclusion

This pilot has highlighted the potential of SROI as a framework for evaluating the social impact of support provided through social investment. Where good quality outcome data has been collected it has been possible to provide an estimation of the social return on investment arising from the activities of the Charity Bank in the North investees but more detail is required on outcomes before a full SROI analysis can be completed for both cases. A further methodological challenge is to determine the extent to which social returns can be attributed to the investment.





Charity Bank loan to the Rotherham Community Transport £168,000 (2011)

# Conclusion

## Summary

There are six main findings and associated lessons for future social investment practice to come from the evaluation:

There are six main findings and associated lessons for future social investment practice to come from the evaluation: **The voluntary and community sector in Yorkshire and Humber is incredibly diverse in terms of its funding, the level of activity in different places, and also its resilience in the face of public expenditure cuts.** Charity Bank in the North has had to respond to this diversity by tailoring its support to different places and the differing needs of organisations. Responding to such diversity is centrally important to the success of any social investment policy.

**The implementation of Charity Bank in the North has occurred during a period of considerable political, policy and economic change.** The programme was designed to respond to the rapid decline in regeneration grants; but as the effects of this decline worked through, the far more significant challenges have been around supporting organisations as the public policy funding landscape undergoes a period of transformation. This has been in terms of funding but also new areas of activity for the sector.

**Changing attitudes and approaches to funding takes time.** Developing and agreeing viable investments in voluntary and community sector organisations can take upwards of two years; although in some cases it may only require a few months. Social investment policies need to work both on developing viable investments but also in a wider programme of changing approaches to funding and loan finance in particular.

**Charity Bank in the North has met or exceeded its key targets.** It assisted over 600 organisations. Over 100 loan agreements have been signed by Charity Bank and over 200 loan/grant agreements by Key Fund Yorkshire. There is also a strong pipeline of potential investments. Key issues to arise have been around the need for a range of support, from loans of differing sizes, the mix of loans and grants, and a wider programme of support.

**There is scope to improve how investment for social returns is undertaken.** This is not a straightforward process. On the part of the sector the measurement of social returns remains variable and development here would help both in terms of accessing loan finance but also public sector contracts. On the part of social investors, there is some scope to include the assessment of social impacts in investment appraisal and monitoring. More broadly public sector funders also need to provide assistance and support.

**Social return on investment** is a relatively new approach for estimating the social impact of organisations. It is not however a panacea either for all organisations or all types of investment. Its strengths lie in providing a framework for typically larger organisations and for those with relatively easily quantified outcomes. The value of the other activities undertaken by the sector should be supported and recognised.

## 8.1 Introduction

The investment in the Charity Bank in the North initiative is innovative and represents a break with past grant funding support for the voluntary and community sector. It builds on the previous pioneering work by Key Fund Yorkshire. As such the new aspect for the region was the investment readiness programme, together with the provision of additional capital. Charity Bank in the North leaves a legacy in the form a capital base to fund future loans and a skilled assessment and business development team.

This section outlines the main findings from the evaluation. It concludes by assessing whether the original rationales and justifications for Charity Bank in the North hold. From this, lessons for social investment in the future are drawn, both in terms of the implications for the sector in the region but also social investment policy more generally.

There is much positive feedback in terms of the processes underpinning Charity Bank in the North. However, the take up of loans has been less than originally expected at this stage; in part reflecting the need to actively promote and then support organisations as they develop sound projects for investment. There are additional contextual factors to explain this (recession, prospects for public funding but also increased competition from other social investors). Nonetheless, the pipeline for loans has increased suggesting that interest in loans from the sector continues to grow.

Very positive findings were around the high levels of additionality of the funding: in very few cases would organisations have been able to secure the same level of loan finance on comparable terms. Nonetheless, the sector remains vulnerable in the region with operating margins typically very low. Loans funding presents a very good funding option for a relatively small part of the voluntary and community sector; but a part of the sector which until Charity Bank in the North did not have these financial needs met. Moreover, through the Investment Readiness Programme working alongside the funding elements of CBN, there has been a demonstration effect to the sector of the potential of loan funding.

## 8.2 Key Findings

The key findings that can be drawn from the evaluation are:

- **The voluntary and community sector in Yorkshire and Humber is incredibly diverse** with notable variation in the size, structure and funding of the sector between localities. This may explain differing appetites for loan funding: from East Riding (low) to West Yorkshire (high). The programme has responded to this diversity as well as the need to adapt to new opportunities, for instance lending to organisations working in the fields of green energy generation and social housing.
- **Public expenditure cuts and new policy agendas** are having a considerable bearing on the voluntary and community sector. Whilst the policy agenda around the role of the sector is generally supportive, the viability of a significant part of the sector and activities must be questioned. New policy agendas present opportunities to some parts of the sector.
- **Changing attitudes to loan funding takes time.** The processes of the programme from Charity Bank loans through to advice and support on financial sustainability were held in very high regard. There can be long

lead times from the consideration of funding options by VCS organisations through to the application for a loan. This is understandable especially for organisations which may be taking on loans for the first time.

- **Programme targets set have largely been met or exceeded.** However, the achievement of lending targets has been difficult and reflects the time taken to develop sound investment propositions. There has recently been considerable growth in the loan portfolio of the Charity Bank and the pipeline for new loans is also growing. This reflects the time taken to establish a programme of this type, one which was innovative and which was required to be transformational through changing attitudes to loan funding in the region and to the overall concepts of sustainability and resilience.
- **Investing for financial and social returns:** loans to the voluntary and community sector typically help organisations consolidate their financial position and develop new initiatives (through physical or working capital) sooner than they would otherwise be able to. Both Charity Bank and Key Fund Yorkshire assess the financial viability of investments alongside the eligibility of the organisation for funding. However, they have not traditionally balanced this with a detailed assessment of the social impact of an investment; an assumption here being that successful investments, and ones which funders or donors support, are likely to be those making a greater impact. From 2011 Charity Bank is taking steps to integrate social impact assessment in its credit modelling as it seeks to become a high impact lender.
- **Measuring Social Return on Investment (SROI):** SROI is a relatively new approach for estimating the wider social impact of organisations and funding. A pilot study of two CBN investee organisations shows how VCS organisations can generate an array of social impacts, the potential significance of these, the data required to make a full estimate of these impacts, and the difficulties in attributing change in social impacts to loan funding. SROI however is more appropriate to some organisations (typically larger organisations) and to some activities (with more easily quantified outcomes) than others.

### 8.3 Eight Rationales for CBN: evaluation evidence and lessons for the future

**Charity Bank in the North** was based on a series of rationales - the main ones are outlined below. Evidence of the performance against each provides the basis to inform both the support for the sector in the region and social investment policy more generally. Addressing the different rationales also needs to strike a balance: for instance solving a credit market failure may not necessarily fully address issues of equity; and funding higher risk investments may jeopardise the long term sustainability of the fund. The following outlines the justification for the rationale, summarises the key findings and provides lessons for future policy and practice.

#### *Rationale 1: Market Failure*

**Outline and justification:** public policies are often justified on the extent to which they address a market failure or an equity issue. The region's voluntary and community sector, particularly smaller organisations with turnovers of less than £1 million, were found to be 'under capitalised' relative to larger organisations and compared to the level of income growth in the sector. As the recent Cabinet Office Social Investment Market Strategy report (Cabinet Office 2011) suggested, this may be for a variety of market failures - from the actions of banks to the understanding of finance by the sector to the funding approach of the public sector.

**Findings:** both the Charity Bank and Key Fund Yorkshire loan parts of the programme were found to be making viable investments in organisations which would not otherwise have accessed loan funding from the commercial sector.

**Lessons:** Charity Bank in the North does not address a single market failure, such as limited commercial bank lending to the sector in the region, but rather a range of factors required to make investments successful. This includes both the understanding of loan finance, providing finance on a patient basis and judging the full risks of investments.

#### *Rationale 2: Equity*

**Outline and justification:** Charity Bank in the North was intended to support organisations working in the most deprived neighbourhoods in the region. It was also designed to support organisations which were seen to be 'dependent' on grant funding, ostensibly from regeneration programmes.

**Findings:** the evidence that equity considerations have been fully embedded in the programme is mixed. Both Charity Bank and Key Fund Yorkshire met the demand for loans from organisations with financially viable applications, and to some extent consider the social impacts of investment as part of appraisal, although neither works to a standard impact assessment framework. An important challenge for all social lenders in the future will be to invest for greater social impact.

**Lessons:** public funders have choices around the requirements they place on publicly backed social investment programmes. The primary goal in Yorkshire and Humber was around the development of a viable loan market and changing attitudes to loans. Over time the goals of funders (in the public and charitable sector) may become more diverse and for equity concerns to be given more consideration.

### ***Rationale 3: The Whole is Greater than the Sum of the Parts***

**Outline and justification:** Charity Bank in the North was developed as an integrated programme, in which organisations passed through different elements of the programme.

**Findings:** The programme was found to work well as a whole and was very well received. However, all organisations, during the course of the programme, did not pass through the programme. Rather they accessed individual elements which proved useful in developing their understanding and use of loan funding.

**Lessons:** the specification of the programme at the time was probably correct. However, two improvements could have been made: the specification of the workshops could have been more responsive to demand; and there should have been a greater focus on loan finance. Both may have necessitated working with a smaller number of organisations in the region to provide more bespoke support. Furthermore, there is quite strong evidence that organisations require more support to develop their approaches to funding, and loan finance in particular.

### ***Rationale 4: Value for Money***

**Outline and justification:** the case here is that Charity Bank in the North represented good value for money both in terms of its delivery but also the long term benefits to the sector.

**Findings:** Charity Bank in the North largely met or exceeded challenging delivery targets for the support provided. The administration and delivery costs of all partners were found to be reasonable. The main outcomes from the loans made can only be fully assessed in the long term. For the moment, levels of bad debt are very low although they may rise as public funding cuts affect the sector. In terms of the impact organisations are making, most were found to be offering services which were not in direct competition with others. On balance the CBN programme therefore offered very good value for money in terms of its delivery and its outcomes.

**Lessons:** the social investment market is still at an early stage of development. To achieve good value for money, future social investment programmes needs to: provide a balance of capital funding (which has the potential for sustainability) and revenue support to enable market development; business support; and ensure that funding is patient.

### ***Rationale 5: Cultural Change***

**Outline and justification:** the programme was designed to continue to change attitudes to finance, and in particular loan funding, in the region's voluntary and community sector. As such this was seen as a means to support the sustainability of the sector.

**Findings:** CBN has played an important part in changing attitudes to loan funding at a time when there has also been a general trend in the sector and in policy to the use of non-grant funding. CBN built on previous support in this area, for example the work of Key Fund Yorkshire in the region since 1998. These changes do not necessarily happen quickly and nor will they be sector-wide.

**Lessons:** Proximity to lenders, especially in the development of funding options, and to some extent in monitoring following investment, matters in ensuring good investments are made. Loan funding is not for all organisations but is for those who demonstrate they have: the potential to develop; particular skills in financial management; are entrepreneurial; and are largely growth oriented (in terms of income and social outcomes).



## ***Rationale 6: Sustainability and Legacy***

**Outline and justification:** the fund is intended to be sustainable beyond the initial injection of capital and beyond the investment readiness programme. As such it is intended to leave a legacy for the voluntary and community sector in the region.

**Findings:** the evidence suggests that sound investments have been made: default and bad debt are low although in the context of public funding cuts bad debts may rise. Those organisations supported are more likely to have key attributes to survive and repay the loan; namely they are resilient and adaptable organisations. CBN has been flexible, responding to new market opportunities. Demand in the region has been met, CBN has not overtly sought to artificially construct a social investment market.

**Lessons:** the main lessons are around the flexibility of the fund (not being tied to any particular service sector or locality) and finding the right balance between riskier and more secure investments.

## ***Rationale 7: Impact Funding***

**Outline and justification:** there is a simple premise that it is possible for lenders to invest in projects generating significant social impacts.

**Findings:** the findings here were relatively mixed. Both Charity Bank and Key Fund operate appropriate and robust approaches to lending. Their main focus is on the financial viability of the investment. In most cases viability rests on the organisation being able to secure income and this means demonstrating to public sector commissioners and to donors that their projects make a social, environmental or economic impact. A further issue here is what returns should reasonably be attributed to the lender: in most cases loan funding brings projects forward in time and which would have otherwise not gone ahead or would have required an organisation to build up reserves through surpluses or fund raising.

**Lessons:** the main lesson is that lenders invest in social impact indirectly and as such are different to grant makers or commissioners of public services. Their main achievement is to bring forward benefits for an organisation; and importantly to provide finance on a patient basis.

## ***Rationale 8: Social Return on Investment***

**Outline and justification:** there is a readiness in the region to use outcomes measurement approaches, including social return on investment

**Findings:** a pilot study of SROI in two investee organisations showed that it helps in understanding the outcomes for different stakeholders especially where these outcomes could be readily quantified in monetary terms (typically where there was a monetary transaction, a public sector cost saving or a time saving). However, monitoring of outputs and outcomes was not routinely undertaken in many organisations.

**Lessons:** funders and donors are likely to become more demanding of organisations in demonstrating the outcomes they achieve. This may be difficult for smaller organisations and for those working in fields where outcomes are complex and long term. Although there is an onus on the sector to demonstrate outcomes, there is also a requirement on the part of funders to provide leadership in setting clearer and consistent requirements.



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# Annex 2 Evaluation Framework

## Introduction

This annex sets out the evaluation framework for the Charity Bank in the North. Charity Bank in the North investment (CBN) is an innovative initiative, intended to bring lasting change both in terms of the funding the sector but also in terms of the sustainability of the sector itself. The evaluation has therefore sought to look beyond the immediate impacts of the funding.

## Charity Bank in the North Objectives

Funding from Charity Bank in the North was intended to provide the following:

- **provide high quality, competent technical assistance and loan finance products and services for the VCS** in Yorkshire and Humber
- **be an advocate for its actual and potential customers**, identifying barriers to access to finance and proposing, piloting and supporting solutions in Yorkshire and Humber
- **develop relationships with Community Development Finance Institutions (CDFIs)** that have complementary objectives
- **develop bespoke expertise and experience** of the particular financing needs of enterprising charities in Yorkshire and Humber.

The **business support** targets set for the project include:

- **449 businesses assisted** to improve their performance through the investment readiness programme
- **449 businesses supported** to improve their performance through CBN loans
- **205 businesses supported through grant and patient capital.**

The aim will be to have over 75 percent of organisations increase their understanding of the finance options available to them and a percentage of these organisations to have changed their actions as a result.

## Overview of Evaluation Framework

The evaluation brief and interviews undertaken at the start of the study highlighted the need to address the following:

- the **strategic** benefit of the investment (principally measured in terms of Strategic Added Value criteria but also in terms of the lasting legacy of the investment)
- **fund performance**, including an assessment of loan disbursement and repayment, as well as managed of non-repayment and default
- CBN **processes** (in terms of application and monitoring arrangements and their impact)
- **sector outcomes** both in terms of the reach of the investment but also and critically the impact on the sustainability of organisations
- **impact**, which we have interpreted both narrowly (the impact on benefiting organisations) but also more broadly (in terms of the benefits to disadvantaged communities and to the sector as a whole).

## Overview of Evaluation Methods

A range of research methods have been used and are fully documented in a separate evaluation framework report. In brief the main methods include:

- Stakeholder interviews with staff involved in the funded activities, Yorkshire Forward and representatives from the VCS, including funding advisers
- Analysis of monitoring data on investments and appraisal information
- Survey of organisations participating in each element of the programme
- Case studies with five beneficiary organisations
- The piloting of Social Return on Investment measures
- Analysis of secondary data, including charity accounts and from the National Survey of Third Sector Organisations.



# Annex 3 Interviewees and Participants in the Research

We are very grateful to the following who gave their time freely to participate in the research:<sup>6</sup>

|                                                   |                        |
|---------------------------------------------------|------------------------|
| Business in the Community                         | Jo Crossley            |
| Business Link                                     | Anthony Radley         |
| CERT (Community Economic Regeneration Team)       | Neil King              |
| Charity Bank                                      | Jo Boardman            |
| Charity Bank                                      | Azlina Bulmer          |
| Charity Bank                                      | Tim Foggin             |
| Charity Bank                                      | Paul Harrison          |
| Charity Bank                                      | Malcolm Hayday         |
| Charity Bank                                      | TC Miller              |
| Charity Bank                                      | Martin Mosley          |
| Charity Bank                                      | Malcolm Rogers         |
| Charity Bank                                      | Claire Trennaman       |
| Charity Bank                                      | Simon Thorrington      |
| Doncaster Refurnish                               | Jo Ward                |
| Fit4funding (First Steps Workshops)               | Chris Hollins          |
| Fit4funding (First Steps Workshops)               | Kaye Wilson            |
| Freelance consultant                              | Steven Leach           |
| Friends Provident Foundation                      | Danielle Walker Palmer |
| Humber Forest School                              | Graham White           |
| Involve Yorkshire and Humber                      | Judy Robinson          |
| Key Fund Yorkshire                                | Ann Oldroyd            |
| Key Fund Yorkshire                                | Matt Smith             |
| Leeds Community Foundation                        | Sally-Anne Greenfield  |
| North Yorkshire Forum for Voluntary Organisations | Helen Black            |
| North Yorkshire Forum for Voluntary Organisations | Ellen Reeves           |
| One in a Million                                  | Matthew Bland          |
| Orb Community Arts                                | Mark Flood             |
| Point Blank Theatre                               | Jon Maiden             |
| Social Enterprise Support Centre                  | Paula Dennison         |
| South Yorkshire Funding Advice Bureau             | Richard Hindley        |
| South Yorkshire Open Forum                        | Sarah Tyler            |
| South Yorkshire Together for Regeneration         | Joanne Archer          |
| Target Housing                                    | Gino Toro              |
| University of Huddersfield (Next Steps Workshops) | Chris Low              |
| Voluntary Action Leeds                            | Cathy Reeves           |
| Voluntary Action Rotherham                        | Mark Allen             |
| Wrigleys Solicitors                               | Malcolm Lynch          |
| WYCAS                                             | Jill Jones             |
| Yorkshire and Humber Regional Forum               | Mark Crowe             |
| Yorkshire and Humber Regional Forum               | Judy Robinson          |
| Yorkshire Forward                                 | Jasbir Chana           |
| Yorkshire Forward                                 | Nicola McDermott       |
| Yorkshire Forward                                 | Helen Thomson          |

# Annex 4 Social Return on Investment Pilots

## About SROI

Social Return on Investment (SROI) is a methodology for valuing the benefits of the activities of voluntary and community sector organisations. It was first developed in the 1990s in the United States and has since been developed in the United Kingdom by the New Economics Foundation. In 2009 a report funded by the Office of the Third Sector was published by the SROI-Network. There has been growing interest in the use of SROI from national and local funding organisations from the public sector, grant making trusts and lenders.

At its heart SROI seeks to place monetary values on the impacts of an organisation to different stakeholders of an organisation: these are wide ranging and include funders, employees and volunteers of the organisation, its service users and the partners of organisations.

## Doncaster Refurnish

### About the organisation

Doncaster Refurnish was established in 2003. Its main activity involves collecting unwanted but reusable furniture (*reuse*) and reselling it (*resale*) to local people on low incomes. In delivering this activity Doncaster Refurnish is able to provide training and volunteering opportunities to help individuals improve their employability and gain work. The *reuse* activity covers the whole of the Doncaster borough. It is funded through a sub-contract with refuse collection company SITA UK who have a contract for borough wide refuse collection with Doncaster MBC. The *resale* activity is undertaken through three retail outlets across the borough in areas that are accessible to people from low income groups. In addition to items collected through the reuse contract goods resold include returned or warehouse damaged furniture provided by a renowned national retailer.

### About the investment

Doncaster Refurnish has a long standing funding relationship with Key Fund Yorkshire dating back to 2004 during which five separate funding packages have been received:

- **2004:** a grant for £10 thousand to employ a Volunteer Programme Co-ordinator.
- **2005:** a £3 thousand grant to support a trip to the US to visit and develop links with large furniture re-use project in Oregon.
- **2006:** a £60 thousand loan/£30 thousand grant package to purchase bed-sit accommodation.
- **2008:** a £40 thousand loan/£40 thousand grant package to fund expansion through a further retail outlet and by developing links with national retailers.
- **2009:** a £65 thousand loan to cashflow a project selling returned or warehouse damaged furniture from a national retailer.

The two most recent investment packages are of particular interest to this evaluation as they were secured after 2007/08 when CBN first made its investment in Key Fund Yorkshire. However, the earlier investments are important as they provide the context for the Doncaster Refurnish-Key Fund Yorkshire relationship: Doncaster Refurnish considers the support they have received from Key Fund Yorkshire over the past seven years as a catalytic factor in their growth and development.

### Outcomes of the work

Doncaster Refurnish's activities result in outcomes across the three main areas associated with 'triple bottom line' impact assessment:

- **Economic:** for example, they provide opportunities for disengaged individuals to gain skills and experience that will help them find work
- **Environmental:** for example, they reduce waste by recycling household goods
- **Social:** for example, they provide affordable goods for people on low incomes

As part of the SROI process we identified each of Doncaster Refurnish's key stakeholders, the nature of their relationship, and how this is translated into social and environmental outcomes - this is outlined in table A.1.

**Table A.1: Doncaster Refurnish Stakeholder Relationships**

| Stakeholders                                                   | Benefit                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              | Social/Environmental Outcomes                                                                                    |
|----------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------|
| Doncaster MBC and SITA UK                                      | DMBC has a contract with SITA for borough wide waste collection. SITA sub-contract the re-use element of the service to <ul style="list-style-type: none"> <li>■ DR:DMBC benefit from CO<sub>2</sub> savings, reduction in landfill tax charges, and a 'green' profile for the council.</li> <li>■ SITA benefit as the re-use element of the contract would not be profitable for them. It also enables them to demonstrate a commitment to CSR and provides a re-use business model which could be replicated elsewhere.</li> </ul> | Reduction in waste                                                                                               |
| South Yorkshire Probation Service                              | SYPS have a contract with DR which enables them to send offenders/ex-offenders to DR as an alternative form of supervision through the community payback scheme.                                                                                                                                                                                                                                                                                                                                                                     | Reduction in re-offending                                                                                        |
| Volunteer jobseekers (including probationers and ex-offenders) | Volunteers receive practical work experience and contribute to most aspects of DR's work.                                                                                                                                                                                                                                                                                                                                                                                                                                            | Increase in employment<br>Reduction in re-offending<br>New skills and qualifications<br>References for Employers |
| Volunteer referral bodies (main ones are A4E and JCP)          | DR receives volunteer jobseekers through a range of routes including referrals from agencies such as A4E and JCP - this often a condition of jobseeker benefits.                                                                                                                                                                                                                                                                                                                                                                     | Increase in employment                                                                                           |
| Large furniture retailers                                      | A number of large household name furniture retailers provide DR with return and warehouse damaged stock for resale in DR retail outlets.                                                                                                                                                                                                                                                                                                                                                                                             | Reduction in waste                                                                                               |
| Local people (1): collection customers                         | DR collects residents' reusable furniture free of charge through the DMBC/SITA contract.                                                                                                                                                                                                                                                                                                                                                                                                                                             | 'Feel good factor'                                                                                               |
| Local people (2): retail customers                             | DR sells on reusable items to local people on low incomes who cannot afford new retail prices.                                                                                                                                                                                                                                                                                                                                                                                                                                       | Increased access to affordable household items                                                                   |

Through this process we were able to identify three types of stakeholder: *Commercial enterprises*, *public services*, and *local people*. Each stakeholder group benefits from Doncaster Refurnish's activities in different ways:

For **commercial** stakeholders the benefits are primarily financial in the form of cost savings to the business. For example, SITA could not deliver the DMBC re-use service and make a profit so the contract with DR represents a net saving. Likewise the national retailers would have to pay to dispose of their used and damaged goods. There are also less tangible benefits to both in the development of 'greener' business models, which may form part of a business's corporate social responsibility.

For **public service** stakeholders there are a mix of benefits. DMBC benefits from the reuse contract as it provides them with a reduction in waste, contributing to a 'green profile' for the council. Jobseeker support agencies such as Jobcentre Plus (JCP) and Action for Employment (A4E), and SYPS, benefit from alternative forms of support and supervision for their clients which in some cases contribute to outcomes for their clients such as increased employment or reduced re-offending.

The **local people** stakeholders fall into three categories: collection customers, retail customers, and volunteers.

For **collection customers** there is a 'feel good factor' experienced through the knowledge that a disadvantaged person or family will benefit from the item donated for re-sale.

**Retail customers** benefit from the provision of affordable household items that they would be unable to afford new. In addition, these types of families are often targeted by high interest and unregulated credit providers, and the availability of more affordable items might lead to a reduction in the demand for this type of lending.

**Volunteer jobseekers and ex-offenders** benefit from practical work experience through which they can develop new skill and qualifications. For some this proves to be the stepping stone towards new or further employment, for others it leads to a reduction in re-offending. There may be positive benefits from volunteering around mental health and wellbeing.

### Valuing the outcomes

Following from the above we considered the indicators that could be used to reflect each of the five outcomes as a monetised benefit. This is outlined in table A.2.

**Table A.2: Monetised indicators for Doncaster Refurnish's social and environmental outcomes**

| Social/Environmental Outcomes                  | Monetised indicator                                                                                                    |
|------------------------------------------------|------------------------------------------------------------------------------------------------------------------------|
| Reduction in waste                             | Reduction in annual landfill tax paid by DMBC/SITA, or; Shadow cost of reduction in CO <sub>2</sub> emissions          |
| Reduction in re-offending                      | Value of wages that each offender would have forgone had they re-offended and returned to prison                       |
| Increase in employment                         | Cumulative annual salaries received by volunteers who gained employment (as an indicator of the quality of employment) |
| 'Feel good factor'                             | Total resale value foregone of the items given away                                                                    |
| Increased access to affordable household items | Price paid for item less price the customer would have had to/been prepared to pay from other retailers                |

It became apparent through this process that not all of the outcomes accruing to Doncaster Refurnish's *commercial* stakeholders were social or environmental. In particular SITA and the furniture retailers benefit from significant cost savings as a result of the relationship. As the financial performance of these companies has been improved without any tangible social or environmental impacts these outcomes should not be included in a final SROI analysis.

### Valuation: some worked examples

Within the scope of this evaluation it has not been possible to collect the data required for each of the monetised indicators in table A.2. This would require further in depth data collection with each of the stakeholders concerned. However, it has been possible to produce a worked example for three indicators to provide an indication of the level of social or environmental return that has been accrued. These worked examples are demonstrated in boxes 1 and 2. Note that in each case a number of assumptions are used in making an assessment of overall impact.

### Box 1: Social value created by Doncaster Refurnish through increased employment

*Outcome:*

Increase in employment (and employment quality) for volunteers

*Indicator:*

Cumulative annual salaries received by volunteers who gained employment

*Evidence:*

Between 2003 and 2010 Doncaster Refurnish worked with 168 volunteers. 22 of these were later employed by Doncaster Refurnish. This equates to just over 3 jobs created per year. Other volunteers have gained employment elsewhere but the exact figures are currently unknown.

*Assumptions:*

At this stage a number of assumptions are required to make an assessment of social return. These assumptions could be verified through further research and data collection.

- 1 - Volunteers received full time employment (35 hours per week)
- 2 - Pay is at national minimum wage (£5.80 per hour for workers aged 22 years and older)
- 3 - Typical deadweight is at least 25 per cent (i.e. 1 in 4 would have found other work). Displacement is not an issue for volunteers.
- 4 - Employment gained with Doncaster Refurnish so attribution is 100 per cent. For employment gained elsewhere this would be lower.
- 5 - Outcome lasts for three years and is then assumed to be self sustaining. There is no drop-off during this period - that is benefits do not fall away over time

*Level of social return:*

Total social value created is **£68,788**.

### Box 2: Social value created by Doncaster Refurnish through increased 'feel good factor'

*Outcome:*

Increase in 'feel good factor' for reuse customers

*Indicator:*

Total resale value foregone of the items given away for the proportion of reuse customers identifying an increase in 'feel good factor'

*Evidence:*

During the 12 month period June 2009-July 2010 Doncaster Refurnish collected items from 17,668 households. The average (mean) resale value of an item of furniture sold by Doncaster Refurnish is £40.

*Assumptions:*

- 1 - The average resale value of each item collected is £40. One item is collected from each household. 25 per cent of households report an increase in 'feel good factor'
- 2 - There is limited deadweight. Without Doncaster Refurnish the majority of items will have been disposed of or sold-on rather than passed on to disadvantaged groups.
- 3 - There is no displacement. This is the only service of its kind in Doncaster. Attribution is therefore 100 per cent.
- 4 - Each donation is a one-off action. There is therefore no drop-off as the outcome does not extend beyond one year.

*Level of social return:*

Total social value created is **£176,680**.



### Box 3: Social value created by Doncaster Refurnish through reduction in waste

*Outcome:*

Reduction in waste

*Indicator:*

Reduction in annual landfill tax paid by DMBC/SITA. Note that shadow cost of reduction in CO<sub>2</sub> emissions might be a better measure, as it reflects a broader stakeholder group (i.e. wider society, but currently there is insufficient data to measure this effectively).

*Evidence:*

During the 12 month period June 2009-July 2010 Doncaster Refurnish collected items from 17,668 households. From 1 April 2010 the standard rate of landfill tax was £48 per tonne.

*Assumptions:*

- 1 - The average weight of each item collected is 50 Kg. One item is collected from each household.
- 2 - There is limited deadweight. Without Doncaster Refurnish the majority of items will have been disposed of at local authority waste sites.
- 3 - There is no displacement. This is the only service of its kind in Doncaster. Attribution is therefore 100 per cent.
- 4 - Each collection is a one-off action. There is therefore no drop-off as the outcome does not extend beyond one year.

*Level of social return:*

Total social value created is **£42,384**.

### Discussion

The first example shows that by increasing employment for its volunteers Doncaster Refurnish creates social value of at least £68,788 each year. This figure only includes volunteers who move into employment with Doncaster Refurnish. It does not include volunteers who find employment elsewhere as this data was not available. The majority of volunteer referral bodies do not pay for these volunteer placements: only South Yorkshire Probation Service provide funding of £15,000 per year. This activity therefore produces an annual social return on investment ratio of 4.59:1 or four pounds and fifty nine pence (£4.59) for every pound (£1) invested.

The second example shows that by enabling a 'feel good factor' for local residents who take advantage of the *reuse* service, Doncaster Refurnish creates an estimated £176,680 of social value each year. As the reuse contract with SITA is worth £300 thousand per year this activity produces an estimated annual social return on investment ratio of 0.59:1 or fifty nine pence (£0.59) for every pound (£1) invested.

The third example shows that by reducing the amount of waste that is sent to landfill Doncaster Refurnish creates an estimated £42,364 of social value each year. As the reuse contract with SITA is worth £300 thousand per year this activity produces an estimated annual social return on investment ratio of 0.14:1 or fourteen pence (£0.14) for every one pound invested.

These examples highlight the broad nature of the concept of social value and the different approaches to monetising social outcomes. For volunteers outcome value can be captured through the tangible economic benefits of finding employment. Likewise the value environmental impacts can be calculated from landfill tax savings (albeit from the perspective of the local authority rather than wider society). However, for reuse service users outcomes are not as economically tangible and the value of each outcome is individually very small (£40) but this activity creates a greater volume of social value due to the high volume of outcomes estimated (4,417).

## Point Blank Theatre Company

### About the organisation

Point Blank Theatre Company Ltd (Point Blank) was founded in 1997. It has three main strands of activity: a *national touring company* producing a new show every one or two years; a *schools, children and young peoples programme* focusing on drama and theatre activities but also promoting emotional intelligence, cultural diversity and tolerance, citizenship and literacy skills; and a *community programme* supporting people from marginalised and disadvantaged groups, providing structured training and apprenticeships, and opportunities for practical experience for emerging artists.

## About the investment

Point Blank received a Charity Bank loan of £149,000 and a £90,000 loan- £10,000 grant package from Key Fund Yorkshire. The funding of £249,000 has enabled Point Blank to buy a public house in Sheffield for use as a performance venue and office space.

## Outcomes of the work

Pont Blank's activities result in economic and social outcomes for their beneficiaries:

- **Economic:** for example, they provide opportunities for disengaged individuals to gain skills and experience that will help them find work
- **Social:** for example, they support children and young people to improve educational attainment and social development

As part of the SROI process we identified each of Point Blank's key stakeholders, the nature of their relationship, and how this is translated into social outcomes - this is outlined in table A.3.

**Table A.3: Point Blank Stakeholder Relationships**

| Stakeholders                                                                                                                                                                          | Benefit                                                                                                                                                                                                                                                                                                                                                                       | Social Outcomes                                                                                                                                                          |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Children (8-13 yrs) and Young People (13-19)                                                                                                                                          | PBs programmes contribute to improvements in literacy and numeracy and a range of areas linked to confidence and self-esteem such as increased aspirations, improved cultural awareness and engagement in positive activities.<br>In addition to the above young people also benefit from enhanced employability, improved health and wellbeing and reduced social isolation. | Improved educational attainment in literacy<br>Increased employment<br>Improved confidence and self-esteem<br>Improved health and well-being<br>Reduced social isolation |
| Adults, including: <ul style="list-style-type: none"> <li>■ substance misusers</li> <li>■ unemployed</li> <li>■ people with mental health problems</li> <li>■ Ex-offenders</li> </ul> | PBs programmes support a range of adult beneficiaries with specific problems to manage and overcome their conditions/situations.<br>This results in positive benefits associated with their conditions/ situations but also to improvements in confidence and self-esteem.                                                                                                    | Reduced substance misuse<br>Increased employment<br>Improved health and well being<br>Reduced re-offending<br>Improved confidence and self-esteem                        |
| Schools and Teachers                                                                                                                                                                  | PBs programmes delivered through schools contribute to improvements in literacy and numeracy                                                                                                                                                                                                                                                                                  | Improved educational attainment in literacy                                                                                                                              |
| Parents                                                                                                                                                                               | By supporting children and young people from disadvantaged backgrounds and a variety of personal problems PBs programmes contribute to improved family relations.                                                                                                                                                                                                             | Improved family relations                                                                                                                                                |
| Performance artists                                                                                                                                                                   | PBs activities provide performance artists with opportunities to increase their income and employment opportunities. This is through direct employment but also through increased experience and skills.                                                                                                                                                                      | Increased employment                                                                                                                                                     |
| Local authorities (SCC/RMBC) and other public sector bodies (NHS, probation etc)                                                                                                      | Local authorities benefit from PB's activities on a number of levels as the outcomes associated with most of PB's beneficiaries will have a direct impact on statutory service provision.                                                                                                                                                                                     | All of the above                                                                                                                                                         |

This demonstrates that Point Blank's activities result in social outcomes for a range of individual and organisational stakeholders. These outcomes are particularly associated with improvements in educational attainment, economic and financial circumstances, and personal well being.

## Valuing the outcomes

We considered the indicators that could be used to reflect each of the five outcomes as a monetised benefit. These are outlined in table A.4.

**Table A.4: Monetised indicators for Point Blank's social outcomes**

| Social Outcomes                             | Monetised indicator                                                                                   |
|---------------------------------------------|-------------------------------------------------------------------------------------------------------|
| Improved educational attainment in literacy | Costs to the public purse to age 37 arising from failure to learn to read in the primary school years |
| Increased employment                        | Cumulative annual salaries received by beneficiaries who gained employment                            |
| Improved confidence and self-esteem         | To be determined                                                                                      |
| Improved health and well-being              | Contingent value of additional hours spent engaged in leisure activities                              |
| Reduced social isolation                    | Contingent value of additional hours spent engaged in social activities                               |
| Reduced substance misuse                    | Average amount saved on spending on illegal substances                                                |
| Reduced re-offending                        | Value of wages that each offender would have forgone had they re-offended and returned to prison      |
| Improved family relations                   | Average increase in spending on family activity (i.e. leisure)                                        |

The Point Blank case study highlights that some social outcomes are not easily associated with a monetary value. For some outcomes (i.e. improved family relations) proxy indicators can be developed but for others (i.e. improved confidence and self-esteem) the benefits are less tangible. SROI analysis is a developing area and as it evolves it is possible that methods and indicators for monetising these less tangible outcomes will be developed and their usage standardised.

## Valuation: a worked example

It has not been possible to collect the data required for each of the monetised indicators in table A.4 within the scope of this evaluation. This would require further in depth data collection with the stakeholders concerned. However, it has been possible to produce a worked example for one indicator to provide an indication of the level of social return that has been accrued. This worked example is demonstrated in box 4. Note that a number of assumptions are used in making an assessment of overall impact.

### Box 3: Social value created by Point Blank increasing educational attainment in literacy

*Outcome:*

Increased educational attainment in literacy

*Indicator:*

Costs to the public purse arising from failure to learn to read in the primary school years

*Evidence:*

Costs to the public purse to age 37 arising from failure to learn to read in the primary school years are estimated at between £44,797 (lower bound figure) and £ 53,098 (upper bound figure) for each individual<sup>6</sup>.

Government statistics show that every year around 6-7% of eleven year olds in England leave primary school with very poor literacy skills (below National Curriculum Level 3 in English). This represents a literacy level equivalent to that of the average seven or eight year old.

Teachers who worked with PB on their Reading is Fundamental (RIF) programme provided evaluative feedback on the impact of the programme on the reading attainment of 326 children - 86 children were said have demonstrated improved reading attainment as result of the programme.

*Assumptions:*

- 1 - The impact of the RIF was distributed evenly across the ability range. Therefore 5 pupils with potentially 'very poor' literacy skills at age eleven demonstrated improved attainment.
- 2 - The improvement is sustained so that each of the 5 pupils does not exhibit 'very poor' literacy skills at age 11.
- 3 - There is no deadweight or displacement - the number of children leaving primary school with very poor literacy skills has remained largely static over time.
- 4 - Attribution is difficult to determine. Primary school children with low literacy skills receive a range of intensive in-school interventions aimed at improving literacy (e.g. the Reading Recovery initiative, or SEN support). Such children will require sustained regular interventions need to maintain an improved level of attainment. We must therefore assume that overall attribution is low at 10 per cent.

*Level of social return:*

Total social value created is **£22,399 - £26,549**

### Discussion

The example shows that the work undertaken by Point Blank through the Reading is Fundamental programme is estimated to be between £22,399 and £26,549. At this stage a social return ratio cannot be calculated.

This example demonstrates the importance of long term tracking data on programme beneficiaries to the accurate estimation of SROI. Point Blank's end of programme evaluation demonstrates that an improvement in attainment is evident in a proportion of beneficiaries but it does not indicate the extent to which the improvement is sustained over time. Without this information an estimation of deadweight and attribution is not possible without a series of assumptions that are open to challenge.

### Towards a full estimation of SROI

One of the advantages of the SROI process is that it provides a social return ratio which describes the amount of social value created for each pound (£) invested. It has not been possible to calculate a full social return ratio for either case study because there is not sufficient evaluative data available regarding most of the outcomes identified and further data collection would have been beyond the scope of the evaluation. A further challenge in using SROI to evaluate the impact of loan funding relates to the extent to which it is possible to attribute the change identified to the funding received. Both issues are discussed in more detail below.

### Data collection

For both case study organisations there is sufficient evidence to suggest that the outcomes identified are being achieved to some extent. However for most outcomes, data had not been collated on a systematic basis. For example, Doncaster Refurnish were aware that a number of volunteers had gone on to find work following their placement but, with the exception of those actually employed by Doncaster Refurnish, they did not have information about exact numbers employed, the nature of the employment secured, and the extent to which this could be attributed to their volunteer placement. The SROI process requires detailed data on each outcome, in particular around rates of attribution and drop off, in order that an accurate estimation of social return can be made.

This indicator draws on research by KPMG on the long term costs of literacy difficulties: KPMG Foundation (2006). The long term cost of literacy difficulties.

## ***Establishing impact - the challenge of attributing change to CBN investment and support***

SROI was developed to facilitate the assessment of social return where money has been directly invested in the delivery activity or activities. For example, a grant funder might invest £100,000 in an organisation to support ex-offenders the main outcome of which might be a reduction in re-offending with a social value of £500,000. In SROI terms this means for every pound (£1) invested by the funder social value of five pounds (£5) is returned - a ratio of 5:1.

However, loan funders such as Charity Bank and Key Fund Yorkshire do not typically fund the direct delivery of services. Rather they provide capital for physical assets (Point Blank) or working capital to cashflow a range of activity delivered by the organisation (Doncaster Refurnish). Furthermore, the relationship between Charity Bank/Key Fund Yorkshire and the organisations they support is more than simply financial and the organisational benefits extend beyond the finance provided. Both cases regarded the funding provided as catalytic factors in their organisational growth and development.

The level of social value creation attributable to Charity Bank/Key Fund Yorkshire is therefore difficult to establish: it extends beyond the activity facilitated by the loan funding but probably not as far as the total social value created by the organisation as a whole. A simple solution would be to ask each organisation to assign a proportion (percentage) to the extent to which they feel the social outcomes they have achieved are attributable to the support from Charity Bank/Key Fund Yorkshire (i.e. how much of the outcome could have been achieved without support?).

## **Conclusion**

This pilot has highlighted the potential of SROI as a framework for evaluating the social impact of support provided through social investment. Where good quality outcome data has been collected it has been possible to provide an estimation of the social return on investment arising from the activities of the Charity Bank/Key Fund Yorkshire investees but more detail is required on outcomes before a full SROI analysis can be completed for both cases. A further methodological challenge is to determine the extent to which social returns can be attributed to the CBN investment.



