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Social investment and its impact: the evaluation of charity bank in the north: executive summary

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Published version

WELLS, Peter, DAYSON, Christopher, BATTY, Elaine, CRISP, Richard and PARR, Sadie (2011). Social investment and its impact: the evaluation of charity bank in the north: executive summary. Project Report. Centre for Regional Economic and Social Research, Sheffield Hallam University.

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Social Investment and its Impact

The Evaluation of Charity Bank in the North

CHARITY BANK

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Key Fund

Acknowledgements

We are very grateful to all those who participated in the research for this evaluation. Particular thanks are due to the evaluation steering group, which comprised Helen Thomson, Marina Ciaraldi, Lorna Hewish (from Yorkshire Forward) and Azlina Bulmer (from Charity Bank). We are particularly grateful to those who gave their time freely to be interviewed as part of this evaluation, especially those working in the voluntary and community sector. We are also grateful to the members of the Northern Advisory Council and their feedback on earlier drafts of this report. The evaluation was funded by Yorkshire Forward.

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May 2011

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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 significally 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 Yorkkshire (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 unreaslistic 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 in 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 attititudes 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 strightforward 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.









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