



# Kent Big Society Fund

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Annual Review 2014



## **Table of Contents**

Background	3
About the Fund	3
Social Investment Market Update	4
Investment Readiness & Business Assistance	5
Fund Performance	6
Economic Benefits	7
Leveraging of Additional Funds	8
Market	8
Appendix 1 – Example Case Studies	10

## **BACKGROUND**

Kent Big Society Fund (KBSF) was established in 2012 with funding from Kent County Council to support existing and newly created social enterprises become more active, benefit the local community and enhance the economic, social and environmental vibrancy of Kent. An important aim of the Fund was to support a shift in the local voluntary, community and social enterprise sector from dependency on grant funding towards more sustainable business models, including contracts within the public sector.

KBSF was set up primarily as a social investment loan scheme, providing finance and support for:

- Existing social enterprises that wish to grow their earned income to become self sufficient
- Charities or voluntary groups that want to increase income from payment from their activities, including those transitioning to outcomes based funding
- Social enterprises formed to transfer or build a physical asset, such as a community shop
- Completely new start up social enterprises
- New ventures specifically targeted at supporting highly disadvantaged or marginalised people (e.g. ex-offenders)

As a recyclable fund, all capital, fee and interest repayments are returned to KBSF, thus ensuring the longevity of the Fund as an important resource for local charities, social enterprises and the wider community well in to the future.

## **ABOUT THE FUND**

KBSF offers the following support to new and existing social enterprises:

- Loans to social enterprises of between £10,000 and £100,000 over an anticipated term of 2 to 5 years.
- Finance anticipated being unsecured.
- Investment-readiness assistance with the financial planning and application process
- On-going relationship support
- An element of grant is available (max 20% of arrangement)
- Terms are flexible and competitive.

These are guidelines and there is ability to offer flexibility of terms to suit appropriate applications.

## **SOCIAL INVESTMENT MARKET UPDATE**

KBSF's inception came at a time when a number of factors were affecting the funding arena in which most of these enterprises were based, namely:

- Banks were holding back on lending whilst they were rebuilding their balance sheets following the economic crash of 2008 and the subsequent fallout.
- Austerity measures were having an impact on public money available. The result was widespread acknowledgement that the provision of services whether funded or directly provided by government and local councils was going to have to be reformed and that this evolution was going to be a lengthy one. These changes have and will include more widespread commissioning of services rather than straight grant provision and the outsourcing of internal provided services.
- A general increase in the demand for grant funding (due to an increase in social need seen during economic downturns, coupled with the changes in central/local government funding), with resources to meet this being finite.
- An increasing awareness of the role of social investment in enabling innovative new ways of tackling long-standing social challenges and social enterprise as a significant contributor to the economy, and one that is more likely to benefit disadvantaged groups such as those furthest from the labour force

Quote: *'...the challenges facing society in the 21<sup>st</sup> Century are too large and complex to be solved solely by the state. Much more needs to be achieved in partnership between the public, private and social sectors. We need to keep striving to allocate Government spend more efficiently – focusing on areas in which we can scale the impact of successful interventions. Social investment has a crucial role in delivering this change in communities across the UK and the world.'* The Rt Hon Francis Maude MP, March 2015

The social investment market has developed significantly over the past 5 years enabling a greater number of charities and social enterprises to access finance. However, it is becoming increasingly well-recognised that there is a gap in the social investment market at the lower end i.e. below £150,000. In this regard, Kent County Council's vision for KBSF was well ahead of the trend. Recent research by the Charities Aid Foundation, Clearly So and New Philanthropy Capital found that the provision of affordable risk capital available for borrowing at these lower amounts is the most demanded but the least available. There is now a growing focus on ensuring that smaller, early-stage enterprises, such those specifically targeted by KBSF, are prioritised in order to create a sustainable social investment market that can create a lasting impact on society.

In the Government's 'Growing the social investment market' 2014 progress update, Nick Hurd writes, *"Social investment is happening now. In 2011, we set out our plan to grow the market. A lot has happened since then. Thanks to pioneering investors and intermediaries, there is a growing range of products available to individuals that want to use their assets for social good."* He adds, *"Over the past years we have seen vision turn into reality. The aim of the next year is to turn reality into mainstream."*

## **INVESTMENT READINESS & BUSINESS ASSISTANCE**

Charities, community groups and social enterprises which come forward with the appetite and ideas to grow their social business for community benefit, do not in general have the experience of preparing business and financial plans to allow them to fully understand their financial needs and whether social investment is the correct way to proceed.

Over 500 specific enquiries have been received around the KBSF offering and apart from an initial surge, unsurprising when a new product is marketed, the numbers have remained steady.

Enquiries in themselves do not necessarily mean that there is a demand and perhaps a greater indication of demand is the number of organisations where business assistance is provided due the potential applicant being at a stage where their plans suggest that borrowing is a possibility. Table 1 shows the number being assisted in this regard.

Table 1

	<b>2012*</b>	<b>2013</b>	<b>2014</b>	<b>CUMULATIVE</b>
Organisations assisted with business planning & advice	24	59	76	159

\*Commencing June 2012. All figures relate to calendar years

Business assistance includes start-up advice including legal structure, assessment of need and demand, financial modelling including profit and loss and cash flow statements as well as guidance around other sources of finance whether they be lending (e.g. Charity Bank) or grant provision (via KCF or other grant providers).

The amount of assistance and time required to bring an application to panel varies with each applicant but KCF estimates that applicants receive on average between 2 and 3 days of assistance and support from point of initial contact to panel decision, and that does not include on-going support post-award.

In addition, the transformation of services being undertaken by KCC has led, and will continue to lead, to more commissioning and new opportunities for social enterprises. However, there are a significant number of potential 'social entrepreneurs' who have never run their own business before - a group of council staff considering taking on their service, for example - and as such need a high degree of assistance in order to access finance and be able to compete.

One of the particular learnings from the first 3 years of the Fund is the pressure that running any sort business brings on the individuals involved, and a particular challenge is when the venture over-relies on one particular individual as the driving force.

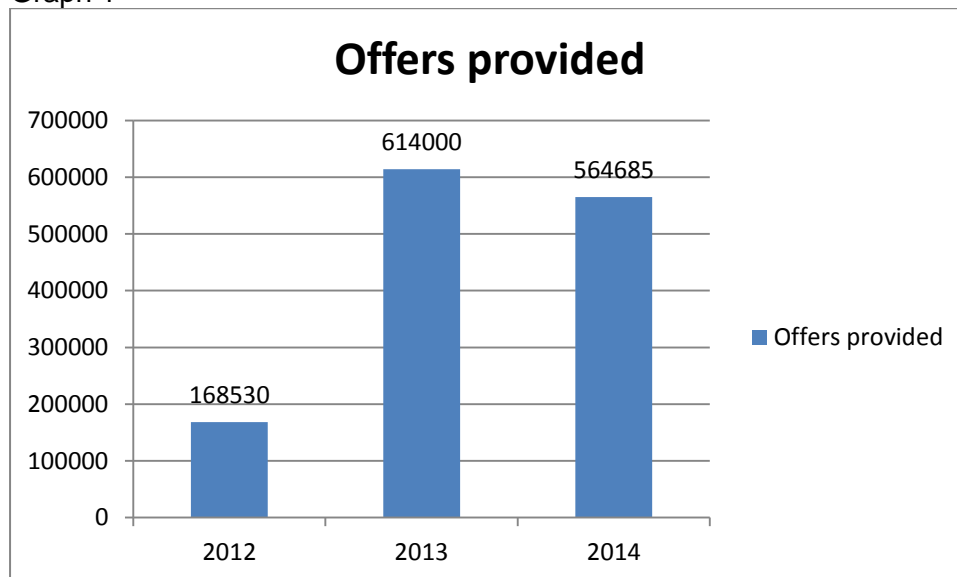
KCF continues to offer support to organisations who consider finance whether or not they proceed to a loan application.

## **FUND PERFORMANCE**

Enquiries to the Fund, where an amount of potential funding is known, equates to £3.159m over the last 3 years. We consider this to be evidence of the significant interest in considering lending finance.

Graph 1 shows the offers made each year by the Investment Panel of the Fund, equating to £1.347m. Whilst there is a slight decrease in 2014 against the previous year there was an initial 'pent-up' demand when the Fund opened with the offers in 2013 being reflective of the work undertaken to bring these to the formal application over the first few months. For the first Panel of 2015 offers were made of £170,200

Graph 1



Figures exclude an award of £130,000 (Panel and KCC approval provided) made to Fredericks Foundation to establish a micro loans hub in the county, complimenting the KBSF proposition.

To date, £902,290 has been drawn with a further £354,000 pending draw due to tranche funding or subject to completing terms and conditions. The level of enquiries seen lead us to conclude that there remains a good level of demand for the Fund.

Significantly, provisions for defaults have amounted to a modest £31,000 between 2 organisations, this equating to less than 3.9% of the facilities drawn. In addition, of those applicants assisted in the first year of KBSF's operation, 83% remain trading, against a Kent wide figure for all businesses of 60%<sup>1</sup>.

Repayments including fees, interest and capital amount to £226,000 with only one current applicant outside of repayment terms. All repayments are recycled in to the Fund for reuse. Table 2 provides full information about the Fund over the last 12 months and cumulatively.

<sup>1</sup> KCC Business Intelligence Statistical Bulletin - June 2014

Table 2

	<b>2014</b>	<b>Cumulative</b>
Expressions of interest where advice/support provided	76	159
Value of expressions of interest (Where initial value is known)	£604,000	£3,159,534
Number of applications made (both receiving advice and direct to KCF)	16	45
Value of applications.	£802,000	£2,117,534
Number of applications sent to panel.	7	30
Value of applications made at panel.	£564,685	£1,538,915
<b>Number of offers made by panel.</b>	<b>7</b>	<b>30</b>
<b>Value of offers made by panel</b> (Inc. £130,000 grant provided to Fredericks Foundation for micro loan hub)	<b>£564,685</b>	<b>£1,477,215</b>
<b>Number of acceptances.</b>	<b>7</b>	<b>27</b>
<b>Value of acceptances.</b>	<b>£564,685</b>	<b>£1,457,215</b>
<b>Number of drawn facilities.</b>	<b>7</b>	<b>23</b>
<b>Value of drawn facilities.</b>	<b>£311,685</b>	<b>£902,290</b>
Number of facilities awaiting draw (subject to conditions being met)		5
Value of facilities awaiting draw.		£354,000

## **ECONOMIC BENEFITS**

The Fund has been very successful in assisting with the direct creation or safeguarding of 270 jobs for the enterprises that have been supported, equating to £3,342 per job.

In addition to this achievement, the number of volunteer positions that KBSF has assisted in creating over the last 3 years has steadily grown to almost 100.

These volunteer positions help those who are far from the work place to experience real work conditions, improve soft skills and in many cases gain recognised qualifications that move them towards permanent employment.

Already 43 volunteers have progressed in to employment with their volunteer places being taken by others that are looking for support. In this way the Fund is not only helping job creation now, but the skills and qualifications for many more to find work in the future.

Table 3 – Summary of economic benefits 2012-2014

New Start-Up enterprises	Existing enterprises supported	Jobs created or sustained	Volunteering opportunities created	No. of people moving into employment from volunteering opportunities
20	12	270	97	43

Figures include Fredericks Foundation

## **LEVERAGING OF ADDITIONAL FUNDS**

The Fund has directly been able to leverage in additional monies to the value of £213,000. Part of this was funds from a private individual (from KCF's network of donors) who was willing to part fund and share the risk on one of KBSF's loan arrangements. KCF see this as an area with considerable potential and we are exploring this as a way of maximizing the longevity of KBSF funds. The remainder was funds leveraged to establish the Fredericks' micro-loan hub.

In addition, a number of the enterprises that have been supported have been able to leverage additional external funds directly following the initial support provided by KBSF. These funds total over £1.5m and come from a variety of sources including individual donors, other grant making trusts and central government.

The Cabinet Office, Big Lottery and Big Society Capital are now actively seeking to increase the availability of repayable finance below £150,000, the level targeted by KBSF. KCF has been involved in early consultation discussions as to how they may be able to assist Social Investment Financial Intermediaries. We will actively explore the potential of this new development to boost the KBSF capital funding pot.

## **MARKET**

One of the aims of KBSF was to support existing voluntary and community organisations which have historically been grant funded to make a shift to more sustainable funding models, such as trading activities or more commercial contracts. This has been slower to take hold than at first envisaged. This has in part been due to budget reductions in central and local government taking time to be implemented and grant funding being 'rolled over' initially while new payment models such as payment-by-results are developed.

Commissioning opportunities for smaller community organisations have also developed at a slower pace than perhaps envisaged, which has meant that for some the question of looking at other financing models was not critical at that time and had an impact on the initial demand for KBSF.

However, whilst the general economy may be seen as improving there is widespread acknowledgement that funds from central and local government will continue to come under pressure for the medium term. As such, the sector may well find that it lags behind the private sector coming out of the economic downturn and sources of support such as KBSF will feature more in enterprises having to change their operating model. We are starting to see new income-generating strategies emerging in the sector, as recognition grows that



over-reliance on grant-funding is no longer sustainable. Commissioners are also becoming more sophisticated and recognising the important role that smaller community providers play, particularly in reaching the vulnerable and hardest-to-reach.

We believe that the potential of KBSF assistance is being considered as part of a funding mix by more trustees and there is a greater acceptance opening of minds to explore the potential. The Council's STAMP Programme assisting the voluntary, charity and social enterprise sector in preparing themselves for a transition from grants to commercial contracts has been an important contributor to bridging this change.

## **APPENDIX 1 – EXAMPLE CASE STUDIES**

### **Wood n Ware CIC**

Wood n' Ware was a KCC operated day care center which was outsourced and now operates as a Community Interest Company by three ex-KCC staff who were at risk of redundancy.

KBSF assisted with initial working capital to enable the enterprise to move to a contracted service and expand their provision.

Wood n' Ware has since expanded both the number of clients attending the service and the opportunities that they have to improve their lives.



### **Queenborough Harbour Trust**

Queenborough Harbour Trust took over management of the harbour from Swale Borough Council, operating the harbour for the benefit of the community and harbour users.

KBSF assisted by providing funds to make repairs to the walkway between the boats and the harbour and recruit a permanent deck-hand

Outside of the direct benefits to the organisation it is anticipated that additional visitors will bring an extra £150,000 to the local economy.



### **Kent Woodland Employment Services**

KBSF assisted this new charity to employ and train individuals struggling to enter the workplace including ex-servicemen, unemployed school leavers and ex-offenders.

With the county having the largest acreage of ancient woodland in England, KWES saw the opportunity of providing direct employment and training to manage these woodlands.

Now employing 16 people, a further 8 will be added to the workforce this year, with another 8 planned in 2016.

