

**Unclaimed Assets:
Funding for young people *and* social investment
04 03 10**

This proposal relates to that portion of unclaimed assets earmarked for young people.

We the undersigned are concerned that thus far in discussion about unclaimed assets, debate has been underpinned by a false dichotomy - between funds going to social investment *or* to young people (or financial capability).

We come together from the worlds of youth work, charity funding and social finance. And our proposal is that funds earmarked for young people are disbursed by the principles of social investment. Social investment should not be seen as in competition with young people for unclaimed assets; rather, social investment principles should guide funding for young people. Ours is an argument for 'and and'.

We support the social investment approach because we see that a lack of access to working and development capital along with overly restricted, short-term grants and contracts act as a major barrier to charities and social enterprises achieving their social mission.

By 'social investment', we mean capitalising robust, high-quality institutions able to effect long-term change - not 'just' buying services through fixed-life projects.

We do not under-value the role of providing project funding or commissioning services. And we welcome investment in world class facilities. Yet we see acute need for working and development capital too. (And just as we see that working and development capital is required alongside fully-costed contracts and project funding, we are wary of too great an emphasis on building projects, especially where it is unclear where revenues will come from to sustain services therein. Certainly we caution against further rounds of myplace until the effectiveness and long-term prospects of early round projects has been reviewed..)

By 'social investment' we do not necessarily mean loans. (Indeed we suggest that too great a focus on loans rather than a wider debate regarding access to capital and the sort of basic behavioural change required of funders and funded may be unhelpful.)

We believe there is clear, great and lasting benefit to be had by bringing together the aspiration of funding young people and the *principle* of social investment. In particular, we believe that legislation on unclaimed assets represents an extraordinary and completely non-normal opportunity. We feel passionately that such an opportunity would be far far better spent capitalising the voluntary youth sector for the long-term than in compensating for any likely short-run dip in statutory funding or focusing exclusively on building projects.

Very simply, our point is simply that funds from unclaimed assets should be seen as a new source of capital to be invested long-term in the sector, strengthening, for the long-run, the very best institutions that can effect real change for the next generations. This can readily be achieved by empowering the Big Lottery Fund to adopt a social investment approach when disbursing the portion of unclaimed assets targeted for young people. What follows is a practical example of why we think what we do.

John Bateman, UK Youth
Tony Bennett, Clubs for Young People
David Carrington
Paul Cheng and John Kingston, Venturesome
Stephen Dawson, Impetus Trust
Toby Eccles, Social Finance
Dan Gregory, Local Partnerships
Richard Gutch
Susanne Rauprich, NCYVS
Nick Wilkie, London Youth

Introduction

This is a story about Sam.

Sam is 15.

Sam lives with Mum and baby sister. Sam is funny, kind and clever. But Sam gets into trouble at school. Last year Sam spent six weeks in a Pupil Referral Unit. This summer Sam started smoking skunk. Sam was given it by a boy who is two years older and an elder in a gang that controls the estate. Now Sam's got an eight inch blade under the mattress. He asked Sam to keep it safe. This isn't what Sam aspires to. But status is a new sensation; and Sam can't see a whole lot of alternative. Sam thinks about quitting education altogether.

A good thing in Sam's life is Jo. Jo's a youth worker. Sam's known Jo for six years, ever since starting going to youth club. Jo's taken Sam and other young people who live on the block to Scotland and done stuff with them every summer and most weekends since. Young people talk to Jo. Sam's smart. Sam trusts Jo. On better days Sam finds enough confidence to believe Jo when he says Sam could go to university. It's because of Jo's influence that Sam will. It's not just because of Jo that this story's going to have a happy ending. (Sam's Mum, a teacher and a nurse, a probation officer and an Auntie will all play their part.) But Jo's definitely important.

Jo's work isn't easy. But Jo and three part-time colleagues know what they're doing and so do the thirty volunteers who help out at the club in one way or another. But one problem Jo can't shake off: Jo spends as much time scrabbling around for money as working with young people. It's crazy. Different funders want to fund (or, increasingly, commission) a bit of what the youth club does but none want to invest in Jo's leadership and the institution long term. It depresses Jo.

Understanding the problem

One day Jo met Bob, who's just moved into the neighbourhood. Bob got talking to Jo and was amazed at how Jo was funded. Bob wanted to understand more. So he sat down with Jo to see exactly what the youth club's economy looks like.

The youth club spends £249,000 a year. It has 27 different funding streams. Three of them last longer than 12 months. All of them have different reporting requirements. It gets worse. Bob tries to sum it up and, broadly, identifies four inter-related shortcomings of the status quo...

1. Project-itis - grants are tied to deliverables not outcomes with the result that:

- Immediate outputs are prioritised over long term impact
- Funding is insufficiently flexible to respond to changing circumstances
- Planning horizons are typically limited to one or three year cycles
- Key staff are not retained and core knowledge and competence is lost
- There is no incentive to outperform – restricted funds are typically clawed back in the event of efficiency gains or leveraging of other income

2. Short-termism – demands for unrealistic exit plans concoct the fiction that complex, deep-seated problems can be solved in arbitrary, fixed and short time frames.

3. Owing to this bias towards project funding over organisational capacity (and because project deliverables are still typically costed at a marginal or near marginal rate)...

- There is insufficient investment in leadership, management and systems that ensure organisations run efficiently and effectively
- Organisations suffer capital starvation - lacking reserves for asset acquisition, working capital and development (including research and development and innovation) and often, given their work does not generate profit, being unable to borrow or attract share capital

4. High transaction costs - multi-funding implies multiple applications and compliance with many monitoring processes.

All of this undermines the important work Jo does.

Moving towards a solution

Bob spends the next six months continuing to be baffled. He speaks to everybody he can from small neighbourhood organisations like the one Jo coordinates to large national charities and representative bodies. He talks to funders and once, at a summer fete, a junior minister. Nobody he speaks to is the least surprised by what he tells them. And nobody disagrees that it's crazy. Jo is undercapitalised and over extended. This has to be bad news for Sam.

Then Bob learns about unclaimed assets. He learns that some of the cash is going to capitalise a nascent social investment market; and that the rest is going to be spent on young people. Bob finds it hard not to be a churl when he hears about this. He's delighted that there is going to be a 28th funding stream for Jo – and that it might be bigger than the other 27. But he's concerned it's going to repeat the mistakes that he's become so tired of understanding all too well.

Because Bob used to work in a bank he's intrigued by the idea of social investment. So he goes off on another round of conversations. This time he finds it harder to find people who seem to understand what social investment means. But when he finds them, it's actually pretty straightforward to see what they're doing. He talks to people at social investors Venturesome and a grant-making trust called Impetus. And he reads an old report from a Social Investment Task Force.

Social investment

Bob tries to summarise what he understands as the essentials of a social investment approach – just like he did for Jo's economy. Bob suggests social investment is:

- ✓ Interested in the underlying and long-term strength of institutions – not just the projects they carry out
- ✓ Mindful that the likes of Jo needs working capital as well as in-out revenue and capital funding for delivery (just like in Jo's private life, money is needed to ease cash flow or embark on a new venture, however modest)
- ✓ Making a diverse mix of funding options available (including straightforward revenue grants; capital grants; unsecured loans; underwriting facilities; loans that can be converted to grants if future revenues dry up; grants that will lead to profits being shared in the event of a truly enterprising scheme coming good)
- ✓ Making money work harder: a number of these funding options recycle funds to help a greater number of organisations.

Above all, Bob realises that social investment is about doing just that – making investments into the long-term ability of organisations to achieve change (not just paying them to do projects). Bob thinks this is a different way of doing things that can strengthen the youth club long-term and make the funder's money work harder at the same time. Bob gets all excited. Bob goes back to Jo.

Jo says, 'I want the money.'

Bob talks about the idea of 'patient capital'. Patient capital can take a variety of forms and can best be understood as the principle that funding is made to strengthen an organisation and its work long term. Bob says they'll always be a place for the summer scheme grant.

Jo says, 'I just want the money.'

Bob says he thinks that the 28th funding stream should, in principle, pay for the summer scheme. Or for training for the all-important volunteers and for professional development for Jo. Or for the utility bills. Or, perhaps, for a new gym. Or for a new IT or bookkeeping system. Or to finance the start-up of the training service Jo's often thought about on top of the bus and which could make serious money. Bob says he thinks these are different kinds of work – that might not all need funding in exactly the same way. Bob thinks we could helpfully move beyond basic cash-in, cash-out.

Jo says, 'Like I pay for my mortgage and my holiday and my morning paper in different ways?'

Bob and Jo take a closer look.

As voluntary organisations seek to build financial resilience and expand - and in particular if they wish to assume a more entrepreneurial orientation - the need for capital is apparent whether this be for: asset purchase; working capital (underpinning cash flow); or development capital (investment in organisational capacity – purchasing systems and/or expertise, or to develop new initiatives, in particular for social enterprise.)

The need is further enhanced as third sector organisations operate in increasingly commercial type environments including, but not limited to, public service markets. Revenue funding increasingly follows commissioning and competition increasing the need for organisations to attract investment.

Some foundations do provide strategic grants (unrestricted income where there is a strategic fit between the objectives of granter and grantee) or development grants (investment to effect a step change in organisational capacity) as well as project grants. Capital can also, of course, be raised in fundraising appeals targeted at individual and corporate supporters.

However, the majority of grant makers still prefer funding direct outputs to organisational development or early stage venturing. Meanwhile, fundraising appeals are, typically, for capital expenditure on buildings or specialist equipment not for working capital for business development.

Thus voluntary organisations find themselves in need of capital finance at critical stages of lifecycle - the same as any business. Demand cannot be satisfied by the predominantly revenue-based assumptions of conventional funding flows.

Indeed, the overwhelming project-focused nature of grant funding is seemingly blind to the concept of organisational lifecycle and the need for working capital to make the wheels of any organisation turn. We need a new orthodoxy which recognises the need to make long-term investments into charities.

Meanwhile, most voluntary organisations are structured as companies limited by guarantee (and so have no share capital and are therefore unable to access equity finance) or are insufficiently profitable to attract commercial money.

Into this capital starved environment, however, new suppliers of finance have emerged, combining social and financial returns and making available patient capital.

Crucially, we can talk about a range of financial options blending social and financial return (where otherwise debate perhaps falls too readily to straight debt or grants). We believe that the principle of capital investment stands before any consideration of specific products. However, to flesh out the illustration, broadly in terms of the product range offered by the emerging breed of social investors, options include:

- Underwriting (standby facilities (which are allocated to the charity but only need to be drawdown if needed) giving managers and trustees the confidence to ‘walk the high wire’)
- Guarantees
- Supported loans (preferably at below market rates; and/or making provision for repayment holidays; and/or where repayment of interest and principal may be flexible, contingent on future affordability)
- Loans
- Quasi-equity (investments repayable by a royalty on future revenues, also referred to as ‘revenue participation agreements’)
- Equity (shares in fully commercial enterprises, for example, fair trade or renewable energy businesses)
- Old-fashioned engaged grant-making, investing in the institution not a project

Specialist funders such as The Impetus Trust (grants), Triodos Bank (long-term secured debt) and Venturesome (debt finance for working capital) offer hard evidence that this broad approach can yield much in terms of long-term institution-building and thereby impact.

A well-capitalised organisation is able to plan in the medium term. It is able to invest in systems that increase efficiency. It is able to undertake real research into emerging opportunities. By contrast, an under-capitalised organisation lurches from year to year, struggling to invest in organisational improvement that would aid delivery, finding it hard to retain talented staff and focused exclusively on immediate demands as opposed to being able to design services to address longer term needs.

Bob thinks about how if he were in charge he’d take this approach and make the most of unclaimed assets by exploiting it. He works up some case studies based on real-life historic success stories to illustrate his vision...

Grants as investments

Good youth work works. And it's the people who make it so. Often, great youth workers are young people (like Sam) who have come through the club. The Rank Foundation have for many years funded young youth leaders through part-time foundation courses and degrees in youth and community work, funding them to work part-time as community-based youth workers. There is nothing financially remarkable about this scheme – other than that the funder looks to develop a long-term relationship with the organisations they fund. This means they develop the confidence to flex the funding programme around the needs of particular organisations and individuals. And it means they are engaged in building long-term capacity in the youth club at the same time as funding direct delivery.

In Newcastle, The Keyfund Federation had developed a twenty year track record of engaging young people and facilitating them to lead and learn from their own community projects. The model was extraordinarily effective at engaging young people who would not normally choose to get involved in such initiatives. Youth leadership programmes often risk spaces being taken by an already highly confident self-selecting elite. Keyfund knew they had built something special.

Yet there was no way they could make enough surplus from their grants-for-delivery to generate sufficient working capital to enable them to invest to take the model to scale. In 2007, The Impetus Trust invested long-term grants in Keyfund to enable them to develop a model of social franchising. In 2009 the first Keyfund licence holder began delivering the model in London. After three months the results speak for themselves.

Underwriting

Book Aid International (BAI) believes that books change peoples' lives.

Venturesome believes underwriting gives charities security and confidence. BAI promotes literacy and education in developing countries through the supply of donated books. Venturesome offered BAI a facility of £125,000, in anticipation of annual £250k grant funding from DfID winding down. Underwriting provided the trustees with the confidence to invest reserves in new forms of fundraising, mainly the recruitment of individual donors. Four years on, the charity has managed the transition, streamlining activities, and now generates one third of its income from individual regular giving. The facility went undrawn, and recycled in December 2008.

Loans

Motiv is an early stage organisation aiming to improve attendance among school children. Non-attendance remains a big problem in the UK despite over £1bn of government investment. Many initiatives are targeted at persistent truants; Motiv aim to prevent young people from starting to skip school in the first place. Motiv, in partnership with Local Authorities, run termly 'attendance challenges'. Children with 100% attendance during the term receive 'rewards' including music downloads and family tickets to cinema or sporting events such as Oldham Athletic's last game of the season. Rewards are donated or sold at discount through Motiv's supporter base which includes, Odeon, Hard Rock Café, EMI, T4, Oldham Athletic Football Club and many more. In 2006 Motiv ran a pilot in four secondary schools in Manchester, with a below national average attendance record. This resulted in a 25% increase in pupils achieving 100% attendance. Following this Motiv was invited to work with all 170 primary and secondary schools across Manchester. Motiv approached Venturesome in August 2008, when it was working with three Local Authorities. It needed to scale up in order to achieve sufficient surplus needed to run and grow the business. Motiv 'optimum' size was 9 local authority contracts.

Venturesome invested £190,000 to enable Motiv to invest in staff ahead of securing contracts. The loan is made available in line with key milestones over a 12 month period.

Activenture is a specialist disability initiative providing exciting residential adventure weeks to young people with complex needs. As well as providing rich developmental experiences for disabled young people, Activenture creates much needed respite care for parents and siblings. It also gives the special group of young people who accompany and support disabled young people an often transformative volunteering opportunity - creating a powerful bond between two groups of young people who would not normally meet. Activenture charges parents who can afford to pay and social services who refer young people. Yet earned income potential will bear only 50% of costs and the balance is fundraised from grants and donations. Activenture already turns young people and their families away each year because demand outstrips capacity.

Now a change in the law places a duty of care on local authorities to provide short breaks for the families and carers of disabled children. At a stroke this creates a new market for Activenture where the full cost can be earned – freeing Activenture’s parent organisation from a considerable fundraising burden and freeing-up current Activenture targets for other programmes and new work.

To scale-up however, Activenture needs development capital – for market research and business development and to package and plan the logistics behind such an operation. In a new market and in the current economic climate, Trustees are rightly chary of taking on debt to pay for this work. Yet for a social investor looking to recycle funds wherever possible, a quasi-equity deal may be appropriate: if Activenture fails to achieve real growth, funds will not be taken back; if Activenture succeeds in scaling-up, the funder will share 50% of any surpluses when total new income exceeds the size of the social investor’s investment.

Conclusion

Bob concludes there is a clear and present danger that all efforts to improve the sector may be merely palliative without essential, systemic reform of the way finance works. The good news is – he thinks he’s seen concrete illustrations of how the things can be better.

The example we happen to have chosen is based on a neighbourhood youth club. However, this is not an argument for the value of youth clubs or youth work *per se* over other forms of work with children and young people. The principle of social investment can be applied to clear and great effect across a full ranges of interventions, from youth justice through children in care to the arts, mental health and employability, serving young people 0-25.

Government has committed to disbursing unclaimed assets to a) young people and b) a social investment bank. Yet it seems clear that youth is a category of beneficiaries whereas social investment is an approach - and the two can complement each other. At times it seems that debate has been underpinned by a false dichotomy - between unclaimed assets going to social investment or to young people.

Given the well-known pitfalls of short-life grants, surely the youth sector would benefit from a social investment approach - injecting new forms of finance beyond the same-old staple of fixed-life project-focused grants?

Yet currently there seems to be a very great risk that funds earmarked for young people may be disbursed along wholly traditional lines uninformed by the significant developments in social investment of the past decade.

The point, emphatically, is not that unclaimed assets should be disbursed largely as debt. (Indeed we suggest that too great a focus on loans rather than a wider debate regarding to access to capital and the sort of basic behavioural change required of funders and funded may be unhelpful.)

Nor is our point that social investment practitioners have a monopoly on wisdom.

It is, simply, that a lack of access to capital along with overly restricted, short-term grants and contracts act as a barrier to charities and social enterprises achieving their social mission. (Ample case studies and testimonies of funded and funders establish this as a matter of fact beyond debate.) Therefore, we believe there is huge benefit to be had by bringing together the aspiration of funding young people and the *principles* of social investment.

So is it not a win-win to explore how, with social investment expertise, funds disbursed from unclaimed assets can form a better quality of future funding for the voluntary youth sector?

Not only could this ensure that funds are used as effectively and efficiently as possible: but also investment on this unprecedented scale has the power to drive lasting change in the behaviour of both funder and funded (individually and towards one another).

Quite simply, it is our belief that in order to serve young people most effectively, unclaimed assets should be disbursed as a diverse mix of funding options, meeting the working capital and cashflow needs of youth organisations. Straightforward revenue and capital grants, of course, must have their rightful place and should form part of the portfolio. But if we are to make the most of this once-in-a-century opportunity, we must work along the spectrum of finance in order to increase the financial resilience of charities undertaking work we all believe to be vital.

So this is a story about Sam.

And why Sam and Jo need Bob.

What, then should government do?

All ‘social investment’ really means is taking an enlightened and sustainable approach to funding and financing which learns from the best of programmes like the Youth Sector Development Fund, ideas like so-called social impact bonds, from government funds, from public private partnerships, from venture philanthropy and from traditional grant making. But crucially, also avoids the worst!

This means that to ensure maximum value for money, government directions around the use of unclaimed assets should not prescribe in detail a fund or institutions but instead, should encourage certain principles and behaviour.

We hope the Government, the youth sector, all political parties, the BLF and others can all agree that the directions will follow the following principles:

Principle	Not about...	But instead...
Tailored to need - not set in stone	<ul style="list-style-type: none"> ...arbitrary process targets – on annual cash budgets, on the balance between capital and revenue, a set level of financial return or certain funding mechanisms. 	<ul style="list-style-type: none"> ...allows flexibility and proportionality according to needs and circumstance - including end-year flexibility, driven by the impact on the finances of the funded rather than the funder, and sharing financial risks and returns.
Trusting in outcomes – not suspicious of inputs	<ul style="list-style-type: none"> ...bureaucratic, costly and suspicious counting of processes or means – of inputs, buildings, numbers through the door, people employed or reports submitted. 	<ul style="list-style-type: none"> ...minimising transaction costs based on assuming a trusting and engaged relationship, with transparency around the ends, outcomes or ‘story of change’ for young people.
Respect independence - not directed from above	<ul style="list-style-type: none"> ...criteria, restrictions and reporting imposed by the funder. 	<ul style="list-style-type: none"> ...respects independence of, agreed with, owned by and accountable to young people.
Long-term and broad-minded – not short-term and narrowly targeted	<ul style="list-style-type: none"> ...isolated cash flow or revenue funding towards narrowly defined and short-term results in certain areas and aimed at particular sub-groups of young people. 	<ul style="list-style-type: none"> ...patient, gap-filling investment in assets, capacity and capital which brings in sustainable funding streams to benefit all kinds of young people across the whole country in the long term.

Who are we?

This note has been written by a bunch of people from the worlds of youth and social investment, committed to thinking together how unclaimed assets can make the greatest possible difference. We are...

John Bateman, UK Youth
Tony Bennett, Clubs for Young People
David Carrington
Paul Cheng, Venturesome
Stephen Dawson, Impetus Trust
Toby Eccles, Social Finance
Dan Gregory, Local Partnerships
Richard Gutch
Susanne Rauprich, NCYVS
Nick Wilkie, London Youth

Further reading

We think the following four articles expand the point we are trying to make. We found them very helpful (and borrowed from the liberally).

The Looking Glass World of Non-Profit Money, Clara Miller, Non Profit Finance Fund, New York

Access to Capital, Emilie Goodall and John Kingston, Venturesome

New and Alternative Financial Instruments, Margaret Bolton and David Carrington for Mission, Models, Money

Funding our future: challenges and opportunities in the next decade, David Carrington for NCVO