Evaluation of the Scottish Investment Fund

Prepared for
Social Investment Scotland

August 2014

Vision and Ambition

I joined SIS in 2009 as Investment Director with ultimate responsibility for the fund management of the Scottish Investment Fund (SIF). Fresh from a career in banking, I confess that I did not fully appreciate the significance of the SIF to the development of Scotland's enterprising third sector.

However, the importance of this new type of investment, and its potential social impact, very quickly became clear. Very early on we were able to make investments in some exciting and innovative projects, and the vision and ambition of our social enterprises was a theme throughout the remainder of the investment period of the Fund.

It is only now, five years on, that we are able to start to look back at the impact and effectiveness of the Fund. The strategic importance of the SIF to the overall development of the social investment marketplace in Scotland should not be underestimated, and the Scottish Government should be applauded for having the foresight to commit such substantial resources to the Fund.

This initial evaluation has proved that the SIF has been successful in meeting many of its stated aims. The investment portfolio contains some of Scotland's most innovative examples of social enterprise which are, on the whole, ambitious for the future and able and willing to face the challenges that will lie ahead. The fact that all live investees responded to the evaluation work (only two out of 67 investments no longer exist in their original form) adds extra credibility to our evaluation work.

A particular source of satisfaction for SIS is the high regard in which we are held by our customers. SIS is a different organisation to what it was in 2009, but what has remained constant throughout has been a focus on helping our customers achieve their own missions through ongoing support and friendly advice from a team that are as passionate about social enterprise as the organisations that we have invested in. Everything we do is focussed on not only continuing but also building and improving on this.

The SIF was always intended to be a revolving fund, with fund income and capital repayments reinvested in the future development and sustainability of Scotland's social enterprises. Through our partnership with Big Society Capital in the form of the Social Growth Fund, SIS has been able to leverage at least £8 million of new investment into Scotland on the back of our diligent management of the Fund. We hope that at least some of these funds will be reinvested in organisations who have received investment from the SIF in the past.

Whilst undoubtedly there will be challenges ahead, everyone at SIS is committed to building on the successes of the Fund, as well as acting on the challenges and opportunities that it has uncovered.

Very best

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Executive Summary

Background

This report presents an evaluation of the Scottish Investment Fund (SIF), a £31.8 million fund managed by Social Investment Scotland (SIS) since 2008 on behalf of the Scottish Government. The aim of the fund is:

"to build capacity, capability and financial sustainability in the third sector, whilst also contributing to the national outcomes of the Scottish Government."

SIF has supported 67 investments across Scotland via a mix of grant, loan, risk capital and revolving credit, depending on the needs of the organisation. All investments have taken on some loan finance and many of the investments have been capital projects involving substantial sums of money.

The key aim of the evaluation was to measure the difference the SIF investment has made to the organisations and people they work with, in addition to obtaining feedback on SIS's management of the Fund.

Method

Eight in-depth interviews were undertaken with key stakeholders – the Scottish Government, SIS and six customers – which informed the design of an online survey of all 65 live customers who had received investment from SIF. The qualitative fieldwork was undertaken in early 2014 and, following a pilot, the online survey was live in March and April 2014.

Key findings

A total of 65 organisations completed the survey. Two organisations, Specialisterne and Social Enterprise Clydebank are no longer operating in their original form.

The interviews provided valuable insight to help frame the online survey, which shared core questions with SIS's social impact reporting methodology conducted annually since 2012.

Investment profile

- A good spread of investment was achieved across Scotland, with 20 of the 32 local authority areas represented (although some organisations have operations which are Scotland-wide).
- Organisations receiving SIF investment varied in scale, from those with a turnover of just a few thousand pounds to one with over £30 million. Over half (55%) had a turnover of less than £1 million.
- A quarter of organisations (16) were active all over Scotland and all but four of the remainder were only active in one geographic area of the country.
- An average of 40% of beneficiaries lived in areas of multiple deprivation (0-15% Scottish Index of Multiple Deprivation areas).
- 41% of respondents had looked at alternative sources of funding, whilst 45% had not and 14% did not know if their organisation had or not. Alternative sources had included commercial banks (10) but also the Big Lottery (8), public agencies (7) and charitable trusts (6).
- Grant funding made SIF attractive (86%), but the involvement of the Scottish Government (61%) and SIS (45%) was also reassuring. 40% felt it was the best deal they could access and 12% that it was the only finance they could access at the time.

Making a difference

- Nearly half of SIF customers said the project would not have been possible without SIF investment (45%), with just 9% taking the view that the project would have progressed in the same way and 38% that it would have had to have been scaled down or changed in some way.

- Of those who were able to comment, the vast majority agreed that the SIF investment had helped their organisation to:

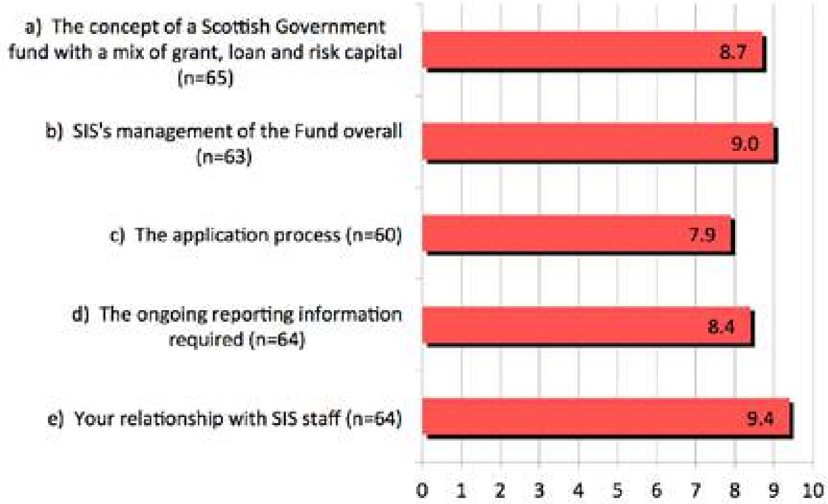
  - improve its effectiveness (100%, 57 respondents);
  - increase their trading activity as a proportion of income (96%, 55 respondents);
  - build capacity within their organisation (95%, 57 respondents); and
  - contribute to the national outcomes of the Scottish Government (92%, 50 respondents).

  • The vast majority of SIF customers felt that grants would be required in future (97%) but the need for capacity-building support was also strongly identified (84%), alongside loans (83%) and risk capital (55%). Social impact bonds were supported by 31%.

> *SIS are helpful and professional and an excellent resource for the social enterprise sector. If the organisation could be expanded, whilst keeping its approachable and flexible approach to working, the economy of Scotland would benefit greatly.*

Views on SIS's management of SIF

- When asked to award 'marks out of 10' for five different aspects of SIF, the mean scores were consistently high, with SIS staff particularly highly regarded, as can be seen in the figure below.



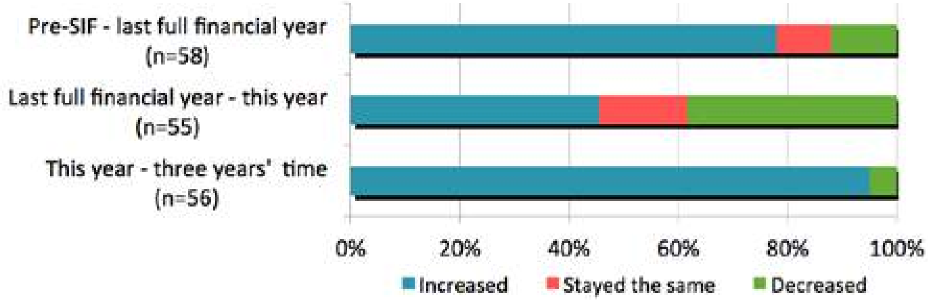
- Customers particularly liked the fact that SIS staff understand the social enterprise sector (95%), that they trust SIS and have an open and honest relationship with them (86%), and that there is an ongoing dialogue with SIS (78%). This appreciation of SIS staff was reiterated throughout the discussions and survey.

- The key dislike was high interest rates (43%) but a third (31%) said there was nothing they disliked about the way in which SIS has managed SIF.

- The Net Promoter Score (NPS), an internationally recognised measure of customer satisfaction/loyalty, asked whether customers would recommend SIS. The NPS was +70, an excellent rating, with 62% of customers giving a 10-out-of-10 rating and three-quarters stating that they had already recommended SIS.

SIF's impact

- When turnover was considered pre-SIF, last full financial year, estimated current year and in three years' time, the net shift was positive for those who provided data.

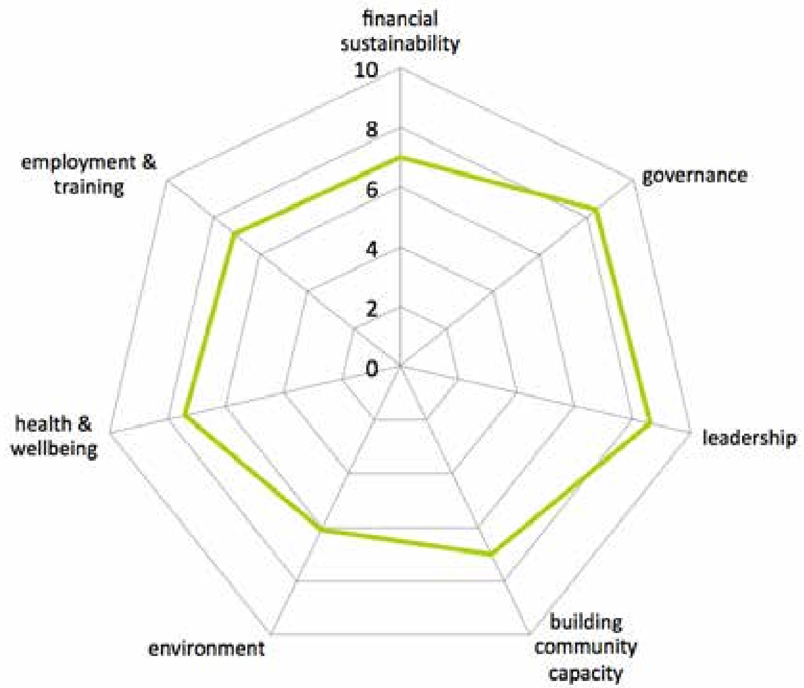


- The median number of full-time equivalent staff increased from 12 pre-SIF to 16 now, and this was expected to rise to 20 in three years' time. Similarly, the number of volunteers had risen from nine pre-SIF to 15 now and 23 in three years' time.
- The profile of income pre-SIF and in the last full financial year shows a reduction in grant funding (from 37% to 30%) and uplift in trading (57% to 61%) and other income (6% to 9%).
- Customers also considered their financial stability to be improving: mean scores out of 10 (where 0 was precarious and 10 was extremely strong) were 5.2 pre-SIF rising to 7.0 now and up further to 8.4 in the next three years.
- Most organisations considered themselves to have robust governance in place but this still showed strengthening from 7.3 pre-SIF to 8.4 now, although 47% (29) felt there was no change.
- Similarly, the strength of the leadership was considered to have improved from an average of 7.7 pre-SIF to 8.6 now, with 54% (34) rating it the same.

Making a difference to local communities

- The impact profile below shows SIF customers' scores for each of the four social impact outcome areas (employment and training, health and wellbeing, environmental issues and building community capacity) used by SIS to measure social impact to date. This was asked specifically of the projects directly related to the SIF investment, in a 'marks out of 10' format. Health and wellbeing (mean of 7.4) and employment and training (mean of 7.1) were the areas of greatest perceived impact.

Figure 1: Impact profile



1 Introduction

1.1 Background

The Scottish Investment Fund (SIF) is a revolving fund, managed by Social Investment Scotland (SIS) on behalf of the Scottish Government. The first phase commenced in 2008 where a total of £28.8 million was invested and in 2011 a second phase saw investment of a further £3 million. The aim of the Fund is:

"to build capacity, capability and financial sustainability in the third sector, whilst also contributing to the national outcomes of the Scottish Government."

SIF involved a mix of investment which could include grant, loan, risk capital or revolving credit depending on the organisation and what it was trying to achieve. All organisations which applied to SIF had to be prepared to take on loan finance, so some track record of generating income other than grants was sought and applicants were assessed according to their (proposed) social impacts, financial viability and sustainability.

Investments have been made via SIF to 67 organisations, with a focus on higher-value investments, such as capital-build projects, and the second phase particularly sought new, innovative and pioneering models of social enterprise. There are potentially more significant impacts from capital investments which may also be more readily identifiable. The largest tranche of investments were applied for in 2009/10 and drawn down thereafter (and a few have been repaid already), whilst others had only recently drawn or were about to draw down monies. The majority received funding at least a year ago so should be in a position to comment on the impacts achieved to date. The scale of investment has varied from £100,000 to £1 million, with at least 31% of all investment in loan form.

The key purpose of the research was to measure what difference the SIF investment has made to the organisations and the people they work with, socially and economically. In addition, it gained feedback on customer perceptions of SIS's management of the Fund (recognising that the degree and timing of contact with SIS will vary across the SIF customer base and that SIS personnel and scale have varied across the lifespan of SIF, so comments made may relate to historical situations rather than the current SIS operation).

SIS also wanted to ensure there was a consistent approach to social impact reporting across its customer base, including both SIF and other SIS customers. There was therefore some work to be done to design the social impact measurement tools for this survey of SIF customers which would allow the two 'streams' of SIS customers to be surveyed in a coherent and consistent manner in future, whilst also minimising reporting requirements for customers.

SIS has expressed a desire to use the Big Society Capital (BSC) outcomes matrix as the new industry-standard method of social impact measurement, together with their existing financial impact reporting. BSC was launched in 2012 with £600 million of funds - £400 million from dormant bank accounts and £200 million from the four largest high street banks - with a mission to grow the social investment marketplace in the UK.

1.2 This report

SIS, as the Fund manager for SIF, paid for this study, commissioning Glasgow-based social research and consultancy firm FMR Research to design with them the survey-based questionnaire to conclude with the preparation of this unbiased and independent report on the Scottish Investment Fund. FMR Research offers traditional and more innovative research and consultancy services to government departments, private and third sector enterprises.

This report outlines the findings from exploratory in-depth interviews with stakeholders (SIS, the Scottish Government and customers) which informed the design of an online survey of customers who had received money from SIF. The survey aimed to measure social impact and obtain feedback from new customers, in particular on SIS's performance in managing SIF on behalf of the Scottish Government.

> *We wouldn't be where we are today without SIS and the grant/loan from SIF.*

1.3 Method

1.3.1 In-depth interviews

The evaluation sought to quantify customers' experience of SIF and SIS's management of the Fund: eight in-depth interviews were completed prior to this to provide contextual understanding. Information and perspectives from both the Scottish Government and SIS were included in the study, and customer experiences were explored in detail. Customers were selected to ensure both those who had and those who had not already taken part in SIS social impact surveys were involved at this stage. This helped to inform the development of the online survey tool. Six discussions were undertaken face to face and two were undertaken by telephone.

1.3.2 Online survey

FMR worked with SIS to develop the online questionnaire, using the questionnaire from the SIS annual review as a starting point but tailoring this to the requirements of the SIF evaluation. There was therefore a 'core' of common questions with the annual SIS survey with additional questions relating specifically to SIF and the potential use of the BSC outcomes matrix.

The questionnaire was initially piloted with two SIF customers to check the logical flow of the questions and the time taken to complete the survey. Following minor changes to the questionnaire, SIS staff issued an email in early March 2014 to each SIF customer, inviting them to give their views via the online survey. Customers accessed the survey from a one-click link embedded in the email which took them directly to FMR's secure opinion-online.com site.

SIF customers were slow to respond to the survey and the SIS team invested a considerable amount of time in encouraging customers to respond. The deadline for response was extended to 25th April 2014 to facilitate a fuller response. All 65 live customers eventually responded.

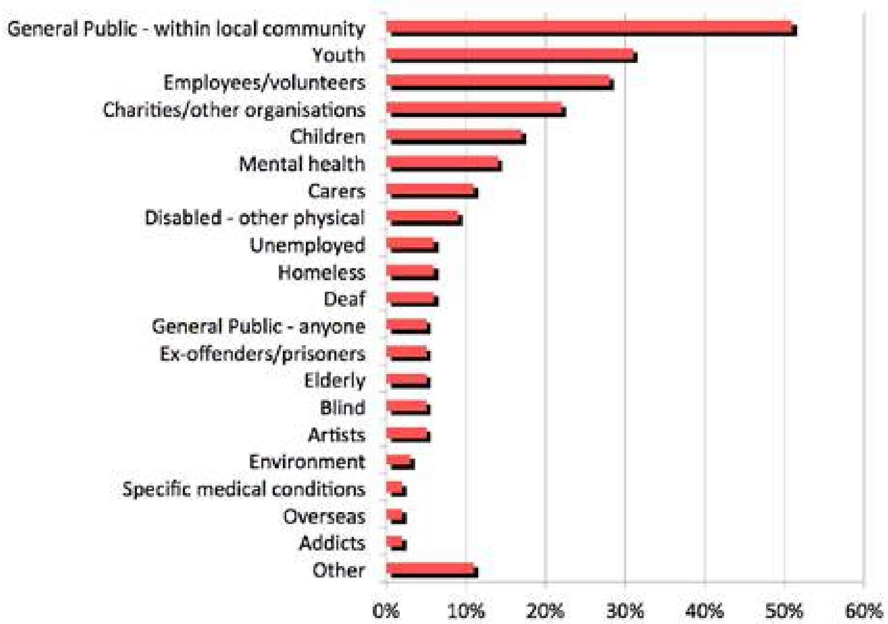
2 Key findings

2.1 Who has SIF funding supported?

2.1.1 Beneficiaries

A wide variety of people benefit from SIF funding: over half of organisations who responded to the survey said SIF funds had benefited anyone in the local community, 31% said young people had benefited, 22% said charities/other organisations, 17% identified children as beneficiaries, while 28% said their own employees or volunteers had also benefited from the SIF funding.

Figure 2: Beneficiaries



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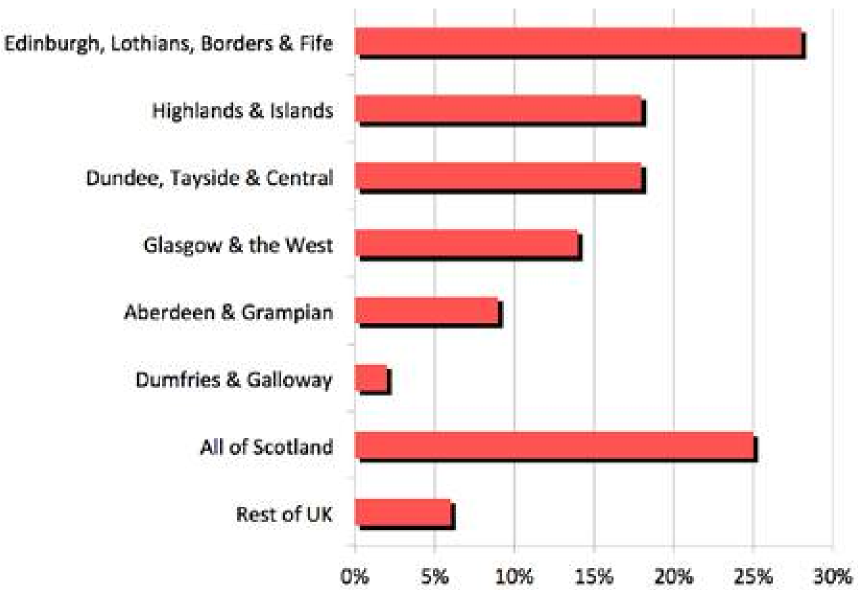
2.1.2 Geographic coverage

The organisations which are supported by SIF funding are based in 20 of Scotland's 32 local authorities. Whilst Edinburgh and Glasgow are unsurprisingly both well represented, with 11 and 10 organisations based there respectively, 10 customers are based in the Highland region and there is strong representation in other rural areas.

A quarter of organisations (16 organisations) are active all over Scotland, with four of these organisations also being active in the rest of the UK. Of the remaining 49 organisations, all but four were active only in one geographic area of Scotland. Areas of activity are shown in Figure 3.

Figure 3: Where (geographically) are you active?



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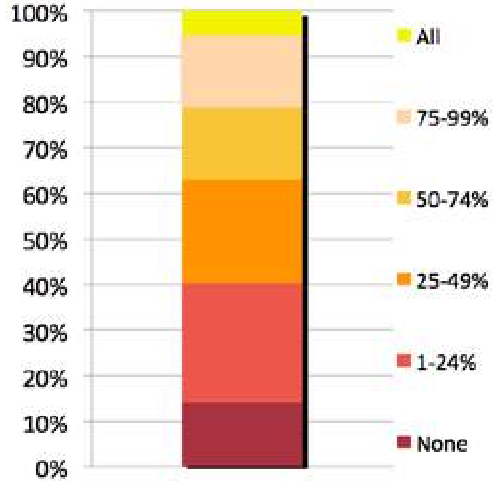
2.1.3 Deprivation

Of the 57 organisations who were able to provide a figure (hard data or an estimate), on average 40% of their beneficiaries lived in areas described as being within the 15% most deprived in Scotland, using the Scottish Index of Multiple Deprivation (SIMD). This ranged from 'none' for eight organisations to 100% for three organisations, as shown in the following figure.

Figure 4: What proportion of those who benefit from your activities live in deprived areas (within the 15% most deprived areas using SIMD)?



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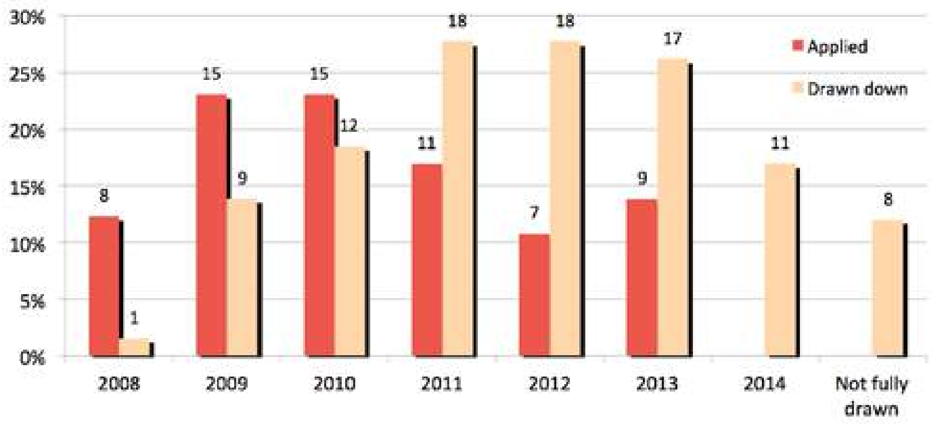
2.2 Why SIF?

2.2.1 Investment awarded

SIF was launched in 2008 and applications have been received in two phases, with the largest tranche of applications in 2009/10. Timescales for drawing down allocated funding have varied from organisation to organisation, depending on their circumstances, and a few organisations have only recently drawn down their funding or were just about to at the time of the research.

Figure 5: When did you apply to SIF? / When did you draw down funds?



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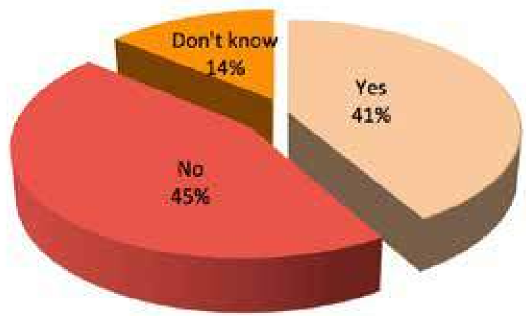
The investments awarded varied, with organisations potentially receiving grant funding, loan/revolving credit, and/or risk capital. The total of the sums awarded to 67 organisations were as follows:

Grants	£15.4 million	(67 organisations)
Loan/revolving credit	£9.7 million	(46 organisations)
Risk capital	£6.7 million	(36 organisations)
All awards	£31.8 million	(67 organisations)

2.2.2 Alternative funding considered

SIF clients were all asked if they had considered other funders/investors as an alternative to SIF: 41% of them reported that they had done, 45% had not and 14% did not know (they may not have been involved in the decision-making or been with the organisation at the time).

Figure 6: Did your organisation consider any other funders/investors as an alternative to SIF?



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Other funders/investors considered by the 27 respondents who had considered alternatives were:

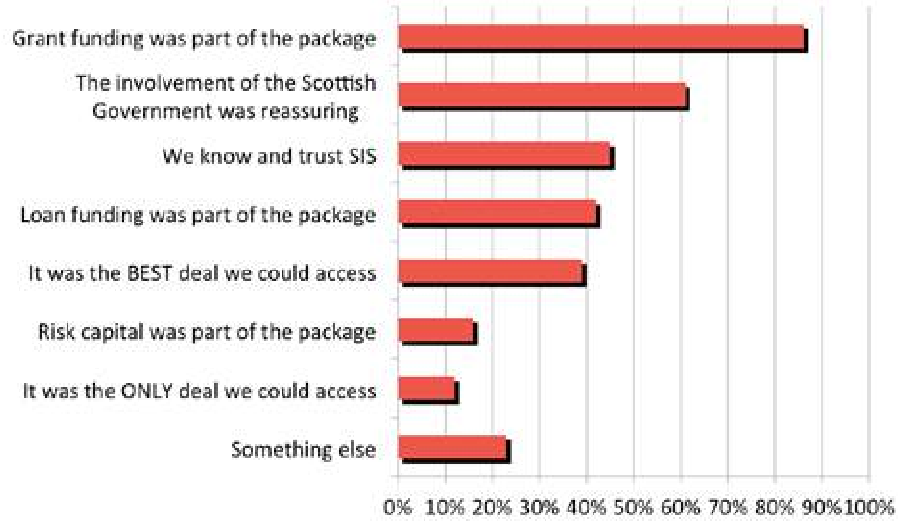
- commercial banks (10 respondents, four of whom specifically mentioned Triodos Bank);
- Big Lottery (8 respondents);
- public agencies (7 respondents), including HIE (4 respondents);
- charitable trusts (6 respondents); and
- CAF – Charities Aid Foundation (2 respondents).

We continue to have an excellent working relationship with SIS, which has been the case from day one. The SIS team understand our business and continue to engage with us as we realise the potential of our business through the support of funding from SIF, SIS, other trusts and supporters.

2.2.3 Drivers for seeking SIF support

The reasons for seeking SIF support were explored and, as might be expected, the fact that grant funding was offered played a key role for the majority of respondents (86%, 55 respondents). The players involved in SIF were also perceived to be key: the involvement of the Scottish Government was reassuring for three out of five respondents (61%, 39 respondents) and nearly half (45%, 29 respondents) highlighted the fact that they know and trust SIS. Specific positive feedback about SIS and its staff was also given by a number of respondents, as the comments below illustrate. Interestingly, just 12% (8 respondents) stated that SIF funding was the only finance they could access but 39% (25 respondents) identified it as the best deal they could access at the time. The fact that loan (42%, 27 respondents) and risk capital (16%, 10 respondents) were part of the package were also contributing factors. Responses are illustrated in the figure below.

Figure 7: Why did you seek SIF support?



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Other reasons for approaching SIS were as follows (with comments to illustrate the sentiments expressed):

- SIS understands the social enterprise sector/our business (5 respondents)

  "Because of understanding of emerging Social Enterprise sector."

  "…we felt assured that SIF understood what is required to be successful on this operating model, much more than we did."

  "The staff at SIS were so accommodating and seemed to understand what we needed before we actually did!"

- … they knew SIS would be supportive/approachable (3 respondents)…

  "We had been informed of the hugely supportive approach that SIS would take in engagement with us."

- … and SIF offered substantial funding (3 respondents) which reassured/attracted other funders.

  "SIF had the capacity to make a significant grant which gave confidence to partner funders to invest."

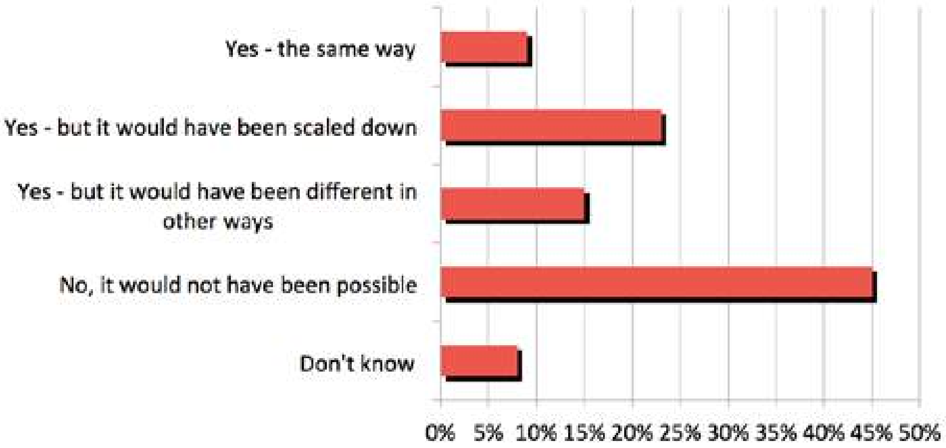
  "The SIF funding was in place first, and helped attract all the other funding referred to above."

2.3 Making a difference to customers

2.3.1 Attributing impact to SIF

The in-depth interviews indicated that for some organisations, development would not have been possible without the injection of SIF monies. This was tested with all customers and 45% (29 respondents) stated that the project would not have been possible at all without SIF funding. Just 9% (6 respondents) felt the project would have progressed in the same way without SIF funding, illustrating the important role the Fund has played in the sector. For the remainder, the project would either have been scaled down (23%, 15 respondents) or would have been different in other ways (15%, 10 respondents).

Figure 8: Would the project have gone ahead without SIF funding?



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Some supporting comments from customers illustrate well these positive scores:

"SIF has been 75% of our funding package with no realistic alternatives."

"The SIF investment gave significant momentum to our project at a critical time. Without the SIF intervention, and the level of investment, it is likely that our project would have been cancelled. Indeed, it was confirmation of the SIF investment that gave our trustees the confidence to proceed to the build stage of the project."

"There was no other source of grant / loan funds available for the sorts of … projects we wished to develop."

"The SIF monies were critical to us, both in terms of making sure the project started and also to attract other funding from a wide range of sources. This was particularly so when other funders acknowledged the level of support from SIF and the due diligence process undertaken to assess our application for funding - it provided confidence with other funders in our business."

2.3.2 The impact of SIF investment on the organisation

The ways in which SIF investment assisted organisations was tested by asking respondents to agree or disagree with a range of statements. Between 8% and 15% of respondents responded either 'don't know' or that it was too early to say, given the stage of development of their investment project. However, the vast majority of those who gave an opinion agreed that SIF investment had helped their organisation to:

- improve its effectiveness (100%, 57 respondents);
- increase their trading activity as a proportion of income (96%, 55 respondents);
- build capacity within their organisation (95%, 57 respondents); and
- contribute to the national outcomes of the Scottish Government (92%, 50 respondents).

No-one disagreed with the statements around effectiveness or contribution to the national outcomes and only three respondents in total disagreed with either of the other two statements tested.

2.3.3 Marks out of 10 for SIF

The impact of the investment was explored further in the online survey by asking all customers to award SIF 'marks out of 10' for five different aspects of the SIF funding provided to them. The average scores are shown in Figure 9.

Figure 9: How would you rate SIF in terms of the following, giving marks out of 10?

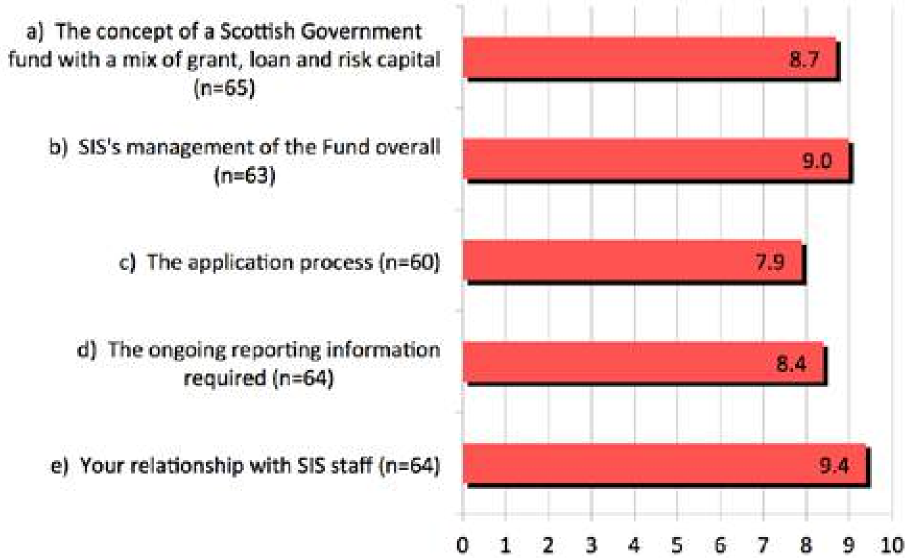


Figure 9 shows that 'your relationship with SIS staff' was the most highly rated, receiving a mean score of 9.4 from those who were able to comment. Nearly two-thirds of respondents awarded this 10 out of 10 (64%, 41 respondents), and this was echoed in the second highest score relating to SIS's management of the Fund overall (mean of 9.0, 46%, 29 respondents, giving a 10). The concept of a Scottish Government fund with a mix of grant, loan and risk capital was also rated highly, with a mean score of 8.7 and 35% (23 respondents) giving 10 out of 10. The two lowest-rated aspects were 'the application process' with a mean score of 7.9 out of 10 (just 23%, 14 respondents giving a 10) and 'the ongoing reporting information required' at 8.4 out of 10 (31%, 20 respondents giving a 10).

“

SIS in comparison to European Social Fund has been refreshingly non-bureaucratic and a pleasure to be involved with. Extremely professional and focussed on outcomes both to end users and on project development.

The range of scores awarded reinforces this picture, with 'your relationship with SIS staff' having a tight and high range from 6 to 10 and 'the application process' scores illustrating a greater variation of experiences, ranging from 1 to 10.

The ratings from the online survey broadly reflect the feelings expressed during the in-depth interviews with customers, although the in-depth interviews also highlighted that SIS has evolved in recent years, with staffing changes. Customers who were able to comment felt that they had stronger relationships with SIS now than they did in the past, and the team was perceived to have improved overall. Ratings of SIS's management of SIF were all very positive from in-depth interviewees, awarding 8 or 9 out of 10 with just "a couple of things that are mildly irksome" such as having arrangement fees ("why not tweak the interest rate instead?") and the degree of legal/contractual input required.

> *SIS are great – they want to know what you're doing and their support is invaluable. Their customer service is great. They are trusted partners so we can be open with them. It is very valuable to have them on our side and they're up for doing something different.*

Comments regarding the rating of SIF, made via both the qualitative interviews and the online survey, centred mainly on reinforcing the high rating given to the relationship with SIS staff, as the following quotes illustrate...

"SIS staff have been extremely constructive and helpful throughout the whole process, working alongside us from the start of the project and supporting us when the inevitable challenges came up. They have felt like true business partners."

"SIS staff are always friendly, approachable, willing to listen, solutions focussed and helpful."

"[Other funder] were very negative when I spoke to them and I expected SIS to be like a bank but they're not – the management team make it work, they get it. I trust him [SIS investment manager] and he is a useful critical friend."

"They're investing in people. The real value is in understanding what we do here. They spend time with us but are not intrusive – it's enough but not too much. They keep in touch and we have a very open and honest relationship, based on trust. SIS staff are very warm and friendly. It's a lovely culture."

... while others commented on the lower rating given to the application process:

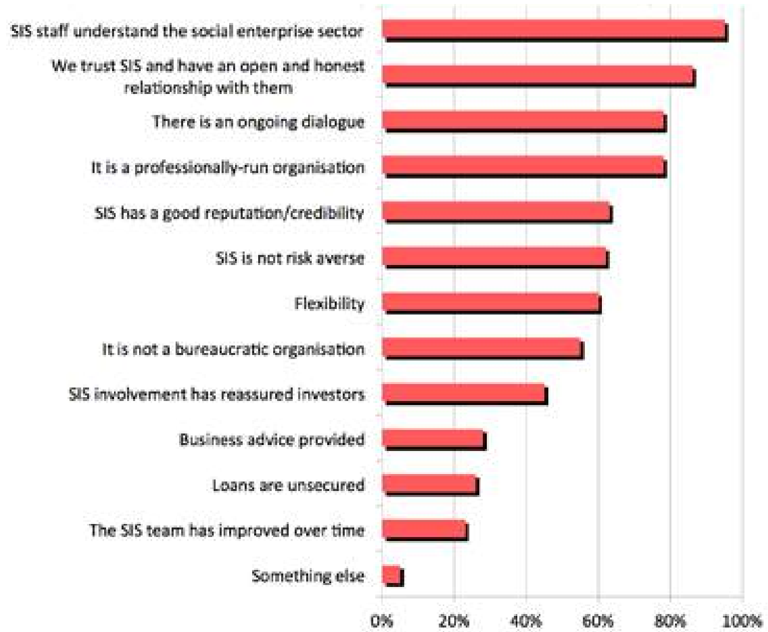
"... initially the application process was lengthy and did not seem to be clearly defined."

2.3.4 Likes and dislikes of SIF management

The way in which SIS has managed the Fund was explored more fully, in both positive and negative terms. The two figures below illustrate the greater emphasis on positive aspects tested, where more respondents selected the options presented and individual respondents were more likely to select more than one response. In contrast, there were much lower levels of agreement with the negative statements tested, and each respondent selected fewer options.

The two strongest likes for the way in which SIS has managed SIF were 'SIS staff understand the social enterprise sector' (95%, 62 respondents) and 'We trust SIS and have an open and honest relationship with them' (86%, 56 respondents). More than three-quarters of respondents liked the fact that 'there is an ongoing dialogue' with SIS (78%, 51 respondents) and that 'SIS has a good reputation/credibility' (78%, 51 respondents).

Figure 10: What do you like about the way SIS has managed SIF?



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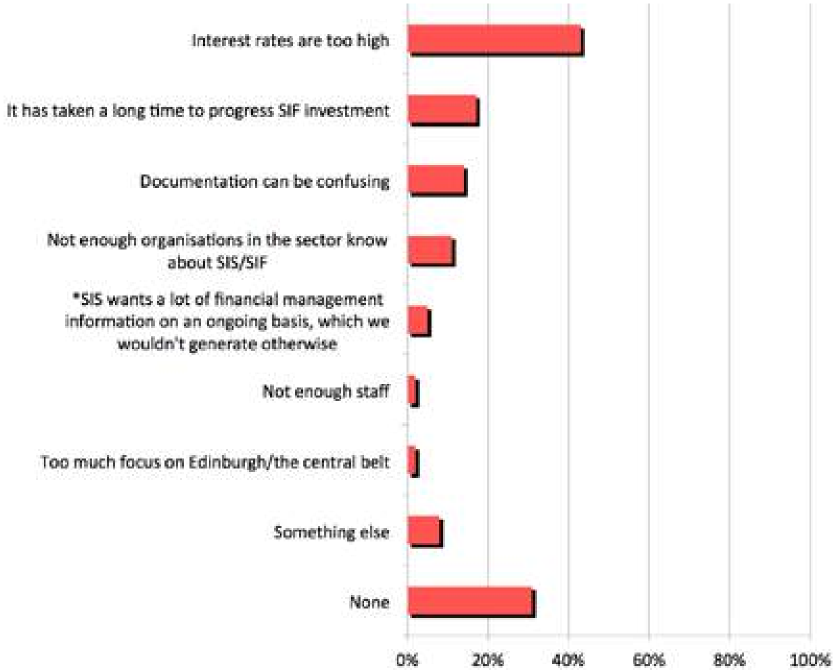
One issue emerged most strongly as a dislike: ‘interest rates are too high’ (43%, 28 respondents). One respondent suggested that interest rates could be graded, based on a risk assessment of each project, rather than being consistent across all organisations funded but that approach may make riskier projects more difficult to finance and these are the key focus of SIS/SIF. Customers also commented on what they perceived to be high interest rates in the in-depth interviews, although the grant element offsets this in reality. Flexibility around payments/early repayments and other development support was also perceived to give SIS/SIF the edge over other providers who may have lower interest rates but have less understanding of the issues. However, nearly a third of respondents (31%, 20 respondents) said that there was nothing they disliked about the way in which SIS has managed the SIF and the other issues tested were upheld by 17% of respondents or less.

Figure 11: What do you dislike about the way SIS has managed SIF?



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Those who suggested other dislikes were mainly one-off comments, apart from two who commented on the lengthy application/approval process.

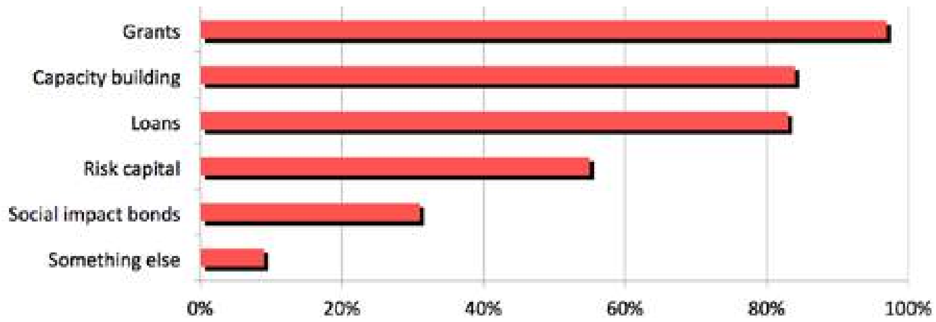
2.3.5 Net Promoter Score

The overall perspective on SIS was pulled together by gauging a final metric. Customers were asked how likely they would be to recommend SIS to another social enterprise, in a format which allowed FMR to calculate the Net Promoter Score (NPS), an internationally recognised measure of customer satisfaction. SIS’s NPS from organisations receiving SIF funding is +70, an excellent rating. 62% of respondents (40 respondents) gave a 10-out-of-10 score and 12% (8 respondents) gave a 9 to this question, with just 6% (3 respondents) giving a score of 6 or less. For comparitive purposes Apple Computer scored +67 and First Direct Banking +61 in 2011.

Three-quarters of those who responded to the question said they had already recommended SIS to another organisation (75%, 47 respondents), which, in our experience, is a very high proportion.

When asked what types of investment or support social enterprises would need in the future, the top response, which almost all respondents agreed with (97%, 62 respondents), was the provision of grants. Interestingly, capacity-building support was also strong (84%, 54 respondents), as were loans (83%, 53 respondents). Risk capital was seen to be required by just over half of respondents (55%, 35 respondents) and social impact bonds by around a third (31%, 20 respondents). Two of the ‘something else’ responses related to specific forms of capacity building (business advice, mentoring and future trends information), and two related to specific financial issues (financial guarantees and other forms of social investment). One stressed the increasing importance of social investment/impact models, and one commented on the need to provide a blend of investment and support according to need, increasing the focus on social impact and keeping the sector financially sustainable (with concern around the increasing focus on financial return on investment, reducing public sector finance and the combined impact this has on that sustainability).

Figure 12: What types of investment or support do you think social enterprises will need in the future?



2.3.6 Future investment and support required

There was some discussion of the potential different types of investment and support required during the in-depth interviews with customers. Participants were fairly cautious about the prospect of social impact bonds, with concerns around who the individuals investing would be, would there be a cap on dividends, and so on. Transparency was perceived to be vital in making such an arrangement work. One customer suggested that a hybrid might be required "which allowed social enterprises to be innovative, by people prepared to finance without guaranteed outcomes."

The fact that social enterprises are competing for finance was highlighted by stakeholders. There was always perceived to be a place for grant funding, but a 50:50 loan/grant model was also appreciated as having its place, as different models may work for different projects and this option was perceived to be a bit different to what others offered. Having the option of both a grant and loan was perceived to be helpful "to move the market along, step by step moving away from grant funding." The need for flexibility was stressed, however, which was something that SIS was perceived to be good at – helping to "smooth" payments, responding to the needs of the customer.

2.4 SIF's impact

A key aspect of the study was obviously to evaluate the degree to which SIF has had an impact on organisations directly and those who benefit from their activities or services. Impacts were gauged in different ways, for example by collecting hard data around the changes in turnover and staffing levels, and more subjective views on the organisational capacity and the impact it has made according to different criteria.

Social impact was tested using the same questions SIS has used for the last couple of years to measure the social impact of its wider customer base, in addition to gathering views on social impact measurement more widely and testing out a possible new approach. SIS recognises, along with others, that social impact measurement is a significant challenge for many organisations. SIS recently received a significant new investment from BSC who are suggesting a new outcomes matrix as a way for social investment finance intermediaries to help their investees report on social impact. As part of the SIF evaluation, SIS was keen to seek feedback on the matrix before rolling it out across the whole of its portfolio. Feedback from those customers who had participated in SIS surveys was fairly positive in terms of the previous social impact surveys:

"I liked the questionnaire, it was simple and the reports had clear visuals."

2.4.1 Helping to create a larger and more robust third sector in Scotland

An obvious measure of the impact of SIF is to look at whether turnover increases over time.

Turnover

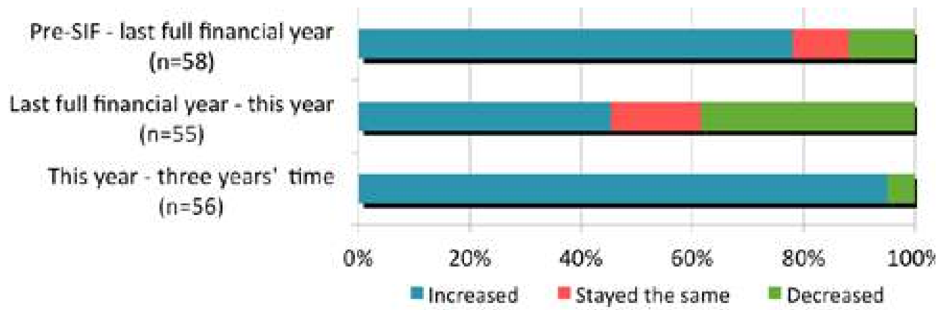
Turnover information for the last full financial year was provided by 61 of the 65 SIF customers and varied from just a few thousand pounds to over £30 million, with a total of £131.7 million (one organisation had no income, as it was closed for redevelopment). Enterprises with a turnover of less than £1 million made up over half of the client base (the median was £775,000); 55% had a turnover of less than £1 million (40% had a turnover of less than £500,000); 28% had a turnover of £1 million to £2.5 million; 7% had £2.5 million to £5 million and 10% had turnover in the last full financial year of over £5 million.

Respondents were also asked to provide turnover figures pre-SIS and, when compared to the last full financial year, three-quarters of these had increased (78%, 45 respondents of the 58 who provided data at both questions), 10% had stayed the same (6 respondents) and 12% had decreased (7 respondents).

Comparing turnover from last year to the current financial year, just under half of organisations (of 55 respondents who gave turnover figures for both periods) anticipated an increase in turnover (45%, 25 respondents) whilst 16% (9 respondents) felt it would stay the same and 38% (21 respondents) that it would decrease. This gives a 'net' response of +7%.

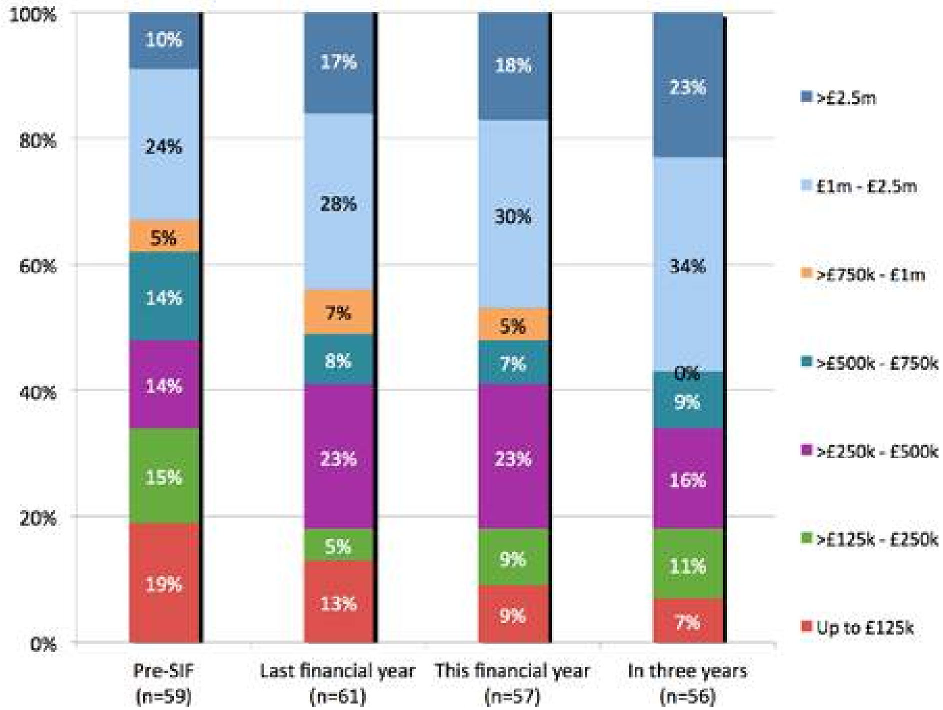
There was even greater optimism about the shift between the current financial year and in three years' time (56 organisations gave data for both periods), with 95% (53 respondents) anticipating an increase and just 5% (3 respondents) anticipating a decrease in turnover: a net response of +90%. The figure below illustrates actual and anticipated changes in turnover for each of the organisations who provided comparative data.

Figure 13: Changes in turnover



The following chart shows the actual or predicted turnover for those who provided this data. This illustrates the positive growth achieved to date and which is expected to continue.

Figure 14: Turnover, over time



The upward trend is perhaps more visible when considering mean figures. The average turnover figures for the 53 organisations which provided data for all four time periods showed a steady increase: the average was £2.24 million pre-SIF and £2.33 million for last year, whilst the average expected turnover for the current year was £2.51 million and £3.01 million in three years' time.

Staff and volunteers

Another metric to consider when looking at the impact of investment is the number of staff and volunteers who support the work of the organisation. Again, this data was collected for pre-SIF, now and the anticipated roll in three years' time to gain some perspective on change. As the figures show, the median (more appropriate than the mean in this instance as the mean is skewed by a small number of very large organisations) and total figures illustrate the upward trend for both staff and volunteers. Total staff figures for those who gave a response to all three time periods only show a positive trend.

Figure 15: Staffing levels median figures (for all organisations who gave data)

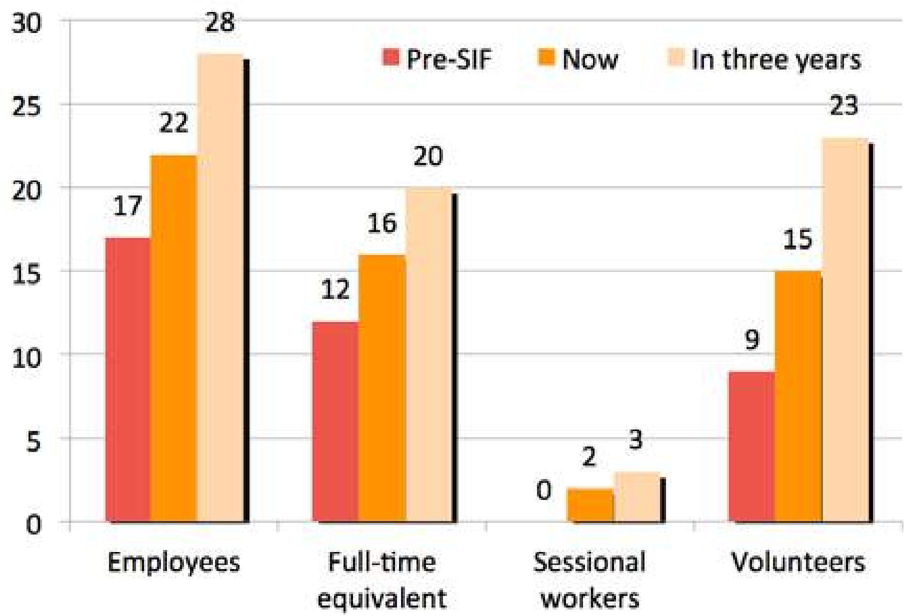
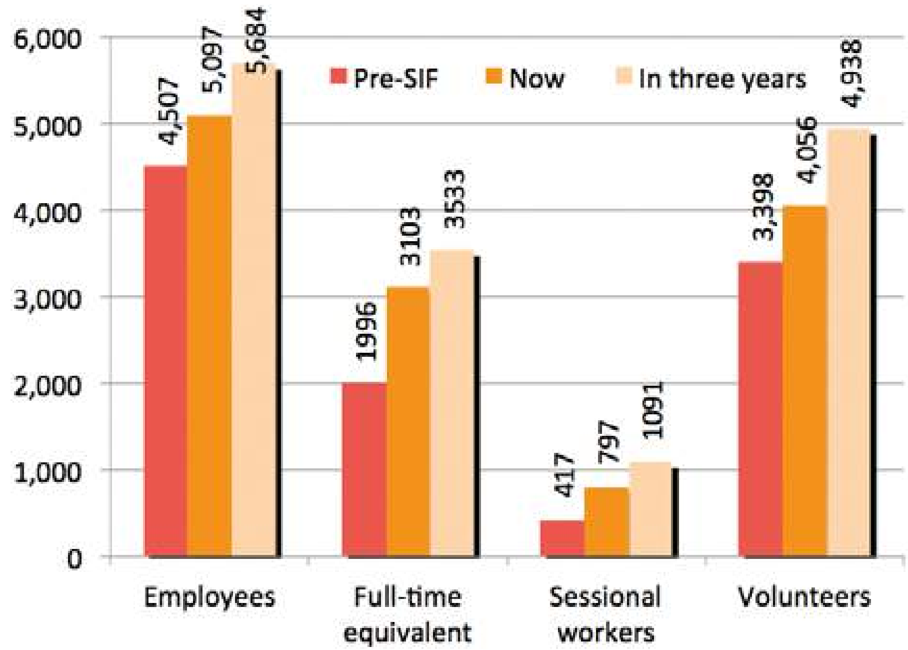
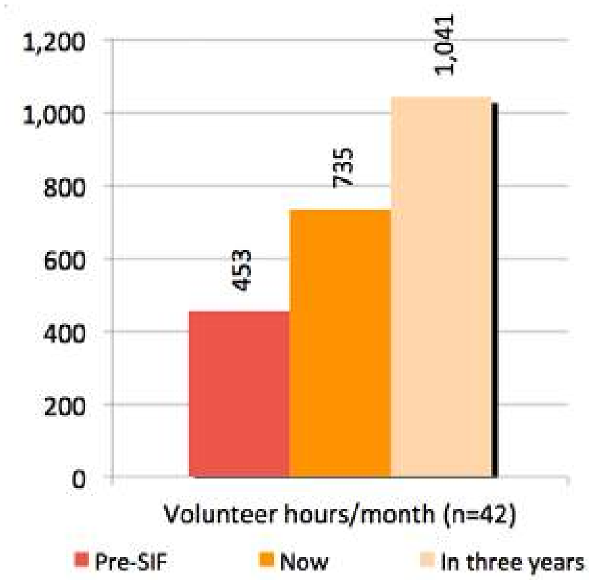


Figure 16: Staffing levels total figures (for organisations who gave data for all three time periods)



> *We wouldn't be where we are today without SIS and the grant/loan from SIF.*

Figure 17: Mean number of volunteer hours per month (for organisations who gave data for all three time periods)



2.4.2 Moving to more financially sustainable third sector organisations

Types of income

The degree to which organisations are reliant on grants or are generating their own income also provides some insight into the impact of SIF investment. It shows the degree to which third sector organisations are becoming more financially sustainable.

The split of income in the latest financial year illustrates the complex mix of funding within the sector. The figure below illustrates the average income split for organisations supported by SIF funding which provided this data. This shows a reduction in grant funding (from 37% to 30%) and uplift in trading (57% to 61%) and other income (6% to 9%) from the pre-SIF period to the last full financial year.

Of the 52 organisations who gave a breakdown of income pre-SIF investment:

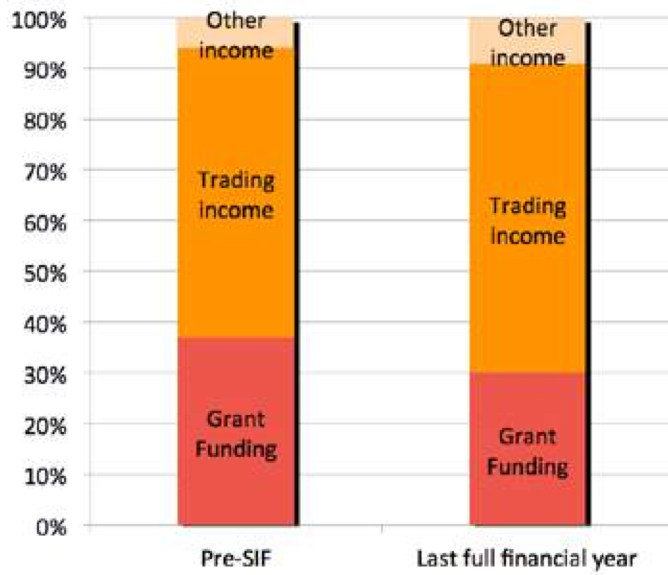
- three had no grant funding;
- six had no trading income; and
- 25 had no income from other sources, such as loan funding, donations/legacies, etc.

Of the 52 organisations who gave a breakdown of income for the last full financial year:

- four had no grant funding;
- three had no trading income; and
- 25 had no income from other sources, such as loan funding, donations/legacies, etc. (These were the same 25 organisations as above)

Figure 18: Average income split

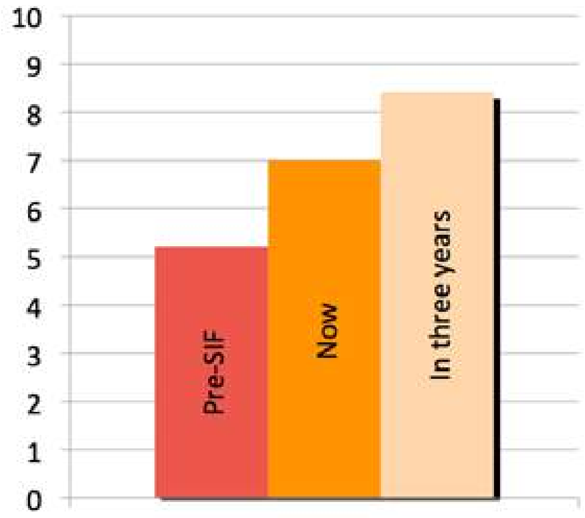
n=52



Perceived financial sustainability

Customers scored their financial sustainability as having improved since being awarded SIF funding and expected it to improve further in the next three years. Average scores out of 10 (where 0 was precarious and 10 extremely strong) were 5.2 pre-SIF funding, 7.0 now (March 2014) and 8.4 in the next three years (by March 2017).

Figure 19: How financially sustainable do you consider your organisation to be?



(n=62)

Customers shared some of the challenges they have and will continue to face, but there was some sense of optimism in addressing these…

"Although the new service has only been operational for just less than a year, growth in referrals and the broadening of the referral base support our business plan forecast of incremental growth each year."

"There are many factors relating to this question not least the economic downturn. It is fair to say that XXX's situation would have been far worse without SIF funding and SIF has helped us to adjust in the face of adverse economic conditions. Certainly our customers value and appreciate the work that support from SIF enabled us to undertake. For their sake, we just need a bit more."

"We have introduced two major programmes and moved away from less cost-effective work."

"The ability to have a facility that earns income from multi-activity has been great. It has also given us the confidence to look at wider projects."

…. although not for all

"Fundraising and funding remain challenging now and for the next three years. We continue to target our services and resources to the most effective outcomes and can demonstrate this to our funders."

2.4.3 Organisationally sound and well-governed third sector organisations

Perceived governance rating

Most organisations already considered themselves to have robust governance arrangements before receiving SIF funding but it was seen to have strengthened slightly since then. The average governance score pre-SIF was 7.3 and it is now 8.4 out of 10, with almost half of organisations saying there was no change in the robustness of governance arrangements since receiving SIF funding (47%, 29 respondents). Of the remainder, 51% (32 respondents) perceived the governance arrangements to be more robust, and only one felt that they were now less robust, which related to the heavy workload for volunteer directors since the organisation has grown.

Perceived leadership rating

Similarly, the strength of the leadership of the organisation was considered to have improved, from an average score of 7.7 pre-SIF to 8.6 now. However, it is acknowledged that this was perhaps difficult to score for some respondents who, as leaders of their organisation, were commenting on their own abilities. All organisations said the strength of leadership had either stayed the same (54%, 34 organisations) or increased (46%, 29 organisations).

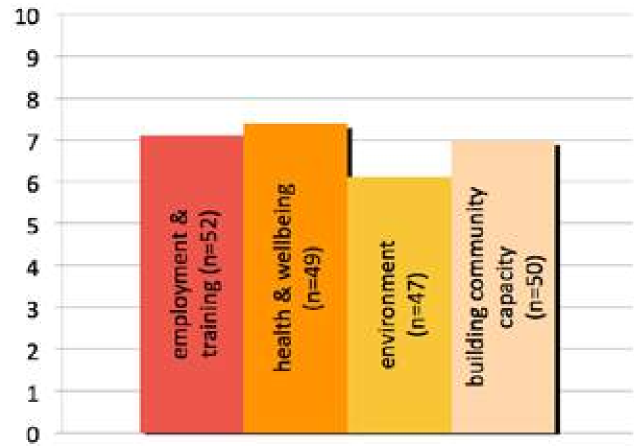
2.4.4 Making a difference to local communities

The above factors measure the impacts attributed to client organisations themselves as a result of SIF investment, but it is very important to also consider the impact on the organisations' beneficiaries. FMR has worked with SIS over the last couple of years to design and collect feedback on social impact with SIS customers. Feedback on social impact, as with the organisational impacts above, was gathered in a consistent way with this established approach, exploring four broad areas of social impact:

- employment and training;
- health and wellbeing;
- environmental issues; and
- building community capacity.

As with organisational impacts, customers also rated highly the positive social impacts generated by the projects which received SIF investment. They considered their activities to have had most impact on health and wellbeing (average 7.4 out of 10) and employment and training (average 7.1). However, building community capacity (average 7.0) and the environment (average 6.1) were also being addressed. For those who gave an opinion, the mean scores are shown in the figure below.

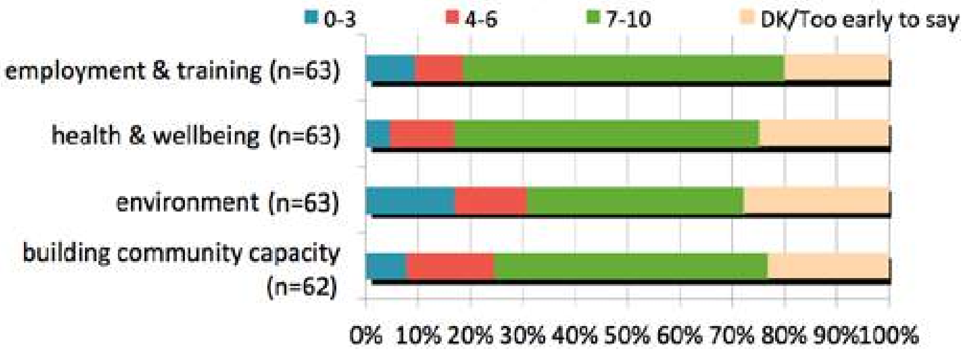
Figure 20: How much of a positive social impact has your organisation generated in the past year under each of the following headings? (mean scores)



It should be noted that a core of respondents stated that it was too early to say what these social impacts might be (8 to 12 respondents) or that they did not know (2 to 4 respondents). Two or three respondents did not give a response to each of the points tested. The range of scores given, including don't know/too early to say are shown in the figure below. This illustrates that at least 43% of all respondents scored themselves as 7+ out of 10 for each element tested, with 63% of respondents giving a score of 7+ for employment and training.

Respondents were invited to make comments relating to their scores for each of the social impact categories tested. It must be remembered that this scoring is very subjective and comments made may only reflect part of the story as some responses are more detailed than others. Examples of these are shown under the relevant headings below.

Figure 21: How much of a positive social impact has your organisation generated in the past year under each of the following headings? (range of scores)



Employment and training

Comments around employment and training reflect SIF investment's impact on the organisations own personnel in addition to the communities they seek to serve.

"We have better facilities to deliver training and employability support to clients which has achieved better outcomes."

"SIF investment has provided up to 50 new employment opportunities in the last year."

Health and wellbeing

Whilst a few respondents highlighted the improvements for health and wellbeing within their staff team as a result of SIF investment, the majority focussed on the benefits to clients because of new physical facilities provided and/or increased capacity to deliver and impact on more people.

"The new facilities have provided a better atmosphere and resources which allow the clients to feel valued and worthwhile."

"The centre delivers life-changing results in terms of health and quality of life."

Environmental issues

The environmental comments included the impact of regenerating areas/new builds on the environment; the focus on energy efficiency/environmental awareness in capital projects which impact on the environment; running costs and working practice; and the very specific environmental focus of some projects, e.g. wind farms.

"Before investment, this site was run down, a fire hazard, a place where gangs gathered; the area has been transformed and this has a positive impact on the neighbourhood."

"The centre has a modern biomass boiler and equipment. Staff and service users are encouraged to recycle and save energy. We recently helped organise a volunteer group to participate in a clean-up on local waste ground nearby."

Building community capacity

SIF investment has enabled organisations to expand and do more, resulting in improved community capacity.

"The new building enables us to work with local primary schools, communities and other arts organisations across the city providing space, specialist facilities and expertise and new education and access programmes."

"There has been a great deal of co-working and collaboration [at organisation] amongst people of different skills and at different stages in their careers."

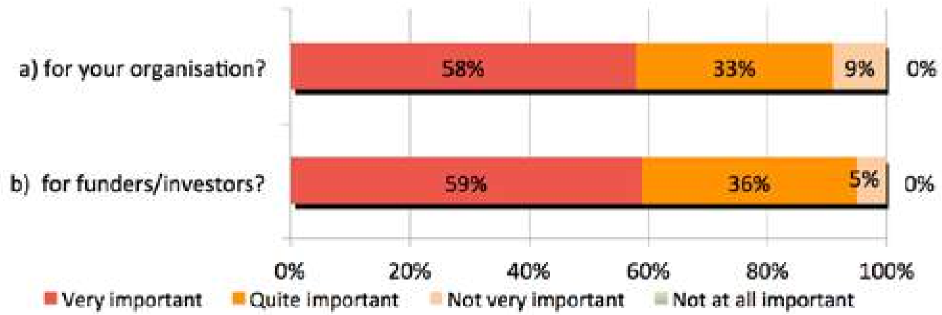
2.5 How we measure impact

The SIF evaluation also took the opportunity to explore with customers the importance and process of social impact measurement to help inform the development of its practice.

2.5.1 Importance of social impact measurement

The first question focussed on the perceived importance of social impact reporting. Social impact reporting was perceived to be important for the organisation itself and for funders/investors by at least nine out of ten respondents. Social impact reporting was regarded as very or quite important by 91% of respondents for their organisations, and by 95% of organisations for their funders or investors, with more than half of respondents rating this as very important. As one in-depth interviewee commented: *"it's very important – it's what we're all about."*

Figure 22: How important is social impact reporting...



Several customers, both during in-depth interviews and via the survey, commented on the Social Return on Investment (SROI) approach which they had pursued, supported by SIS/SIF. The SROI methodology was supported by the Scottish Government in the early days of the fund and all organisations went through a review. This ceased in Phase 2 of the fund. Whilst this was seen to be useful in some respects, such as encouraging a rigorous approach to investigating and measuring value in the first instance and having an SROI ratio which could be quoted to (potential) funders, the approach was also perceived to have limitations, particularly around its perceived subjectivity:

"The SROI process was good and it was well done but I'm not a believer in SROI."

2.5.2 Number of funders

Previous experience suggests that organisations often manage a complex cocktail of funding, some of which can have quite onerous, frequent and unique reporting requirements. Customers who participated in depth interviews all commit significant staff resources to monitoring and reporting activity, for example two full-time posts on this alone, but it was noted that *"nobody actually pays for reporting"*, so this is a significant overhead burden.

Organisations varied in the number of funders/investors they reported to, whether on finances or social impact/outcomes:

- three out of five reported to four or fewer (59%, 37 respondents);
- the median figure for the 63 organisations which gave data was four funders/investors;
- 22% (14 organisations) reported to more than 10 funders/investors with one reporting to 163 funders/investors.

It was interesting to note that respondents highlighted the same level of reporting for finance and social impact/outcomes, reinforcing the outcomes-based approach funders now take and the focus on social impacts.

2.5.3 The Big Society Capital Matrix

In previous questionnaires SIS has explored the social In previous questionnaires, SIS has explored the social impacts generated by its wider customer base in the format of the previous questions. However, SIS was conscious that social enterprises often have to report financial and social impacts to a number of funders and in different ways. SIS was therefore keen to test the Big Society Capital (BSC) outcomes-based matrix, together with principals from 'harmonising reporting' because:

- it could be seen as a new 'industry standard' approach to reporting, reducing duplication of effort for different funders;
- it ensures a common language is used to describe outcome areas in particular;
- it is a framework within which organisations can select suggested indicators and agree appropriate targets/means of measurement, or 'nestle' those they currently use, within the overarching structure, so should suit those with established monitoring and evaluation systems and those who do not;
- it will give some element of quantification of focus and impact for organisations individually and for SIS/other funders; and
- it will be supported by case studies to bring the impacts on the individual more fully to life.

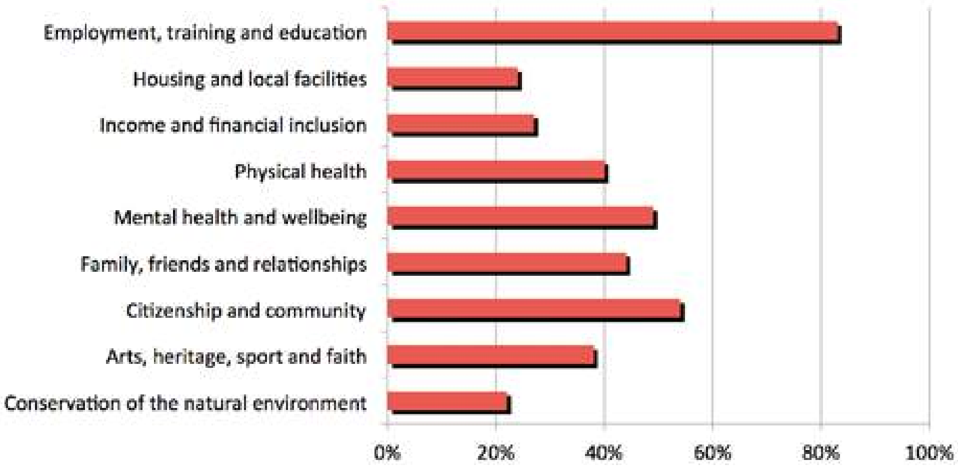
Main outcome areas

Respondents were firstly asked to select all the areas in which they create outcomes, from the following list:

- employment, training and education
- housing and local facilities
- income and financial inclusion
- physical health
- mental health and wellbeing
- family, friends and relationships
- citizenship and community
- arts, heritage, sport and faith
- conservation of the natural environment

Given the earlier responses received, it was not surprising to see that 'employment, training and education' was the most mentioned outcome area, with 83% (52 organisations) citing this. The next most mentioned outcome area was 'citizenship and community' (54%, 34 organisations) followed by 'mental health and wellbeing' (49%, 31 organisations). The least cited was 'conservation of the natural environment' (22%, 14 organisations).

Figure 23: Main outcome areas



n=63

SIS intends to use this feedback (as detailed in the concluding comments on the last page of the report) as they look to combine the financial data they collect through their annual survey with more enhanced social/impact data collection by using the BSC Outcomes Matrix.

3 Concluding comments

A key aim of the evaluation was to measure the difference the SIF investment has made to organisations and the people with whom they work. The various metrics used would suggest that SIF investment has had a positive impact on both.

This can be evidenced by the following

1. The concept of a Scottish Government fund with a mix of grant, loan and risk capital was strongly supported by customers, who awarded a mean score of 8.7 out of 10.

2. The profile of organisations which received SIF investment showed diversity: they were geographically dispersed across Scotland; varied in size from small, new organisations to national, more established concerns; different beneficiary groups were targeted; and an average of 40% of beneficiaries lived in 0-15% SIMD areas, i.e. the more deprived communities in the country.

3. Whilst SIF investment was the only deal 12% of organisations could access, it was the best deal for 40% of other organisations (largely because of the grant element which was seen to mitigate the perception of the interest rates as being on the high side: the key dislike of SIF). Nearly half (45%) had not sought investment from elsewhere and the in-depth interviews would suggest that this was largely because they knew and trusted SIS, supported by the fact that 45% said the involvement of SIS was reassuring. The involvement of the Scottish Government was also reassuring for the majority of organisations (86%).

4. Nearly half (45%) of organisations said the project would not have been possible without SIF investment, and 38% that it would have had to have changed in some way without SIF.

5. Customers who were in a position to comment acknowledged that the SIF investment had made a positive impact on their organisation:

   - all said it had improved their effectiveness;
   - 96% said it had increased their trading activity as a proportion of income;
   - 95% said it had built capacity within their organisation; and
   - 92% said it contributed to the national outcomes of the Scottish Government.

6. There were positive shifts in turnover, staffing and volunteer levels from pre-SIF to date and these were all anticipated to increase further in the next three years for the majority of customers.

7. The profile of income pre-SIF and in the last full financial year shows a small shift in sustainability with a reduction in grant funding (from 37% to 30%) but uplift in trading (57% to 61%) and other income (6% to 9%).

8. Financial stability, robust governance and strength of leadership were also perceived to have improved:

   - financial stability had a mean rating of 5.2 out of 10 pre-SIF, rising to 7.0 now and expected to rise to 8.4 in the next three years;
   - governance was already considered to be robust but still showed improvement from a mean of 7.3 pre-SIF to 8.4 now, although 47% felt there was no change; and
   - the strength of leadership was also perceived to have improved from a mean of 7.7 pre-SIF to 8.6 now, although 54% rated it the same.

9. The social impacts attributed to SIF investment were also strong, with mean scores as follows:

   - health and wellbeing (7.4)
   - employment and training (7.1)
   - building community capacity (7.0)
   - environmental issues (6.1)

A second aim was to obtain feedback on SIS's management of the Scottish Investment Fund. Feedback was extremely positive, both from the qualitative discussions and comments and from the scoring questions asked in the online survey, as follows:

10. Different aspects were rated highly by customers:

    - your relationship with SIS (mean of 9.4 out of 10 - it must be recognised that there have been significant staff changes at SIS since 2008, but qualitative comments were extremely positive about the current staff complement);
    - SIS's management of the Fund overall (9.0);
    - the ongoing reporting information required (8.4 – this is an issue which is often criticised by social enterprises, but qualitative comment suggested that SIS generally compares positively against other funders/investors); and
    - the application process (7.9 – qualitative feedback would suggest this is primarily due to lengthy timescales and the amount of information required for some organisations, although others reported very quick progress when required).

11. Customers particularly liked the fact that SIS staff understand the social enterprise sector (95%), that they trust SIS and have an open and honest relationship with them (86%) and that there is an ongoing dialogue with SIS (78%). This appreciation of SIS staff was reiterated throughout the discussions and survey.

12. The Net Promoter Score (NPS), an internationally recognised measure of customer satisfaction/loyalty, was +70. This is an excellent score and three-quarters of SIF customers have already recommended SIS to other social enterprises.

A third, ancillary aim was to explore views on social impact measurement and to test out the Big Society Capital (BSC) outcomes matrix approach.

13. 91% of SIF customers regarded social impact reporting as very or quite important for their organisations and 95% considered it to be important for funders/investors. Indeed, customers report to a median of four funders/investors but 22% report to more than 10 and one reports to a phenomenal 163. Discussions reinforced the SIS/FMR perception that reporting tends to vary for each funder, so can be an onerous task which takes significant resources.

14. 12% already had a social impact plan, 27% were working on one, and a further 25% felt this was incorporated into something else, such as a business or strategic plan. However, 36% have no social impact plan at present. 70% would welcome a template to help them prepare a social impact plan.

15. Those who had participated in previous SIS social impact surveys rated the experience positively (with the caveat that FMR designed the tools and this may have impacted on responses), with the questions perceived to be relevant and not too onerous or time consuming.

> *"The support and assistance from SIS has been crucial in terms of our ongoing growth and development as a relatively new company. SIS staff competence, the CEO mindset, SIS flexibility and willingness to get underneath the bonnet and truly understand the business is what sets them apart from others, in my book.*

16. The BSC outcomes matrix tested relatively positively:

    - all but five of the 65 organisations felt the nine outcomes areas covered the key impacts they made;

    - 65% considered the matrix easy to use, but 35% found it difficult to complete (clearly if this was used, the outcomes, changes and measures would be discussed and agreed with SIS in advance of any reporting requirements);

    - some misgivings were expressed but 34% considered the BSC approach to be a useful way forward and 45% said it possibly was.

The above points prompt a number of issues for consideration in future:

- Should SIS wish to pursue the BSC outcomes matrix for SIF and/or its wider customer base, we would suggest that dialogue with customers and further support is required. Some guidance would be helpful on how the matrix works and what each of the changes/outcomes/measures include or exclude. Indeed, clarification of the language may also assist customers in being absolutely clear on what is being asked for at each stage of the process.

- There was interest in support to develop a social impact plan, to illustrate the fit of activities with outcomes and the strategic direction of organisations. A template would be helpful to make this as easy as possible for customers and to aid consistency of approach which, in turn, would help SIS's monitoring and reporting.

- There is also a role for SIS in encouraging other funders to use this format of social impact reporting to avoid duplication of effort by customers and allow them to focus on their core activity. Reporting harmonisation was intended to achieve this, and funders were supposed to have signed up to this, but this does not appear to have been achieved in practice yet.

- The evaluation also sought feedback on anticipated funding and support needs in future for the sector. Whilst grants were considered to be required by nearly all (97%), the need for capacity building was also identified (84%), alongside loans (83%), risk capital (55%) and the development of social impact bonds (31%). This gives both SIS and the Scottish Government an indication of the appetite for support and options which could be explored more fully with social enterprises.

social investment scotland

Connecting capital with communities

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