

Community Assets Seminar Series

May 2011

Social finance: Opportunities and risks

'Community assets' is JRF's programme of research and development that is exploring the role of community-owned land, buildings and other assets in the development of neighbourhoods. Its seminar series is a forum to discuss policy development issues relating to this agenda.

More loan finance than ever is being channelled into social enterprises and community ventures. Yet it is becoming harder to borrow money, and the results of the lending may be an unequal distribution of activity. Julian Dobson reports on the fifth JRF seminar on community assets.

Main points

- A growing ecology of social finance has emerged over the last decade to support community enterprises and asset ownership and development, with several hundred million pounds of loans made or available.
- Nevertheless it remains difficult to raise funds to buy community assets and it is becoming tougher as lenders demand higher standards of management and business planning.
- The risks involved in managing community assets can be high and levels of borrowing need to be carefully tailored to asset values and income streams. Not all community organisations have the capacity to look after assets or should be expected to do so.
- However, there has to be a trade-off between the risks involved in running an asset and the cost of doing nothing. Blight and dereliction impose their own costs on society and restoring buildings for community use may be a lesser risk.
- Community organisations need to ask themselves hard questions about what they want or believe they should be doing before deciding to manage or develop an asset. As they reach differing conclusions on these questions, the result may be an unequal distribution of assets between deprived and better-resourced communities.

Unprecedented opportunities

Look at the development of the social finance sector over the last decade or so and it would be difficult not to be impressed by the numbers.

Last year community development finance institutions – the specialist intermediaries that lend to social projects and businesses – had £531m of loans on their books. In 2009/10 they lent £200m, a 77 per cent increase on the previous year, and helped their customers attract another £100m from mainstream lenders.

From very modest beginnings, an extensive ecology of social finance has developed in the UK. It ranges from specialist lenders like the Key Fund and the Social Investment Business to community share issues, and is now being joined by the Big Society Bank, which will recycle money from dormant bank accounts for community ventures.

This is offering unprecedented opportunities for community and voluntary organisations to reinvest in their localities, raising money for projects designed to benefit local people. Instead of simply donating to projects of their choice, the public – and public agencies – can now invest on a commercial or near-commercial basis, creating the opportunity for money to go further as it is repaid and then reinvested.

Navigating the world of social finance

The fifth of the Joseph Rowntree Foundation's (JRF's) series of seminars on community assets, held at Shine, a converted school in Harehills, Leeds, provided an opportunity to examine the brave new world of social finance in some detail. A paper produced for the event by Tim Thorlby of consultants SQW, *Finance and business models for supporting community asset ownership and control*, identifies the various legal forms and financial approaches that have been explored.

The paper identifies four opportunities to improve the flow of finance for social investment:

1) community and voluntary organisations to become more enterprising, increasing their reliance on income generation and thus their independence from central and local government;

2) to build the infrastructure needed to create a broad market in funding for social enterprises;

3) to use public sector commissioning to support the development of assets; and

4) to engage philanthropists to support social ventures.

But Mr Thorlby outlines risks and pitfalls too: 'The short- to medium-term prospects for the community ownership and management of assets in the UK currently look decidedly mixed. Whilst the supply of community assets is currently growing, with public sector organisations more willing than ever to consider disposal, public sector support to enable the acquisition and ongoing operation of these assets is diminishing. Difficult trading conditions in the wider economy are also undermining income streams from enterprise-based activities.'

With a widening gap between supply and support, more lending is required to develop existing assets and enable communities to acquire new ones. But this poses a number of challenges, Mr Thorlby argues.

For community and voluntary organisations, the challenge is whether they are ready to move towards an 'enterprise-based culture'. For the public sector, the dilemma is how to prioritise scarce funds, weighing up the balance between tackling disadvantage and promoting financial sustainability. And for private investors, the question is whether social investment will catch on, prompting a new wave of finance, or 'remain a marginal activity for enthusiasts alone'.

Social finance in action

This qualified enthusiasm for community assets reflects themes that have emerged and developed throughout JRF's series of events. The focus of the Leeds event was finance, but it exposed more fundamental issues about the capacity of community groups to manage big capital projects and the appropriateness of asset management as a community development tool.

These dilemmas were brought to life by two case studies, both involving the conversion of Victorian landmark buildings. At Shine in Harehills, a former school is now a centre for conferences and events, having shifted from an initial vision of providing managed workspace and incubating social enterprises. In the Pennine town of Hebden Bridge the former town hall has been transferred to a community association and is now providing office space for the local authority, meeting rooms, and a community venue. An ambitious development plan includes workspace for small creative and digital enterprises.

In both cases getting the initial funding was the hardest part. Once the first support was obtained, both schemes assembled a cocktail of grants and loans. At Shine these were supported by the directors' personal investments; at Hebden Bridge the local council underpinned the scheme by agreeing to act as an 'anchor tenant'.

Both schemes assembled their finance packages before the current reduction in public spending. Shine was supported by the Local Enterprise Growth Initiative and the European Regional Development Fund (ERDF); Hebden Bridge Town Hall also received an ERDF grant.

As Tony Curtis, Business Support Adviser at the Social Investment Business, explained, money is now harder to come by. While the Social Investment Business manages £400m of loans, lenders are struggling to keep up with the demand for funds for community projects and are becoming more wary in choosing whom to support. 'There is less money available and you have to work a lot harder for the little there is,' he warned.

Applications would be turned down if they demonstrated weak management or governance, if organisations didn't show they could prepare financial forecasts, if there was no clear plan for future revenue generated by the asset to be acquired, or if there were poor financial projections.

Hugh Rolo, Director of Innovation at Locality, the development trust network, and a former investment banker, offered a similar warning. When sizing up a potential investment he would look at the profit and loss accounts for years three and four, he said – was there a clear plan to grow revenue? He offered a rule of thumb on borrowing: don't borrow more than 30 per cent of the capital value of the asset you want to manage, or 100 per cent of your annual turnover.

Risks and rewards, debt and dilemmas

Shine's experience offers useful lessons about borrowing. Not only did the directors put their personal assets (pensions, loans secured on their homes) into the pot, but they also borrowed £2.5m against an asset valued at only £2.6m, which after the discovery of dry rot ended up costing £5m to convert. The business plan rapidly gave way to a rollercoaster of ventures, some of which proved far from successful.

Shine Chief Executive Todd Hannula warned against the 'hubris' of diversifying into new ventures without focusing on existing commitments, and of the vital necessity of 'managing cash and knowing your market'.

Yet the conclusion he drew was not that Shine had taken too many risks. 'You have to take risks – it's always about the people, it's not about the spreadsheets.' he argued. 'Look in people's eyes and ask if you're ready to take on what you're about to take on.'

If he was starting again, he said, the main difference would be that he would seek 'a better return for the social entrepreneurs involved' to reward them for the risks they had taken on.

Hebden Bridge Community Association had a less gung-ho attitude, being a voluntary association rather than a social business, but also has to manage significant debts. The need to service £1.25m of borrowing leaves little room for the association's business plan to go wrong.

Andrew Bibby, one of the association's directors, said this raised some hard questions about whether community organisations should take on the ownership and management of assets. Should volunteers seek to fill the gaps left by retreating public services, and devote time and energy to employing staff, complying with charity law, dealing with VAT accounting and meeting health and safety obligations?

Several of those attending the seminar expressed the view that while larger organisations might be ready to take on the responsibilities of asset ownership and loan servicing, this was unlikely to be appropriate for many smaller community groups. Government policy needed to distinguish between the role of larger voluntary organisations and the functions and capabilities of many very local groups.

This chimed with the caveats from several speakers. As Hugh Rolo put it: 'Making a decision to take on community assets is a long-term strategic decision – it's not just for Christmas.'

Preventive investment

But risk and capability are not the only factors to be considered. As well as the warnings about over-commitment, there were warnings about the cost of doing nothing.

Hugh Rolo was clear that community asset ownership could be a way of preventing decline and blight in areas where local authorities and other owners had decided – or been forced – to withdraw. He praised Shine as a project that had brought money into Harehills at a time when all the speculative development was concentrated in Leeds city centre.

Similarly, Andrew Bibby described how the impetus for the Hebden Bridge project had come from the gradual loss of civic space and presence within the town – from the adult education centre to the tourist information office. The town hall was not just an old building in need of renovation, but 'reflected a Victorian sense of civic pride' that was part of the town's sense of identity.

Without action to take over and restore the physical fabric of communities – buildings such as Manningham Mills in Bradford, for example – blight and decline could set in, Mr Rolo said. 'Nothing would have moved if that building had been allowed to stay empty,' he commented. 'Preventive investment' was an important factor when deciding whether to acquire assets for community use. He commended the idea of social impact bonds, where investors receive a return if outcomes are achieved that reduce welfare and other social costs, as one way of channelling finance into preventive action.

An unequal distribution

Despite Todd Hannula's assertion that investors pick people, not spreadsheets, the day's discussion made it clear that the people had to get the spreadsheets right – and much more. Not everybody was well equipped to buy or manage community assets and small or inexperienced groups would be less likely to attract investment.

This poses a particular problem in communities where there is little neighbourhood activity or where it is under-resourced or suffering from the withdrawal of funding.

Most third sector organisations deliver services that are very people-intensive, Rolo pointed out. With most of their income focused on direct services and paying for staff, that leaves a much smaller proportion available to service borrowing.

Some models of asset management, such as community pubs and shops, are more likely to work in rural villages with a high number of second homes and plenty of retired people than they would in urban areas. Community share issues might only work in relatively affluent and highly skilled communities where people have money to invest.

'I think we're looking at increasing inequality in where these models will work,' he commented.

And, as Mr Rolo said in his opening remarks at the event, all of this needs to be seen in the context of 'a majorly dysfunctional financial system' that continues to produce a multi-speed economy that leaves the poorest communities and regions behind. The 'big prize', he argued, would be to realign the investments of the multi-billion-pound pensions industry with socially useful investment.

But where investment in community assets has started to work, there is extraordinary optimism. Despite the risks and setbacks, Shine is now talking to Locality about the idea of ‘one hundred Shines’ across the country; Hebden Bridge Community Association now hopes to restore the town’s former cinema. The finance may be difficult, but there is no shortage of energy.

- Slides from the day and the briefing paper, *Finance and business models for supporting community asset ownership and control*, are available at: http://www.jrf.org.uk/events/community-assets-seminar-series

- The full report from JRF’s programme of work on community assets will be launched at the final seminar in London on 30 June.

About the author

This summary was produced by Julian Dobson for JRF. Julian is a writer, speaker and commentator on regeneration, placemaking and social policy. He works as a trainer and facilitator, helping organisations find creative solutions to the problems of place. Julian was the founding editor of New Start magazine and is director of Urban Pollinators, a placemaking consultancy.

Coming up in the Community Assets Seminar Series:

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Coin Street Neighbourhood Centre, London
Examining the costs, benefits and outcomes (including critical success factors) associated with local community ownership and management of assets, and identifying implications for future policy and practice linked to the transfer of public assets to communities.

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