

## **Start-up and Growth: National Evaluation of the Social Enterprise Investment Fund (SEIF)**

**Report submitted to the Department of Health Policy Research Programme**

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## Executive summary

Health and social care reform has introduced a raft of policies aiming to reduce health inequalities, increase patient choice and access to services, and create more innovative forms of service delivery. Social Enterprise has been regarded as an organisational form that can potentially achieve these reform objectives. In particular, social enterprises are seen as having the potential to engage disadvantaged groups, to diversify health and social care provision, and contribute to wider social outcomes in a way that traditional service delivery organisations are unable to do so.

The Social Enterprise Investment Fund (SEIF) was established in 2007 by the Department of Health (DH), with a pool of £100 million over a four-year period to support and stimulate the development of social enterprise in the delivery of health and social care services. The DH Policy Research Programme (PRP) commissioned this evaluation to assess the effectiveness of SEIF activities in enabling the start-up and growth of social enterprises in health and social care services. This research combined a formative and summative approach that mapped the programme theory of the SEIF that was then 'tested' through three overlapping phases of research between 2009 and 2011. 'Phase One' carried out semi structured interviews with stakeholders involved in SEIF policy formulation, fund management and the wider social investment market. 'Phase Two' carried out a national survey of all SEIF applicants (up to 31 March 2010 only). 'Phase Three' carried out a selection of in-depth organisational case studies within local health and social care communities (see <http://www.tsrc.ac.uk/Research/SEIFEvaluation/tabid/757/Default.aspx> for further information).

This report presents its findings structured around the outcomes that were associated with the SEIF. These were identified and outlined in Phase One of our research that set out how the outcomes associated with the SEIF were based around the following four areas: the fund management and delivery of SEIF; the impact of SEIF in the context of the wider investment market; the characteristics and conditions of organisations that applied to SEIF; and the organisational and user outcomes associated with SEIF investment.

### **SEIF Management and Delivery**

Up until 31 March 2011 a total investment of £80,712,510 was made by the SEIF (across 531 organisations). Our early stakeholder interviews reported that an objective of SEIF was to fill a gap in flexible and appropriate loan finance. However, this view appears to be challenged as we found that the SEIF was primarily a grant fund with only 14% (£11,372,637) invested as loans (with a further £3,086,430 of repayable grants). The implication of these findings raises considerable questions for the fund as a resource for the social enterprise sector, as one of its long term aspirations was to be self-sustaining through returns on loan investments. It raises doubts over the willingness of social enterprises to take on loans, as the vast majority of social enterprises in our evaluation wanted grants only, with some evidence of applicants turning down loans when they were offered them (as the due diligence conducted by the Fund Manager revealed that some applicants' financial status demonstrated that they were able to afford loan repayments). Furthermore, it raises important implications about the annuality constraints on fund management and the need to disburse funds within relatively short funding windows.

Our evaluation also found mixed opinions on the management of the SEIF that varied across the three rounds of investment. Our survey suggests that around two thirds of successful and half of unsuccessful applicants were satisfied with how the SEIF was managed. Whilst most investees were happy with the type and amount of their investment, many found applying to the SEIF a time consuming and labour intensive process. Satisfaction with the SEIF did appear to improve in Round 3 (from June 2009) when the Social Investment Business became fund manager, as did the amount of business support offered, however there were ongoing communication issues, especially for unsuccessful applicants.

### **The SEIF and Changes to the Wider Social Investment Marketplace**

The objectives of the SEIF had a clear focus on improving health outcomes and contributing towards the development of the broader social investment sector in the UK. Our analysis identified that the achievements of SEIF, set against its objectives, have been mixed in relation to issues of bankability, leveraging new investment, and potential market distortion. Whilst the fund does pay careful attention in its due diligence to evidence of the unbankability of its potential investees/investments, there is no clear evidence that the SEIF has invested in a deal where another social investor has turned down a loan. This makes it difficult to argue that the SEIF is demonstrating clear additionality within the social investment marketplace in terms of picking up opportunities that were unattractive to its competitors.

In terms of leveraging new investment, the fund has made some significant co-investments via the Funders Forum. However, the SEIF's funding to date has predominantly been grant based, largely as a result of the time frames within which it had to invest, by the broader policy agenda in which it had to operate (particularly departmental annuality rules), and by lack of demand for loans in its investee pool.

### **SEIF Organisational Characteristics and Investments**

Our case study findings indicated that organisations receiving SEIF investment were diverse, and were often 'hybrid' organisations in that they had multiple functions and specialties. However, despite these variations, what characterised these organisations was a vision and mission built around health inclusion. SEIF tended to invest in services that targeted disadvantaged or vulnerable groups, including those struggling with poverty, mental illness or the harm caused by alcohol, drugs or violence. SEIF funding was used to respond to gaps and demands within the health and social care system by tackling unmet need and promoting holistic and inclusive approaches to health and social care. It was therefore contributing significantly to identifying and challenging social and health inequalities and their implications for service delivery. SEIF investments were also used to empower communities and service users, with service users being strongly represented on social enterprise Boards, as paid members of staff and as volunteers.

SEIF investment has been crucial in enabling new social enterprises to enter the marketplace. The survey indicates that approximately 52% of SEIF funded organisations were new start-ups (including starting trading within a charity). For those starting up, a SEIF investment was most frequently used to obtain business, legal and financial support. Indicative of this were Right to Request organisations, most of which felt that without SEIF investment and business support they would not be able to exist.

The SEIF supported a total of 50 Right to Request organisations (10% of all investees) with a total investment of £8,333,385. The remainder of SEIF investments (48%) were used to develop and grow existing social enterprises.

### **Organisation and User Outcomes of SEIF Investment**

Our analysis has found that that SEIF investment has been crucial to the start-up, growth and development of organisations. Without SEIF investment, our survey indicates that many of the organisations involved in our research may not exist or would be considerably reduced in scope. Given the time frame of the SEIF investments and this evaluation (as many social enterprises are only recently established), it is too early to examine SEIF investment in terms of health outcomes and therefore the extent to which SEIF has been able to improve health and wellbeing. The focus of our evaluation was instead on organisational outcomes and has found evidence to demonstrate positive emerging benefits in terms of improved working conditions for staff, improved organisational infrastructure and increased involvement of users in service design and delivery. Crucially, the main outputs of SEIF investments were structural improvements and business support that enabled social enterprises to grow. It has also enabled organisational development through improvements to workforces (supporting unemployed workers return to work and improving workforce morale) and improved responsiveness to communities (promoting greater inclusiveness and responsiveness to community needs).

It was still relatively early to assess the long term sustainability of social enterprises within the marketplace. Nonetheless, SEIF investment was felt by 65% of survey respondents to enhance their sustainability, and the fund has enabled some social enterprises to develop stronger business plans and secure new contracts. The sustainability of SEIF investees remains open to debate as our survey found 13% of organisations were no longer in operation, mostly due to a lack of ongoing funding. Although this closure figure is similar to the average closure rate of UK businesses, we did find evidence that some social enterprises are struggling to secure new contracts and obtain additional funding.

Measuring the social benefits delivered by social enterprises was found to be important for the majority of organisations in our evaluation. Social Return on Investment (SROI) has been promoted as a measurement tool by the SEIF. However, our own survey found that this was used by only 30% of investees and some commissioners were not familiar with it. Instead, there was often a preference for other tools that were more customised to the organisation.

### **The SEIF and Commissioning Social Enterprise**

Our evaluation included interviews with commissioners and other health and social care representatives. These indicated that whilst the principles of the SEIF to support capacity building, access to finance and business advice were largely supported, the implementation of the fund within the health and social care market has been met with a high degree of ambiguity. Some commissioners felt that there were risks associated with social enterprises, with many not being seen as investment ready or capable to take on the requirements of the contracting process. Despite this ambiguity, it was clear that the role of social enterprise was likely to expand, as it was considered to be a creative

solution within the context of diminishing public sector funding. Commissioners overall had positive relationships with social enterprises and encouraged them to grow and develop.

Since our evaluation was undertaken, there have been a number of significant changes in the policy environment that have resulted in new expectations and funding arrangements for social enterprises. Funding for social enterprises (as well as all public, private and third sector organisations) is likely to move away from PCT dominated commissioning processes to a more open market with the introduction of the Any Qualified Provider (AQP) agenda. Our evaluation suggests that social enterprises may be well equipped to engage positively with this new agenda. However, the future of grant and loan funding for social enterprises is uncertain.

### **SEIF Implications and Recommendations**

Given this uncertainty of the future of the SEIF and the changing policy environment, our evaluation makes some broad recommendations that can be used by social investors, commissioners and social enterprises. The recommendations are based around our key findings of the policy, practice and implementation of the SEIF in the following five areas:

- ensure clear application processes for social investment funds;
- improve social enterprise market entry through better partnerships;
- improve organisational development through better capacity building;
- improve provider diversity and keep social enterprise on the agenda;
- improve the investment market.

This evaluation was funded by the DH PRP from August 2009 until July 2011. It focuses on the investments up until 2010. An important point to make in contextualising this research is that subsequent investments made in 2010-11 totalled £41.1 million which equates to more than all previous SEIF investments to date of £39.6 million. The perspective of these investees is not included in our research. All figures in the report are quoted prior to Year-End adjustments and all data was correct as of August 2011.

## Chapter 1: Introduction

The past decade or so has seen a fundamental shift in the vision for, and modes through which health and social care services are delivered. A number of reforms have focused on the need to reduce health inequalities, increase patient choice and access, and create more innovative forms of service delivery (DH, 2004; DH 2005 a, b, c; DH, 2006). Social enterprises are seen to have a key role to play in delivering on this reform agenda given their potential to involve the public, patients and a range of different staff groups in the design and delivery of health and social care services. Furthermore, social enterprises are also seen as having the potential to: engage disadvantaged groups; to diversify health and social care provision; and to contribute to wider social outcomes in a way that traditional service delivery organisations are unable to do so (DH, 2006; 2010a).

The Social Enterprise Investment Fund (SEIF) was established by the Department of Health (DH) with a pool of £100 million over a four-year period available for both capital and revenue expenditure, commencing in the financial year 2007/08. The objectives of SEIF centred on stimulating the development of social enterprises in the delivery of health and social care services, through the provision of start-up funding and long term investment.

The DH Policy Research Programme (PRP) commissioned research to assess the effectiveness of the activities of SEIF and provide evidence of its impact (on both applicants and wider sectors) in health and social care service delivery. It aims to provide evidence in the following areas:

- the extent to which investments made by SEIF have aided market entry of social enterprises;
- the extent to which SEIF has stimulated the social enterprise sector to increase diversity in the provision of health and social care;
- the impact of successful social enterprises in meeting the Our Health, Our Care, Our Say White Paper aims, and in addressing gaps in service provision and improving health and well-being; and
- the wider impacts of successful social enterprises e.g. on the environment, employment.

The research combined a formative and summative evaluation of both the SEIF and those who have bid to this fund (both successful and unsuccessful applicants). The research design was theory-led, in seeking to map out the programme theories underpinning the design and delivery of the SEIF (Lyon, et al., 2010; Millar, et al., 2010). These theories of change were then 'tested' through a number of activities. First, all applicants to SEIF up to 31 March 2010 were surveyed to 'map' the types of activities undertaken and their progression. Second, the research analysed the nature and impact of SEIF in the context of the 'social investment' marketplace. Third, the research carried out in-depth analysis through case studies to understand the activities and impacts of specific social enterprises and their functioning within their local health and social care communities.

The evaluation was funded by the DH PRP from August 2009 until July 2011. It focuses on the investments up until 2010. An important point to make in contextualising this research is that subsequent investments made in 2010-11 totalled £41.1 million which equates to more than all previous SEIF investments to date of £39.6 million. The perspective of these investees is not included in our research.

## 1.1 Structure of the Report

This report aims to present a summary of the key findings from the SEIF evaluation. It begins with a brief overview of the policy context surrounding the formulation and delivery of the SEIF. It then presents an overview of the design and methods that the evaluation employed. The report also presents a summary of the work carried out in relation to understanding the theories of change associated with the SEIF.

Following these chapters, the report presents its findings structured around the outcomes that were associated with the SEIF as identified in our Theory of Change. Chapter 5 presents key findings in relation to the fund management and delivery of SEIF. Chapter 6 presents analysis in relation to the impact of SEIF in the context of the wider investment market. Chapter 7 presents findings about the characteristics and conditions of organisations that applied to SEIF. Chapter 8 presents a summary of the espoused outcomes associated with SEIF investment. Chapter 9 then presents a summary of the key findings of the evaluation, which is done by returning to the four key evaluation objectives outlined above. The report concludes with some implications and recommendations.

## Chapter 2: Policy Context

### 2.1 Introduction

Social enterprises are seen to have a key role to play in delivering on the health and social care reform agenda given their potential to involve the public, communities, patients and a range of different staff groups in the design and delivery of services (Addicott, 2011). Furthermore, social enterprises are also seen as having the potential to contribute to wider social outcomes in a way that traditional service delivery organisations (public but also private) are unable to do (Haugh and Kitson, 2007; ACEVO, 2003; SEU, 2006). The potential advantages that social enterprises have over other providers in terms of their innovative approaches to health service provision, it is argued, include understanding local needs, involving users in the design of services, providing choice and personalisation of services and their ability to reinvest any surplus into community or social purposes (SEU, 2006; Hewitt, 2006). The influential Treasury and Cabinet Office cross cutting review (Treasury/OTS, 2004) articulated the particular benefits that government believed the third sector could bring to service delivery:

- a strong focus on the needs of service users;
- knowledge and expertise to meet complex personal needs and tackle difficult social issues;
- an ability to be flexible and offer joined up service delivery;
- the capacity to build users' trust;
- the experience and independence to innovate;
- wider benefits from involving local people to build community ownership; building the skills and experience of volunteers; and increasing trust within and across communities, thereby building social capital.

The interest in social enterprise has been pursued through an increased role of existing social enterprises in delivering contracts and the encouragement of groups of public sector workers to spin out into social enterprises. SEIF therefore responds to a range of interlinked policy priorities within the Department of Health and other government departments.

## **2.2 Social Enterprise Policies for Health and Social Care**

The past decade or so has seen a fundamental shift in the vision for, and modes through which health and social care services are delivered. Recent reform in the delivery of health and social care services has sought to create plurality of provision, giving patients greater choice over where, when and from whom they receive services; provide opportunities for patients to have a greater influence over the design and delivery of their care, including offering them opportunities to 'commission' services themselves through personal budgets; reduce health inequalities and improve the health of disadvantaged groups; and create opportunities for the delivery of innovative health and social care services to thrive outside the control of the state (DH, 2004; 2005 a, b, c; 2006).

The Right to Request policy aims to encourage staff to spin out of the NHS into new social enterprises, with uncontested contracts for a fixed period of time and the ability to keep pension rights (DH, 2008a). This has been continued with the Coalition government through the Right to Provide policy that allows a wider range of services to be spun out but without the same uncontested of contracts (DH, 2011a). While some spin outs were small scale and driven by the staff involved, others were at a larger scale and led by senior managers. The stakeholder interviews for this evaluation showed that these latter approaches faced more resistance from unions.

A majority of social enterprise involvement in health service delivery now comes from organisations that were always independent of the NHS. Their participation has grown with the changing policies on commissioning, which have encouraged a plurality of providers. The PCTs were given greater encouragement to commission from social enterprises, although many of those interviewed were unsure of the future with the proposed radical reforms to the commissioning process. Policy makers interviewed also stated that they expected increased competition for social enterprises from the private sector in the future.

Since this SEIF evaluation was commissioned and undertaken, there have been some significant policy changes that may impact on the expectations and funding arrangements for social enterprises in health and social care. On particular note, as a result of the Any Qualified Provider (AQP) agenda we are likely to see a move away from PCT dominated commissioning processes to a more open market. This will see the NHS being opened up to private and third sector providers and greater involvement of patients in choosing the services they use (DH, 2011b).

## **2.3 Social Investment Policies**

Finance is reported to be a major constraint facing many social enterprises (SEC, 2010) and a number of policies have attempted to address this, including SEIF. A range of forms of social investment have been developed by SEIF to provide sources of loan and quasi equity capital for social enterprises that might complement donations, state funds and other forms of income. These forms of social investment combine financial return with social impact. The rationale for policy intervention led to a number of

public sector supported funds such as Future Builders England and the Adventure Capital Fund which provided loans to social enterprises to encourage them to grow, be resilient, invest and solve social problems (Cabinet Office, 2011).

The policy involvement in social investment became more focused with New Labour interest in the third sector and the establishment of the Social Investment Task Force in 2000. There followed a number of funds established by the government or with some element of public sector support. Further policies to drive the market came in 2005 with the Commission on Unclaimed Assets which reported in 2007 that there was potential to develop a fund. This was followed by a consultation on the Social Investment Wholesale Bank in 2009 (OTS, 2009).

By 2010 the total annual size of social investment was estimated to be £190m, with a majority of this coming from public sector funds (such as Future Builders and SEIF), and the remainder from philanthropic organisations (NPC, 2011). With the change in government there has been a growing interest in social investment. This has coincided with the publication by the Cabinet Office (2011) of *Growing the Social Investment Market: A Vision and Strategy*, the establishment of the Big Society Bank, the interest in Social Impact Bonds and an extension of the SEIF in 2011/12 for social enterprises.

## **2.4 SEIF Policy Formation**

The SEIF was established by the Department of Health (DH) with a pool of £100 million (£73 million capital and £27 million revenue) over a four-year period from 2007/08 to 2010/11. The revenue funding includes provision for fund management charges and other costs.

The SEIF was developed in the context of a range of policy developments. The vision set out in *Our Health, Our Care, Our Say* (DH, 2006) of more personalised and responsive services, and Lord Darzi's *Next Stage Review* (DH, 2008a), were the key policies driving the DH to try to stimulate the growth of social enterprise within the health and social care sector. These documents recognised a need to improve health and social care services - particularly community services - in order to reduce health inequalities, and argued that to do this, there needed to be plurality within the provider marketplace. Social enterprises were seen as being able to bring particular added value to service delivery but support was deemed necessary to encourage social enterprises to enter the market and prevent the marketplace being dominated by the private sector.

Policy makers interviewed for this evaluation saw SEIF as an opportunity to explore the potential of social enterprise models for delivering health and social care services, recognising the potential benefits that social enterprises could bring, but acknowledging that to date, little evidence existed to demonstrate their additional value over other types of provider. SEIF was seen as an opportunity to drive plurality in the marketplace, which stakeholders believed would not occur without intervention. Further, in the context of separating commissioner and provider roles and externalising services, it was thought that social enterprises might be more attractive to NHS staff than a move into the private sector, as values underpinning social enterprise and public sector approaches to delivery were likely to be similar.

The policy context, then, supported greater involvement of social enterprise within the health and social care marketplace, but policymakers interviewed reported that there were several barriers that

were preventing this from happening. Primary among these was the failure of commercial investors to provide financial products suitable for and accessible to social enterprises. This perceived 'market failure' was recognised by interviewed stakeholders from within the DH, as well as those managing the fund, as a key justification for SEIF. While funding was available through sources such as Futurebuilders (which has in fact supported considerable numbers of third sector organisations to deliver health and social care services), those involved in the fund perceived that there was a shortage of appropriate loan finance and more flexible financial products such as quasi-equity. At the same time, interviewed stakeholders recognised that greater demand for loan finance might need to be generated and that many third sector organisations might still have a 'grant mentality' limiting their shift to social enterprise activity.

The SEIF was envisaged as a loan fund however it was also recognised that taking account of the risk averse nature of third sector applicants meant the likelihood of success was always questionable from the outset within the constraints of annuality. In addition, the election of a new government who had to work through political priorities and delays to budget confirmation in 2010-11 placed further constraints on the SEIF to deliver on these aims and objectives. The state of flux resulting from the new government and a new reform agenda meant that the SEIF was non-operational for 6 months from April – September 2010. The Fund Manager was only permitted to have very limited and directive communication with enquirers to the SEIF.

## **2.5 The Changing Management of SEIF**

SEIF was originally managed by Community Health Partnerships (CHP), an independent company wholly owned by the Department of Health (DH – SEIF Tender, 2008b), from July 2007 to June 2008 and the first round of SEIF funding was initiated in 2007. Figures for SEIF Rounds 1 and 2 referred to in Chapter 5 (SEIF Fund Management and Delivery) include investments made under the Pathfinder programme (which preceded SEIF fund management by CHP) and the Innovation for Life programme (which was run concurrently during CHP fund management of the SEIF). Both these Pathfinder and Innovation for Life programmes were directly managed by the Department of Health. In June 2009, Futurebuilders (now renamed Social Investment Business) working with their delivery partner Partnerships UK (now renamed Local Partnerships), assumed fund management of the SEIF following a competitive tender process and competitive dialogue. The Social Investment Business (SIB) managed SEIF alongside other funds. This provided a more integrated model to help social enterprises access funds and the rebranding of Futurebuilders to 'Social Investment Business' further supported this aim to make stakeholders aware of a number of funds and products.

### 3.1 Rationale

As outlined in the introduction, the brief for our evaluation was to provide evidence in relation to a variety of areas. This aim to cover a number of different levels of analysis in relation to the SEIF was on the basis that it could be characterised as a complex policy initiative. The SEIF has multiple, interlinked aims and a range of intended beneficiaries and outcomes. In addition, these aims hint at the necessity for the evaluation to understand the SEIF within the context of health and social care policy and the current environment for social investment. Previous research into social enterprise in health and social care suggested that the success of the social enterprises supported through SEIF would be dependent on their interactions with their external context (e.g. institutional frameworks and expectations of commissioners and patients/users), as well as internal, organisational factors (Lyon, 2007).

In order to be able to respond effectively to these features, the evaluation methodology drew from two approaches that have been developed for use in evaluating complex, multi-layered programmes: Realistic Evaluation (Pawson and Tilley, 1997) and Theories of Change (Weiss, 1998). Unlike 'traditional' experimental approaches to evaluation, these complementary but distinct approaches attempt to unpick the interaction between intervention and context to explain how programmes work, as well as whether they work (Blamey and Mackenzie, 2007; Birckmayer and Weiss, 2000). A strength of these approaches is that they aim to generate learning that can be generalised (Coryn et al., 2010). This was felt to be important in the evaluation of SEIF in order to inform any future development of the SEIF or similar funds.

Specifically, these approaches informed the evaluation design as follows:

- Theories of Change underpinned the approach to evaluating the programme's design, implementation and outcomes. A programme implementation theory was developed retrospectively in conjunction with programme stakeholders and used to identify short, medium and long-term outcomes, which were then tested through the evaluation.
- Realistic Evaluation theory informed the design of methods to capture learning about how the programme worked in practice in order to explain outcomes and inform future delivery, in particular the use of geographical and thematic case studies that would allow evaluators to explore interaction between social enterprises, commissioners, other providers and social investors, within a particular socio-demographic context.

An important methodological issue to consider was the attribution of outcomes to SEIF. By analysing the causal assumptions of a policy or programme and then testing whether the expected events take place, a theory of change can provide a basis for attributing outcomes to an intervention (Millar et al., 2010; Connell and Kubisch, 1998). In the evaluation of SEIF therefore, the data from the longitudinal survey were triangulated with qualitative data to explore the extent to which the programme theory could be said to hold in practice, rather than attempting to rely on statistical analysis of survey data to demonstrate causality.

### 3.2 Evaluation Activities: Phases of Analysis

The evaluation was divided into three phases:

Phase of Research	Areas covered	Time period
Phase One	Scoping, Review and Methodology Development	September 2009 – January 2010
Phase Two	Retrospective and Prospective Review of the SEIF and its activities	January 2010 – August 2010
Phase Three	Outcomes and Impact Assessment	September 2010 – April 2011

#### 3.2.1 Phase One: Scoping, Review and Methodology Development

Activities in this phase included:

- a review of relevant documentation relating to SEIF's development and progress;
- semi-structured interviews with 37 key stakeholders, including policy makers, fund management, social finance and support perspectives. The purpose of these interviews was to understand different stakeholders' theories of change for the SEIF;
- qualitative data analysis to draw out the programme theories articulated in these interviews, followed by a half-day workshop with a selection of stakeholders to further refine these;
- development of a final theory of change diagram and set of outcome indicators to be used in the evaluation;
- preparation of a baseline analysis of the social investment market.

These findings are summarised in Chapter 4 with full details of this work found in the 'Phase One' report (Lyon et al., 2010) and the subsequent stakeholder analysis (Millar et al., 2010).

#### *Social Investment Analysis*

To assess SEIF's relationship with the wider investment market, our research carried out a range of qualitative interviews with key informants within the SEIF and in the social investment sector more broadly, as well as an analysis of the loan deals agreed by the SEIF in Round 3 of capital allocation (to 31 March 2011). The former data set establishes a range of issues and concerns with respect to the impact of the fund and the second serves to test some of these concerns with real investment data. For further information see Chapter 6.

#### 3.2.2 Phase Two: Retrospective and Prospective Review of the SEIF and its Activities

In this phase, a wave one survey was delivered with successful and unsuccessful SEIF applicants. Applicants from SEIF Rounds 1, 2 and 3 who had received their investment decision by 31 March 2010 were asked to take part. Therefore, those who received a SEIF investment in the financial year 2010/11 (representing £41,150,540 of all SEIF investment) were excluded. They were excluded because the investments were made outside of the fieldwork period and moreover it would have been too early to establish any outcomes of these investments.

Table 3.1 sets out response rates to the survey and shows that of the 172 successful investees who completed the survey, 96 investees (56%) were from Rounds 1 and 2 and 76 (44%) were from Round 3. Of the 385 unsuccessful applicants who responded, 86 (23%) were from Rounds 1 and 2 and 296 (77%) were from Round 3.

**Table 3.1 – Wave 1 Survey Response Rates**

<b>SEIF applicants</b>	<b>No. of possible responses</b>	<b>No. completed the survey</b>	<b>% response rate</b>
Successful	285	172	60%
Unsuccessful	1368	385	28%

The data on unsuccessful applicants is based on applications rather than organisations, as this was the form in which the data was collected and provided. As a result of this it may well be that some organisations were recorded more than once here, if they made more than one application. They may also have been recorded as successful as well as unsuccessful, if they made both types of application.

The survey used a mixture of closed and open questions to gather information on applicant experiences and organisational outcomes of the SEIF. The survey was administered online, with respondents given the option to complete it over the phone. The survey was analysed in SPSS using both descriptive statistics, cross-tabulation and statistical tests, including chi-square and t-tests. This was combined with basic qualitative data from the survey which was analysed thematically. This work builds on the earlier SEIF Phase Two report (see Hall and Millar, 2011).

**3.2.3 Phase Three: Outcomes and Impact Assessment**

Key activities in this phase included:

- a second wave of the survey administered in Phase 2;
- in-depth case studies within a number of health and social care communities;
- follow-up interviews with stakeholders and social investors, mirroring those that took place in Phase 1.

*Survey: Second Wave*

As they received the investment earlier, it was expected that those organisations funded in Rounds 1 and 2 had made more progress towards outcomes at this stage than those funded in Round 3. Therefore, in order to establish SEIF outcomes of Round 3 applicants, all successful SEIF applicants from Round 3 up to 31 March 2010 were resurveyed. Of the 76 Round 3 survey respondents in Phase 2, 44 completed the re-survey in Phase 3, indicating a response rate of 58%.

Where respondents had completed surveys both in Phase 2 and Phase 3 of the evaluation, data were analysed longitudinally to establish early outcomes, in particular the position of the organisation before and after the SEIF investment.

## Case Studies

In-depth case studies were undertaken with 16 social enterprises within four case study sites. Three of these sites were defined by geographic locality (using PCT boundaries), while the fourth focused thematically on 'Right to Request' organisations. The case studies aimed to be representative of a diverse range of successful and unsuccessful applications to the SEIF. Anonymised pen portraits of each case study organisation are provided in the Appendix 1, including information on the services they provide and details of the SEIF investment.

SEIF applications were mapped using Geographical Information Systems (GIS) software to indicate where they were geographically located (see Appendix 2 for GIS maps) and therefore the spread of applicants. The three geographical case studies sites were then selected to obtain a range of contexts in light of key criteria, as shown in Figure 3.1 which indicates the characteristics of case study sites at the time of selection.

**Figure 3.1 – Characteristics of Case Study Sites**

Case Study Area	Key selection criteria		
	No. of SEIF applications and investees in case study site	Type and amount of SEIF investment in case study site	Type of organisations in case study site
<b>Site A</b> Strong presence of SEIF investment and social enterprise activity in community organisations	48 applicants 12 successful 25% success rate	£1,563,800 total investment £361,200 loan investment (3 organisations). Round 1, 2 and 3	Mostly small or medium community based organisations
<b>Site B</b> Presence of SEIF investment and social enterprise activity in large national organisations	31 applicants 5 successful 16% success rate	£1,554,600 total investment £700,000 loan investment (1 organisation) Round 2 and 3	Most investment in large national organisations
<b>Site C</b> Limited SEIF activity but evidence of SEIF applications and social enterprise activity	41 applicants 3 successful 7% success rate	£144,000 total investment 100% grant Round 2 and 3	All small or medium community based organisations
<b>Site D</b> <b>Right to Request</b>	51 organisations (4 were selected)	£8,333,385 total investment in selected sites £1,273,568 loan investment Round 3 and Pathfinder	Both large and small organisations.

Case study research included qualitative interviews with representatives from the social enterprises (n=30) and with health and social care representatives, such as commissioners and local representatives involved in the support and development of social enterprise support organisations (n=14). All interviewees and organisations have been anonymised in this report, with pseudonyms used against any quotes.

#### *Stakeholder Interviews: Second Wave*

A total of 21 semi-structured interviews were completed with stakeholders. Some people interviewed in Phase 1 were re-interviewed, with alternative interviewees found where individuals had left post. Some additional interviews were carried out with people involved in SEIF delivery who had not been interviewed in Phase 1, such as lawyers who had advised SEIF applicants. Fewer interviews were carried out with social investors than in Phase 1, with these interviews targeted only at people likely to have an understanding of SEIF.

## Chapter 4: Theory of Change and SEIF Policy Formulation

### 4.1 Introduction

The consultation process in Phase 1 of the evaluation included interviews with key stakeholders involved in policy making, the delivery of the programme, supporting the programme and representing users of the programme. There was also an analysis of the policy documents related to SEIF, the Key Performance Indicators and instructions to the fund manager. The preliminary results were discussed at a workshop with the DH and the fund managers to finalise the proposed objectives and anticipated outcomes. This resulted in the different elements being identified and a logic model of the intervention being agreed.

### 4.2 SEIF Outputs

Start-up and growth were seen as key outputs of SEIF, and are measured through Key Performance Indicators (KPIs). This can include the start-up and growth of new organisations, NHS spin outs or the development of social enterprise from other voluntary and community organisations. As some stakeholders involved in social investment commented, SEIF is based on an assumption that stimulating growth amongst some social enterprises does not disadvantage others. For example, SEIF is not expected to push existing social enterprises out of the market (displacement). SEIF investment committees do also consider competitors and demand.

These outputs were also seen to depend to some extent on continuing policy support for the development of social enterprise within the health and social care sector. Stakeholders perceived that if there was a change in government, this would not pose a risk to SEIF. Nevertheless, some developments (for example, the NHS Chief Executive's letter to PCTs describing the NHS as the 'preferred provider', 13 October 2009) could be interpreted as a move away from a commitment to plurality of provision. There was an assumption that the Right to Request would continue to be supported, which has been the case with support from the Coalition government.

### 4.3 Early Outcomes

Intended short-term outcomes of SEIF centred on generating greater sustainability amongst social enterprises, and generating additional social returns. It was anticipated that SEIF would create sustainability through a number of mechanisms. Policy makers interviewed assumed that social enterprises would be able to secure contracts for public service delivery. For Right to Request applications, this would be uncontested, while other social enterprises would have to demonstrate in their application to SEIF that there was a market for the services they wanted to develop. This intends to diversify social enterprises' income sources and make them less grant dependent (where relevant). In addition, as a result of the business support provided by SIB, and the process of having to manage a loan that required repayment, social enterprises would develop stronger financial and business management skills. Furthermore, having to interact with commissioners would raise commissioners' awareness of social enterprises' commercial and investment potential.

Stakeholders recognised that an assumption underpinning this theory was that commissioners would be both willing and able to award contracts to social enterprises, but this was in fact seen as a

key risk to the fund. As one commented, *“I’m not sure, given that social enterprises are reliant on commissioning, that sustainability can be achieved ... regardless of whether they’re funded through grants or contracts, they’re still caught up in the public sector policy making scene.”* In addition, one stakeholder pointed out that as public sector budgets were being squeezed, there would be increased competition from the private sector.

Additional social returns would be generated primarily as a result of social enterprises reinvesting their returns in services that were driven by and met community needs. It was also expected that social returns would be generated as a result of social enterprises’ social mission, for example that they might purposely employ local people or those suffering disadvantage in the labour market, and that they might create additional volunteering opportunities. It is assumed that social enterprises would maintain their social mission for some time after receiving SEIF investment. One stakeholder pointed out that this was not guaranteed and that statements of social mission in SEIF applications could be quite vague. However, social mission is tested at investment committees before any investment decision is made.

#### **4.4 Medium to Long Term Outcomes**

Key medium to long term outcomes desired included delivering higher quality services; improving commissioning; changing perceptions about social enterprises; changing the investment market; and generating better outcomes for patients and users.

A key reason for investing in social enterprises was the belief that they could innovate in service delivery, engage users in co-production and governance and as a result, deliver higher quality services that met needs better, that patients and users were more satisfied with, and which could be delivered efficiently (at the same or at a lower cost than other providers’ services). Social enterprises’ ability to deliver innovative services effectively was perceived to be high, although some stakeholders recognised that this assumption was relatively untested. Similarly, this aspiration was based on the assumption that improving quality of services reduces costs.

In addition, it was thought that social enterprises would engage staff more effectively than other types of provider, which in turn would help to drive up the quality of services. This is based on the assumption that social enterprises provide a positive working environment for staff and an attractive alternative to working within the public sector. However, evidence from our stakeholder interviews suggested that this was a potential risk to the programme, as some felt that social enterprises, as employers, may in fact offer relative job insecurity compared with the NHS, and may need to deliver services on limited resources, putting staff under pressure, thus putting quality at risk.

By delivering demonstrably higher quality services efficiently, by being able to demonstrate social returns, and by actively engaging with commissioners e.g. through advocacy and partnerships, stakeholders anticipated that social enterprises would start to influence commissioners to commission more effectively. This would include rolling out models of service delivery piloted through SEIF investment, but would also include generating a more positive attitude amongst commissioners towards social enterprise as service providers, thereby encouraging greater plurality of provision.

Similarly, SEIF would demonstrate to commercial investors that investing in social enterprise could generate returns, thereby encouraging them to enter the social investment market. This would be

achieved through communicating SEIF's successes, including its success in generating returns on investment. To generate returns, a fundamental assumption is that social enterprises will be willing to take on loan finance, and to repay it; this in turn relies on 'good' investment decisions being made - and could conflict with the fund's ambition to support high-risk, innovative services. Stakeholders also recognised that 'high profile failures' could damage SEIF's reputation, both with commissioners and commercial investors, and saw this as a key risk for the fund.

In the long term, stakeholders perceived that by delivering higher quality services themselves, and by encouraging change in commissioning practices, SEIF would contribute towards improving outcomes for patients and service users, and reducing health inequalities.

### 5.1. Introduction

The SEIF was set up to provide flexible financial and business support packages to social enterprises, to enable them to enter or grow within the health and social care market. Financial support includes both grant and loan finance, with a long term aspiration of the SEIF being to become financially sustainable through returns on loan investments. As well as being a more efficient use of SEIF money, loans also encourage the sustainability of organisations as they become less dependent upon subsidy and better at managing finance (DH, 2010c). SEIF business support is also provided to applicants in the form of advice and specialist or technical assistance to get them ready for investment, as well as to investees to make them competitive and sustainable (DH, 2010c). This chapter focuses on the management and delivery of the SEIF by outlining the amount and type of investments made, the nature of business support and how well the SEIF has been managed by CHP and SIB from the perspective of applicants.

### 5.2 Amount of Type of SEIF Investment

#### 5.2.1 Successful SEIF Applicants

##### *All Investments*

Up until 31 March 2011 a total investment of £80,712,510 was made by the SEIF (across 531 organisations).<sup>1</sup> The average investment received by each organisation was £152,001; however, this did range considerably from £546 (for business support rather than a cash investment) to £3,115,150. The overwhelming majority of investments (£69,339,872 or 86%) have been as grants (although £3,086,430 was in the form of repayable grants). The remaining 14% (£11,372,637) was invested as loans, with 55 organisations (10%) receiving a loan. The vast majority of loan investments were made alongside a grant, with only eight investees (2%) receiving a loan only. The average value of a loan (£206,775) was however substantially higher than a grant (£132,581).

A total of 50 Right to Request organisations (10% of all investees) were funded by SEIF with a total investment of £8,333,385. The average value of a Right to Request investment was £166,668. Of Right to Request investment, 15% (£1,273,568) was in the form of a loan.

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<sup>1</sup> These figures do not include adjustments after the year end (e.g. repaid grants).

**Table 5.1 – All SEIF Investments up to 31 March 2011 (Rounded to the nearest £)**

<b>ALL</b>	
Total Investment	£80,712,510
Total Number of Investees	531
Average Investment per Investee	£152,001
<b>GRANTS</b>	
Total Grant Investment	£69,339,873
Total Number of Grant Investees	523
Average Grant Size per Investee	£132,581
<b>LOANS</b>	
Total Loan Investment	£11,372,637
Total Number of Loan Investees	stet
Average Loan Size per Investee	£206,775

#### *Round 1 and 2 Investments*

During Rounds 1 and 2 when administered by CHP (between July 2007 and June 2009), the SEIF invested in 190 organisations (inclusive of 07/08 Pathfinders and Innovation for Life payments). The Pathfinders and Innovation for Life programmes were directly managed by the Department of Health. The total amount invested during Rounds 1 and 2 was £17,641,539, of which 8% was in loans and 92% in grants. The vast majority of investments were therefore grants, with only 2 organisations (1%) receiving a loan, one of which was combined with a grant. The average investment for an organisation was £92,850. The average loan was considerably more at £709,527, indicating the high value of the two loan investments made in Rounds 1 and 2.

**Table 5.2 – SEIF Investments in Rounds 1 and 2 (including 07/08 Pathfinder and Innovation for Life payments)**

<b>ALL</b>	
Total Investment	£17,641,539
Total Number of Investees	190
Average Investment per Investee	£92,850
<b>GRANTS</b>	
Total Grant Investment	£16,222,485
Total Number of Grant Investees	189
Average Grant Size per Investee	£85,833
<b>LOANS</b>	
Total Loan Investment	£1,419,055
Total Number of Loan Investees	2
Average Loan Size per Investee	£709,527

### *Round 3 Investments*

During Round 3 (1 June 2009 to 31 March 2011), 371 organisations received a SEIF investment. The total amount invested during Round 3 was £63,070,970, of which £41,150,540 was committed in the financial year 2010/11, indicating that over half of all investments were made in the final year of the initial four year funding period. A total of 24 Round 3 investees had already received an investment from an earlier Round of the SEIF. Many of those received a small grant in Round 1 or 2 to undertake a feasibility study and then a larger investment was provided in Round 3 to roll out the project. This is also indicated by the average investment for an organisation in Round 3 being £170,003, which is nearly double the average investment in Rounds 1 and 2. Of Round 3 investment, 16% was in loans and 84% in grants.

In Round 3, a greater number of loans were committed than in Rounds 1 and 2, as 54 organisations (15%) received a loan. However, the majority of these received a loan/grant mix, with only 9 organisations (2%) receiving a loan only (some of these had however received a grant in an earlier SEIF Round). Repayable grants were also introduced in Round 3, and 13 such investments were made at a total value of £3,086,430. If repayable grants are taken into account, a total of 21% of Round 3 investment is to be repayable (as is 18% of the total SEIF investment).

**Table 5.3 – SEIF Investments in Round 3 (up to 31 March 2011)**

<b>ALL</b>	
Total Investment	£63,070,970
Total Number of Investees	371
Average Investment	£170,003
<b>GRANTS</b>	
Total Grant Investment	£53,117,388
Total Number of Grant Investees	362
Average Grant Size	£146,733
<b>LOANS</b>	
Total Loan Investment	£9,953,582
Total Number of Loan Investees	54
Average Loan Size	£184,326

Overall, whilst the number of loan investments has increased significantly between Rounds 1 and 2 and Round 3 (from 1% to 15% of investees), the majority of SEIF investments have been grant based, especially during the earlier Rounds. This brings into question the SEIF long term aspiration of becoming sustainable by generating income from loan repayments. These findings illustrate the challenges of loan based investment and the possible reluctance of social enterprises to take on loans. This may be exacerbated by economic instability between 2007 and 2010. One explanation for the high number of grant investments was departmental annuality rules, which restricted the SEIF fund managers to make appropriate loan investments (loans are discussed in more detail in Chapter 6).

### **5.2.2 Unsuccessful SEIF Applicants**

A total of 1368 applications to the SEIF were turned down since it began (up to 31 March 2011), which was 73% of all applicants. The data on unsuccessful applicants is based on applications rather than organisations, as this was the form in which the data was collected and provided. As a result of this it may well be that some organisations were recorded more than once here, if they made more than one application. They may also have been recorded as successful as well as unsuccessful, if they made both types of application.

Unsuccessful applicants include organisations from 'lead closed' stage only i.e. those who only made contact with the organisation but did not have any substance were excluded. Organisations that 'withdrew' their application are also excluded. Therefore, just over a quarter (27%) of applicants were successful. In Rounds 1 and 2, 336 applicants (64%) were unsuccessful compared with 1032 applicants (76%) in Round 3. This indicates a massive increase in social enterprises applying to the SEIF in Round 3, possibly indicating an increase in the number of social enterprises in the health and social care sector, other sources of funding being reduced, the SEIF becoming more widely known, or the SEIF being regarded as a source of grant funding. As a result, despite more funding being allocated in Round 3, the chance of being successful does decline from the early to later Rounds.

**Table 5.4 – Unsuccessful Applicants by Round**

<b>Round</b>	<b>Total Applicants (Successful and Unsuccessful)</b>	<b>Number Unsuccessful</b>	<b>% of all Applicants Unsuccessful</b>
Round 1 and 2	523	336	64
Round 3	1357	1032	76
ALL	1880	1368	73

The reasons for being turned down by the SEIF were grouped into three categories. First, 'eligibility' issues (32%) that included not meeting the aims of the SEIF (12%) and the applicant not meeting the definition of a social enterprise (10%). Second, 'general' reasons (61%), which included 27% who were rejected due to a poorly planned project and 23% rejected due to poor quality information being submitted. Finally, 7% were rejected due to 'viability' issues, including an inability to meet annuality disbursement requirement (3%).

Our survey also asked unsuccessful applicants why they were turned down and this suggested similar reasons to those outlined by the fund managers, including 8% were told that they were not considered to be a social enterprise, 7% that their project was not financially feasible, 7% that there were too many other similar services and 5% that they had sufficient reserves to fund the project themselves. A further 9% of respondents were told that the SEIF was oversubscribed so they could not be funded and 3% were only offered a loan when they applied for a grant (so declined the investment). In relation to this last point, the Fund Manager's offer could be a combination of grant and loan and applicants who could afford re-payments were offered either a mix of grant and loan or loan only dependent on ability to repay.

### 5.3 Management of the SEIF

In our survey of SEIF applicants (which includes investees up to 31 March 2010 only), we asked about overall satisfaction with the fund and its management. Our survey suggests that around two thirds of successful and half of unsuccessful applicants were satisfied with the management of the SEIF. This does indicate a significant number of people who are not satisfied. The following section indicates the areas in which SEIF management were performing well, and areas in which they could improve.

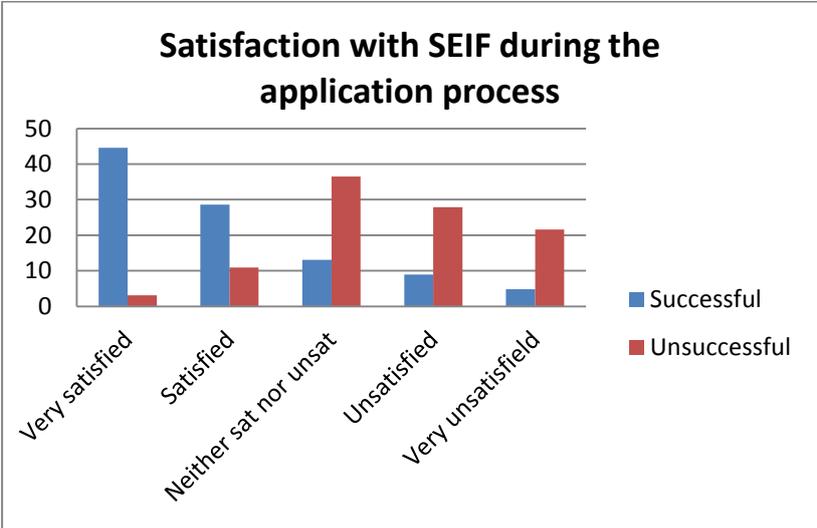
The survey respondents below include investees comments about fund management across different fund managers – the Department of Health (for the Pathfinder Programme and the Innovation for Life Programme) CHP (SEIF fund management from July 2007 to June 2009), and, SIB (SEIF fund management from June 2009 onwards). Distinctions between the experiences of investees are identified where appropriate.

#### 5.3.1 The Application Process

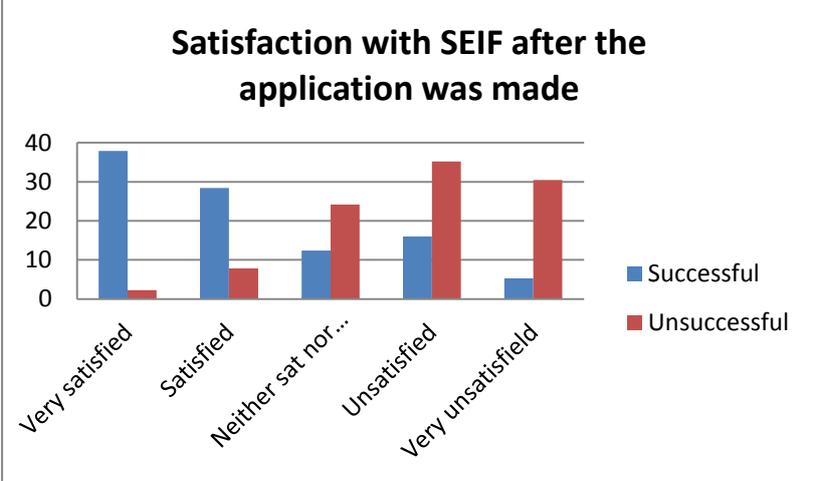
There were mixed responses to the SEIF application process. Survey findings suggest that investees were more satisfied in earlier stages of the application process, with three quarters (73%) being satisfied with the support and feedback from SEIF during the application process (with 45% being very satisfied) and only two thirds were satisfied (66%) after the application was made (see Figures 5.1 and 5.2). Almost everyone was satisfied (92%) with the loan or grant offered and based on their experience, 80% were likely to recommend SEIF to another similar organisation. Despite these relatively favourable findings, successful respondents appeared to be less satisfied with the amount of time taken to receive a final decision from the SEIF fund managers. A satisfaction rate of 62% appeared to be considerably lower than for other aspects of the SEIF process.

Unsuccessful respondents had a more negative experience of the application process. Half (50%) were unsatisfied with the support and feedback received from SEIF fund managers during the application process, which increased to 66% after the application was made. Satisfaction slightly increases in relation to the amount of time taken to receive a final decision from the SEIF but dissatisfaction with time taken was evident (42%). Unsuccessful applicants were less likely to recommend SEIF to another similar organisation with 54% unlikely to do so.

**Figure 5.1 – Satisfaction with SEIF during the application process**



**Figure 5.2 – Satisfaction with SEIF after the application was made**



The survey findings are echoed in qualitative survey and case study data which also reported mixed opinions on the application process. Some found the application process straightforward and positive:

*The application process was clear and the people who I spoke to whilst completing the forms were knowledgeable and friendly. (Survey respondent)*

On the other hand, problems were encountered in a number of areas. This includes with the application form which required a large amount of very detailed information to be produced often within a very short period of time. This left some applicants feeling frustrated and ‘stressed out’:

*It has been a bit too much in terms of all the information that they want, I mean, we tried to react as quickly as possible, and with the quality of the information that we’ve given back. (Get Going)*

Others were disheartened by the time and effort taken to apply to SEIF, especially for unsuccessful applicants and the result was a feeling of wasted time.

**5.3.2 The Fund Managers**

There was some praise for the fund managers, with a number of case study applicants finding them ‘honest, straightforward and open’, acting as ‘partners’ or ‘critical friends’. They were also able to ‘signpost to other agencies and organisations’ and were found overall to be very supportive. This includes during investment meetings with the fund managers:

*Even when we go down to London... you’ve got to do a presentation on your proposal ... even the questioning by the board... the questions that they’re asking you are good... you’re tested on the financial side obviously, but again, you get the feeling straight away that it’s supportive; it’s not negative or critical at all. (Well Being Hub)*

All of the Right to Request organisations were particularly grateful for the help of Local Partnerships:

*[Local partnerships are] a gift from heaven actually ... fantastic support, like a bit of a mentor. (Right to Request 3)*

However, other applicants found that applying to SEIF could be a complex process with some applicants finding that they were 'left to their own devices' by the fund managers. There were a number of examples of information having to be resent and applicants having insufficient time to submit the required data. Such complaints often coincided with the change in fund managers from CHP to SIB:

*Administration was very poor indeed... the officer dealing with our application changed several times. They did not keep track of our paper and I had to resubmit more than once. The office seems chaotic and unprofessional. (Survey Respondent)*

During periods of transition, staff turnover was reported by applicants to be very high, leaving some with little support and applications taking a long time to process. Overall, comments suggested that respondents were significantly more satisfied during Round 3 when the fund was managed by SIB (up to March 2010 only). This was especially indicated in the survey with Round 1 and 2 investees being considerably less satisfied than Round 3 investees in every area. Round 1 and 2 applicants were especially dissatisfied with the support and feedback that they received after their application had been made and with the amount of time taken to receive a final decision. Table 5.5 shows the average satisfaction scores for Round 1 and 2 and Round 3 applicants (satisfaction based on a figure from 1 to 5 with 1 being very dissatisfied and 5 being very satisfied). These findings indicate that more applicants were dissatisfied with the SEIF during Rounds 1 and 2 when the fund was managed by CHP. Therefore, whilst there are still some areas for improvement, the management of the SEIF by SIB is perceived by applicants as better than when it was managed by CHP.

**Table 5.5 – Satisfaction with the SEIF by Investment Round**

(1= very dissatisfied, 5= very satisfied)

	Mean score for Round 1/2	Mean score for Round 3
Satisfaction during the application process	3.6**	4.5**
Satisfaction after the application was made	3.30**	4.4**
Satisfaction with loan/grant offered	4.3*	4.6*
Satisfaction with time taken to receive a decision	3.1**	4.1**
Likelihood of recommending SEIF	4.0**	4.6**

NB. \* =  $p < .05$ , \*\* =  $p < .01$

### **5.3.3 Communication**

Communication was identified by both case study and survey respondents as an area in need of improvement. Some case study respondents talked about poor and infrequent communication throughout the process, leading to them have unclear expectations:

*They'd get in contact and there would be a demand for data which is fine but it would have been good to have had some sort of pre-warning about the kind of data that was needed. (Centre Art)*

Other respondents spoke about long time lags between applying to the SEIF and receiving any feedback or outcome on their application. Right to Request organisations were particularly frustrated with the time taken to apply and actually receive the money from the SEIF:

*Nobody told us it would take that long to get the money and that does directly impact on your ability to bring people in to help you. (Right to Request 3)*

Communication was a particular problem for unsuccessful applicants, especially in terms of feedback on why their application was unsuccessful. The survey indicated that over half (52%) of unsuccessful respondents were not told the reason why their application was turned down. The provision of feedback on applications was cited by unsuccessful applicants as a key area in which the SEIF could be improved, as many only received a 'standard letter' advising them that their bid was unsuccessful, whilst others received no acknowledgement at all. Some were not even formally advised that they had been unsuccessful, with one commenting that they 'heard through the grapevine' that they had been unsuccessful. Others commented that feedback did not appear to be official, rather it felt 'behind the scenes' and 'nudges and winks rather than anything formal':

*We worked round the clock to put the bid together...I think it took us say two weeks to submit it, and then from submission it went on for a further three or four weeks I think of deliberating, and then when we were supposed to hear about getting it we had no correspondence whatsoever, and we had to chase for a response. And we kept getting wishy washy answers and different answers. (Survey Respondent)*

### **5.3.4 The SEIF: Open to All?**

There was a perception among smaller organisations applying to the fund, that despite the rhetoric of being open to all, the SEIF was directed at large, established organisations. As a result, they felt that funding opportunities were not widely available to smaller or not yet established social enterprises:

*The SEIF mechanism didn't seem to be oriented towards helping to set up new social enterprises. It seemed more applicable to existing social enterprises wishing to receive loan funding. Even the application form required information that was just not applicable to early stage start-ups. (Survey Respondent)*

Some respondents even suggested that there was a lack of understanding about smaller organisations by SIB administrators. Interestingly, this contradicts our findings that a large number of funded organisations are small and often un-established services delivering health and wellbeing to local communities (see Chapter 7).

### 5.3.5 Business Support

It appears that business support was an aspect of the application process that was also problematic. The survey suggests that only a third (33%) of successful investees and 11% of unsuccessful applicants were offered business support. The likelihood of receiving business support did however increase over the Rounds, as 45% of Round 3 investees were offered business support compared with only 17% of Round 1 and 2 investees. This may be indicative of many Round 1 and 2 investments being used for feasibility studies which already contained an element of business support (indeed 'business support' only became part of the service description when the SEIF was managed by SIB). Alternatively, this may indicate the more 'customised' approach to investment used by SIB, with our Phase 1 work indicating that SIB placed a significant emphasis on business support. However, an equal number of unsuccessful applicants (11%) were offered business support by CHP and SIB which may indicate that SIB focus the majority of its resources on those applicants who are likely to be, or are successful.

Investees who received higher investment amounts were also significantly more likely to be offered business support (average investment without business support = £83,199 and average investment with business support = £131,679,  $p < .05$ ). Those who received a loan were also significantly more likely to receive business support than those who received only a grant, as 26% of those who received a grant were offered business support compared with 67% of those who received a loan ( $p < .05$ ). These findings indicate that SEIF business support is geared much more towards those who received large investments or loans which may have implications for those who received small grants. Whilst this may have a negative effect on outcomes, further survey analysis shows that receiving business support from the SEIF did not have any significant impact on outcomes. No significant relationships were identified between receiving SEIF business support and reported outcomes including winning more contracts, organisational sustainability or providing better/more services.

This may indicate that investees were receiving business support from elsewhere and is supported by our survey data which reports that nearly two thirds (63%) of investees had sought business support or advice in the past two years from other sources. This included Business Link (21%), private consultants (18%), local social enterprise support organisations e.g. business community partnerships (15%), Futurebuilders (2%), development agencies (2%), as well as a range of other sources such as PCTs, local authorities, banks, and chambers of commerce.

SEIF business support was referred to positively by some investees, a number of whom felt it to be 'invaluable'. Working with CHP and SIB advisors was also crucial and a key enabling factor for the SEIF:

*We have found the process of working with SIB extremely valuable on so many levels – the staff are interested and committed in developing social enterprise and we have developed in leaps and bounds through the rigours of the process (Survey respondent)*

Although some respondents had a positive experience of SEIF business support, others had more negative experiences. There were reports from investees that it was difficult to identify what support was on offer and that business advisors were not especially helpful. Furthermore, the language used by SEIF advisors was sometimes considered 'mystical' and 'hard to understand'. Some also felt there

was a lack of clarity about what constitutes a social enterprise with SEIF assessors and support staff not having sufficient knowledge and understanding:

*The first SEIF application was for a large loan and the fund managers had no understanding of what we wanted to achieve or how to manage a loan application. (Survey respondent)*

*[The investment officer] seemed not to understand the nature of the business we were establishing. (Survey respondent)*

Business support and the role of SEIF advisors were therefore extremely important to applicants and our findings suggest that there are areas for improvement.

## **5.4 Conclusion**

Our early stakeholder interviews reported that an objective of SEIF was to fill a gap in flexible and appropriate loan finance. However, this view appears to be challenged as we found that the SEIF was primarily a grant fund with only 14% invested as loans. The implication of these findings raises considerable questions for the fund itself, a long term aspiration of which was to be self-sustaining through returns on loan investments. Furthermore, it also raises doubts over the willingness of social enterprises to take on loans, as the vast majority of social enterprises in our evaluation wanted grants only. This was further indicated by some applicants being offered a loan yet choosing to turn it down. The Fund Manager has commented that annuality is a condition of SEIF funding and in part, the low level of loan investment is due to applicants not being able to draw down and spend a loan investment by the end of the financial year in which the investment was approved. In addition, due diligence conducted by the Fund Manager has disclosed that some applicants' financial status demonstrated their ability to afford loan repayments. In such cases a loan offer will always be made to the applicant.

Our evaluation also found mixed opinions on the management of the SEIF. Whilst most investees were happy with the type and amount of their investment, many found applying to the SEIF a time consuming and labour intensive process. Whilst satisfaction with the SEIF did appear to improve in Round 3, there were ongoing communication issues, especially for unsuccessful applicants who frequently received no feedback on their application. Our survey does however only include applicants up to 31 March 2010, so satisfaction scores for 2010/11 when the SEIF management was retained by SIB are unknown.

The survey also suggests that SEIF business support was only offered to a relatively small number of applicants. Furthermore, some case study and survey respondents were not made aware that SEIF business support existed. Most survey respondents did seem to want business support and planning, indicated by two-thirds of investees obtaining it from elsewhere. In addition, a significant amount of SEIF investment was used to fund external, specialist business support. Previous research indicates that business and strategic planning support is required to enable third sector organisations to develop and become sustainable (Macmillan, 2010; Wells et. al., 2010). Therefore, although a large amount of business support was externally sourced, the SEIF was supporting social enterprises to obtain the business support they appear to need.

### 6.1 Introduction

The past twenty years has seen a dramatic change in the definitional boundaries set around the finance sector. As financial services have grown in size and influence in developed economies, the traditional boundaries between 'economic' and 'social' purpose activities have become increasingly blurred. From a public policy perspective, private finance has been encouraged to play a much more active role in delivering public goods and services with new contractual models such as the Private Finance Initiative blending public and private finance at a project level (Bartlett and LeGrand, 1993). Key opportunities for this new type of 'blended' finance in the UK have included addressing economic exclusion and poverty, and supporting community regeneration (Leadbeater, 1997).

The New Labour government in the UK also explored how better to support outsourcing relationships that go beyond the private sector to include charities and other public benefit organisations including social enterprises (DTI, 2002). It was also committed to building the social investment landscape itself through the use of fiscal, regulatory and budget measures (DTI, 2002). The Coalition government's emerging policy agenda around the 'Big Society', where local organisations and communities take more responsibility for formerly state-controlled services, is continuing these trends albeit in a more localised form. The SEIF represents one example of policy continuity in terms of building the social investment marketplace across the General Election: others include the Big Society Bank and the expansion of the use of Social Impact Bonds.

Whilst the objectives of the SEIF had a clear focus on the fund's role in improving health outcomes within an expanded - social enterprise driven - mixed economy of frontline health services, it was also designed to contribute towards the development of the broader social investment sector in the UK. Our analysis suggests that to fulfil this objective the SEIF aimed to achieve four goals:

- To leverage its capital to bring in new investment to health social enterprises as a social finance wholesaler that builds co-financing deals and structures new co-investment opportunities.
- To act as a social finance retail investor that seeds 'high risk' new social enterprises such as Right to Request or Right to Provide start-ups spun out of the NHS for others to invest in later.
- To innovate and pathfind in the social investment marketplace in terms of new mechanisms and instruments that could subsequently be used by other investors.
- To demonstrate its sustainability as a signal to other potential investors of the financial viability of social investment.

The key assumption behind these goals was the presence of a market failure in social investment:

*It was clear that there was a significant finance gap for social enterprises... we looked at what was already out there, at things like UnLtd and Bridges, but it was clear that there wasn't one provider that was providing everything that a social enterprise might need.... We needed something that used grants but also loans to offer much more flexibility... we needed to offer something in between grants and commercial finance (PM 2)*

In order to find evidence that the SEIF has stimulated changes in the wider social investment market, this chapter specifically explores: the usage of different financial instruments (grants, loans, quasi-equity); evidence of co-investment and leveraging other funding; and unintended effects such as the crowding-out of other investment. A particular focus of this chapter is to test to what extent the SEIF addressed gaps in the institutional structure of the social investment market as opposed to duplicating or, worse, crowding out existing sources of capital. The data presented here is in two parts: a range of qualitative interviews with key informants within the SEIF and in the social investment sector more broadly; an analysis of the loan deals agreed by the SEIF in Round 3 of capital allocation. The former data set establishes a range of issues and concerns with respect to the impact of the fund; the second serves to test some of these concerns with real investment data.

## 6.2 Interview Data

The data from Phase 1 and Phase 2 interviews highlighted two clusters of issues with respect to the wider impact of the SEIF on the social investment marketplace:

- Potentially negative effects caused by the size of the fund, its use of variable (cheap) interest rates, and its policy constraints:
  - market distortions;
  - crowding out other investors;
  - undercutting other investors' deals;
  - undermining the credibility and sustainability of the overall market;
  - undermining the sustainability of investees via soft capital dependency.
- Potentially positive effects generated by its capacity to innovate around deal structure and financial instruments:
  - path finding and risk-free experimentation;
  - crowding in new investment via co-investment strategies;
  - new market development opportunities;
  - additionality and value added investing.

### 6.2.1 Potential Negative Effects

The first issue was the size of the fund. At £100m, the SEIF represented the largest social enterprise fund in the UK. The size of the fund and its dominance within the wider social investment market was cited as potentially a major market distortion:

*There is increasing evidence that government intervention in the social investment market is crowding out other suppliers rather than crowding in extra. It's very difficult to provide evidence of that, but, you know, the fact is that the Social Investment Business has roughly £450m under management. If you exclude the clearing banks...we are talking about, let's say the total market is £600m...So they've got at least an 80% market share, probably 90%... So it's problematic, you know, that would never be allowed in any other market. (Social Investment 12)*

Second was the use of variable interest rates. Since the fund was capitalised with government money the overall cost of capital was much lower (potentially zero) for the SEIF than other social investment

institutions that had to raise finance from more commercial sources. This allowed the SEIF to offer subsidised, or non-market rate, investments that could undercut the wider social investment market in an uncompetitive way. There was a sense amongst respondents that offering sub-market rate loans could have an effect on the overall growth and sustainability of the social investment market by reducing the incentives (in terms of returns) for new investment and, thus, crowding out existing investors. Several respondents made specific comments about the SEIF undercutting their own investment strategy and crowding out both other social investors and more commercial sources of capital:

*I think what we're seeing is that actually it's encroaching on stuff that we might otherwise do in the market...We looked at a number of their deals and I think we reckoned that...about 75% of them we would have done ourselves... So I think there is still evidence of distortion in the market (Social Investment 7)*

Another effect of offering subsidised public investment could be an unsustainable investee dependency on such cheap funding that might prove to be problematic across policy cycles and changes in government priorities.

Related to this, the third potential area of market distortion identified centred on the effects of the investment agenda set by policy makers and the Department of Health. First, the SEIF's investment targets were set according to policy cycles and annuality rules rather than according to the demands of the market. The effect of this investor pressure to move out capital to a timetable, virtually irrespective of appropriate deal flow, could be to reduce the fund manager's ability to manage the fund along more commercial, market-driven, lines. Moreover, whilst the SEIF looked to support long-term investment and different types of financial products, government funding cycles might challenge this approach. Various respondents highlighted the potentially problematic effects of policy timescales on the SEIF's investment strategy. This was particularly true in terms of a tendency to rely on grants to disburse money quickly. It was also noted that working to policy time constraints and government annuality rules could significantly reduce the SEIF's capacity to test and demonstrate the benefits of conventional fund management strategy in the social investment space – representing an important missed opportunity. There was also a sense that pressure from government to disburse funds could undermine the commercial viability and decision-making of the fund. Elsewhere, the influence of public money and policy control on the fund was felt to present a challenge to its ability to act as a catalyst or source of replicable models to grow the wider market.

The result of these constraints meant successful investments had often been skewed towards grants rather than loans. There was a strong sense that the SEIF's long-term aspiration of achieving sustainability may be unachievable since repayments would not be coming in at a large enough level to replenish the fund over time. Indeed, there was some acknowledgement that the sustainability objectives of the fund were of little real importance:

*We're not really trying to survive as a funder - we're actually looking to step out of the investment market, eventually (Social Investment 4)*

And that policy makers may even have been unconcerned as to the wider, potentially negative, effects of the SEIF on the wider social investment market:

*I don't think government's been quite as rigorous in ensuring that we're not distorting the market as it could have been (Social Investment 5)*

Fourth, the co-investment strategies of the SEIF were criticised as potentially failing to take full advantage of their market-building opportunities, particularly in terms of structured finance and the role that soft SEIF money could play in bringing in other capital or in building an investment ladder for social enterprises. In some cases, the SEIF's relationship building with potential co-investors was seen as being inadequate to build a viable deal pipeline:

*So I said you must know that you are possibly the most unpopular organisation in the sector (Social Investment 8)*

*They have a persona of not being overly collaborative (Social Investment 20)*

The absence of internal institutional incentives and the apparent lack of a real appetite to co-invest were also mentioned as potentially problematic issues. On a more practical level, the 'anti-competitive' investment strategy of the SEIF itself was seen as being inherently antipathetical to co-investment with other players in the market:

*I'm sure what this will encourage us to do is two things: one is avoid the areas that this fund is going to be investing in, for obvious reasons, because it will be competing against a fund which doesn't have our profit targets; and, secondly, if we're looking for a kind of co-investor we wouldn't approach this fund, because they're not trying to meet the same profit targets as we are. (Social Investment 11)*

Finally, there was criticism concerning the interpretation of the unbankability requirement for SEIF investees. Whilst this was cited by the fund as being an important mechanism to avoid crowding out other investments, respondents were sometimes critical in terms of their own impressions and experience of the application of the test (see 6.3.3 for further information on bankability).

### **6.2.2 Potentially Positive Effects**

In contrast to concerns around the negative effects of the SEIF in terms of market distortions, respondents also suggested that the fund could positively leverage new and additional investment into social enterprise via co-investment deals. Some of these deals were, effectively, internal cross-funding arrangements with the Social Investment Business between the SEIF and the Communities Builders Fund and the Futurebuilders funds. However, the SEIF was also actively engaged in external co-investment discussions and deals. Some of these related to mitigating risk by taking subordinate loan positions or introducing grant finance to allow bank finance to engage with otherwise unbankable organisations. There was also a focus on creative financing with other grant-makers:

*There's a load of questions around how we work with existing, other funders in the, sort of, trusts and philanthropy world, you know, not just the, kind of, right hand side of the picture and the banks and venture capitalists, but the left hand side and the grant makers, so whether it's people like Impetus Trust or, you know, I don't know, Welcome Trust and big, traditional Foundations interested in the health and social care space, how we work with them, so I think there's been, sort of, exploring of that and conversations and Future Builders have instigated something called a Funders' Forum. (Social Investment 5)*

However, the SEIF was also actively engaged in external co-investment discussions and deals. Some of these related to mitigating risk by taking subordinate loan positions or introducing grant finance to allow bank finance to engage with otherwise unbankable organisations:

*But we do look at co-financing, because a lot of time, the banks won't lend the whole amount, so we will look at offering some sort of deal with the banks. (Social Investment 1)*

The co-investment deal pipeline was predicated on a number of key institutional relationships, particularly with UnLtd and via the Funder's Forum:

*And we're also currently working with UnLtd and they're starting to bring deals to us as well. So they're mainly start-up, so they're looking at providing business support, so they can be start-up but, again, we hope that they'll come back for full investment after that. (Social Investment 1)*

There was also a sense that the SEIF could make a further positive contribution to the development of the wider social investment market if it were to act as a wholesaler rather than a retailer of social investment capital. This would leverage more capital into the sector:

*I mean we know that for every pound that we invest, there's generally at least a pound from the private sector as well, because, obviously, we only do the unbankable part of deals. (Social Investment 2)*

Finally, because of its capital structure and investment rationale, the SEIF was seen to occupy a unique position in terms of its potential to take risks via innovation and market testing that would both be valuable to other social investors and would not crowd out competition. However, the importance of creating demonstrable additionality was stressed by a number of respondents, since it was noted that legitimate signalling effects of the SEIF could be powerful in terms of building new investment into social enterprises.

## **6.3 Investment Data**

Stage 3 of this research examined two subsets of the total SEIF investment portfolio in Round 3 (up to 31 March 2011): all loan and grant-loan deals; all co-investments (including grant-grant deals). The objective was to test the validity of some of the issues raised by the interviewees in Phases 1 and 2. The first set of data tested for the potentially negative effects of the fund on the wider social investment market as a result of market distortions. Loans and loan-grant blended deals, rather than grants per se, were the focus of this stage of the research to test for specific market distortion effects with respect to the other, non-philanthropic, players in this space. However, it is also acknowledged that the effects of the SEIF's pure grant making may also have major effects on the wider social investment marketplace as indicated by respondents above, albeit that this is unlikely to have such demonstrable effects in terms of direct causality. The second set of data allowed an analysis of the positive effects of the fund in the wider social investment marketplace in terms of its additionality and capacity to leverage and crowd in new investment.

### **6.3.1 Loan Funding**

As indicated in Chapter 5, 55 SEIF investees received a loan (to March 31st 2011) totalling £11,372,637 with an average loan size of £206,775. Of these loans, 47 were agreed in conjunction

with an additional SEIF grant (capital or revenue), leaving only eight investees receiving 'straight' loans. Stand-alone loans had an average size of £64,494, whilst the average loan size in grant-loan deals was £230,993; almost four times that of straight loans. The average grant given with each of these loans was £130,203. This suggests that the majority of loan investments required considerable grant support to be viable. Such a finding may be a product of the requirement that SEIF investments be otherwise deemed 'unbankable'. Of the straight loans agreed, seven were invested in organisations that had already successfully bid for SEIF or Futurebuilders funding in the past suggesting either a certain amount of risk aversion or a lack of deal flow from potential new investments.

Moreover, this data provides some support for the claim that there is a market failure in loans to high risk social enterprises in health. It may also, of course, simply indicate that these organisations were either unwilling or unable to service debt finance.

**6.3.2 Interest Rates**

Interest payments on debt from the SEIF were initially set at a 6.12% rate in line with the market for secured debt (with one early outlier set at 7.25%) but this rate was adjusted in October 2009 to track the National Loans Fund (NLF) daily spot rate, resulting in much lower rates (see Table 6.1). During the first phase of Round 3 (to March 31st 2010), seven loans were agreed at 6% and eighteen loans were agreed at NLF rates with an average interest rate of 3.1% and a spread of 1.38%-5.1%. The reduction in interest rates to the NLF level would appear to have accelerated the number of loans. However, during the period March 2010 to March 2011 interest rates returned to 6% for the majority of loans (n =28).

**Table 6.1 – Terms for all round 3 Loans to March 2011 (n=54)**

Highest Interest %	6.10
Lowest Interest %	1.38
Average Interest %	5.05

These data suggest that the likelihood of SEIF loans undercutting other social investors that do not have the same flexibility in terms of their own cost of capital, reduced over time as interest rates stabilised closer to market rates.

**6.3.3 Bankability**

Criteria to demonstrate unbankability varied across the investees and included demonstrations of: no security or assets (apart from trustees' guarantees); current borrowing exceeding the value of security or assets (high gearing); current income being below break-even; the organisation being a start-up without a financial track record; and 'being in the not-for-profit sector'. In most cases some evidence from another financial provider was provided to demonstrate that a request for investment had already been turned down. Sometimes bankability was specifically defined as being contingent on the SEIF providing additional finance: for example one organisation was offered a mortgage on condition that it raised a grant from the SEIF to finance renovations of the secured asset.

Whilst the unbankability test appears to be carefully applied in all the examples in the loan portfolio, there is no evidence that the SEIF has invested in a case where another social investor has turned down a loan. This makes it difficult to argue that the SEIF is demonstrating clear additionality within the social investment marketplace in terms of picking up opportunities that were unattractive to its competitors.

Although the SEIF claimed to invest only in unbankable investees, 4% of successful applicants had, in fact, received bank loans in the year prior to the SEIF investment and 10% had applied for a bank loan but been unsuccessful. Furthermore, only two of the seventeen organisations that were turned down for a bank loan went on to receive a loan from the SEIF (rather than a grant).

**6.3.4 Co-investment**

In Round 3 of the SEIF to 11 March 2011, there were eighty four co-investment deals adding up to a total of £43,181,954. The SEIF contributed £14,520,314 to these deals and the other co-investors £28,661,640. This suggests that SEIF funds leveraged co-investment at an average ratio of 1:1.97. The average joint investment across all these deals was £407,942 with 51 co-investors involved in transactions. These included: government departments such as the Department of Health; county councils such as Kent; local Primary Care Trusts; charitable trusts such as the Tudor Trust; high street banks such as Lloyd’s TSB and the Co-operative Bank; other grant funders such as Esmee Fairburn foundation; and local sources of funding such as schools or clubs. Eleven co-funding deals included co-investor loans (34% of the total co-funding capital) whilst the remainder included co-investor grants. The range of co-funders is shown in Table 6.2.

**Table 6.2 – Breakdown of Co-Funding By Funder**

	<b>Bank: High Street</b>	<b>Bank: Social</b>	<b>Public Funder</b>	<b>European Funder</b>	<b>Other Funder</b>
Total	17%	6%	27%	4%	46%

This data suggests that there is good evidence that the SEIF has used co-investment as a tool to leverage additional capital into the social enterprise sector via a range of deal structures. Membership of a Funders’ Forum to encourage social co-investment, also demonstrates the SEIF’s commitment to leverage its capital more widely (although it is not clear how many co-investments to date originated from this mechanism), as does a relationship with UnLtd to source deals. However, the data is less clear on the causality behind these deals and, therefore, is open to a counterfactual criticism that similar deals may have gone ahead without the SEIF’s intervention, albeit, perhaps, at a smaller scale (cf the note on the unbankability data above).

**6.4 Conclusion**

The Department of Health (2010c) referred to a number of strategic objectives for the SEIF with respect to the wider social investment market:

- The fund should address market failures in the supply of finance to social enterprises in the health sector by means of a clear unbankability test.
- The fund should leverage new investment by ensuring that *'at least five external investors are involved each year in co-investment packages for SEIF beneficiaries'* (p. 7);
- the fund should demonstrate the sustainability of social enterprise funding to the wider (social) investment market by focussing primarily on loan products: *'the largest part of the investment package, except investments in start-up or 'incubation' schemes, will generally be a loan'* (p.14). Loans were also seen as being beneficial for the financial discipline of the investees. Furthermore, the fund was encouraged to explore a range of grant-based investment instruments some of which included a repayment element including: performance based grants; repayable grants; convertible grants; revenue participation models.
- Loans should be at market rates (*'normally provided at 6% interest'*, p.14) to avoid undercutting the market.

The data analysis above suggests that - in Round 3 - the SEIF's achievements set against these objectives have been mixed. Whilst the fund does pay careful attention in its due diligence to evidence of the unbankability of its potential investees/investments, it typically restricts this to commercial banks. However, the establishment of a Funders Forum for SEIF co-investments appears to have had some success as a referral mechanism for potential deals from other social investors that enhances the pipeline generated by applicants failing to achieve high street bankability. Moreover, in terms of leveraging new investment, the fund has made some significant co-investments and is building a network of potential co-investors going forward via the Funders Forum which has demonstrated considerable success.

However, with respect to its aspirations towards sustainability and possible market distortions, the SEIF has performed less well. Given the realities of annuality restrictions, the fund has often had to use grants as the main element in its investment portfolio, accounting for 86% of all the funds allocated to 31 March 2011 (Rounds 1-3) and 84% of the investments in the most recent round (in the financial year ending 31 March 2011). Furthermore, when it has used loans, some have been offered at sub-market rates, below 6% – though this was largely phased out by the middle of Round 3 in 2010-11. There is at least some anecdotal evidence from external key informants in the social investment market that this has led to actual deals being lost as a result of undercutting. More broadly, there are real concerns that the SEIF investment model may have a significant wider impact on the sustainability and attractiveness of social investment for new – and even existing – investors in health social enterprises. Simultaneously, it may also make life more risky for investees by increasing dependence on soft funds that – ultimately – will not be recycled to the point of sustainability and are also subject to potentially unpredictable future policy trends.

With respect to achieving its objectives in terms of growing the social investment market, the SEIF was severely constrained by the time frames within which it had to invest, by the broader policy agenda in which it had to operate (particularly departmental annuality rules), and by lack of demand for loans in its investee pool. Nevertheless, a policy maker stressed that the SEIF's impact on the social investment market was always a longer-term ambition compared to its shorter term

achievements in terms of supporting start-ups and growth in organisations otherwise starved of funding:

*It has achieved two main objectives. The two objectives are stimulating start-ups and encouraging growth. It was constrained and limited by the annuality issue... we can't offer loans beyond annuality, so we cannot act as a commercial fund. It was... never going to be a commercial fund, because we are trying to encourage social return as well, and we always realised that. But the annuality was more of a constraint. But I do feel that the two main objectives have been met. SEIF has always been evolving, and as the social enterprise in health is immature, we may have had more grants for longer than we would have thought we would have at the beginning. But we have done it, and we have encouraged growth and sustainability. .... this issue of sustainability of the SEIF fund is a long-term objective, but the fund would have to mature over a longer timeframe than the contract with SIB. (Policy maker 2.1)*

7.1 Introduction

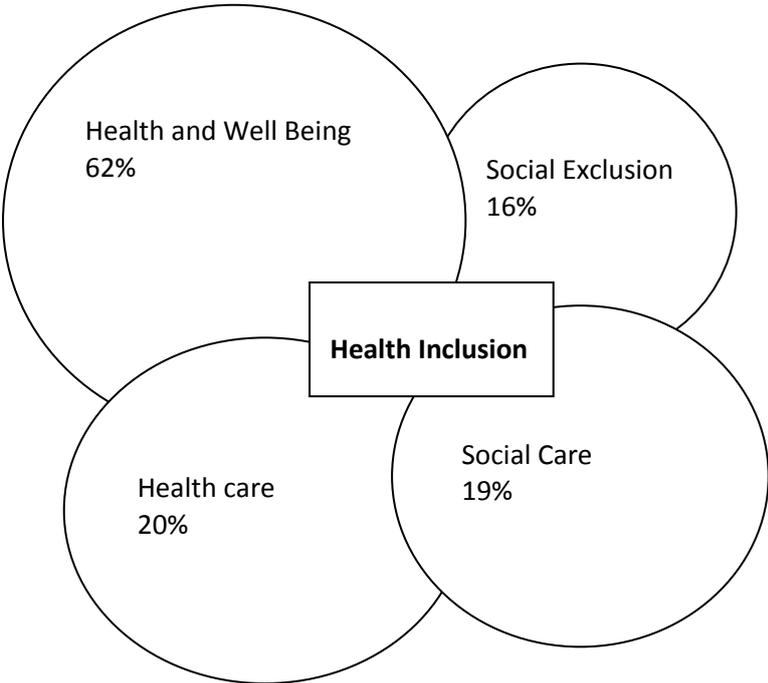
The SEIF was aimed at a range of emerging and existing social enterprises with the objective being to enable the start-up, growth and sustainability of social enterprises. The main provision for funding was that proposed products or services must deliver health or social care outcomes. The fund also intended to support local healthcare communities to meet DH policy objectives, including around Right to Request policy and the Personalisation agenda. This chapter looks at the extent to which the SEIF has enabled this by examining the characteristics of investees and funding decisions made, looking in particular at the nature of the services funded by the SEIF.

7.2 SEIF Organisations

Our case study findings showed that organisations receiving SEIF investment were diverse, with each having different types of activity, aims and goals. Many were ‘hybrid’ organisations in that they had multiple functions and specialties. However, despite these variations in form and function, what characterised these organisations was a vision and mission built around what we define as ‘health inclusion’. They delivered across a range of different service areas to respond to gaps and demands within the health and social care system. By tackling unmet need, they aimed to provide a responsive and innovative service in meeting individual and community needs by promoting holistic and inclusive approaches to health and social care. This supports the DH vision to improve overall health and wellbeing within society, and in particular to reduce health inequalities (DH, 2010b).

Organisations can be categorised into four main areas of health inclusion, with survey data indicating the most common being health and wellbeing, followed by healthcare, social care and social exclusion (see Figure 7.1). Some organisations delivered in more than one of these areas e.g. both health and social care.

Figure 7.1 – SEIF organisations in the promotion of health inclusion



1. *'Health and Well Being'* organisations were the most frequently funded by the SEIF (indicated by 62% of survey respondents). Such organisations included those delivering 'healthy living' services, including fitness activities, nutrition support, counselling, community development and youth centres, and supported the reduction of health inequalities. This was characterised by Caring and Curing, a Christian based social enterprise that promotes 'health and healthy living' interventions that included a counselling service, support for young women, a domestic violence project and a parish nursing service.
2. *'Healthcare'* organisations included Right to Request organisations and other primary and community health services (20% of survey respondents). They included children's services, district nursing, mental health and multi-professional services. This was characterised by Right to Request 4 which delivered a multi-professional service (including Doctors, Nurses and Therapists) that focused on managing addictive behaviours in vulnerable groups.
3. *'Social care'* initiatives included 19% of survey respondents and were care based services or services for carers. This was characterised by Neighbourhood Carrier, a large transport social enterprise providing mobility support for older people and people with disabilities, including providing transport to a day centre.
4. *'Social exclusion'* initiatives included 16% of survey respondents and were services responding to the needs of excluded groups, including ethnic minorities, those with mental health problems, the unemployed and those living in deprived neighbourhoods. Services were designed to enable these excluded groups to be heard, respected and included within society. This included Renewal Limited, which provided training programmes for NEETs (not in employment, education or training) and Centre Art which aimed to develop the confidence of those with mental health problems (mainly BME groups) through access to education and creative workshops, including drama and arts.

### **7.2.1 Services that 'Deliver' or 'Enable' Health Inclusion?**

All organisations were committed to the notion of health inclusion in being responsive to gaps in the system by providing holistic and inclusive services. To achieve this goal, what emerged were two organisational types; what we define as 'deliverers' and 'enablers'. The majority (including approximately 90% of survey respondents) were deliverers, as their central role was the direct provision of services to users. The Right to Request organisations were illustrative of delivery in providing holistic and inclusive services for individuals and communities.

Alongside these delivery organisations, a small number of case study organisations (and approximately 10% of survey respondents) were enablers who did not directly deliver services to users but instead aimed to signpost services (sometimes alongside delivering a service). An example of enabling was Shape Switch, which provided 'lifestyle and support services' using media based interventions, namely a website and text messaging service to promote access to information and personalised choice for those living within a local area. They also looked to partner and co-ordinate smaller third sector organisations and local networks acting 'as a kind of a locus of trading activity'. Other enablers included 'signposting and navigation' services that supported people with personal

budgets to access appropriate health, care and leisure services. These services support the DH Personalisation agenda as they give patients the information and support they may need to choose the services they receive (DH, 2008a).

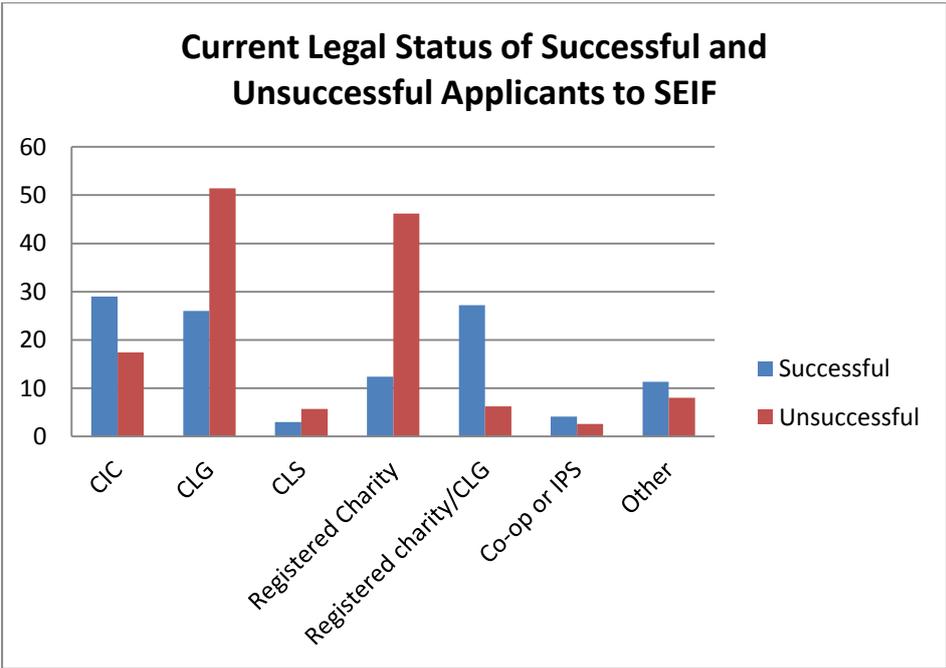
### 7.3 Organisational Characteristics

This section presents the main characteristics of SEIF applicants using data from the survey. Whilst focusing on those that received a SEIF investment, it also makes some comparisons with those that applied but were unsuccessful.

Our findings suggest that the organisations receiving SEIF investment were evenly split across three legal types. These were community interest company (CIC) (29%), company limited by guarantee (CLG) (26%) and CLG combined with being a registered charity (27%). There is some representation of registered charities (12%) and company limited by shares (CLS) (3%), however 'mutual' forms of organisation including co-operatives and IPS' (4%) hardly featured. Other legal forms also include trading arm of a charity (2%) and subsidiary of a larger/holding company (4%). Whilst the SEIF set out no prescription of legal format for investees, they are expected to have not for profit status. However, our survey also suggests some evidence of companies limited by shares which may enable members to receive profits (although this could be an indication of CICs which can issue shares that pay capped levels of dividends).

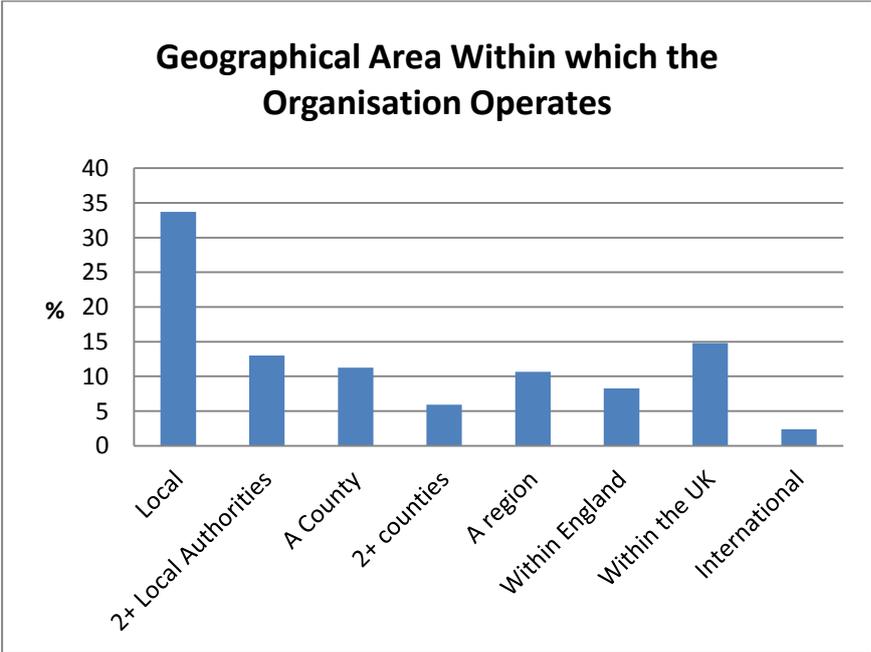
The vast majority of unsuccessful organisations took the form of a CLG (51%) or registered charity (46%) suggesting a lower success rate for these two organisational forms. Only 6% of unsuccessful applicants were both a registered charity and CLG, a figure significantly lower than for successful organisations. A relatively small number (17%) were CICs when compared with successful organisations, suggesting high success rates for CIC organisational forms.

**Figure 7.2 – Current legal status of successful and unsuccessful applicants to SEIF**



Our findings suggest that the SEIF funds a range of different sized organisations however a large number deliver at a small or medium scale, operating within a LA or PCT boundary (34% of all investees) and up to a region (e.g. SHA) (41%). Only a relatively small proportion of funded organisations delivered national (8%) or UK based (15%) services.

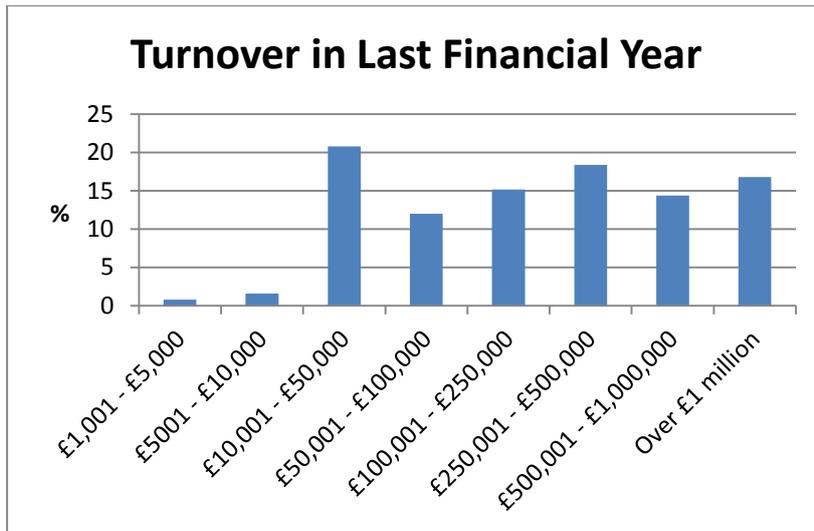
**Figure 7.3 – Geographical area within which the organisation operates**



The geographical location of SEIF investees was mapped using GIS systems. The majority of SEIF investments are clustered around London, the North East and North West regions. There is also some significant SEIF activity around Yorkshire and the West Midlands regions. Unsuccessful applicants to SEIF are also largely clustered around the same regions, although unsuccessful are disbursed more widely (due to the higher number of unsuccessful applicants) (see Appendix 2 for GIS maps of successful and unsuccessful applicants).

The turnover of successful SEIF applicants ranged considerably from £1,600 to £33 million a year indicating a vast range in organisation income (see Figure 7.4). Whilst 35% of organisations had a turnover of less than £100,000, some larger organisations had also been funded. Nearly a third (31%) had a turnover of more than £500,000 and 17% had a turnover of more than £1 million. This is further indicated by the average turnover being £1,518,597. These figures may however include the SEIF investment which could account for a large proportion of turnover.

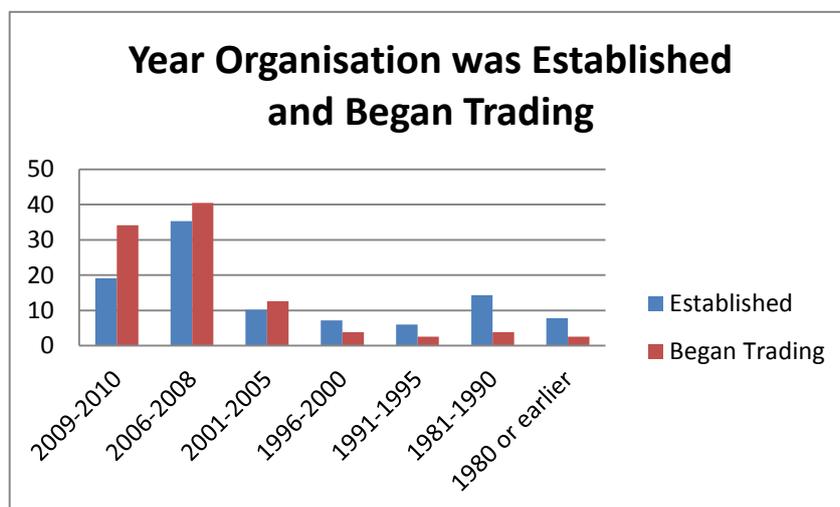
**Figure 7.4 – Turnover in last financial year**



NB: Figures based on responses from 72% of respondents who completed turnover questions.

SEIF investments mostly went to organisations that were relatively new. We found that nearly two-thirds (65%) of organisations had been established since 2001, with a fifth (19%) starting in 2009 or 2010. Many organisations were not trading at the time they were established and instead began trading more recently. Three quarters (75%) began trading from 2006 onwards and a third (34%) since 2009. 7% of organisations were not yet established, with nearly a fifth (18%) of Round 3 applicants not yet trading. Whilst this is likely to represent charities that later establish trading activities, these findings may also suggest a time lag between setting up a social enterprise and actually beginning trading (see Figure 7.5). In line with policy expectations, this time lag was common in Right to Request organisations, which often took some time (even a number of years) from developing a business plan to launching the enterprise.

**Figure 7.5 – Year organisation was established and began trading**



### 7.3.1 SEIF Organisations: A 'Social Enterprise' Ethos

Social enterprise provided the vehicle to be more responsive to local health needs and enable choice for individuals and communities. Organisations felt it was important to represent local communities by using community members and service users as paid members of staff, volunteers and on the Board of the social enterprise. This ensured more holistic and representative decision making which in turn resulted in better health and social outcomes along with cost reductions:

*As we say we work here, we don't own it, it's the community that own the company and that's who we're responsible for. And they do have an involvement in the organisation, we have tenants meetings, we have play schemes during the summer, but that's driven from what the community wants. (Renewal Limited)*

The Phase 2 survey (of Round 3 investees up to March 2010) also found that there is a relatively strong representation of users in SEIF funded organisations. Most (89%) did this indirectly through the collection of user feedback, whilst others directly involved users. A quarter (28%) of organisations employed users on a volunteer basis, and 13% employed users as paid members of staff. Users were represented on the board of 26% of organisations and users owned and ran 11% of SEIF funded organisations.

The social enterprise ethos of reinvesting profit into services or social need drove the social enterprises. Our survey found that 34% of respondents had made a surplus in the year prior to the survey (based on 25% of respondents who completed this survey question), most of which was reinvested into the service through organisational development/expansion (19%), staff training (12%), the provision of another service (7%) or research (2%). A further 15% retained surpluses as reserves. Some case study organisations were also able to use their own self-generated income to attract other sources of funding.

For Right to Request organisations, becoming a social enterprise was driven by a desire to retain existing services for both service users and staff. Some were aware that as a result of 'Transforming Community Services' (TCS), services were being split or at risk of closure. Becoming a social enterprise gave them the opportunity to develop a flexible service and strip out the different levels of bureaucracy within the NHS to become 'more a master of your own destiny in determining services':

*When you're part of a massive PCT... there's so many layers of things that you have to go through, whereas this is the team, the staff decide, the staff are very involved in everything that happens, they've got ownership of it and I think they're probably more enthusiastic... they take that ownership of it and they want to get the results. (Right to Request 4)*

There were however slight caveats within this social enterprise ethos as some case study organisations were very small scale, were struggling to secure contracts and generate income or were still some way off becoming a social enterprise:

*I don't think we are a social enterprise yet. That is our aspiration... We hope that the grant from the Social Enterprise Investment Fund would help us in that process. I guess we've made some small steps towards that but I wouldn't yet describe us as a social enterprise. (Caring and Curing)*

Becoming a social enterprise can therefore be a complex and lengthy process, especially for the Right to Request organisations. Most had not yet begun trading at the time of interview despite starting the Right to Request process often more than a year earlier, although this was in line with Departmental expectations.

## 7.4 SEIF Investment and Funding Intentions

The SEIF was established to enable the start-up and growth of social enterprises in health and social care. The survey indicates that the decision to apply for SEIF investment was evenly split between start-up and growth with 52% setting up a new social enterprise (including starting trading within a charity) and 48% expanding services within an existing social enterprise. For those setting up a new social enterprise, the decision to apply to SEIF included looking to set up income generating activities within an existing voluntary organisation (25%), setting up a social enterprise as individuals (7%), through a multi-agency partnership (11%), as health or care professionals (10%) or through 'Right to Request'<sup>2</sup> (5%). Some respondents were undertaking more than one of these activities.

Our survey found that the SEIF covered a diverse range of health and social care areas, including mental health (41%), children's services (30%), services for older people (23%), carers services (19%), substance misuse services (14%) and services for learning disabled (7%). In support of SEIF being used to support holistic responses to healthcare, investment was also being used for complementary/alternative medicine services (8%), housing (7%), education (23%) and arts and creative activities (1%).

Case studies indicate that most organisations starting up were using the SEIF to obtain grant-based start-up funding in the form of business support and development. Within this, consultancy support was the key component. This included the development of marketing tools, a business plan, legal frameworks and accountancy systems. For example, Social Care Direct used a SEIF development grant to realise their idea, drawing on consultancy advice, business support, marketing, and publicity. This was also recognised by other respondents:

*There are some basic ingredients, you want to bake a cake, you need eggs, flour, milk, butter, well if you want to have a social enterprise, you need legal support, you need those pieces, and you need somebody to tell you how to do it. (Offspring Interest Company)*

For all Right to Request organisations, the SEIF was used to set up the social enterprise, especially to fund consultancy costs, legal expenses or employ business support managers. For example, Right to Request 3 employed a business consultant to undertake the legal and governance work:

*[Business consultant] helped us with the whole process and being part of the Department of Health and knows about contracts, she's been a Director, she's an accountant's background, so she knows the ropes. (Right to Request 3)*

From the 48% who were expanding within an existing social enterprise, most (44%) were already delivering health and social care services. Therefore, only 4% of investees were using the SEIF investment to enable their social enterprise to break into the health/social care sector. Case study findings suggest that these organisations received a mixture of grant and loan based investments. Three of our case studies received a SEIF grant to make structural improvements and included purchasing and refurbishing buildings or transport. For example, Shape Switch received a £114,750 grant that was used to purchase a building which would act as a communication and physical hub for

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<sup>2</sup> Based on survey respondents only. In total 51 Right to Requests were funded (10% of all investees).

a publicly accessed health shop and drop-in wellbeing support centre. Neighbourhood Carrier bought three accessible buses for a new community bus service.

Three of our case studies received ‘part-loan part-grant’ based investment from the SEIF to develop their social enterprise. No case study organisations received a loan only investment. Centre Art received a £700,000 contribution towards buying previously leased buildings to house their arts and education centre. The mortgage came with a £62,674 grant, with the remaining loan to be repaid over 25 years. Right to Request 2 received a £150,000 grant and a £70,000 loan, however at the time of interview they had yet to start drawing that loan down (*‘because we’ll start paying interest on it’*), and would only use it if it was deemed necessary. The loan therefore acted as a contingency fund during the start-up of the social enterprise.

Overall opinion about loan investment was divided. Whilst one (Renewal Limited) believed a loan was the preferred option for ‘viability as a trading company’, the majority would have preferred a grant due to the debt and costs incurred with loan investments:

*I mean it’s hugely helpful to have a grant, of course it is, but I think as a loan... what it gave us was liquidity. And that’s important. (Collective Action)*

*All of a sudden I’ve got to find about £7,000 a month ... I think it just would have been a lot happier and less of a risk for the organisation if we just got the full grant. (Renewal Limited)*

This may therefore suggest that some social enterprises applying to SEIF are unwilling to take on loans.

**7.5 Other Sources of Funding for Social Enterprises**

SEIF investment formed one part of organisation income streams. In the year prior to the survey, over half (53%) of surveyed investees also received grants from the public sector, predominantly from Local Authorities (15%) and PCTs (10%). They also received other grants, including from the Lottery (8%) and community support funding (5%) (see Table 7.1). When asked about future funding, nearly half (49%) intended to apply for a further grant from the public sector and 41% of successful applicants intended to reapply to SEIF.

**Table 7.1 – Sources of Income for SEIF Investees in the Year Prior to the Survey**

Source of Income	% of survey investees
Public sector grant	51.2
Public sector contracts	48.5
Donations	38.1
Trading with general public	35.1
Trading with private companies	26.3
Public sector loan	6.4

In relation to loans, the survey found that only 6% had previously received loans from the public sector. When asked about future funding, only 18% would consider applying for a loan. This may be a further indication of the low demand for loans among social enterprise organisations and the ongoing reliance on grants (as suggested in our SEIF data in Chapter 5). Many of our surveyed investees were able to generate their own income through trading; with private sector companies (26%) or with the general public (35%). In addition, just under half (49%) had contracts to provide public services (see Table 7.1), primarily with PCTs/SHAs/NHS organisations (14%) and Local Authorities (14%). Alternatively, donations were a common income stream with 38% receiving donations from the public or charitable foundations. Some organisations were even found to receive 100% of their income from donations in the year prior to the survey, although some or all of these may however have gone on to set up a social enterprise which does trade.

When Round 3 investees were re-surveyed, we found no significant differences in sources of income between the survey in time 1 and time 2. This therefore indicates that SEIF investment has no considerable impact on social enterprise sources of income with public sector grants and contracts to provide public services being the most dominant both before and after a SEIF investment.

## **7.6 Conclusion**

This chapter has outlined how SEIF investments were used for a variety of purposes. This includes to establish/expand a social enterprise or to deliver/enable service provision. However, one thing all organisations had in common was that their purpose was to deliver health or social care outcomes. Whilst organisations often worked across a broad range of health and social care areas, they were all delivering in the area of health inclusion and most were responding to health inequalities. Whilst SEIF has supported a small number of mainstream health and social care services, including primary care spin outs, it mainly funded local community based services that were responding to an unmet social need. As a result, the majority of SEIF funded organisations delivered 'health and wellbeing' services used to promote healthy lifestyles within a local community area (DH, 2006) with key examples being wellbeing centres, counselling and nutrition services. By responding to an unmet need, SEIF services tended to target disadvantaged or excluded groups, including homeless and BME groups. The SEIF therefore strongly supported the government's Public Health agenda (DH, 2010b) and vision for social enterprise (DH, 2006; 2008a; 2010a), to fill gaps in local provision by empowering communities to improve health and wellbeing and to tackle inequalities.

### 8.1 Introduction

The SEIF was established in line with a government commitment to develop social enterprises based on their ability to achieve a 'double bottom line' (e.g. Dart, 2004) in delivering services that create social as well as environmental and economic value. This increasing enthusiasm for social enterprise has made it necessary to capture the social impacts being made. The need to 'prove and improve' the added value has led to the development of a number of tools and techniques (Ryan and Lyne, 2008; Hart and Haughton, 2007). Social Return on Investment (SROI) has been one such technique that has been encouraged by the SEIF in order to capture the impact that social enterprises make.

The purpose of the following chapter is to present the emerging outcomes of SEIF investments. Drawing on our survey and case study material, it presents the impact of SEIF in relation to organisational change and the impact on service users. In addition, the chapter examines how organisations measured this impact. This specifically focuses on the extent to which they used SROI and their experience of using such techniques to capture social value. As with other research in this area (e.g. NAO, 2011), the analysis concludes suggesting that it may well be too early to examine SEIF outcomes in terms of health outcomes. However, the evidence generated from the research does demonstrate positive emerging benefits in terms of improving working conditions, organisational infrastructure and improved user experience.

### 8.2 Organisational Outcomes of SEIF investment

Our results suggest that the SEIF investment brought about a number of organisational improvements. A crucial finding to emerge was that without SEIF investment a significant number of projects would not have gone ahead. The survey found that 72% of respondents believed the project would not be able to go ahead in its current form without SEIF investment and 35% believed it would have been completely abandoned. Without SEIF investment, the project was also more likely to be delayed (64%), would be spread over a longer period of time (57%), and/or would be reduced in scope (66%). This was also indicated by case study respondents:

*The project just wouldn't have gone ahead really... I don't think we would have got it through under the measures that are available. (Renewal Limited)*

We looked at the extent to which certain types of organisations and projects might have gone ahead anyway without SEIF investment, and found no significant relationships to exist. Therefore, the type of project/organisation, the size of the organisation, the year it was established and whether it was already established or a new start-up makes no difference as to whether the project would have gone ahead or been abandoned without SEIF investment (based on counterfactual analysis from investees). There were also no significant relationships between whether the project went ahead without SEIF funding and other sources of funding received.

Our survey findings suggested that the start-up, sustainability and growth of social enterprises were considered to be key outcomes of the SEIF with 65% of respondents believing that sustainability was a benefit of SEIF and 72% reporting that the SEIF was beneficial for the growth of their organisation.

Approximately one third of all investees felt that there had been positive changes to services since the SEIF investment. This includes a greater number of services (35%), higher quality services (34%), more service users/clients (33%) and services that operate within a wider geographical area (29%).

Our case study findings also supported this. Crucially, the main outputs of SEIF brought structural improvements and business support that enabled social enterprises to grow. This in turn has led to new and better services for users. For Centre Art, SEIF investment allowed them to buy the centre they were leasing, which in turn enabled them to have more control and stability. Right to Request 4 described business growth as an outcome of SEIF investment. The development grant enabled them to 'hit the ground running' with an active dialogue to generate more business, meet new stakeholders, and enable strategic support and dialogue with the private sector. They also suggested improved outcomes from a cultural perspective, as the employee buy-in and the freedom and flexibilities enabled them to establish 'two really good, active private sector relationships'. SEIF funding had contributed to getting the mindset right and embedding these kind of principles:

*If we hadn't been able to get more money for vehicles, that project may have ended because it was not sustainable just on the revenue. We needed an injection of capital. (Neighbourhood Carrier)*

Right to Request organisations also suggested that SEIF investment for business development and legal costs was crucial. Most felt that the SEIF was the only source of funding available to them, so without SEIF, it is unlikely that the spin out would have gone ahead:

*SEIF helped us start-up and consolidate, it gave us space to operate as a robust business. (Right to Request 4)*

We also found positive changes to workforces as a result of SEIF. Round 3 successful survey respondents reported that the size of their workforce had increased as a direct result of the SEIF (84%). 11% believed that the SEIF investment had increased their workforce by at least five members of staff and a further 51% believed it had increased their workforce by between one and four members of staff. In addition, 29% felt that the SEIF had sustained existing members of staff. However, only 13% felt that their volunteer workforce had increased as a direct result of the SEIF suggesting that the SEIF creates paid employment opportunities but fewer opportunities for volunteers.

Although it was early days in relation to the impact of SEIF investment, organisations could already see the effect it had had on workforce relations and job satisfaction. SEIF investment had a positive effect on internal working relationships within the organisations, in relation to the training and development of staff and the employment of new staff. It also enabled increased motivation and job satisfaction among staff. The survey found that 26% of investees felt that the SEIF had improved working relationships with employees. This was supported by the case studies. For example, Shape Switch described how investment dramatically changed the way staff felt about their identity and survivability. It had brought the team closer together:

*They view us as being stronger... it just feels like it's a robust organisation now, whereas it felt very temporary... and I think for people in health who are moving out from something that they view as solid and, you know, the NHS, into something that's very*

*flaky called a social enterprise, then having a building actually that you own is quite critical in terms of sense of belonging. (Shape Switch)*

Well Being Hub suggested that their structural renovation had led to a more open and friendly space that was now community owned and managed. They were also able to employ new members of staff:

*The anti-social behaviour disappeared more or less overnight, because we employed local people in the centre, so mainly young people obviously were causing the problem, but when local people are there they just have a completely different attitude because they know the parents, you know them. So that disappears. (Well Being Hub)*

The SEIF was also found to create new networks and partnerships. Shape Switch described improved outcomes of how a new building and its geographical location led to it becoming more embedded in the community. The outcome had led to growth of 'new nodes around the community' they were serving. SEIF had contributed to creating a more 'solid organisation' that was more likely to pick up contracts and build partnerships with other organisations:

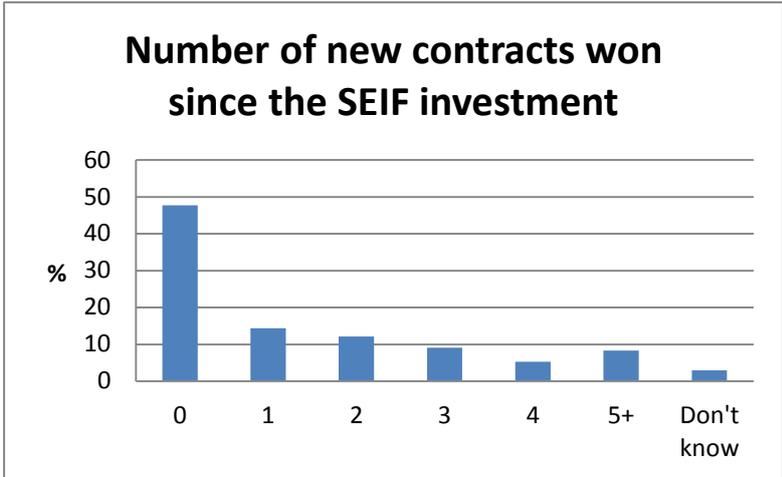
*Overall, it's definitely opened doors. And, I mean, it's created jobs and I think its developed networking opportunities, put people together that would never have been together. And yeah, it's created potential, again, which has gone beyond what the original implication was for the money. So overall it's been really good. (Social Care Direct)*

Alongside these outcomes, organisations also stressed the economic improvements that resulted from SEIF investment. Nearly half (44%) of Round 1 and 2 investees believed that their turnover had increased since the SEIF investment, as did two thirds (64%) of Round 3 investees. These financial changes however may not be directly attributable to the SEIF investment as other factors have not been taken into account. The SEIF investment itself may also account for a large increase in turnover, as on average the SEIF investment accounted for 87% of total turnover in the financial year before the survey.

Our survey also found that since the SEIF investment, nearly two-thirds (63%) of Round 1 and 2 organisations felt that they were in a better position to win contracts and 26% reported that they had secured more contracts since the SEIF investment. We asked Round 3 investees if the number of contracts secured has increased directly as a result of the SEIF investment and 57% reported that they had, with 13% of those reporting that the number of contracts secured had 'increased significantly'.

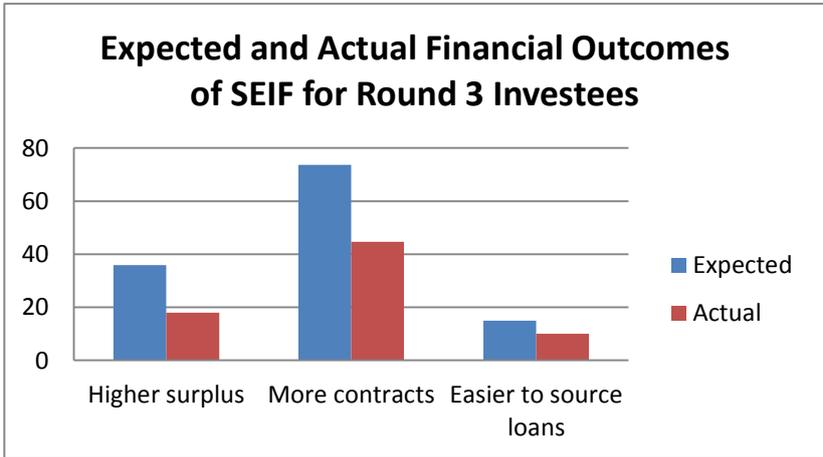
However, when asked about the number of new contracts secured since the SEIF investment, nearly half (48%) of all investees reported that they had not yet won new contracts (see Figure 8.1). Over a quarter (29%) of these investees did however have contracts before the SEIF investment, indicating that for some, the SEIF investment may have been used to support the fulfilment of an existing contract rather than to generate new ones. Nearly a quarter (23%) had won at least three new contracts since the SEIF investment, indicating that some SEIF investees are successful in securing multiple contracts to deliver services. Contracts were primarily with PCTs, LAs and private contracts with businesses and the general public. The average number of new contracts won since the SEIF investment was 1.5.

**Figure 8.1 – Number of new contracts won since the SEIF investment**



Overall, the expected financial outcomes of Round 3 investees had not arisen by the time they were resurveyed one year later. Whilst three quarters (74%) of Round 3 investees felt that securing more contracts would be a benefit of the SEIF investment, when they were resurveyed, only 45% agreed that this had actually occurred. Furthermore, of the 36% of investees who expected a higher surplus after the SEIF, only 18% found this actually had happened. Investees also found it not as easy as expected to source loans from other sources, with 15% expecting to get loans and only 10% receiving loans already.

**Figure 8.2 – Expected and actual financial outcomes of SEIF for Round 3 investees**



All case studies also stressed the importance of the SEIF in sustaining the future of their organisation, especially in securing new contracts. For example, Social Care Direct suggested SEIF money would tide them over for two years whilst they tried to get commissioning in place:

*I mean, it gives us a lifeline. We can manage comfortably for a year, but I really need, this year, to get some more money in. (Social Care Direct)*

### 8.3 SEIF and User Outcomes

Alongside the organisational benefits, our research found that SEIF investment had brought about improved social outcomes in terms of improved engagement with users and communities. Our survey indicated that SEIF investment resulted in increases in user representation in 62% of funded organisations, with 7% of organisations employing users as paid members of staff as a result of SEIF. In addition, 40% of organisations collect more user feedback and 22% have employed more users as volunteers as a result of SEIF. Survey respondents also reported that SEIF enabled user involvement, as organisations had more capacity to respond to feedback and work in partnership. Our case studies provided examples of organisations involving users. For example, Well Being Hub believed SEIF investment that enabled a new community space would build confidence, improve the experience of service users, particular those users with mental health problems. Shape Switch also suggested their new building brought a number of social benefits:

*Because we're now more embedded... we understand what it is that those individuals need better. So, for example... we've got walks running from three organisations in our immediate vicinity that we wouldn't otherwise have done... a walk round the park and, you know, just gets them involved in a social process, gets them involved in some physical activity that is contributing to their wellbeing. (Shape Switch)*

Renewal Limited believed their new flats would integrate and enable younger people to access a range of community services and increase the chances of improved health. Positive outcomes resulted from a safe, secure environment with support mechanisms around them:

*It's not about just building flats and saying, "Aren't we great?" It's about building better with a start, and that's the beginning. The end part for us is, can we get them into employment and can we help them. It's not just a job it's... the social aspect and the added value that you get from like the community aspect... It's the whole cycle really isn't it and that's how we look at... It's not just like the learners come in or the apprentices come in and they do the course. It's... all the social aspect of things and that's what we've always been good at... look at the confidence, the self esteem, look what they can do. (Renewal Limited)*

Get Going suggested that the user involvement generated from SEIF meant locally delivered services were more personalised, co-produced and co-designed. They had 'plenty of evidence' that in the first year it had made a significant impact on a number of people's lives through the provision of support to a greater number of people. Right to Request organisations suggested their integrated approach to dealing with complex health needs would increase the level of support available to vulnerable groups:

*We're delivering primary healthcare to moderate and severely learning disabled. That's a very specific and highly vulnerable group that are deserving, as indeed is everybody, of good quality primary care and we're able to deliver to them. We couldn't have done that really, not easily. (Right to Request 3)*

Neighbourhood Carrier described how they had supported and enabled the long-term health benefits of keeping people independent for as long as possible:

*A user survey asking what aspects of your life have changed found that twenty per cent said it improved their health, a lot of people say they just feel better. (Neighbourhood Carrier)*

### 8.4 Measuring Outcomes

One of the key objectives of the SEIF is to encourage social returns and to report on the effect of investments in generating social return generally. SROI was employed as a means of better understanding the added value being created by its investments (SIB internal document paper no 3). The SEIF invested in organisations that were deemed able to produce a positive and substantial SROI. A total of 64 SEIF investees from our own survey had received SROI training, which is 12% of all investees.

The survey indicated that most SEIF funded organisations (92%) measured (or were planning to measure) their activities and social impact. The case studies also indicated that collecting evidence and measuring impact and outcomes is an extremely important process, both internally to improve working practices and externally to attract funding:

*Marketing is being able to evidence why people should buy what we're offering, so actually collecting that evidence is extremely important to us, and making sure that the impact is an impact that is needed by local authorities and by individuals. (Get Going)*

Despite encouraging social enterprises to use SROI, our own survey suggests that under a third (30%) of respondents were actually using it at the time of the survey (although some indicated that they may use it in the future) (see Table 8.1). Out of the 30% of survey respondents using SROI, 12% had received training as part of their SEIF investment. This indicates that 18% of investees used SROI without support from the SEIF to do so (as they may have been using it already). Of the 12% who received SROI training, 10% reported that they were actually using SROI suggesting a drop-out rate of 17%.

On the other hand, only 13% of unsuccessful applicants who completed the survey were using SROI. Therefore, the use of SROI is significantly higher among successful applicants. This may possibly be as a result of SROI training through the SEIF.

**Table 8.1 – The use of Measurement tools by SEIF Investees (Survey Respondents Only)**

<b>Measure of Social Impact</b>	<b>% of survey respondents</b>
Internal Tools/Systems	40
SROI	30
Other	4
Not yet selected a tool	33
Do not measure social impact	8

The use of SROI was therefore relatively low among SEIF investees and our evaluation suggests a number of problems associated with it. Firstly, there was a general feeling that financial calculations were not always considered appropriate to measure social activities and impact for the types of services they provide. This was especially the case for 'wellbeing' services which are designed to make people happier or more confident. Some investees felt that it was not possible to measure the

social value of every aspect of their organisation and as such were only measuring a small part of what they do:

*Our job is to improve people's lifestyles as we move along. Someone could come and measure the value of that.... monetary value is more suitable for Future Jobs, for instance, taking people out of unemployment. (Well Being Hub)*

Whilst some organisations were aware that SROI was part of SEIF funding requirements, their interest in it 'fizzled out'. This was often due to the practical constraints of undertaking SROI, including time, resources and money constraints. Caring and Curing felt that their organisation was too small to use it, so lacked the time or resources. As a result they believed it was more applicable to larger organisations:

*I think up to now we've mainly been running the project with volunteers rather than paid staff and so what we're able to do is not an awful lot. So there's a limit to how much volunteers' time can be used. Most of the time is involved in providing the service. To be able to look at some of these other things is perhaps a luxury. (Caring and Curing)*

There was also a perception that only large organisations or those working at a Local Authority or PCT level would be sufficiently equipped to use it. This was in part due to SROI being considered very difficult to understand. Social Care Direct did not use SROI methodology because of its complexity. This was reinforced by a negative experience of training that reinforced the complexity rather than simplified it:

*SROI I think it was just the formula. The thing that got me about it at the time was that where you have to measure what your potential costs are against referral costs. And at that time, I was looking at ... how could I say that counselling run by service sector agencies isn't value for money? You needed to then find a cost of what you were doing within an equivalent service, so the NHS. And there wasn't an equivalent cost. It's such a broad area, you know? And, like... I suppose it was just that, sort of, vagueness of it I didn't like. (Social Care Direct)*

Survey respondents who did complete an SROI were also surprised to find that upon completing it, PCT commissioners did not understand it and so did not take it into account when allocating funds and contracts. Therefore, despite organisations having to undertake SROI training as part of their investment contract with the SEIF, our findings suggest that completing a SROI report was relatively low down on their list of priorities. Rather than SROI, developing internal measurement tools was often considered a more efficient use of resources. Internal tools were being used by two fifths of survey respondents (40%) as well as by the majority of case study organisations. Case studies indicated that internal monitoring and measuring systems included user feedback evaluations, case studies and user forums, most of which had a qualitative focus:

*Getting it from the people themselves who are using the facility rather than just doing stats and data. I think that proves nothing really. Its better doing it like sort of word of mouth and focus groups, case studies and producing evidence in that way. (Renewal Limited)*

Other techniques used to measure social impact included the Warwick Edinburgh Mental Wellbeing Scale (WEMWBS), and the General Practice Assessment Questionnaire (originated as part of QOF).

Some evaluation frameworks were developed in collaboration with other agencies including Universities, Hope Street and Bridges Investment. Evaluation on activity and impact was also frequently led by the requirements of funders. For Caring and Curing, measuring impact was dictated by 'vigorous' commissioner targets involving monthly reports to the PCT.

## **8.5 Conclusion**

Our analysis has found that that SEIF investment has been crucial to the growth and development of social enterprises. Without SEIF investment, many of organisations involved in our research would not exist. Right to Request organisations were illustrative of this as they suggested that SEIF investment and business support was crucial to their existence. The SEIF has also enabled positive direct outputs (e.g. jobs created) and indirect outputs in supporting the unemployed to return to work. Early outcomes of SEIF outlined by organisations therefore included enabling improvements to workforces and a greater responsiveness to communities. Social benefits for users were also evident, through making services more appealing and inclusive. These support claims that social enterprises create social value.

All organisations believed in the importance of measuring and reflecting on social activity and outcomes. SROI has been promoted as a measurement tool by the SEIF; however, was used by only 30% of investees. Time, resource and wider factors associated with capability appeared to diminish interest and meant relatively few organisations used it. Instead of SROI, there was a preference for other tools that were more customised to the organisation and other measures that were more qualitatively focused on the user.

Evidently, it was still relatively early in gauging outcomes of the SEIF. Whilst there appear to be a number of positive outcomes associated with investment, contextual factors surrounding the investment are likely to influence these. For example, the sustainability of SEIF investment remains open to debate as our survey found 13% of organisations were no longer in operation, and 68% of those have closed down due to a lack of funding and support (although these figures are similar to those of all UK business which stands at 12% (ONS, 2010)). The issue of context will be examined in the following chapter.

### 9.1 Introduction

The SEIF was established to support and encourage social enterprise entry into health and social care markets. As highlighted in earlier chapters, social enterprise has a number of reported benefits including enabling innovative service delivery, providing a wider range of services outside of mainstream primary care and promoting efficiency savings from reduced staff absence. However, the entry of social enterprise into health and social care contexts remains a challenge. Key barriers have been cited in relation to securing funding from financial institutions and commissioners in a competitive market place. The problem social enterprises face appears to be a dependence on commissioning bodies as the dominant source of work. The capacity to grow is largely determined by the skills and awareness of commissioners in contracting social enterprise (NAO, 2011; DH, 2010a; Miller and Millar, 2011).

Existing evidence suggests that third sector organisations encounter difficulties in negotiating commissioning and procurement processes as they tend to have less capacity and experience to successfully tender for contracts (see Macmillan, 2010; Packwood, 2007). Commissioners perceive such organisations as not business-like enough (Chapman et al., 2008). Conversely, third sector organisations see commissioning processes as bureaucratic, and that commissioners have little awareness of the third sector market (Baines et al., 2010: 54).

Based on the original evaluation brief, one of our aims was to understand the SEIF within the context of the health and social care environment. On this basis, within each of our case study sites we interviewed a variety of stakeholders that would allow us to further understand how the SEIF and social enterprise more generally interacted with the health and social care system. These perspectives included in depth interviews with PCT and local government commissioners. They also included perspectives involved in supporting and developing social enterprise organisations. These included consultants, social enterprise networks, and knowledge brokers in relation to local social enterprise activity. This chapter therefore presents how the SEIF was interpreted by these stakeholders.

It does need to be recognised however that the policy context has changed since these evaluation interviews were undertaken. Of particular note is the move away from PCT dominated commissioning processes to a more competitive open market for social enterprises, a policy move that has been exemplified through the introduction of Any Qualified Provider (AQP).

### 9.2 Reflections on the SEIF

Our research found that those supporting and commissioning social enterprise were largely supportive of the principles of the SEIF, in that it was established to encourage capacity building, access to finance and business advice for social enterprises entering NHS markets. For those that had direct dealings with the SEIF, Local Partnerships were singled out as very supportive:

*People couldn't make any headway under that structure.... it was really frustrating to a lot of enterprises. Then Local Partnership took over and they've been extremely proactive and generally I've not heard anybody say anything other than they manage things well.  
(SE Consultant 2)*

Despite broad support for SEIF goals, the SEIF was also associated with high levels of ambiguity. Evidently, a number of 'mixed messages' were identified across the system about who the SEIF was aimed at, for example, whether it was established for start-ups or much bigger providers like Right to Request spin-outs. There had also been a lack of communication about whether the fund was open or closed. Some were not sure if the SEIF still existed as 'rumours' circulated that unofficially the SEIF was closed:

*These rumours of not awarding anymore applications make people think, well, I won't bother to apply then, and that's not been helpful... even on their own social enterprise page there isn't a big song and dance that SEIF still exists. Is still available, it seems to be under the radar ... Different people across the groups that I've known got different messages about when decisions were being made. (SE consultant 1)*

The majority of commissioners we spoke to had very little understanding of the SEIF. Some were aware that it was a fund aiming to stimulate development or setting up of social enterprises but overall they lacked a general awareness of its goals or objectives. Commissioner 1 suggested that this was because there had been a lack of publicity and marketing of the SEIF:

*I've heard of it but to be honest I've not had the opportunity to look into what it is and what it involves. (Commissioner 7)*

### **9.3 Commissioning Social Enterprise**

Across the case study areas, our research found that the various commissioning players understood themselves to be very receptive and supportive of social enterprise. However, they did cite problems in relation to commissioning social enterprises, as many were not in a position to tender for business. For example, they needed a business model 'which a private sector investor would invest in', or 'something different' that made sense to the commissioner and the target user (Commissioner 2). Another commissioner also stated:

*The thing that becomes evident in terms of commissioning organisations is that we want to extend the access to services, and who can tender for services in the future, so that you're not just purchasing from other NHS organisations or local authority, but actually you are able to engage with third sector and new organisations. You realise actually that they aren't in a position to tender for business. Either they often know their stuff, but they're not good at writing business cases; or working out the financial aspects and the governance around those. (Commissioner 3)*

Commissioning perspectives suggested these practicalities of managing contracts for small organisations meant they had never done that well in the past with third sector commissioning. Furthermore, the way commissioning policy was designed meant that their hands were tied. Policies had meant commissioning had become a very formal process that lacked flexibility for dealing with social enterprise organisations. Commissioners therefore had to be careful about taking risks when investing money:

*Things have tightened up, certainly government-wise and in terms of how you have to account how you spend the money, but particularly in terms of procurement and the rules around procurement, making it much more difficult. You can't just go out to one organisation, to a local community group..... so it's still relatively easy to contract with the*

*big players in the voluntary sector, but not so easy to contract with the smaller ones ... You have to be even more rigorous about who you're investing in and how you're investing it really. (Commissioner 7)*

The SEIF was one of a variety of government policies that was supporting the entry of social enterprise into the health and social care system. Despite the potential of the policy direction, our research suggested social enterprise was still at an embryonic stage. It had not been fully embraced by the health community to date. The stakeholders we interviewed who supported social enterprise entry also described how commissioner anxiety around social enterprise was based on it being a 'different market'. The risk of failure associated with setting up a social enterprise was much higher compared to 'established teams' with 'established patient reputations', policies and procedures. Commissioning social enterprises was therefore a 'huge gamble' resulting in reluctance to invest in them:

*You go to these PCTs and stuff and we try and get a conversation with them, just sit down... Even getting a meeting with them is really difficult... They're just not very receptive. I don't know, it's like there's not that will at the top (SE consultant 3)*

*It requires resources, a lot of time and effort to make it work and I think generally with, particularly clinical services, we haven't felt the push to get social enterprise involved. I don't sense buy in at management level, I don't sense buy in at any level above really front line delivery stuff. (SE consultant 2)*

The gap between aspiration and implementation was largely explained due to the structure, complexity and interconnectedness of the NHS as a system. 'At the top' there was the will and senior management support for social enterprise but it was not being delivered as a frontline strategic objective. Work was still needed to achieve systemic change. As it stood, social enterprise only attracted a kind of 'highly motivated' entrepreneurial cohort who were willing to take the knocks. A 'leap of faith' was required to change the entrenched mindset within the NHS:

*There's a lack of knowledge and there's a lack of will to know and understand [social enterprise] because I don't think the benefits have been sold to staff, or if it's been sold to staff it's been from quite a lofty position, i.e. government, central government rather than as a local based. I don't see that grassroots ground swell, whereas if I can compare it to looking at the voluntary and community sector as a whole, there's increasingly buy in to social enterprise as opposed to grant funding as a model for what they do. (SE Consultant 2)*

The 'outer' context for commissioning social enterprise was also challenging. From being required 'to face a number of different ways' (Commissioner 7), commissioners experienced difficulties in the policy context, particularly payment by results, the QUIPP agenda and continuous restructuring all went against focus on neighbourhood level commissioning. There were also debates about GP commissioning. Some suggested the drive to GP led commissioning would also be supportive of social enterprise as GPs awareness of local public health issues was also of possible benefit to social enterprises. However, with everything up in the air in relation to commissioning, some perspectives suggested that because the current flux in the NHS meant it was only likely that existing health and social care social enterprises 'already within the pathway' would be successful. Whilst some suggest

GPs would be favourable to social enterprise, there were ongoing issues about how to get GPs to understand and connect with the third sector. This was likely to have a great impact on investees who had applied for SEIF growth funding on the basis of being awarded health and social care contracts – contracts that did not materialise and indeed led to some investees entering the ‘watchlist’ and cause for concern.

## **9.4 Conclusion**

Our analysis found that whilst the principles of the SEIF to support capacity building, access to finance and business advice were largely supported, the implementation of the fund within health and social care markets has been met with a high degree of ambiguity. It was not clear who the SEIF was intended for, and also whether it was still in operation. Our interviews with commissioners indicated that SEIF needed to be better communicated across the market. Commissioners believed they had positive relationships with social enterprises and encouraged them to grow and develop. The problem for commissioners was that these organisations were not quite investment ready or capable to take on the requirements of the contracting process. The risk associated with social enterprise, meant commissioning it was a gamble. Furthermore, commissioning structures and processes were not particularly favourable to such organisations. The bureaucratised and formal procurement process was in tension with the relative fluidity of small community based organisations.

The overarching theme of our market analysis was a gap between policy aspirations associated with the SEIF and the implementation on the ground. Greater attention was needed to build the capacity and understanding of social enterprise. Unless these ‘messages’ were articulated, the healthcare system was unlikely to engage with the social enterprise vehicle. The implication of these findings contributes to the existing evidence base on social enterprise organisations entering into health and social care delivery. This includes the potential problems of social enterprise dependence on commissioning bodies as the dominant source of work within the health and social care market, especially smaller organisations that have less capacity and experience to successfully tender for contracts (see Macmillan, 2010). As has been documented elsewhere, many organisations lack resources for service and organisational development (Alcock et al., 2004; Packwood, 2007; Wynne, 2008).

These findings may have significant implications for social enterprises following recent policy changes including the introduction of Any Qualified Provider (AQP) where social enterprises will be opened up to a more competitive market (DH, 2011b). If they are to compete, they need to be investment ready, as well as capable of engaging in and adapting to new contracting processes. They also need to be recognised as viable organisational forms by future commissioners, as well as patients who will have more choice and control over the services they use. Whilst increased patient choice may present new opportunities for social enterprises, it also presents some significant risks to their long term sustainability.

## Chapter 10: SEIF Implications and Recommendations

As we discussed in Chapter 1, this evaluation has used a 'programme theory' to map out how the SEIF was designed and delivered. The primary objective was to provide evidence in these four broad areas:

- market entry of social enterprises;
- increased diversity in providers and provision;
- addressing gaps in service provision and improving health and wellbeing;
- social enterprise contribution to wider economic and social development.

Our evaluation has aimed to achieve these goals through the three phases of research outlined in Chapter 3. Based on the evidence presented in this report, we now conclude by outlining our key findings in each of the above four areas. We then provide a selection of recommendations that address some of the broader operational issues uncovered by the evaluation.

### 10.1 Implications

#### 10.1.1 Market Entry of Social Enterprises

SEIF investment has been crucial in enabling new social enterprises to enter the marketplace. The survey indicates that approximately 52% of SEIF funded organisations were new start-ups (including starting trading within a charity). For those starting up, a SEIF investment was most frequently used to obtain business, legal and financial support. Indicative of this were Right to Request organisations, most of which felt that without SEIF investment and business support they would not be able to exist. The remainder of SEIF investments (48%) were used to develop and grow existing social enterprises.

It was still relatively early to assess the long term sustainability of social enterprises within the marketplace. Nonetheless, SEIF investment was felt by 65% of survey respondents to enhance their sustainability, and the fund has enabled some social enterprises to develop stronger business plans and secure new contracts. It has also enabled organisational development through improvements to workforces (supporting unemployed workers return to work and improving workforce morale) and improved responsiveness to communities (promoting greater inclusiveness and responsiveness to community needs). However, the sustainability of SEIF investees remains open to debate as our survey found 13% of organisations were no longer in operation, and 68% of these had closed down due to a lack of funding and support. Whilst this may indicate the instability of some social enterprises, this figure is similar to the average closure rate of UK businesses which stands at approximately 12% (ONS, 2010). The SEIF did also invest in 'high risk' social enterprises which may have higher closure rates than other businesses.

The sustainability of social enterprises may also be questioned due to their ongoing reliance on grant funding. This is strongly reflected in our evaluation with 84% of investments being in the form of grants. Whilst this was driven by annuality disbursement requirements, it does also reflect demand from applicants and raises doubts over the willingness of social enterprises to take on loans (indeed some applicants who were offered loans turned them down). This is also supported with survey data

which indicates that only 18% of investees would consider applying for a public sector loan in the future, compared with 49% who intended to apply for further grants.

Our evaluation supports previous research (Macmillan, 2010; Wells et al., 2010; Smallbone et al., 2001) which suggests that some social enterprises have limited management and business skills and that more business support is required to enable them to enter the market, develop and become sustainable. This was indicated by our Right to Request case studies which suggested that clinicians find it difficult to develop the business skills required to run a social enterprise, and therefore business support is crucial to the future success of these organisations. Experiences of SEIF business support have been mixed. Whilst more business support was offered to those applying to SEIF under SIB compared with CHP (SIB also introduced specialist business support for some investees), the survey data suggests that overall business support was only offered to a relatively small number of applicants (33% of successful, 11% of unsuccessful). A significant amount of SEIF investments were however used to fund external and specialist business support.

Our evaluation also generated mixed opinions on the management of the SEIF. Whilst most investees were happy with the type and amount of their investment, many found applying to the SEIF a time consuming and labour intensive process. Satisfaction with the SEIF did improve in Round 3, but there were ongoing communication issues, especially for unsuccessful applicants who frequently received no feedback on their application, which could be helpful in supporting these social enterprises to bid for and obtain other sources of finance.

### ***10.1.2 Diversity in Providers and Provision***

The SEIF was set up to support the vision set out in *Our Health, Our Care, Our Say* (DH, 2006) and Lord Darzi's *Next Stage Review* (DH, 2008a) of more personalised and responsive services through greater plurality within the provider marketplace. It has been largely successful in doing this, by stimulating the social enterprise market to provide more diverse solutions to health inequalities. Although the SEIF was established before the Any Qualified Provider (AQP) agenda, it does also support this policy by opening up the market for social enterprises, and provides new opportunities for service users to have more choice over the types of services they receive. In alignment with AQP, the SEIF has supported 'smaller local organisations [that] offer services that truly reflect their communities' needs' (DH, 2011b), with considerable numbers of SEIF investments being in small, community based organisations designed to meet individual and community needs through the provision of holistic and inclusive responses to health and care problems. The SEIF has also empowered service users, as some are represented within social enterprises as Board members, paid members of staff and volunteers. The SEIF has also been successful in responding to the Personalisation agenda (DH, 2008a), by funding community led wellbeing and care services and through funding signposting and support services for those with Personal Budgets.

The SEIF therefore supported a diversity of health and social care provision. However, the extent to which social enterprises can successfully compete in a diverse market remained a challenge. Our interviews with health and social care representatives suggested that securing new contracts remained a particular barrier as although commissioners generally had positive relationships with social enterprises and encouraged them to grow and develop, they also considered them a 'risk'. The

risks associated with social enterprises were that they were not considered to be investment ready or capable to take on the requirements of the contracting process. Bureaucratised and formal procurement processes were also often in tension with the fluidity of these relatively small community based organisations. Furthermore, organisational restructuring and the dominance of the acute care sector within the market acted as additional barriers. Social enterprise organisations could therefore encounter difficulties in negotiating commissioning and procurement processes and greater attention was needed to build the capacity and understanding of social enterprise.

### ***10.1.3 Addressing Gaps in Service Provision and Improving Health and Wellbeing***

The SEIF has primarily supported organisations working within the health inclusion field, often targeting disadvantaged or vulnerable groups, including those struggling with poverty, mental illness or the harm caused by alcohol, drugs or violence. Whilst SEIF has supported a small number of mainstream health and social care services, including primary care spin outs, it has mainly funded local community based services that are responding to an unmet social need. As a result, the majority of SEIF funded organisations deliver ‘health and wellbeing’ services that appear to strongly support the government’s Public Health agenda (DH, 2010b) and vision for social enterprise (DH, 2006; 2010a), to fill gaps in local provision by empowering communities to improve health and wellbeing and to tackle inequalities. The SEIF has also made a significant contribution to the health inequalities agenda by investing in services that improve provision and access to disadvantaged groups.

Given the time frame of the SEIF investments and this evaluation (as many social enterprises are only recently established), it is too early to examine SEIF investment in terms of health outcomes and therefore the extent to which SEIF has been able to improve health and wellbeing. The focus of our evaluation was instead on organisational outcomes and has found evidence to demonstrate positive emerging benefits in terms of improved working conditions for staff, improved organisational infrastructure and increased involvement of users in service design and delivery. Further research is recommended that addresses the extent to which social enterprise can deliver improved health and wellbeing, especially from the perspective of users.

Measuring the social benefits delivered by social enterprises was found to be important for the majority of organisations in our evaluation. SROI has been promoted as a measurement tool by the SEIF. However this was used by only 30% of investees, many of whom did not use it on an ongoing basis. Time, resource and wider factors associated with capability appeared to diminish interest and meant relatively few organisations used it. Instead of SROI, there was a preference for other tools that were more customised to the organisation. This brings into question the value in undertaking an SROI analysis, especially as our evaluation found that some commissioners were not familiar with it.

### ***10.1.4 Social Enterprise Contribution to Wider Economic and Social Development***

Our evaluation looked at the impact on and relationships of SEIF with the wider social investment market. The SEIF has been somewhat successful in leveraging new investment, by making some significant co-investments and by building a network of potential co-investors. However, with respect to issues of sustainability and market distortion, the SEIF has performed less well. Under annuality pressure from policy makers and priorities in demand from applicants, the fund has used grants as the main element in its investment portfolio (although there has been some use of joint grant loan

funding). Furthermore, when loans have been provided they have typically been issued at soft, non-market, rates and under non-market terms and conditions. Given the scale of SEIF investment within the market, the investment model may have a significant wider impact on the sustainability and attractiveness of social investment for new and existing investors in social enterprises. The limited provision of loans raises questions about the longer term sustainability of the fund as a continuing resource for the social enterprise sector.

## **10.2 Recommendations**

Since our evaluation was undertaken, there have been a number of significant changes in the policy environment that have resulted in new expectations and funding arrangements for social enterprises. Funding for social enterprises (as well as all public, private and third sector organisations) is likely to move away from PCT dominated commissioning processes to a more open market, as has been exemplified in the introduction of the Any Qualified Provider (AQP) agenda. Grant and loan funding for social enterprises is also uncertain, as whilst the SEIF is accepting new applications for the financial year 2011/12, its future after that remains unclear. The following therefore presents a series of suggestions from our evaluation for social enterprises, commissioners and social investors that reflect this changing context.

### ***10.2.1 Ensure Clear Application Processes for Social Investment Funds***

Overall, our findings highlight the importance of ensuring good application process for social investment funds. This includes good communication about the fund and its aims, as well as applicant criteria and eligibility guidelines. We recommend that social investment funds should provide simple and transparent application processes. This may include an efficient filtering system, such as a stage one and two application process. The significant increase in investments made during 2010-11 may well suggest that the application process was substantially improved as part of the applied learning from the funding round of 2009-10.

### ***10.2.2 Improve Social Enterprise Market Entry through Better Partnerships***

The issue of social enterprise 'entry' into the health and social care market featured heavily in our findings. What social enterprises and those commissioning them believed was that it was important to improve communication channels within local health and social care contexts. Although this will be extremely difficult in the current context of organisational restructuring and overhaul in the NHS, improvements to partnerships are clearly needed. We therefore recommend that social enterprises improve partnership working skills with current providers and funders within health and social care communities. NHS, Local Authority and public sector organisations also need to improve their understanding and responsiveness to social enterprise organisations.

### ***10.2.3 Improve Organisational Development through Better Capacity Building***

This evaluation supports existing research (e.g. Macmillan, 2010; Wells et al., 2010) which indicates that business and strategic planning support is required to enable third sector organisations to develop and become sustainable. Our evaluation indicates that many social enterprises are not yet investment ready and may struggle to secure contracts to deliver services. It is therefore important to ensure that

social enterprises have access to comprehensive business support and planning resources. This includes support for new and existing social enterprises.

#### ***10.2.4 Improve Provider Diversity and Keep Social Enterprise on the Agenda***

Evidence from the evaluation suggested that more work needed to be done to promote the role of social enterprises in the health and social care economy. Whilst they were clearly a feature of current interest in the health and wellbeing and personalisation agendas, more widespread understanding of social enterprise is still required. We recommend the improvement of policy levers and contractual processes for social enterprises that create a more level playing field so that 'any qualified provider' can become a reality. We also encourage the role 'Social Entrepreneur in Residence' positions to act as local level knowledge brokers to educate and spread the ideas and principles underpinning social enterprise.

#### ***10.2.5 Improve the Investment Market***

The scales of SEIF investment and the preponderance of grant funding have had a significant effect on the social enterprise investment market. Changes to the funding model and the use of grants and loans need to be explored. We therefore suggest that future funding needs to address annuality issues in order to improve the disbursement process and reflect more closely demand for support from social enterprises. Whilst a combination of loans with grants should be continued, any future funding for social enterprise should move towards a predominance of loan funding. Loan funding should however move towards a more market basis to avoid competing with other investment providers.

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## Appendix 1 - Pen Portraits of Case Study Sites

### Successful Organisations

#### Organisation 1

##### ***Brief Description of Organisation***

A CIC established in 2006 that provides a community resource centre for the promotion of health and well-being. The centre has approximately 112 employees (half being part time) and 10 volunteers. The centre offers health information and lifestyle choice services to hard-to-reach groups, including BME groups and youths. Income in 2009/10 was £1,645,388.

##### ***Brief Description of how SEIF Investment was used***

The acquisition and development of a building as a delivery and communications hub for the centre.

##### ***Amount, Type and Date of SEIF Investment***

Round 3, March 2010.

£114,750 grant.

#### Organisation 2

##### ***Brief Description of Organisation***

A charity and company limited by guarantee incorporated in 2006 that provides community support for vulnerable people. Services include health advice and support, advocacy and counselling. The organisation is small, employing only one paid worker and approximately 45 volunteers. Income in 2007/8 was £25,390.

##### ***Brief Description of how SEIF Investment was used***

To commission the services of a development manager who will help enable the establishment of a healthy living centre.

##### ***Amount, Type and Date of SEIF Investment***

Round 2, February 2009.

£20,000 grant.

### **Organisation 3**

#### ***Brief Description of Organisation***

A large CIC established in 2011 under the Right to Request programme. The social enterprise delivers primary care and community services and employs around 800 members of staff.

#### ***Brief Description of how SEIF Investment was used***

To establish the social enterprise and support the Right to Request process, including to develop a business plan.

#### ***Amount, Type and Date of SEIF Investment***

Round 3, November 2009.

£249,617 grant.

### **Organisation 4**

#### ***Brief Description of Organisation***

A CIC established in 2011 under the Right to Request programme. The service was first set up in 2007 and supports the health and social needs of young parents and their families. The social enterprise employs approximately 10 members of staff.

#### ***Brief Description of how SEIF Investment was used***

To establish the social enterprise and support the Right to Request process, including the development of a business plan and to purchase more office space and increased staff capacity.

#### ***Amount, Type and Date of SEIF Investment***

Round 3, February 2010 and December 2010.

£228,989 of which £70,000 is a loan and £158,989 is a grant.

### **Organisation 5**

#### ***Brief Description of Organisation***

A CIC established in 2010 under the Right to Request programme. The service was first established in 2003 and offers primary healthcare to homeless people. The organisation employs 14 members of staff.

#### ***Brief Description of how SEIF Investment was used***

To establish the social enterprise and support the Right to Request process, including to develop a business plan and to establish a project director.

#### ***Amount, Type and Date of SEIF Investment***

Round 3, December 2009 and Pathfinders 2007.

Total investment of £125,970.

£80,000 grant in Round 3 and £45,970 from Pathfinders.

## **Organisation 6**

### ***Brief Description of Organisation***

A CIC set up in 2011 under the Right to Request programme. The service was first established in 2003 and provides prison health, drug intervention and substance misuse services. The service employs 30 members of staff.

### ***Brief Description of how SEIF Investment was used***

To establish the social enterprise and support the Right to Request process, including to develop a business plan and pay legal costs.

### ***Amount, Type and Date of SEIF Investment***

Round 3, November 2009 and February 2011.

£130,500 grant (£45,500 in 2009 and £85,000 in 2011).

## **Organisation 7**

### ***Brief Description of Organisation***

A CIC and charity established in 1994 that provides of arts-based therapy to adults suffering from severe and enduring mental ill-health. There are approximately 30 members of staff (mostly part time or freelance) and 40 volunteers. Income in 2008/09 was £792,090.

### ***Brief Description of how SEIF Investment was used***

Purchase of a building and associated essential maintenance work.

### ***Amount, Type and Date of SEIF Investment***

Round 3, July 2009.

£762,674 of which £700,000 is a loan and £62,674 is a grant.

## **Organisation 8**

### ***Brief Description of Organisation***

A large national transport company established in 1982 that operates mainstream bus routes as well as services for young, older and disabled people. It is established as a company registered by guarantee and a charity and employs over 300 people. Income in 2008/09 was £11,442,000.

### ***Brief Description of how SEIF Investment was used***

To establish and maintain a community bus route for disabled people.

### ***Amount, Type and Date of SEIF Investment***

Round 3, March 2010.

£224,604 grant.

### **Organisation 9**

#### ***Brief Description of Organisation***

A large national social care organisation established as a company limited by guarantee in 1964. The social enterprise employs over 1800 staff and 300 volunteers. Income in 2006/07 was £61,445,000.

#### ***Brief Description of how SEIF Investment was used***

To establish and sustain a new social enterprise to deliver low level integrated health and social care services for the whole community.

#### ***Amount, Type and Date of SEIF Investment***

Round 2, March 2009.

£520,600 grant.

### **Organisation 10**

#### ***Brief Description of Organisation***

A community based education and community development charity incorporated as a company limited by guarantee. It began trading in 1987 and now has over £2million of assets. Income in 2008/09 was £1,261,420.

#### ***Brief Description of how SEIF Investment was used***

To modernise and refurbish a community resource centre.

#### ***Amount, Type and Date of SEIF Investment***

Round 3, March 2010.

£517,080 grant.

### **Organisation 11**

#### ***Brief Description of Organisation***

A company limited by guarantee and charity established in 1996 that specialises in rural or urban regeneration in areas of economic and social deprivation. It provides training, community activities and enterprise programmes. The social enterprise has assets of over £2million. Income in 2007/08 was £668,203.

#### ***Brief Description of how SEIF Investment was used***

To convert an existing building into independent living units for young people and those with learning difficulties.

#### ***Amount, Type and Date of SEIF Investment***

Round 3, March 2010.

£450,000 of which £250,000 is a grant and £200,000 is a loan.

## **Organisation 12**

### ***Brief Description of Organisation***

A CIC set up in 2008 (began trading in 2009) to provide children's primary care services under contract to the NHS. Services include direct nursing care, consultancy and training. The social enterprise employs two members of staff.

### ***Brief Description of how SEIF Investment was used***

To set up the social enterprise, including to pay consultancy and professional fees.

### ***Amount, Type and Date of SEIF Investment***

Round 3, June 2009.

£30,000 grant.

## **Organisation 13**

### ***Brief Description of Organisation***

A CIC set up in January 2010 to promote the effective provision of accommodation, care and support for vulnerable adults within very small-scale family and community settings.

### ***Brief Description of how SEIF Investment was used***

To set up the social enterprise, including to pay consultancy and professional fees.

### ***Amount, Type and Date of SEIF Investment***

Round 3, May 2009.

£163,500 of which £92,300 is a grant and £71,200 is a loan.

## Unsuccessful Organisations

### **Organisation 14**

#### ***Brief Description of Organisation***

A CIC established in 2008 that provides customised support in the form of exercise through football, community re-integration and employment opportunities to young people with mental health problems. Income in 2009/10 was £139,388.

#### ***Brief Description of how SEIF Investment would have been used***

To renovate a house that will be used as residential accommodation and a support centre for young people.

#### ***Amount, Type and Date of SEIF Application***

First applied and were unsuccessful in March 2010. They then reapplied and were successful, receiving a grant of £44,366 in January 2011.

### **Organisation 15**

#### ***Brief Description of Organisation***

A company limited by guarantee and charity set up in 2006 to provide support and exercise for Asian women. The service began as a local neighbourhood forum in 1988 and now runs a gym as well as exercise and wellness sessions for Asian women and girls. The service employs approximately 12 members of staff. Income in 2009/10 was £221,162.

#### ***Brief Description of how SEIF Investment would have been used***

To fund a new building to be used as an exercise centre and for staff costs.

#### ***Amount, Type and Date of SEIF Application***

Applied to the SEIF twice. The first time for a grant of approximately £90,000 in March 2010. The second time in November 2010 for approximately £60,000. Both were unsuccessful.

### **Organisation 16**

#### ***Brief Description of Organisation***

A user led disability organisation that offers information, advice and services for disabled people and their carers. The organisation is a charitable company established in 2001. Income in 2008/09 was £46,608.

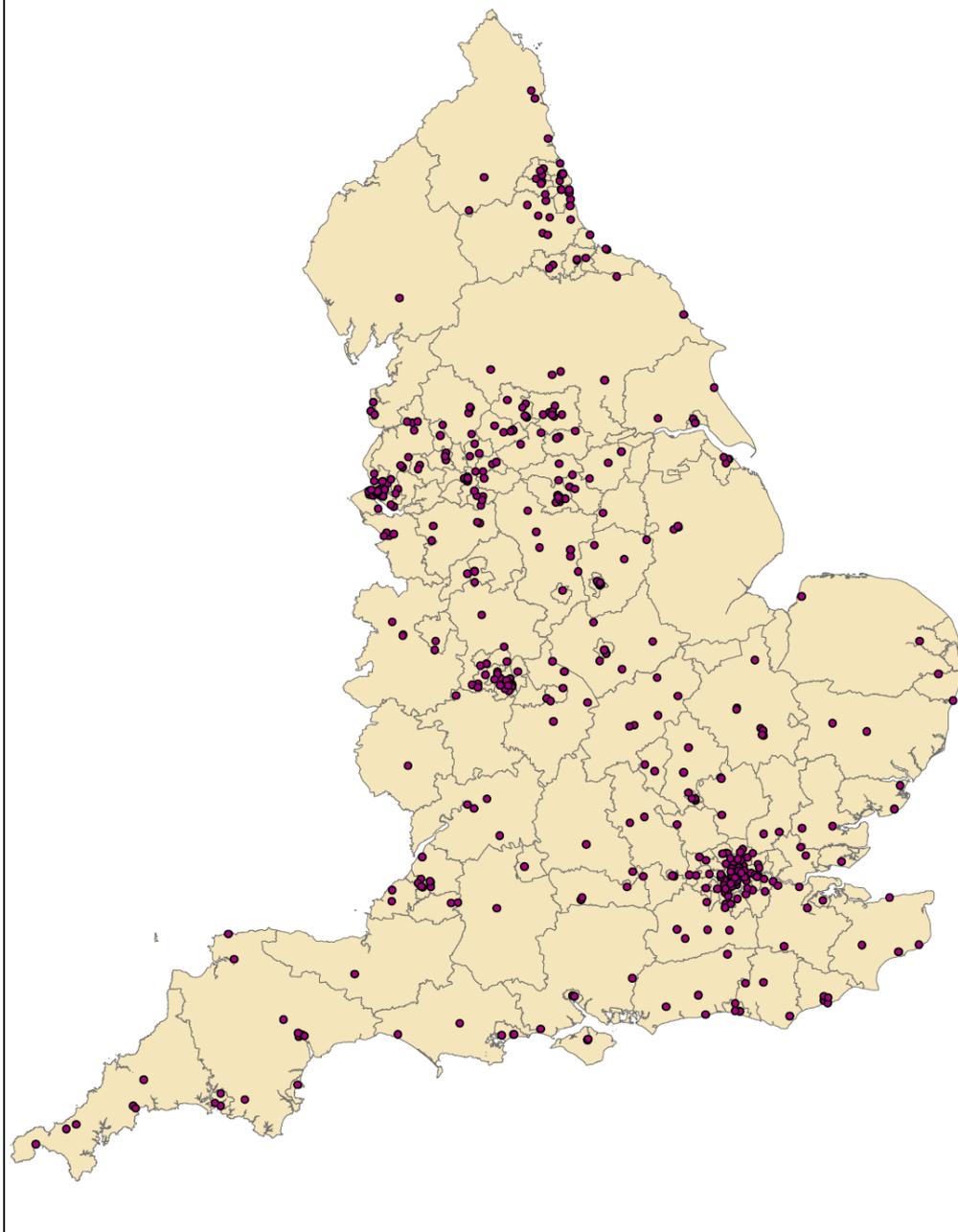
#### ***Brief Description of how SEIF Investment would have been used***

To establish a service to assist health and social care service users to exercise choice and control over the provision of their personal and social care services. Services include advocacy training and apprenticeship, information and advice, and a payroll support service for those with Direct Payments.

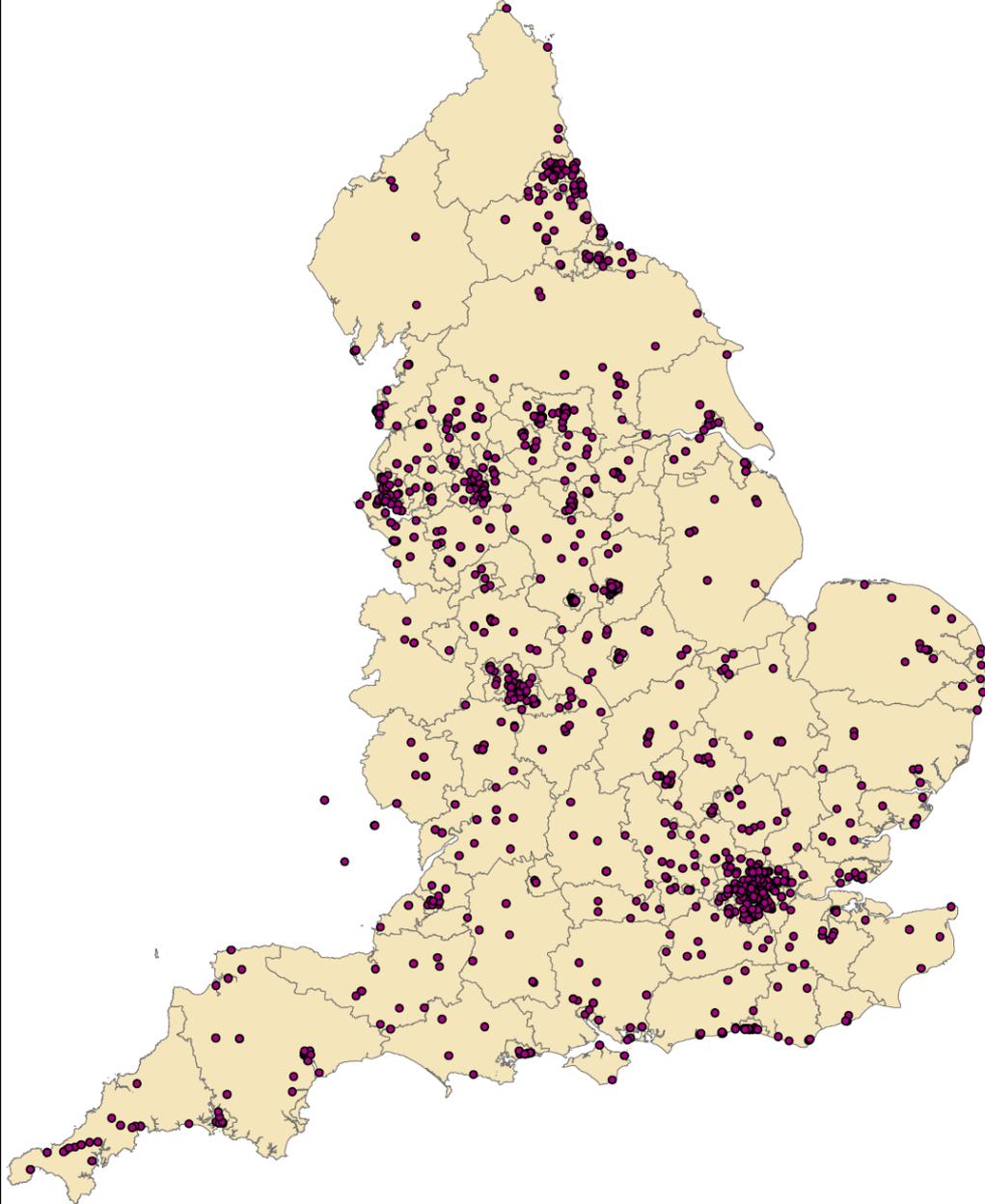
#### ***Amount, Type and Date of SEIF Application***

Applied for a £177,500 grant in December 2009 but were unsuccessful.

### All Successful SEIF Applicants



## All Unsuccessful SEIF Applicants



## About HSMC

HSMC has been one of the leading UK centres for research, personal and organisational development in health care for nearly 40 years. Commissioning of healthcare and provision of healthcare outside hospitals have become specific areas of expertise in recent years, underpinned by a continuing commitment to issues of quality improvement and public and patient engagement. This reputation has also started to extend to adult social care services. HSMC has also developed a national reputation for both organisational and leadership development across all health settings. For further information visit [www.hsmc.bham.ac.uk](http://www.hsmc.bham.ac.uk)

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