TRAVERSE

Connect Fund – Disabled People's Organisations and Social Investment

Findings from the Call for Evidence

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1. Introduction

This chapter describes the design, administration and analysis of the Call for Evidence; and positions it against the wider context of the 'Disabled People's Organisations and Social Investment' project.

The Disabled People's Organisations and Social Investment Project

Disability Rights UK (DR UK) is working in partnership with Traverse (formerly known as the OPM Group) to conduct this project aimed at helping Disabled People's Organisations (DPOs) better understand and engage with social investment. This project has received funding as part of the Connect Fund.

The project is underpinned by the following aims and objectives:

- To upskill colleagues within DR UK to better understand and to advise DPOs on social investment.
- To help DPOs, through the advice and support from DR UK, to improve their awareness of social investment.
- To identify segments of DPOs who may be better placed to respond to, and benefit from, social investment.
- To co-produce or repurpose relevant material and resources with representatives from these DPOs to as to facilitate better engagement with social investment.
- To broker relationships between DR UK and key players in the social investment world so that the latter may better understand the needs of the disability sector.

To achieve the above, the project involves a number of activities, including:

- A Call for Evidence to DPOs to understand their awareness, perceptions and experiences of social investment.
- Analysis to determine DPOs' needs for investment.
- Analysis to identify key characteristics of the types of DPO that are likely to mean that they may benefit from social investment.
- Interviews, focus groups or workshops to better identify the types of resources that will be helpful to DPOs in relation to understanding and engaging with social investment.
- Workshops or meetings with key social investment organisations to help them understand the needs of DPOs and how resources may be made more useful and accessible to these, as well as helping them clarify how future social investment products and services may be designed to be more relevant to DPOs.

This report sets out the methods and findings relating to the Call for Evidence, and it should be read as the first scoping stage of the project overall. The insights from the Call for Evidence will form the basis of decisions taken around the focus and scope of subsequent activities.

Call for Evidence

Traverse led the design, administration and analysis of the Call for Evidence, with contributions from DR UK.

Design

Traverse worked with the DR UK project lead to agree the topics that should be included in the Call for Evidence. There were six sections included in the Call for Evidence, namely:

- Organisational information and characteristics – including the geographic location of DPOs, their size (income and staffing), maturity, and legal form.
- Challenges experienced – including key challenges experienced in the past 5 years as well as anticipated challenged over the coming 5 years.
- Income – including composition of overall income, changes in overall income level as well as composition over the past 5 years, need for external financing as well as actions taken and outcomes resulting.
- Growth – including plans for growth over the coming 5 years, anticipated drivers for growth and need for external financing.
- Impact – including practice of and confidence in measuring outcomes, perception of the weight placed by various external stakeholders on social impact.
- Social investment – including awareness of the purpose and types of social investment and the types of social investors, previous engagement with and experience of social investment, perceived relevance of social investment, and degree of interest in learning more about social investment.

The Call for Evidence instrument is available upon request, but has not been appended to this report due to the complex routing questions which do not lend themselves to a linear WORD document representation.

Sample and response

The Call for Evidence was administered by DR UK, and was sent to all 130 of their user-led member DPOs. In addition it was sent with a personal message from CEO Kamran Mallick to an additional 30 DPOs that have partnered with DR UK on projects over the past four years. In total therefore 160 DPOs were invited to participate. The Call for Evidence was administrated electronically for ease of access and response. The Call went 'live' on 18th September 2018 and was closed on 30th October 2018. A total of 37 responses were received, out of which 34 were complete and 3 were partial responses. This represents a 23% response rate. The partial responses, as well as the fact that some answers were optional, account for the fluctuation in sample size throughout the report. The breakdown of the sample characteristics is provided in Chapter 2.

Analysis

The Call for Evidence comprised largely of closed response options. Descriptive statistics

were generated, initially, for the quantitative data. These formed the basis for further analyses that looked at correlations and associations, with the aim of identifying relevant patterns. Specific attention was paid to segmentation to assess if certain types of DPOs are more or less likely to displays particular expectations, experiences or outcomes.

The Call for Evidence also includes a small number of open response options, allowing 'written in' answers. Analysis for the qualitative data involved thematic analysis whereby key issues are identified, and assessed for significance.

Reading this report

This is not meant to be academic research. This report is meant to provide a pragmatic way of clarifying our understanding of DPOs and their understanding of, and engagement with, social investment. It also clarifies our understanding of the potential relevance of social investment to DPOs and hence makes suggestions around whether and which types of DPOs may find social investment useful.

The following chapters set out findings relating to the key headings in the Call for Evidence instrument.

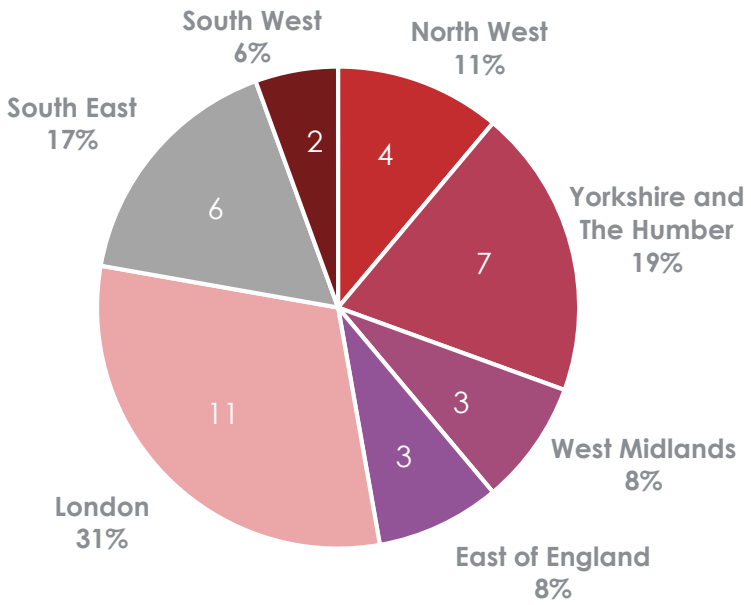
When reading this report please note that:

- Due to having a small sample size, we have mainly used numbers to illustrate the proportions of different responses. When percentages are used, they are also accompanied by numbers.
- Partial percentages have been rounded to the nearest full number. Therefore, not all figures shown will add to 100%.
- The number of responses to each question does not remain the same, as some questions are only relevant to specific sub-sets of respondents.

2. Characteristics of responding DPOs

This chapter provides an overview of composition of the sample of responding DPOs.

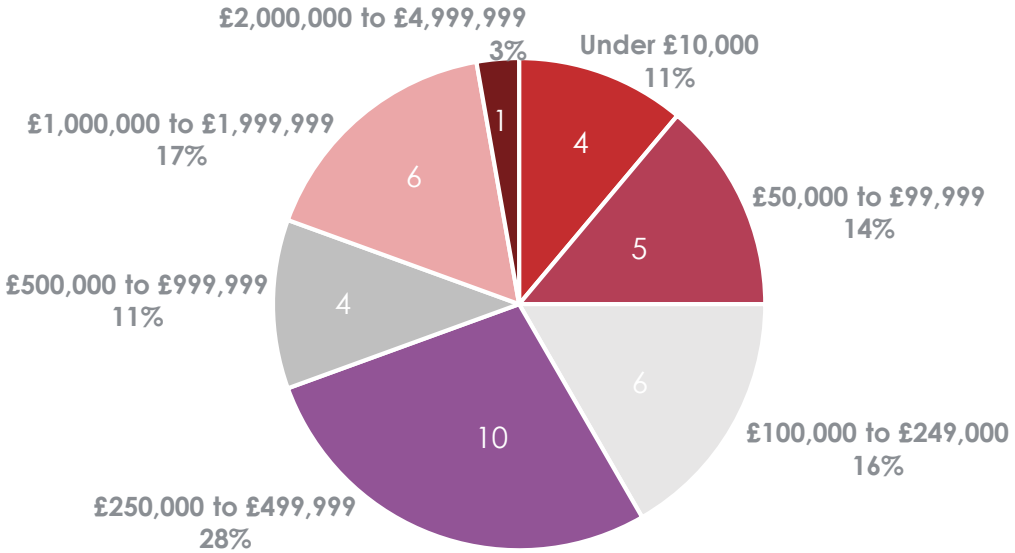
Geographic distribution



As shown in the graph above, a third of respondents are London-based organisations, with the other two thirds distributed across various regions of the country. There were no responses from organisations based in the North East or East Midlands.

In addition to their geographical base, DPOs were also asked about their areas of operation: out of 36 responses, 2 London-based organisations operate across the entire country, 1 organisation based in the West Midlands has operations in several regions of the country, while the other 33 only have a local presence.

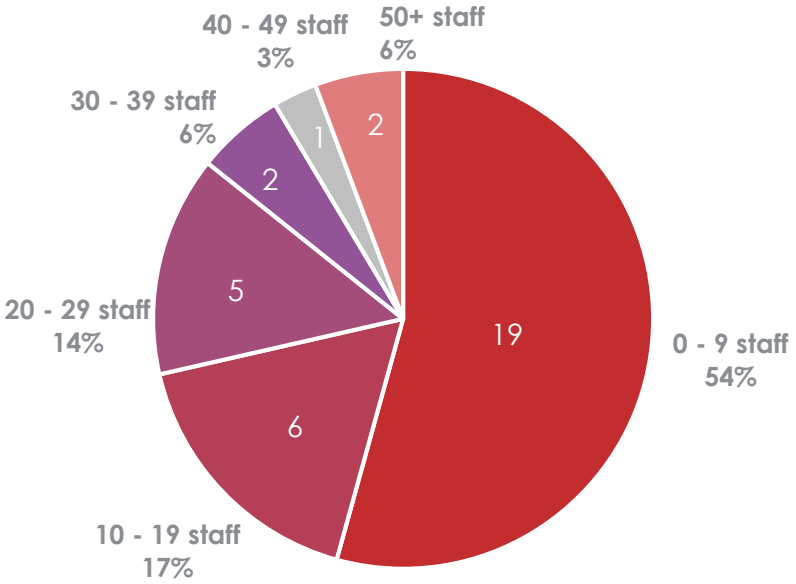
Size



In terms of organisational size, respondents reported a wide range of incomes, with the majority being somewhere in the middle:

- 20% (7 out of 36) have incomes of £1mill and over (one of which exceeds £2mill), and 11% (4 out of 36) are between half a million to just under a million;
- The majority (44%, 16 out of 36) are between £100K to £499,999, with two thirds of this in the upper range (from £250k to £499,999);
- 25% (9 out of 37) are under £100K (with 4 under £10K, and no responses in the £10-50K range);
- No organisation reported having an income of or over £5mil.

The majority of DPOs (54%, 19 out of 35) employ between 0 and 9 staff (full-time equivalent). We note that 4 out of the 19 currently employ no staff: all were set up in 2012, with one not legally constituted yet. 3 out of the 4 have an income below £10k, and 1 between £50k and £99,999.



Given what we know about distribution of DPOs (i.e. dominated by very small ones), it looks like our respondents are atypical of the wider sector. For example, Inclusion London has estimated that the average income of the c.120 DPOs in London is only £373,870 with only 7 organisations having income over £1million. They employ between 1 and 20 members of staff.

DR UK's member DPOs also tend to be on the smaller side, with only 7% reporting an annual income of more than £500,000.

We conjecture that it's because smaller DPOs do not have the capacity to respond to such solicitations for information. Additionally, they may be less likely to perceive social investment as being relevant to them, compared with the bigger ones.

Maturity

The 4 'oldest' DPOs are London-based and were set up either in the late '60s or '70s, while the 6 youngest were established between 2010 and 2014. The other three quarters (n=24) are split evenly: 8 have been around since the '80s, 8 were set up all throughout the '90s, with a further 8 established between 2000 and 2008.

Legal form

Almost 78% (28 out of 36) are registered charities, with 8 of these concurrently being a company limited by guarantee. The other legal forms identified are: 2 Charitable Incorporated Organisations (CIO), 1 community interest company and 1 voluntary group, while 1 organisation was not legally constituted at the time of the survey.

3. Challenges confronting DPOs experience

This chapter looks at the key challenges DPOs have been confronting over the past 5 years, and contrasts these with the types of challenges that DPOs anticipate they will experience over the next 5 years.

Challenges in the past 5 years

	Total	Top 1	Top 2	Top 3
Funding from local authorities reduced	28	12	7	9
Grant making bodies criteria difficult to respond to	20	3	6	11
Maintaining the core of your organisation	23	11	6	6
Stop-start nature of funding	14	4	7	3
Public sector tenders excluding small providers	14	1	8	5
Competing with large sector private organisations moving into your locality	9	5	2	2

'Funding from local authority reduced' was the greatest challenge facing DPOs over the past 5 years. 28 out of 37 responding organisations identified this as a key challenge. It is also the issue that appeared most frequently as DPOs 'number 1' challenge (out of the top 3 challenges they identified and ranked in order of importance).

The importance of this issue is attested to by the fact that it has been identified as a key challenge by DPOs regardless of their income level. Even the largest organisations by income have identified this as a key challenge.

'Maintaining the core of your organisation' emerged as the second greatest challenge, with 23 out of 37 responding DPOs identifying this as a key challenge. Indeed, and almost equivalent number of DPOs identified as their 'number 1' challenge as those identifying 'funding from local authority reduced' (11 compared to 12).

Similar to the reduced funding from local authorities, maintaining the core of their organisation was identified as a challenge for a mix of larger and smaller organisations, both in terms of staff numbers and income. For instance: out of the 11 DPOs for which maintaining their core is the top challenge, 3 employ between 25 and 30 members of staff and have an income of between £500k and £999,999; 2 are medium sized (with 8, 14 and 17 staff), with income between £250k and £499,999) and the other 6 employ less than 10 staff and have income under £250k. We also note that this was seen as a top 3 challenge even by the largest respondent by income.

This was also the case for difficulties around grant funding criteria, which both small and larger organisations reported encountering.

The importance of 'funding from local authority reduced' and 'maintaining the core of your organisation' is unsurprising and the two may be interpreted as both sides of the same coin. As Inclusion London reported, 1 in 5 DPOs have closed since 2010 as a direct result of funding cuts, with some experiencing up to 50% reduction in income. There has

been a significant shift away from funding in terms of grant (especially core grant), towards contract-based income. The majority of DPOs in Inclusion London's study indicated that funding from local authorities, in particular, has been severely reduced. Compounding this, funding and commissioning intentions of local authorities have become very unclear, making forward planning and re-structuring extremely difficult for DPOs.

With the removal of funding to DPOs since 2010 and the need for DPOs (alongside other voluntary and community sector organisations) to compete for contracts, many DPOs are losing out to large private sector companies like Capita, Serco and G4S who are increasingly being awarded contracts to deliver various services to disabled people. Thus, 'competing with large sector private organisations moving into your locality' is also a key challenge identified for DPOs in our Call for Evidence.

Many DPOs feel disadvantaged by current tendering and procurement practices that appear to be tailored in favour of large organisations and actively disadvantage DPOs and other smaller voluntary sector organisations. In addition, many of such practices are inaccessible. 'Public sector tenders excluding small providers' has therefore also emerged as a key challenge confronting DPOs.

Anticipated challenges over the next 5 years

	Total	Top 1	Top 2	Top 3
Sustainability	23	15	4	4
Funders prioritising 'innovation' or short-term objectives over proven, long-term programmes	20	3	5	12
Being asked to do more for less by commissioners/funders	19	8	7	4
Maintaining the core functions	17	5	6	6
The levels of unmet need	12	2	5	5
Knowledge & expertise at board level	8	2	2	4
Finding accessible, affordable premises	6	0	6	0

Against the context of severe and persistent financial constraints, it is unsurprising that 'sustainability' has emerged as the single greatest challenge identified by DPOs over the following 5 years (23 out of 37 DPOs). More significantly, this issue is, by far, the most common one identified as the 'number 1' challenge.

Challenges arising from funder behaviour and expectation continue to be important. For example, 'being asked to do more for less by commissioners/funders' and 'funders prioritising 'innovation' or short-term objectives over proven, long-term programmes' emerge as being significant challenges for the foreseeable future, and these were

identified by organisations regardless of size or income.

These point to the short-termism of the funding landscape that has been characterised by an obsession with cost-cutting. It has been widely reported elsewhere that 'cost' rather than 'value' has become the main basis for decision-making in relation to funding and commissioning.

This is in spite of legislation, such as the Public Services (Social Value) Act, that placed a statutory duty on public bodies in England and Wales to give due consideration to how their commissioning and procurement contributes towards improving the local social, economic and environmental outcomes.

Other challenges such as levels of unmet need are mostly reported by DPOs in London (n=4), South East (n=3) and West Midlands (n=2). Difficulties finding suitable premises are anticipated by organisations across London, South East and Yorkshire and The Humber, most of which (4 out of 6) have an income of between £100k and £249,000. However, as the numbers involved are very small, we would caution reading too much into these.

4. Income

This chapter describes whether, and in what ways, the income of DPOs have been changing in the past 5 years. It also examines the extent to which DPOs have required external financing. For those who have required external financing, we describe the actions taken, experiences and outcomes achieved.

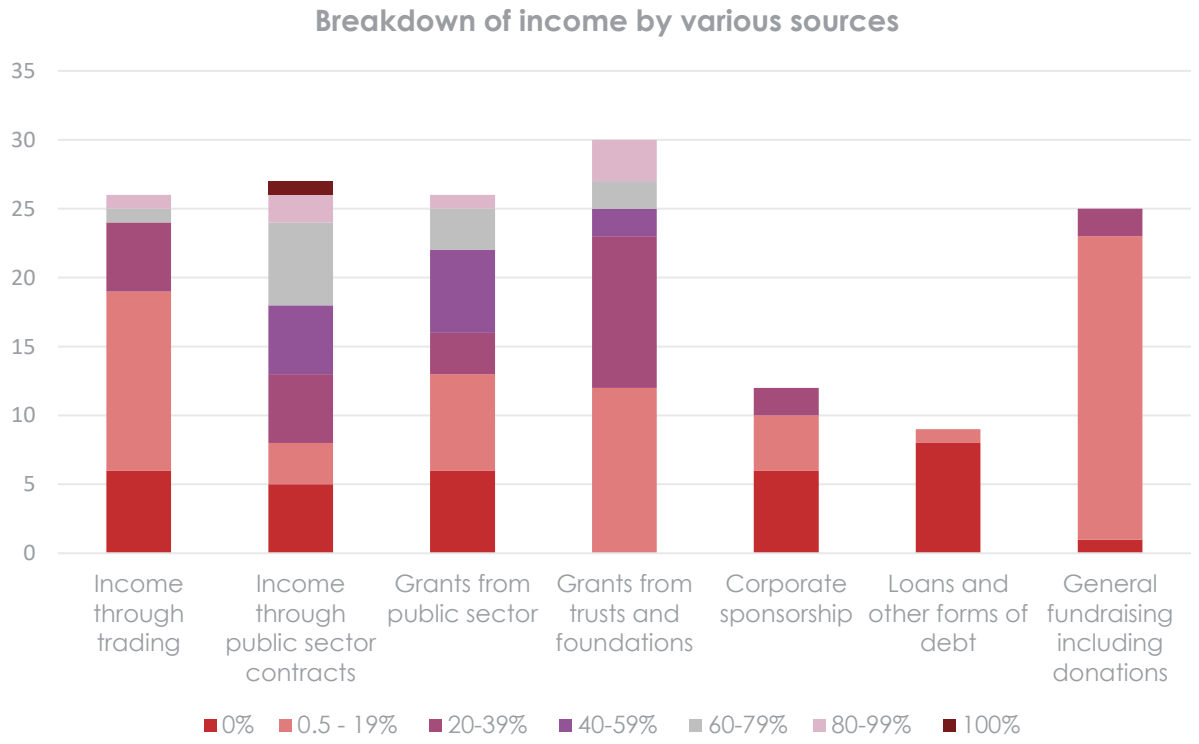
Changes in overall income

More DPOs reported their income decreasing over the past 5 years (17 out of 36), as opposed to increasing (13 out of 36), with more indicating that their income had 'decreased significantly' (n=6) rather than 'increased significantly' (n=2). 6 of these organisations are based in London, 4 in Yorkshire and The Humber, while the other 6 are split between East of England (n=2), North West (n=2), the South East (n=2) and West Midlands (n=1).

Out of the 13 whose income has increased, only 2 reported that the increase was significant. There are no obvious differences across geographies, but size may play a role, with 4 having an income of over £500k, and 7 between £100k and £499,999.

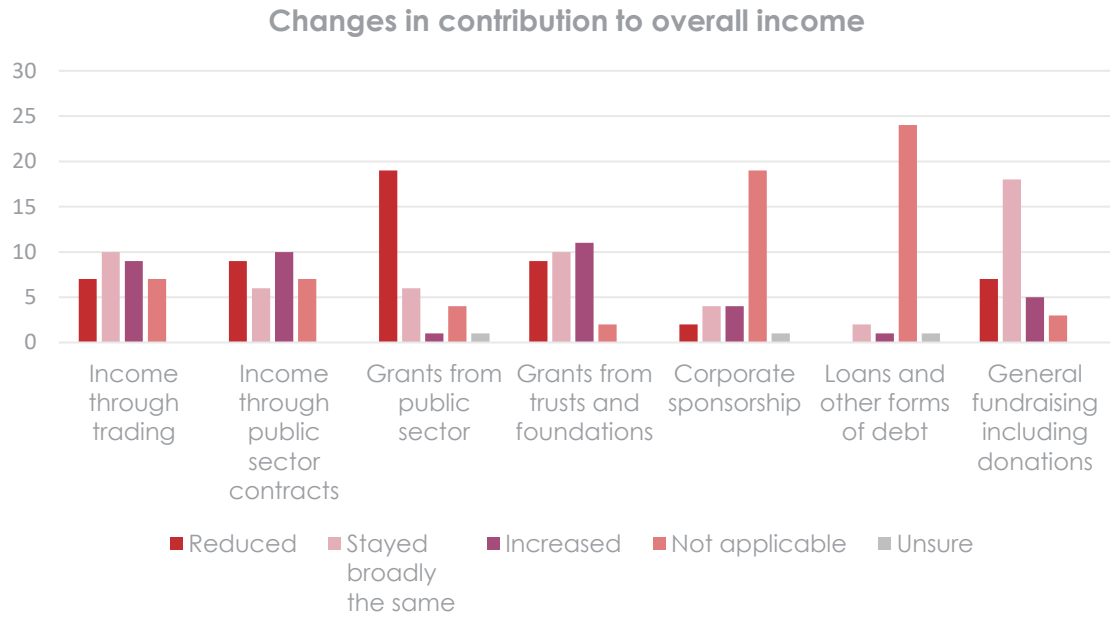
Composition of income

As shown by the chart below, grants from trusts and foundations account for the largest proportion of overall income. These are closely followed by other income sources such as public sector contracts, grants from public sector, trading and fundraising and donations. Most DPOs derive their income from a variety of sources, with only a few relying on one or two sources of income – e.g. one organisation whose income is between £250k - £499,999 is 100% funded by public sector contracts, while another one with income under £10k relies 99% on grants from trusts and foundation and 1% on fundraising/donations.



Most DPOs who have more than 50% of income coming in from public contracts have between £250k and £499,999 annual income (5 out of 13), with the rest reporting a mix of income sizes.

Changes in the composition of income over time



The above table reinforces some of the findings reported earlier. In particular, the reduction of the proportion of overall income accounted for by 'grant funding from public bodies' is highly pronounced. While this has been widely felt, regardless of income size of responding DPOs, it is also clear that DPOs have had mixed success in terms of replacing this source of income with engagement in public sector contract delivery. Almost as many DPOs indicated that income from public sector contract delivery fell as those indicating that it had risen as a proportion of overall income.

The role of corporate sponsorship and loan or other forms of debt are, unsurprisingly, much less significant in the context of DPOs' overall income.

Need for external financing

Just under a third of responding DPOs indicated that they had required external financing at some point in time in the past 5 years (11 out of 37). There does not appear to be any specific characteristic of DPOs that influence their likelihood to report that they have required external financing. Again, the sample size is too small to conduct meaningful sub-group analysis.

Interestingly, among those 11 that indicated they had need for external financing, most did nothing about it (7 out of 11). Only 4 took actions towards addressing this need. All 4 organisations are relatively mature (between 36 and 26 years of existence), and 2 are located in the North West, 1 in Yorkshire and The Humber and 1 in the South East. Their levels of income vary from the £50k-£99,999 range to the higher £2mil – £4,999,999 range.

The instances where they reported taking up external investment are summarised

below:

Example 1:	
Source(s) of external funding	Borrowing from a charity / social bank Use of reserves
Outcome	Secured entire amount needed
Amount secured	£250,000
Funding used for	Purchasing property
Example 2:	
Source(s) of external funding	Borrowing from a high street commercial bank Raising finance from charitable foundations and trusts Accessing social investment
Outcome	Secured part of the amount needed
Amount secured	£25,000
Funding used for	Cashflow
Example 3:	
Source(s) of external funding	Raising finance from corporate sponsors
Outcome	Secured entire amount needed
Funding used for	Cashflow
Example 4:	
Source(s) of external funding	Accessing social investment
Outcome	Secured entire amount needed
Amount secured	£400,000
Funding used for	Purchasing property

It is interesting to note that some form of social investment featured in the actions of 3 out of the 4 DPOs that took actions to access external financing. Overall, those that took actions to access external financing were all successful (although one of the 4 only secured part of the amount it needed). This does not mean that all these were successful in securing social investment (see Chapter 7).

Two of the DPOs required external financing for property purchase, while the other two required it for helping to manage cashflow. It is unsurprising that the amounts required for those needing financing for property purchase are significantly larger than those required for managing cashflow.

Turning our attention to those who had need for external financing but did not take action, a number provided explanations for this. Most reasons were concerned with a lack of knowledge and/or capacity to securing external funding, as well high interest rates:

> *"We looked but nothing and no-one there to help."*
>
> *"Don't have the knowledge. The process is too complicated."*
>
> *"It was too complicated, and we didn't have the capacity to research and prepare an application"*
>
> *"We don't have the capacity to think a big picture as we always work 24/7 to get things done, so on. We only have two core staff (CEO and admin) to manage generally. All other staff have their own specific jobs to do!"*
>
> *"Interest rates too high for us as a registered charity."*

5. Growth

This chapter discusses DPOs plans for growth and where they see growth arising from. It also assesses the extent to which DPOs anticipate external financing to be required in order to support their growth plans.

Plans for growth

More than two-thirds of DPOs indicated that they have plans for growth (27 out of 36). The ones without growth plans are a mix of small to medium-sized organisations with income lower than £500k, whose income has decreased in recent years.

Drivers for growth

DPOs indicated that their growth plans are founded on a wide range of drivers, as shown in the chart below:

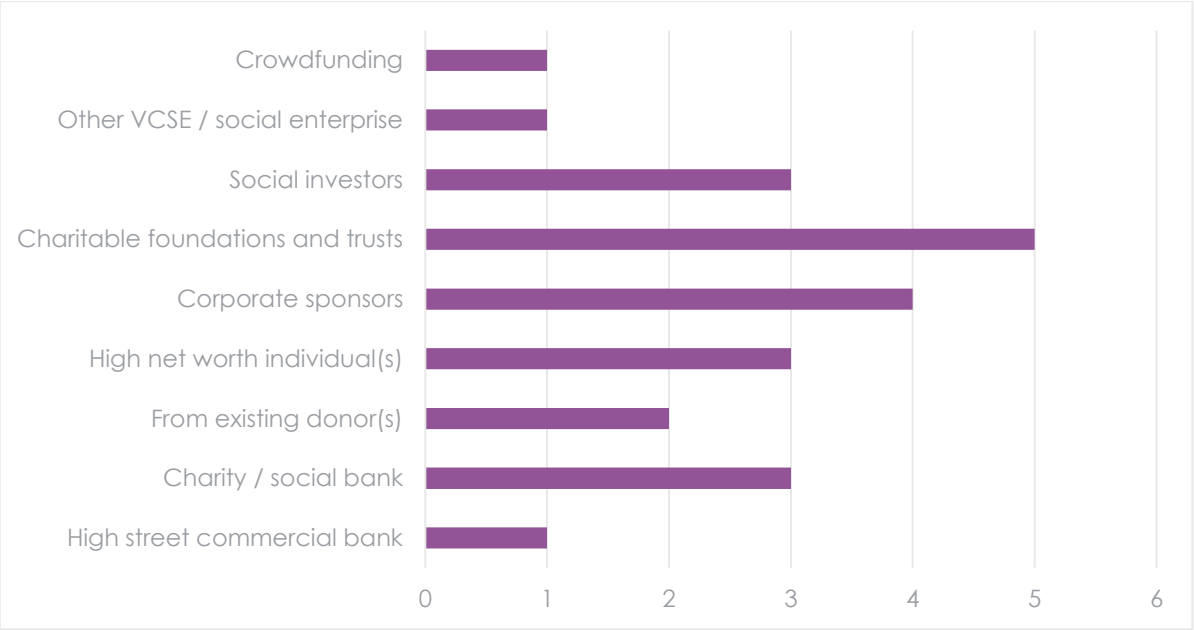
The growth sources above are mentioned to a greater or lesser extent by organisations, depending on size/ income, as well as current source of income. For example, 8 out of the 11 organisations looking to grow corporate sponsorship have income between £250k and £1,999,999, with 5 of these over half a million.

Interesting, DPOs that currently have income from trading and public sector contracts accounting for a significant proportion of their overall income are also more likely to indicate that their growth plan involves growing these income sources.

Despite recognition that income from public sector grants and from grants awarded by charitable foundations and trusts are both under pressure, DPOs (regardless of size) still have aspirations for growing income from these two sources of grants.

Need for external financing to support growth

Only a third of DPOs indicated external financing is going to be an element of their growth plan (9 out of 27). This diagram below illustrates where they think they are likely to see external financing from:



The above shows that various forms of social investment may play a role (e.g. charity/social banks, social investment, and potentially other VCSE/social enterprises as well as crowdfunding), although the single most common source of external financing is seen to come from charitable trusts and foundations. However, as respondents would have indication this response option in terms of external financing separately from grants, we can assume that respondents are talking about non-grant based income from charitable trusts and foundations. This might therefore be characterised as some form of social investment, which therefore makes 'social investment' a significant overall player for those DPOs that are thinking about seeing external financing to support growth.

It is interesting to note that only one DPO indicated that it would approach a commercial high street bank for external financing. This set of responses from DPOs seem qualitatively different from trends reported elsewhere. For example, there is evidence reported by that social enterprises, in general, have a tendency to approach high street commercial banks for external financing rather than to think of social investment. As DPOs in our sample are overwhelmingly charities, there may be some critical differences between the responses from charities in comparison to social enterprises more generally. Certainly, there is recognition that observations around the need for social investment may be skewed by the highly heterogeneous samples involved in studies and/or the dominance of particular sample segments (e.g. the inclusion of registered social landlords, public sector spin-outs, etc.).

In this Call for Evidence, the respondents who indicated needing external financing are based in London (n=2), East of England (n=2), Yorkshire and the Humber (n=2), and the South East (n=1). Those looking to get financing from charity/social bank or from high net worth individuals tend to have larger incomes, ranging from £500k to under £2mill.

6. Impact

This chapter provides an overview of whether DPOs have a culture and practice around impact measurement, as well as their confidence in demonstrating impact. It further describes how DPOs perceive their external stakeholders place emphasis on social impact.

Practice of and confidence in impact measurement

It is clear that the overwhelming majority of DPOs responding to the Call for Evidence measure impact (33 out of 37, almost 90%), with broadly equal numbers doing so 'as a matter of routine' (n=16) and 'only for specific projects/programmes' (n=17).

In addition, an almost identical proportion of DPOs indicated that they are able to demonstrate that what they do achieves social impact, although around two-thirds of these felt that they were only able to do so 'tentatively' (n=20) as opposed to 'confidently' (n=12).

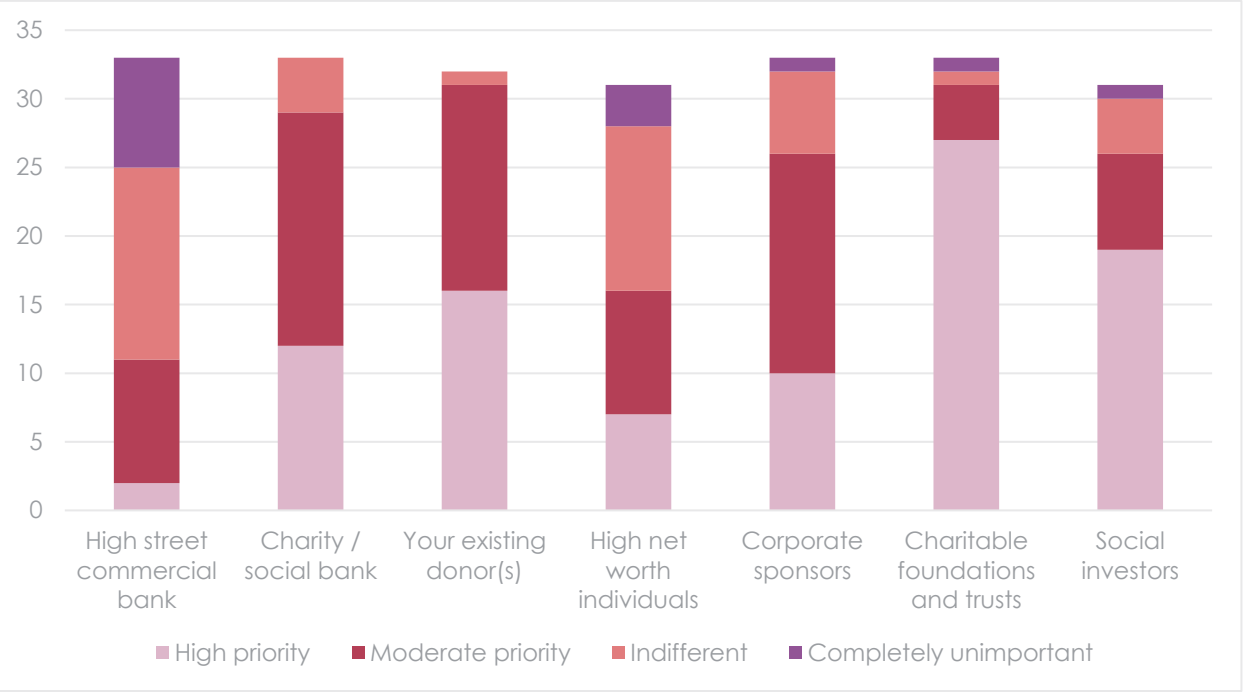
From what we know of DPOs more generally, these finding lead us to suggest that our sample of respondents to the Call for Evidence is not typical of the wider sector. Previously, in Chapter 2, we discussed the fact that our sample is skewed towards the medium and larger sized DPOs. This is likely to have had important implications for the findings reported here relating to impact measurement as we know that bigger organisations tend to be better (or at least more familiar with) impact measurement, and are also more likely to be delivering contracts that require more routine monitoring and measurement. While it is true that as DPOs (and other VCSE organisations) become increasingly involved in the delivery of public sector contracts over time, and as grant funders increasingly require some level of monitoring and evaluation, the practice of impact measurement has certainly been increasing through time, we know that the extent to which this has been embedded and routinized is still not to degree witnessed here.

Whether key stakeholders value social impact

Looking at how DPOs perceive a number of external stakeholders in terms of the emphases they are thought to place on social impact, the findings are unsurprising. As the diagram below illustrates, those stakeholders that are commonly associated with 'social mindedness' are widely perceived by DPOs to place moderate to high emphasis on social impact. Charitable trusts and foundations are at one end of the spectrum where they are overwhelmingly perceived to be the stakeholder group that places high priority on social impact, while high street commercial banks (which are large, institutional and profit-making financial bodies) are on the other end of the spectrum. Similarly, DPOs perceive their existing donors to place a good degree of emphasis on social impact, which is to be expected since the bulk of DPOs responding to this Call for Evidence are registered charities.

Interestingly, DPOs largely perceive the various sources of social investment (i.e. charity/social banks and social investors) as placing a good degree of emphasis on social impact. In fact, social investors are the stakeholder group, after charitable trusts and foundations, that are perceived by DPOs to place the highest level of priority on

social impact.



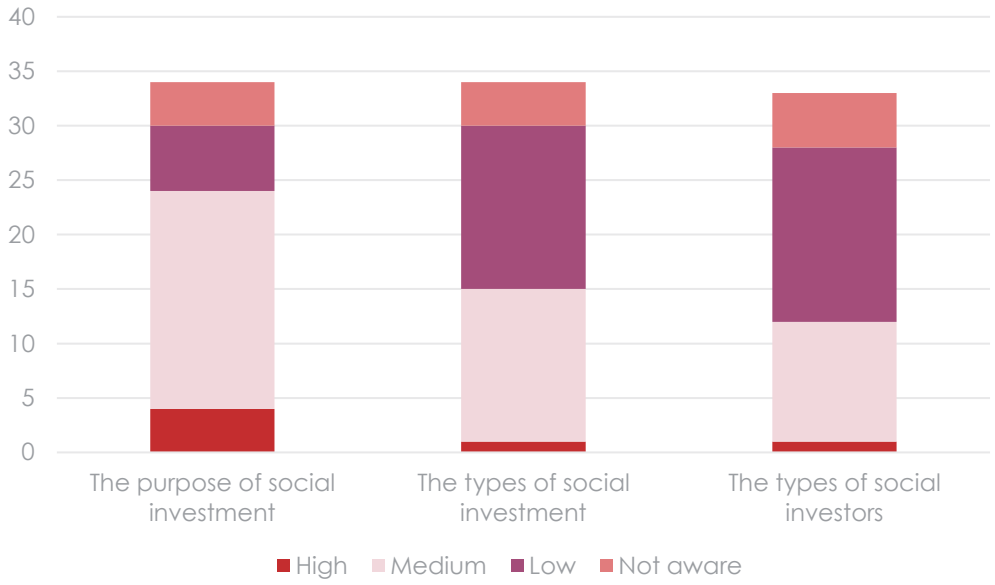
While this is encouraging, particularly as we know that VCSE organisations more generally can often perceive social investors simply as 'pots of money' prioritising financial returns, we must also not ignore the fact that around 15% (n=5) of DPOs think that social investors do not care about social impact. There is thus a continuing need to raise awareness of social investment and social investors, particularly their motivations and behaviours.

7. Social investment

This chapter discusses DPOs' awareness of the purpose and types of social investment, and of social investors. It further discusses the extent to which DPOs think social investment may be relevant to them in the future, and their interest in finding out more about social investment.

Understanding the purpose of social investment

Around two-thirds (24 out of 34) of responding DPOs indicating that they have a good degree of understanding of the purpose of social investment, with the bulk of respondents rating their level of understanding as 'medium' (n=20).



This suggests that the earlier findings in Chapter 4 relating to DPOs' decisions around whether to approach social investment as a source of external financing, when needed, may have been fairly well-informed.

Of the 4 organisations who sought external financing in the past, 3 reported a medium level of awareness of the purpose of social investment, with the 4th being highly aware. Interestingly, the 2 who accessed social investment reported medium levels of awareness, suggesting a greater need for clarity/information in this area.

At the same time, we must not overlook the fact that only a small proportion of responding DPOs (<10%) rated their level of understanding as 'high', so there is always room for improvement.

Awareness of the different types of social investment

The need to raise awareness is reinforced when we look at DPOs reported level of awareness of the different types of social investment. This is noticeably lower than their level of awareness of the purpose of social investment, with more than three-quarters indicating 'medium' or 'low' levels of awareness (almost equivalent proportions respectively).

While a good understanding of the purpose of social investment is positive, the poorer levels of awareness of the different types of social investment can mean that DPOs may

not avail themselves to social investment as they may not understand which type of social investment may be more appropriate for their specific needs

Awareness of the types of social investors

As we described in Chapter 6, there is a small, but not insignificant, minority of DPOs that perceive social investors to have little or no regard for social impact. When we analysed the evidence relating DPOs declared levels of awareness of the types of social investors, we found that these are generally lower than their levels of awareness of the purpose of social investment and also of the types of social investment.

This reinforces our experience of working with VCSE organisations more generally, where we often encounter questions such as "who are social investors?", "what are their motivations?", etc. We know that a lack of awareness around these issues may present barriers to engaging with social investment as DPOs may be suspicious and hesitant.

These sets of findings point to the fact that while there are repositories of information and resources helping to demystify social investment (including good information on different types of social investment and social investors), most prominently the Good Finance website, DPOs may not be accessing such information or may not be aware of the existence of such resources.

Previous interest in social investment

Almost a quarter of responding DPOs indicated that they had been interested in social investment in the past (n=9). This proportion is probably somewhat higher than what we would have expected, and it may an indication of the influence of the sample composition (i.e. our sample has proportionately more medium to larger sized DPOs, compared with smaller ones). In terms of location, 5 out of these 9 are based in London, and a further 2 in the South East.

Interestingly, two thirds (6 out of 9) of those who said they had considered taking up social investment also said they had low awareness of the different types of social investment/ investors available, indicating a high appetite for learning more about this area.

Furthermore, only 2 out of 11 DPOs who needed external financing considered accessing social investment in the past, which highlights the low reach of social investment and the need to raise awareness of the availability and benefits of social investment more widely.

It is interesting to note that of these DPOs that have considered social investment in the past, the majority took no action to engage with social investment (7 out of 9 or 78%). This points to the fact that awareness, per se, is not sufficient in triggering engagement. While there are interventions that can conceivably improve DPOs' awareness of social investment, there needs to be other interventions to incentivise engagement.

Outcomes of previous attempts at applying for social investment

Only 2 respondents explicitly targeted social investment in the past, and we should therefore not read too much into this set of findings. Nonetheless, it is interesting to note that outcomes have not been positive (with one unsuccessful and the other still

awaiting outcome). Therefore, while Chapter 4 reported previously that those DPOs that sought external financing were largely successful, this does not include social investment. Such experiences may lead DPOs to compare efforts and success across different sources of external financing, and may lead to unfavourable assessments of social investment vis-à-vis other forms of external financing. For example, one DPO indicated that:

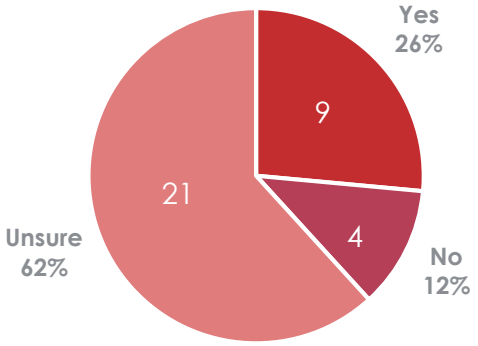
> *"[We have found] No experience of similar organisations with positive experience."*

This risk is reinforced when both respondents here indicated their experiences of engaging with social investment were at best, indifferent, and at worst, negative. For example:

> *"having been led to believe that funding was possible the application was rejected due to some internal quota or other obscure reasons. Not very transparent!"*

Perceived relevance of social investment in the future

Despite the lack of real engagement with social investment to date, it is interesting to note that proportionately more DPOs indicated that social investment may be relevant for them compared to those who did not think that social investment is relevant (26% compared to 12%).



Nonetheless, more than half of responding DPOs are unsure about whether social investment is of relevance (62%, n=21). This points to the need for greater awareness raising and engagement. Qualitative responses reveal that this will be required:

> *"We lack knowledge of how it could be relevant."*
>
> *"We don't have enough information."*
>
> *"Don't really know enough about it."*
>
> *"We don't understand it."*
>
> *"I am unsure whether we would meet the criteria."*
>
> *"There is a lack of in-depth knowledge of the subject and its benefits."*

At the same time, raising awareness per se is not sufficient. There needs to be a better understanding of 'demand-side' issues, particularly the capacity of different types of

DPOs to engage and whether social investment is 'right' for them. For example:

> *"Lack of internal capacity and expertise to explore and engage."*
>
> *"We do not have the capacity to explore social investment as an option."*
>
> *"The way it is being looked at locally is very much focused on large single investments which would be too big a risk for us as a small charity."*
>
> *"We are very small with limited resources to 'invest' in investigating and exploring this avenue further."*

It is clear that social investment isn't for everyone. Some respondents are clearer about this than others. For example, one DPO indicated that social investment is simply not relevant to them because:

> *"Nearly all our services are free at the point of access. How would we repay social investors?"*

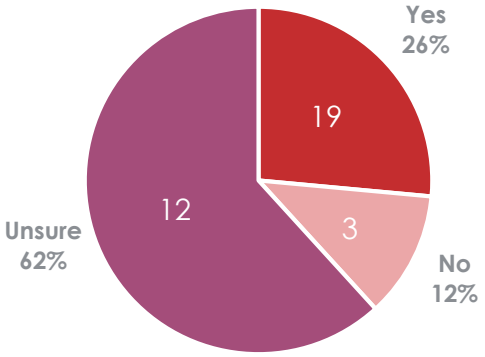
Others are clear that social investment holds potential because what they organisations are doing aligns with the requirements and expectations around repayable finance:

> *"We already have trading income which could be scaled up and one or two programme models which produce savings outcomes (to public money) elsewhere in the system."*
>
> *"This would help us to maintain more stable financially, very sound investment in our future ideas that will generate money as long as we have the right capacity and resources to make things happen."*

Out of those 9 who think social investment is a relevant avenue for their organisations, 4 have larger incomes of over £1mill, and a further 2 between £500k and £1mil. At the other end of the spectrum, 3 out of the 4 who didn't see social investment as relevant to them have under 5 members of staff and incomes ranging from £50k to just under £500k, reinforcing the fact that capacity may be seen as a limiting factor.

Interest in learning about social investment

The observation around the need to raise awareness of social investment among DPOs more widely finds support in that most of the responding DPOs indicating that they will be interested in learning more about social investment, as shown in the chart below:



For those who are keen to learn more, there are different motivations, including:

> *"We are really keen to learn and try this out as a way of funding our growth future sustainability."*
>
> *"We need to keep an open mind."*
>
> *"This may be the future of funding."*

It is important to acknowledge that a significant minority of respondents are 'unsure' whether they should learn more about social investment. Written in comments indicated that this uncertainty was fuelled largely by their internal capacity constraints. One DPO provided an interesting observation of how this uncertainty may be overcome:

> *"It may be something we would be willing to explore in partnership with other DPOs or local partner third sector organisations."*

This indicates that, for some, 'going on a journey' together with others may help incentivise engagement and facilitate better uptake of learning. We have already indicated previously that DPOs do communicate with other DPOs and other VCSE organisations in terms of finding out experiences of engaging with social investment. Supporting a more collective and collaborative approach to engaging with social investment may bring down a number of barriers. This finding is reassuring as it indicates that the rationale for this project led by DR UK (as a sector umbrella body), aimed at building up a 'hub' of knowledge and helping to support Members to better understand and engage with social investment, may be a sound one.

8. Conclusion

This chapter draws together the key issues and assesses their relevance for the next steps for the project.

This Call for Evidence provides a good overview of DPOs awareness and experiences of social investment, and also describes a number of other contextual and organisational issues that have implications for their likelihood to engage with social investment in the future.

While the sample of DPOs responding to this Call for Evidence may not be representative of the composition of the wider DPO sector, the characteristics of responding organisations are perhaps not surprising. For example, larger and medium-sized DPOs are more likely to respond, as are those based in London and the South-East where issues around social investment have perhaps been more prominent.

A number of challenges confronting DPOs, and arguably the wider VCSE sector, has meant that income and income diversification have become increasingly important. For example, the reduction of grants and the drivers towards engaging in public sector service delivery contracting have affected DPOs regardless of size and location. These challenges are likely to persist and further condition DPOs expectation of future challenges.

It is of interest to note that almost a third of responding DPOs have felt the need for external financing at some point in the past 5 years. However, only a small number of these took any action. It is of concern that many of those who took no action indicated that lack of knowledge and/or capacity was a barrier to action, as are types of financing that don't appear to be tailored to their needs.

Those small numbers of DPOs that took action to access external financing have needed such financing for property purchase or for helping to manage cashflow, in equal measure. It is unsurprising that the amounts required for those needing financing for property purchase are significantly larger than those required for managing cashflow.

While the numbers taking action to access external financing is very small, it is nonetheless interesting to note that some form of social investment featured in the actions of 3 out of the 4 DPOs involved. Overall, those that took actions to access external financing were all successful (although one of the 4 only secured part of the amount it needed). This does not mean that all these were successful in securing social investment. Indeed, outcomes have not been positive (with one unsuccessful and the other still awaiting outcome).

Such experiences may lead DPOs to compare efforts and success across different sources of external financing, and may lead to unfavourable assessments of social investment vis-à-vis other forms of external financing.

This risk is reinforced when both respondents here indicated their experiences of engaging with social investment were at best, indifferent, and at worst, negative.

Moving forward, most DPOs have plans for growth and it is notable that, regardless of size and location, most of them have aspirations to growth income from trading, from

public sector contracts, as well as from grants. Given the pressure on these sources of funding/income, it is likely that income generation will become increasingly competitive. At the same time, not all DPOs demonstrate impact routine and many do not feel very confident in their ability to demonstrate social impact. This can affect their ability to realise their growth plans, particularly if they are targeting certain sources of income.

It is important to note that around one-third of DPOs indicated that they are likely to require external financing to support their growth plans. There appears to be a good level of interest in considering various forms of social investment. At the same time, while DPOs tend to have a good understanding of the purpose of social investment, their levels of awareness of the types of social investment and the types of social investors remain low. These are barriers to meaningful engagement in social investment and there should be efforts to raise awareness. Certainly DPOs indicate a high level of interest in learning more about social investment.

At the same time, awareness per se is not sufficient. It is clear that social investment is not 'right' for all DPOs requiring external financing. Some DPOs do not have business models (or operational models) that lend themselves to repayable finance. For more DPOs, capacity is a genuine limiting factor, and size is likely therefore to play a role in a DPO's ability to engagement with social investment.

There is some evidence suggesting that a collective and collaborative approach towards helping DPOs to learn and engage with social investment may make sense. This finding is reassuring as it indicates that the rationale for this project led by DR UK (as a sector umbrella body), aimed at building up a 'hub' of knowledge and helping to support Members to better understand and engage with social investment, may be a sound one.

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TRAVERSE