LEARNING FROM FUNDERS

NO. 4: ASSET MANAGEMENT STRATEGIES

DEPLOYING PROPERTY TO STRENGTHEN THE VCS

Thursday, 14 July 2011, hosted by Buzzacott LLP

The twenty funders gathered for this discussion agreed that it was highly topical, in the light of recent government policy development – notably Big Society and localism – and as a response to cutbacks to public sector expenditure and the need for voluntary organisations to be better capitalised if they are survive (an area emphasised by NCVO's recent Funding Commission). Stephen Dunmore, chairing the meeting, reminded participants of the Quirk Review, which encouraged transfer of assets from councils to community ownership. He also noted a recent Joseph Rowntree Foundation report, *Community organisations controlling assets: a better understanding*, analysing the value of property to the VCS and offering further information on the decisions and processes involved in asset transfer.

Lending for development

Caroline Forster, Director of Adventure Capital Fund (ACF) outlined its role as a social investor since 2002. As a registered charity it aims to develop financial sustainability in its clients and see both a financial and social return on its investments. It works through a combination of loans and grants and describes itself as an engaged investor. A strong message was that support to build capacity is crucial to sustainability of an organisation and is a key part of ACF's role. ACF invests in locally-based and locally-led organisations which want to grow and diversify. It can work with organisations operating in a broad range of work areas through its trading subsidiary, the Social Investment Business, which lends in the field of health and social case and public service delivery, using the resources of Futurebuilders and the Social Enterprise Investment Fund and provides business support services and works with local authorities and civil society organisations to develop new ways of delivering public services.

For ACF, property assets are one means to an end, e.g. when a building generates income to deliver benefit to the community through room hire or contract delivery. ACF offers grants as well as loans and decides on the balance of these in individual cases. They also use the scope to be flexible over length of loan periods, opportunities if needed for a "repayment holiday" and (increasingly in the current climate) get involved in restructuring existing investments where organisations are struggling. Minimum loans are £50,000 and maximum £750,000 (averaging £330,000 at present), at 6% interest over a maximum ten year term. Business development grants average £15,000. A recent survey of recipients showed that for every £1 provided as a business development grant organisations had been able to lever in a further £27 of additional funding.

ACF also manages Communitybuilders funding – temporarily on hold as the remaining funds are being converted to endowment from which in future they will draw income for investment in multi-purpose community buildings. The original funding was a challenge, given the government's expectation of delivery within a short timescale.

In answering questions, Caroline provided the following additional information:

- ACF only lends where commercial loans are not available.
- They undertake robust risk assessment (strength of the balance sheet, the board, the staff group, etc) and will not invest in failing organisations, in unethical activity or substitute for commercial property development. (Generally not housing either). They use a risk matrix that looks at 21 factors to support an investment decision. They expect some financial risk so long as this is balanced by the scale of potential social benefit.

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- A key purpose is to help organisations develop diverse strands of income.
- They measure social return through a balanced scorecard approach applied to each organisation's business plan and performance.
- They normally work with individual organisations.

There was discussion about a funder's ability to scale up a proven good approach. Caroline thinks that the obstacles to scaling up tend to be a combination of the availability of sufficient money and the technical readiness of implementing organisations. Sometimes, the supply of adequate premises can be the hitch. This is an area where the loan/grant mix that ACF can offer can be very productive. ACF has so far made 43 loans. Six have been repaid in full (some early) and there have been a couple of failures, amounting so far to a write-off rate of 5%.

Among the uses of property by voluntary organisations and social enterprises they are seeing the development of conference facilities (including private functions); child care; library services; managed work space; catering services; and training suites.

Caroline outlined three case studies:

1 £460,000 loan and grant invested in a former school being transformed into an arts centre. The organisation developing this was asked by the building's owner (the Council) for a 25 year commitment during which their failure would mean the Council taking back the building. ACF negotiated a six month notice period should this be needed, to find an alternative tenant to keep the building in the community.

2 ACF is currently funding the refurbishment of a community centre from a local council but on a short term rolling lease. When they tied to negotiate a longer lease the offer was made of 50 years but at a potential future annual rent of £85,000.

3 ACF funded an organisation with £350,000 to transfer buildings from a local authority. However the organisation found themselves in difficulties and asked for a further loan which set up difficulties in relationships with the local authority. ACF found that it needed to intervene in the tenant organisation's governance to a much greater degree than usual in order to avoid the building reverting to the local authority after its development with ACF's funding.

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Jaishree Mistry of Charity Bank described their practice briefly. All their support is through loans and they are finding a greater proportion now relate to asset transfer from local authorities to voluntary and community groups. They have a bad debt rate of under 1% though they have been involved in some cases of restructuring or slowing down loan repayments. She finds organisations can be quite bold in restructuring plans that develop longer term sustainability.

Also present was Stephen Rolph from Locality who talked about the support available to groups from their Asset Transfer Unit - advice, guidance and support on the transfer of under-used land and buildings from the public sector to community ownership and management.

London boroughs and asset development

There was a brief exchange of information about borough plans for asset development. For example, Tower Hamlets is in the process of developing a third sector asset strategy.

Camden Council has developed a VCS rent policy for council properties, to improve access to suitable and affordable premises for local groups to ensure property is managed for the benefit of residents. There is a new formula of 100% rent relief to hyper-local VCS (over 90% of services/ activities delivered from the property directly benefit Camden residents); 50% for largely local VCS (50-90% of services/activities benefit Camden residents). They are also harmonising the terms of leases across the Council.

Hackney Council's approach is a bit different: they charge 'sustainable rent' which amounts to a discounted rate for eligible VCS organisations. The rent is made up of overheads, running costs and planned maintenance and currently stands at circa £4.50 per square foot. There is no zero rent as this is not sustainable. The council believe that this model demonstrates the use of council owned buildings as community assets and allows communities to help shape what they need. This work is closely aligned with the sustainable community strategy therefore eligibility is directly tied to the delivery of services.

Enfield Council is exploring the scope for a community development trust for Edmonton that would involve property transfer. Lewisham are looking at multiple asset transfer.

Nicholas Webb, Head of Camden's Communities and Third Sector Unit presented a further idea for asset management, an equity-hub model where a partnership is built around a Council-owned community facility, linking the Council, VCS and residents to transfer responsibility for the use of buildings directly to local people. He hoped this would develop a less passive relationship (and shake up old-style community centre management) and see local residents taking responsibility for community resources. He envisaged linking this to community development methods such as time banking (residents' time in exchange for services) to try to engage the 'whole' community in stronger community outcomes. Camden is still in the early stage of this idea and welcomed comments on feasibility.

Immediate responses included:

- The issue of defining a community. Communities of interest may be more important than locality. Coming together in a community tends to need an immediate, burning issue.
- Individuals with the skills to take on responsibility within communities are difficult to find and need continued support.
- In Hackney, the Council accepts that many local residents do not want to be engaged in running services but rather want an organisation they trust to deliver community activity.
- Success in Camden's suggested approach would need a campaign that sells community ownership but is the Council the right vehicle to convey this?

.....tension between "developing a business mind and keeping a social heart"

Further discussion

Stephen asked what pressures local authorities are under to think creatively about asset management. Participants identified the pressure of the political timetable and delivering work within three years. The issue of a dependent third sector was also raised: more entrepreneurial approaches were emerging and welcomed but there remained a tension between "developing a business mind and keeping a social heart". Stephen noted that this meant a strong understanding on the part of funders (local authorities and others) of both community development and social enterprise models.

Caroline thought that ACF could consider promoting work on asset management with local authorities; at present they have strong relationship with some authorities where there is a concentration of work with a cluster of investments.

Stephen asked if the lending bodies had any thoughts on the potential role and impact of the Big Society Bank and how it might complement other sources of loan finance. Sam Dowling from the Social Investment Business suggested a core role could be in helping the largest scale investments. She saw a clear move in the VCS from grants culture to loans.

With thanks to our presenters, Stephen Dunmore, Chief Executive, Diana, Princess of Wales Memorial Fund for taking the chair and Buzzacott LLP for hosting this event

"This was really informative and interesting - lots of feedback for colleagues."
Jo Edler, LB Waltham Forest