Ready, Willing and Able

An interim review of the Investment and Contract Readiness Fund

Adrian Brown and Katie McAllister

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Foreword

Social ventures are at the heart of many of our communities across the UK. They use business techniques in order to scale their social impact and improve more lives. They work to improve society and they contribute to the economy – social enterprises alone employ around 2 million people and contribute £55bn to the economy.

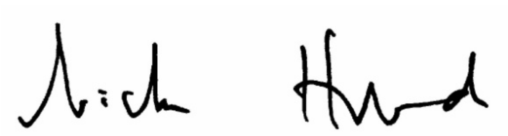
But social ventures need our support to grow - which is why I am proud that we set up the Investment and Contract Readiness Fund to help social ventures to build sustainable markets to meet their potential to grow and serve more people in need.

While these are still early days and most of the work through ICRF is still ongoing, the initial success of the Fund is hugely positive. In just the first eight investment raises and contract wins generated through the Fund's support, ventures have raised nearly £35m. This is a huge achievement.

This report shows that there are knock on positive effects from ICRF beyond the support of social ventures. Out of those organisations that have already closed deals, for every £1 spent by government, £43 has been raised through additional investment or contract values. In one deal alone, Empower Community Management raised over £10m in investment. The Fund has helped increase understanding among social investors and social organisations. It has helped social ventures respond to emerging opportunities, such as the Transforming Rehabilitation programme. And it has supported the growth of social investment finance intermediaries, who in many ways form the backbone of the social investment market, by launching new product and funds and by serving the social sector.

I would like to thank the Social Investment Business for their support and hard work throughout the management of the fund. I would also like to thank all the investors and others who volunteer their time at decision panels and of course, the support providers and ventures are driving forward valuable work serving communities across the UK.

ICRF has been a successful pilot programme that has proven a model for investment readiness support and contributed to the growth of the social investment market. We have made great progress in just two years and I look forward to continued growth as more social ventures complete their work through the fund.



NICK HURD
Minister for Civil Society

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This report and the survey upon which it draws were commissioned by the Cabinet Office, Big Society Capital and The Social Investment Business. All survey data and interview notes were kept confidential by the Boston Consulting Group and only provided on an aggregated basis to the commissioners.
Any views expressed and conclusions draw in the report are those of the authors.

Executive summary

The Investment and Contract Readiness Fund (ICRF) aims to ensure social ventures are better equipped to secure new forms of investment and compete for public service contracts. It is the first fund of its kind globally and includes several innovative design features such as the use of an Investor Panel to evaluate applications and the introduction of repayable components to grants. This report, commissioned by the Cabinet Office, the Social Investment Business and Big Society Capital, draws on evidence from investors, providers and ventures, as well as the activity of the Fund, to assess the performance and impact of the Fund and make some recommendations for the future.

While the majority of activity supported by the Fund is yet to be completed there are already some strong positive themes. The emerging evidence suggests that the Fund is an important intervention both to improve the investment and contract readiness of social ventures and to help strengthen providers of investment and contract readiness services. The £21.4 million of investments raised and £13.5 million of contracts won so far as a result of ICRF supported activity is impressive and indicates the Fund could ultimately help social ventures win more than £100 million worth of investment and contracts.

The Fund has seen significant levels of activity since it opened for applications in May 2012 with over 200 applications up to December 2013 with a relatively even split between investment readiness and contract readiness proposals. Ventures applying to the Fund have varied significantly in size and financial strength and there has also been a wide variation in provider performance.

In assessing the impact of the Fund we considered three main criteria: investments raised or contracts won by the supported ventures; the extent to which the capabilities of ventures have been built; and the extent to which the provider market has been strengthened. Against all three dimensions our research found evidence of significant and positive impact.

Our research also highlighted six areas in which the Fund could be improved.

1. Increase transparency of provider performance
2. Improve feedback from the panel to applicants
3. Enhance the contract readiness experience on the panel
4. Reduce or remove the direct grant to ventures
5. Improve the predictability of the Fund
6. Enhance the role of the fund administrator

The success of the ICRF to date should be celebrated. Our research revealed widespread support for the Fund from ventures, providers and investors. All concluded that the Fund (or an equivalent) would be needed in the market for several years to come to ensure that increasing numbers of social ventures are investment and contract *ready*, *willing* to seek specialist support as required, and *able* to win in the market.

1. Context and Fund objectives

The Investment and Contract Readiness Fund is a £10 million fund, managed by The Social Investment Business (SIB), on behalf of the Cabinet Office that aims to ensure social ventures are better equipped to secure new forms of investment and compete for public service contracts.

Recognising that many ventures currently lack the experience or expertise to successfully raise social investment or win public service contracts the Fund provides grants to help ventures purchase specific investment and/or contract readiness support and to cover some of the costs of implementing any plans that result from that support. As such, it is the first of its kind anywhere in the world and confirms the UK as the most advanced and innovative social investment market globally.

1.1 Market and policy context

The UK is a pioneer both in the use of private finance to deliver social good (referred to in this report as social investment) and opening up the provision of public services to organisations such as mutuals and social ventures. The Investment and Contract Readiness Fund is designed to help support and accelerate both these trends.

Social investment, sometimes known as impact investment, is the provision of finance to organisations with the explicit expectation of a social, as well as financial, return. From the development of the first social impact bond to the creation of Big Society Capital the world's first social investment wholesale bank, the UK is recognised across the globe as the leading social investment market. A total of 765 social investment deals worth an estimated £202 million were identified in 2011/12 served by a market of 29 Social Investment and Finance Intermediaries (SIFIs)[1].

The social investment market is growing strongly, with total demand for social investment in the UK forecast to reach around £1 billion by 2015/16[2]. However, in order to successfully attract investment social ventures must demonstrate that they can create both social *and* financial returns. This usually requires the development of new operating models and robust business plans that are able to convince outside investors of the value of the deal. Where social ventures lack the skills and experience to meet these expectations they can turn to specialist providers but are often unable or unwilling to fund the upfront expense required.

Social enterprises are also increasingly being contracted to deliver public services and public services contracts representing an important revenue stream. Cabinet Office figures show that in 2011/12 28% of social enterprises worked for the public sector.

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[1] *Growing the Social Investment Market: The Landscape and Economic Impact,* ICF GHK in association with BMG Research
[2] *The First Billion: A forecast of social investment demand*, The Boston Consulting Group

Winning contracts to deliver public services can be challenging for social ventures, especially for those with little or no track record of successfully competing for such contracts in the past. Typical needs are proposal development, legal and contracting advice and broader business planning support. Additionally, contracts may generate working capital requirements or other financing needs that ventures may look to the social investment market to finance.

1.2 Fund objectives

The primary aim of the ICRF is to create a step-change in the social investment market by increasing the number and scale of social ventures that are investable and able to compete for public sector contracts on a level playing field. It is intended to both demonstrate what can be achieved with significant flows of investment to social ventures and create quality deal flow for impact investors.

In addition, the Fund aims to increase the quality of the support social ventures can access by enabling them to work with experienced providers, with the aim of nurturing the currently under-developed market for business support in this space.

Empower

Empower Community Management are a ‘profit for purpose’ company that works with key community stakeholders, such as local authorities, housing associations, church groups and others, to accelerate the transition to sustainable, low carbon local economies. Their key focus is economic and ecological sustainability achieved through a socially inclusive approach.

Empower Community secured a £10.1 million loan from a large UK institutional pension investor for a project providing free daytime solar energy to more than 2300 social housing tenants in Sunderland. Empower Community has used the funds to buy and manage existing solar panels on 2327 social homes owned by Gentoo and on six corporate buildings. It will continue to provide tenants with free daytime energy, which can reduce bills by up to 40%. The refinancing will allow Gentoo to install solar panels on up to 3000 more homes in Sunderland. The 20-year loan provides the investor with an inflation-linked annual return, with ongoing profits from the deal shared between Gentoo and the local Sunderland community.

The ICRF grant funded advice on structuring the investment and Social Finance advised Empower Community and placed the deal.

Midlands Together CIC

A grant of £149,300 from the Fund helped Midlands Together to raise £3m to provide supported paid work, skills training and tailored mentoring for nearly 150 ex-offenders. As a commercially sustainable business, Midlands Together buys empty homes and works with local social enterprise partners to engage ex-offenders in their repair and restoration. Once the properties are fully restored they are then sold and the original capital, plus any profits, re-invested back into the business to finance further property purchases and further job creation.

As a start-up it was essential that Midlands Together had the right support and advice to develop its offer to investors, and a grant from the Fund allowed them to bring in crucial corporate finance expertise from Triodos which included help with structuring the bond and putting together the bond's investment memorandum.

Inspired by Bristol Together, where re-offending levels amongst the workforce are just 3%, Midlands Together aims to reduce reoffending in their workforce to less than 10% (the national average re-offending level is 26%).

Midlands Together is issuing a five year £3m bond that will offer investors an annual fixed return of 4% to 6% secured against the company's property portfolio. In addition, availability of Community Investment Tax Relief (CITR) can increase annual fixed gross returns to 12.5% for corporate investors and 15.1% for highest rate (45%) taxpayers. The bond is structured to attract new investors, offering almost equity-like returns to those willing to subscribe to take on a bit more risk.

2. Design of the Fund

The Fund is designed to be flexible in recognition of the importance of being able to respond to the changing needs of the social investment market, specific policy initiatives and emerging contract opportunities. The Fund includes several innovative design features such as the use of an Investor Panel to evaluate applications and the introduction of repayable components to grants.

2.1 Social ventures

Social ventures with a potential for high growth and the ability to deliver positive social impact can apply for grants of between £50,000 and £150,000 to purchase specialised investment and contract readiness support. These grants enable social ventures to access professional business support that could otherwise be beyond their ability to purchase on the open market.

The Fund is not just restricted to organisations with non-profit legal forms. Profit distributing entities who deliver social impact are eligible. Social ventures include:

- registered charities
- social enterprises
- community and voluntary organisations
- social businesses
- charities
- mutuals
- co-operatives
- businesses delivering social value

2.2 Applications

Any venture applying to the Fund must have a clear and realistic case for wanting to raise at least £500,000 in investment or secure service contracts of £1 million or more. The application must outline how the grant will be used to fund a programme of investment/contract readiness work of up to 18 months in duration.

Applications to the ICRF must meet the following eligibility criteria:

1. The social venture must be based in and working in England.
2. The application must be between £50,000 and £150,000.
3. The social venture must be satisfied that the application, if successful, would be compliant with State Aid legislation.
4. The proposed work must be designed to prepare the social venture to raise investment of at least £500,000 (external returnable money) to develop services or win contracts of at least £1million and will be completed within 18 months.

5. The grant requested must be used solely to fund costs associated with becoming investment and/or contract ready.
6. The grant requested must be used primarily to fund revenue costs, with no expenditure on capital items with a value in excess of £5,000.
7. The specific proposal for which funding is sought must be neither religious nor party political in nature (but this does not exclude faith groups from applying).

The application form is submitted by email to SIB, accompanied by any relevant supporting documents. The form itself mostly includes flexible free-form answers, with the majority of information gathered in 200-500 word responses to descriptive questions.

2.3 Providers

Ventures develop their applications in conjunction with approved providers who support, guide and assist social ventures to develop realistic proposals to become investment and contract ready.

There are currently 40 approved providers, with the option for a venture to bring their own provider to the programme (subject to approval). Providers were able to submit applications for approved provider status from April 2012. Of the 80 applications for approved provider status, 40 were approved, 30 rejected and a further 10 are pending, deferred or withdrawn.

2.4 The Investor Panel

Applications to the ICRF are assessed by an Investor Panel, chaired by Big Society Capital. There are currently 13 organisations with members on the Investor Panel, including representatives of Big Lottery Foundation, NatWest, Triodos Bank, Bridges Ventures, and the FSE Group. Members of the Panel are not paid for their time.

Applications are accepted on a rolling basis, with a Panel typically meeting every two weeks (formed of a minimum of three panelists but often substantially more). Regular meetings allow the panel to give either a decision or a request for further information within three to four weeks from receipt of eligible applications.

As the individuals vary from panel to panel some concerns have been raised (by both providers and some panelists themselves) that the consistency of decision making could be improved.

2.5 Themed calls

From May 2013 the Fund prioritised applications from organisations looking to become contract ready to support specific Government policy areas or investment ready to help access new funds coming into the social investment market.

Three themed calls have been made to date for applications related to rehabilitation contracts, mutuals and arts organisations.

- *Rehabilitation (May 2013)*: aimed at social ventures looking for contract readiness support to help them compete for the new Transforming Rehabilitation contracts. Social ventures looking either to become prime providers or to work within the rehabilitation supply chain and bidding for public service contracts valued at £500,000 or more can apply.
- *Mutuals (June 2013):* aimed at mutuals that have already spun out and are looking to take on private investment or win public service contracts valued at £500,000. This call out is designed to complement the support already offered through the Mutuals Support Programme to mutuals that are in the process of spinning out.
- *Arts (January 2014)*: aimed at social ventures that work in the arts sector, have a commercial model, are committed to report on their artistic and social impacts and are looking to raise investment of over £500,000 over the next 12 months.

While themed calls serve the purpose of rallying ventures around a particular topic they have also been criticised for creating spikes in demand that are not necessarily driven by the market. The comparison between the rehabilitation and mutuals calls serves as illustration. While the rehabilitation call reflected a national commissioning event (the Ministry of Justice's Transforming Rehabilitation programme) the mutuals call did not.

To the extent that themed calls don't reflect market demand they can cause unhelpful administrative headaches for ventures and the fund administrator.

For ventures, themed calls can create surges in a specific type of application that are difficult to manage which in turn results in significant spikes in application flows for the fund administrator. For example, Figure 1 below shows a spike in applications in July 2013 as a result of themed calls for rehabilitation and mutuals in the preceding two months.

2.6 Grant structure

Grants are awarded to ventures to cover both external support and internal costs.

External support must be offered by an approved provider and cover the range of activities outlined in the application and approved by the investor panel. External support will typically be provided by the lead provider with whom the venture developed the application. A portion of the grant can also go to other providers, as needed to complete the proposed business support work.

Up to 40% of the funds may also be allocated to cover a venture's internal costs. Eligible costs include additional staffing and equipment costs that may be required during the delivery of the investment/contract readiness programme. The Fund does not provide working capital or funds to cover general overheads.

Repayable awards were introduced for all new investment readiness applications from May 2013 (excluding applications related to rehabilitation). This change aimed to encourage pricing discipline, incentivise outcomes, and develop investor understanding of investment readiness costs.

For investment readiness grants over £75,000, ventures are to repay 25% of the total grant (capped at 3.5% of amount raised) in a lump sum– provided investment is raised within 3 years. This condition can be waived by the Investor Panel if a sufficiently strong case is made that the amount or the liability would significantly impair the ability of the venture to raise investment.

Grants for contract readiness did not introduce a repayability clause, however, the maximum grant was capped at £75,000 to encourage a venture contribution to more significant projects (applications from mutuals remain capped at £150,000).

2.7 Investment readiness versus Contract readiness

The Fund is designed to (and does) support both investment and contract readiness although much of the language and philosophy of the Fund is arguably more investment focused. For example, the Investor Panel is made up of social investors with experience in the social investment market and does not include any public sector commissioners or anyone with experience related to public service contracts (although external experts have been called in to supplement the Panel's expertise during themed calls).

Throughout this review stakeholders have highlighted challenges relating to having investment readiness and contract readiness administered from the same fund. For example, the timelines for contract readiness will often be determined by a specific commissioning event whereas investment is more likely to be a negotiation between two or more parties.

2.7 Post-grant monitoring

A programme of standard monitoring is submitted jointly by the venture and provider on a quarterly basis. The monitoring report usually includes the outputs and outcomes projected in the application form, with the venture and provider reporting on the actual results achieved against these milestones. Quarterly grant payments are only released on evidence of satisfactory progress.

Additionally, this report is supported by:

- A declaration which will be signed by both the provider and the venture to confirm that the information provided is a true and fair reflection of the work undertaken;
- Written confirmation from the venture asking that they are satisfied with the work undertaken;
- Up to date monthly management accounts from the venture that separately identify the ICRF income and expenditure; and
- Any other information reasonably requested to support the on-going monitoring progress against milestones.

Where funding is believed to have been used for activities other than those outlined in the application the panel can request that funds are returned (although this has never happened in practice).

2.8 Fund administration

The Fund is currently administered by The Social Investment Business (SIB) under contract to the Cabinet Office. SIB takes responsibility for managing the entire ICRF process including answering questions from ventures; receiving and sifting applications; convening and supporting the Investor Panel; distributing awards; and monitoring progress and outcomes.

It is widely recognized that the budget for fund administration has been kept extremely tight – possibly to the detriment of what SIB can offer. Indeed, SIB has received an additional grant of £50,000 from Deutsche Bank on top of its service fees from the Cabinet Office to help cover the administrative costs.

Interviewees were generally very positive about what SIB was able to accomplish given its current budget, but recognised it was operating on very limited funds as the following quotes demonstrate.

"What SIB have accomplished is outstanding, particularly given the limited resources available." – Panellist

"I know they have worked hard to deliver a lot under challenging circumstances." – Panellist

"SIB is trying a new programme and, despite the challenges, should persevere!" – Provider

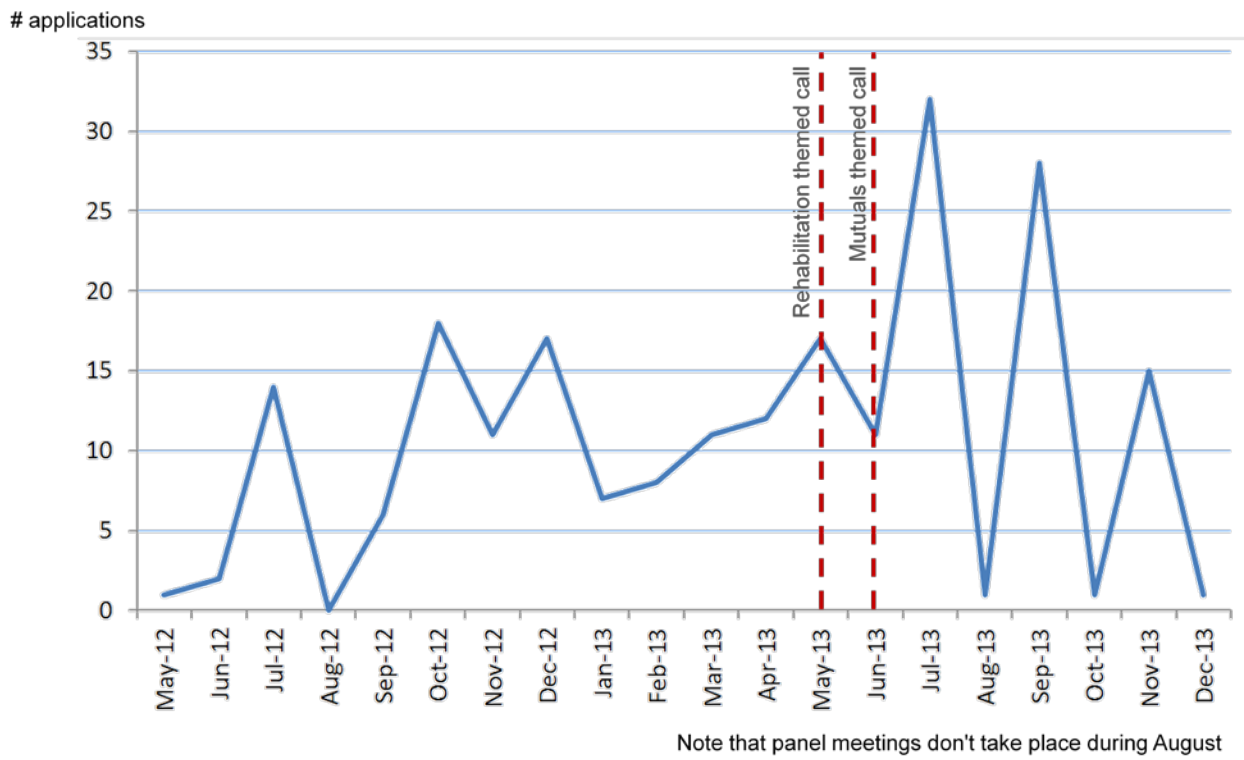
3. Activity of the Fund to date

The Fund has seen significant levels of activity since it opened for applications in May 2012 with over 200 applications up to December 2013. Over 30 applications were received during the busiest month (July 2013). Applications have tended to include a relatively even split between investment readiness and contract readiness proposals. Ventures applying to the Fund have varied significantly in size and financial strength and there has also been a wide variation in provider performance in terms of number of applications and success rate.

3.1 Volume of applications and awards

The Fund was established with the intention of making approximately 130 awards over the lifetime of the fund. By the 31st December 2013, the ICRF had received 213 applications [Figure 1]. Of those brought before panel, grants have been approved in 94 cases and rejected in 108 cases, with £8.9 million committed to date and 74 ventures actively carrying out their planned programme of business support work. On average 30 calendar days elapsed between the application being received and the Panel reaching a decision.

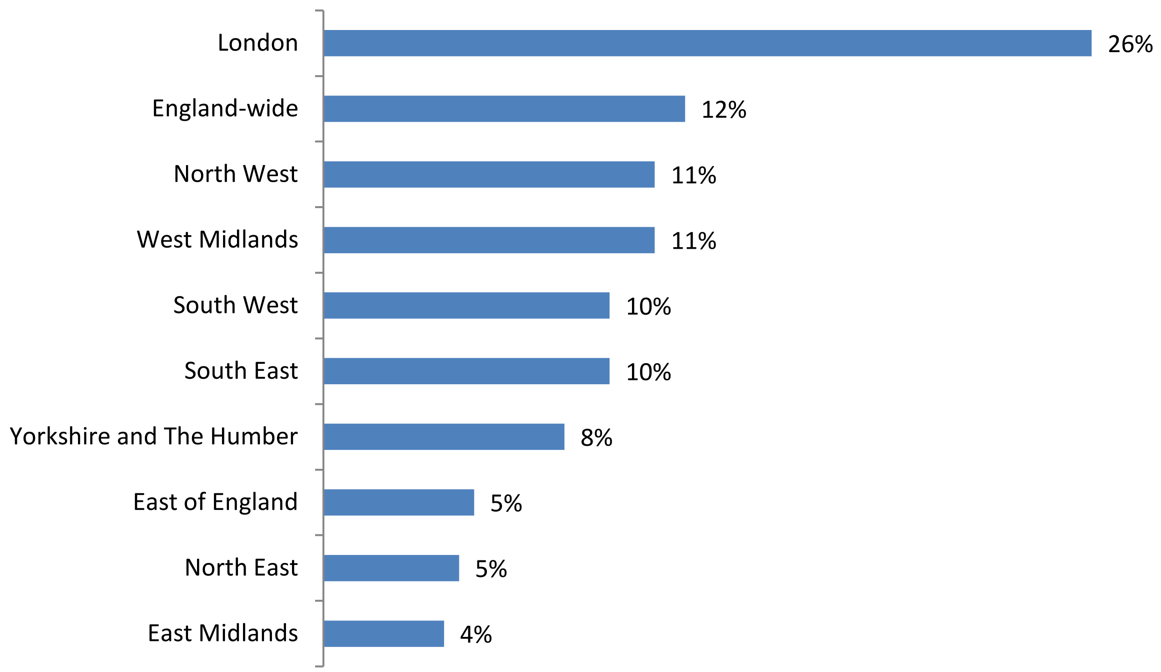
Figure 1: ICRF applications by month received



To date there have been 42 investment readiness grants totalling £4m and 51 contract readiness grants totalling £4.8m awarded (plus one additional grant marked as both investment and contract readiness). The average amount requested was therefore around £100,000 for both investment and contract readiness applications.

London was the region that contributed the most applications to the Fund [Figure 2] and this is also reflected in the awards made.

Figure 2: Regional share of ICRF applications



3.2 Value of awards

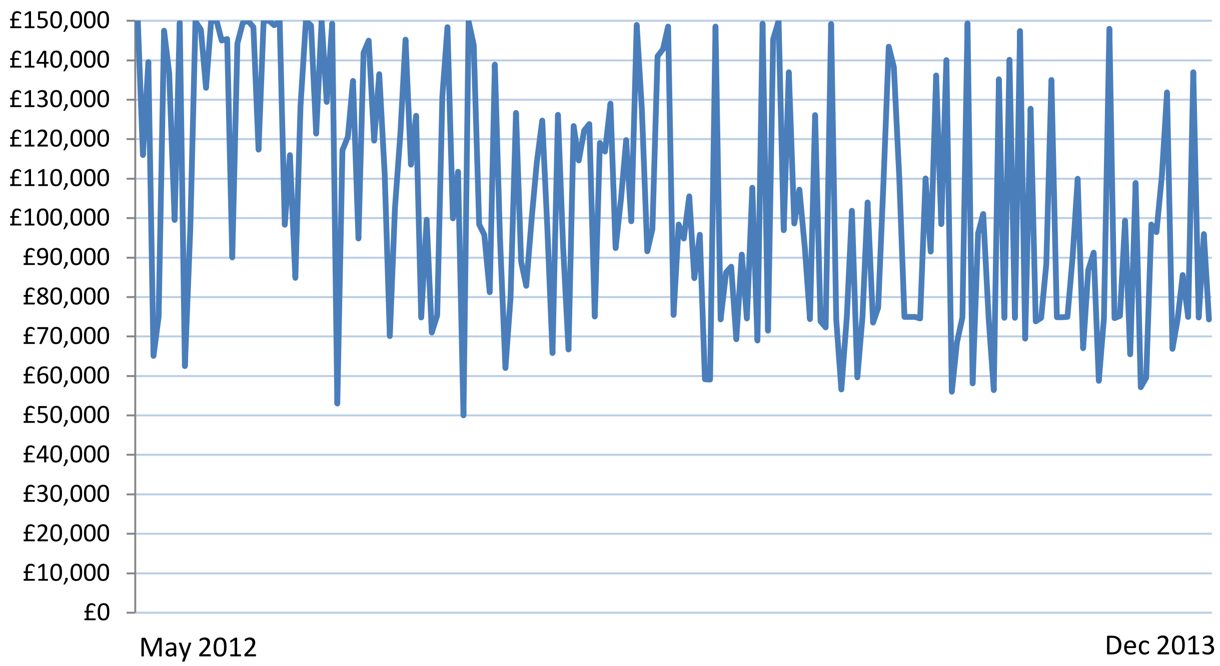
The average value of an investment readiness grant to date has been £97,000 versus £93,000 for contract readiness (note most contract readiness applications capped at £75,000 since May 2013).

In many cases the amount ultimately awarded by the Investor Panel differed from the initial application. Of 94 successful applications, 47 were awarded the full amount requested, 39 received less than initially requested and 8 received more than their initial request.

Ventures receive a portion of the grant in 83% of applications, with the average application requesting £71,000 for providers and £26,000 for the venture. In 79% of applications more than one provider was funded, in these cases non-lead providers receive an average of £24,000 or 29% of the total grant.

Following the introduction of the repayability clause, there was a drop in the average value of investment readiness applications (to £101,000 from £114,000) and an increase in the proportion requesting less than £75,000 (to 25% from 12%). This may not simply be due to the repayability clause, however, as there is some evidence for a general decrease over time of applications near £150,000 [Figure 3].

Figure 3: Amount requested in applications by date received



3.3 Venture characteristics

The financial position of ventures applying to the Fund varied significantly. Over 90% of ventures reported income, with totals ranging from a few thousand pounds to £167m. Successful ventures reported significantly higher income levels than ventures whose applications were unsuccessful [Figure 4]. Total funds (including restricted funds) were similar for both successful and unsuccessful ventures with an average of around £3m.

Figure 4: Financial characteristics of ventures by application success

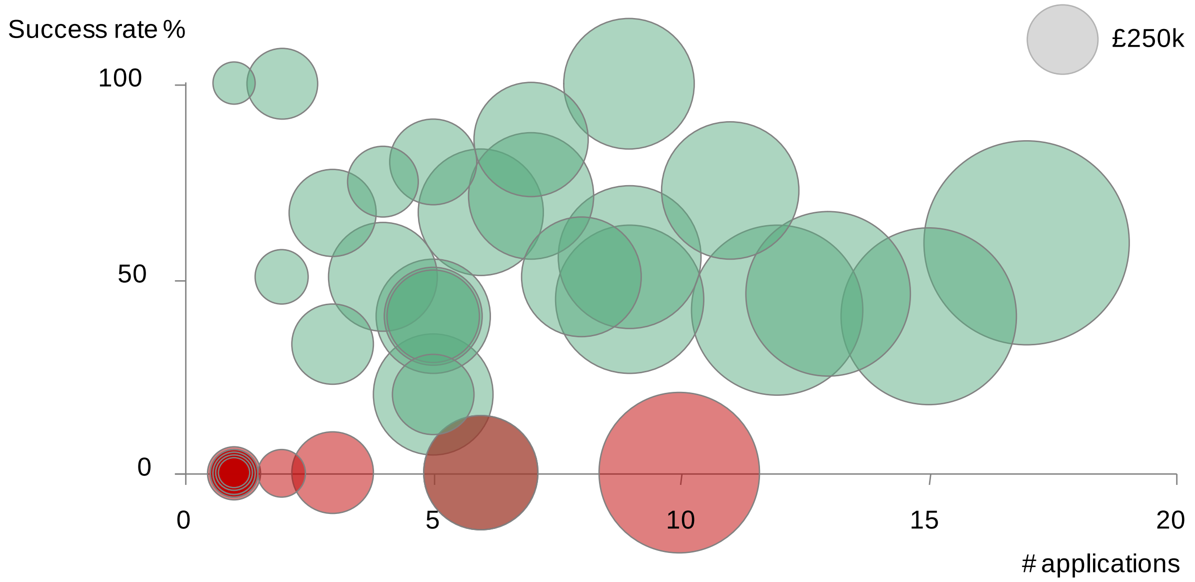
	Successful		*Unsuccessful*	
	Mean	*Max*	*Mean*	*Max*
Total income	£144m	£167m	£68m	£80m
Total funds	£3m	£34m	£3m	£46m

Approximately 68% of all applicants reported operating a surplus (71% of successful applicants).

3.4 Provider characteristics

Application success rate varies significantly between providers, with 14 providers never having made a successful application to the fund. Figure 5 shows the range of performance across providers in terms of number of applications, success rate and the total value of the applications made.

Figure 5: Success rate, number of applications and total value of applications by provider



Providers also vary considerably in the amount of time they report spending on a typical application with estimates ranging from a few hours to over 100 hours of preparation. Estimates of the cost of completing applications ranged up to £5000 - a significant amount given the lower-end potential of a £50,000 award.

Provider day rates, as reported in the application forms, range from £500 to £1000 including VAT (the cap within ICRF) with most providers offering multiple rates for staff with different levels of seniority and experience. Most providers (57%) reported that the day rates they offered as part of the Fund were lower than the rates they would offer on the open market due to the cap and the expectation that the Panel would judge 'inflated' day rates unfavourably. Interviews with providers make it clear that for many, operating solely within the financial constraints of the ICRF would not be sustainable for their business.

There is some evidence to suggest a certain amount of gaming of the application process by providers. Specifically some providers admitted that they included activities in their applications that they suspected the Panel would refuse to fund but could be sacrificed to protect the core of their proposal.

The majority of providers report that ICRF activity represents a small minority (<20%) of their business although four providers reported ICRF activity as 50% or more of their revenues.

4. Impact of the Fund to date

As only 22% of interventions have been completed to date any assessment of the impact of the Fund at this stage must be considered preliminary. We considered three main criteria: investments raised or contracts won by the supported ventures; the extent to which the capabilities of ventures have been built; and the extent to which the provider market has been strengthened. Against all three dimensions our research found evidence of significant and positive impact although the Fund still has some way to go before it can be considered to have demonstrated true sustainability in the market.

4.1 Investments raised and contracts won

Arguably the most direct measure of the success of the Fund so far is the extent to which it has allowed ventures to either raise investment and/or win contracts. To date, amongst those ventures who have received support, a total of £21.4 million of investment has been raised and £13.5 million of contracts won [Figure 6]. When surveyed, 16% of ventures reported that the ICRF support had already resulted in investment raised and 7% reported that it had directly help them to win contracts. As work is ongoing in the majority (78%) of ventures these totals will likely rise over the coming months as further projects are completed.

Figure 6: Investments raised and contracts won as a result of ICRF support to date

VENTURE (LOCATION)	PROVIDER	ICRF GRANT	INVESTMENT RAISED	CONTRACT VALUE
Consortium of Voluntary Adoption Agencies	Social Finance	£140,972	£2,000,000	
Midlands Together (Birmingham & Black Country)	Triodos	£149,300	£3,000,000	
Greenwich Leisure Ltd	Triodos	£129,000	£5,000,000	
Streetvibes (Lewisham)	Bidright	£74,836		£1,120,000
Empower (Sunderland)	Social Finance	£108,650	£10,100,000	
Sandwell Inspired Partnership Services (W. Bromwich)	Mutual Ventures	£64,300		£710,000
Foresight NE Lincolnshire	Cogent Ventures	£95,836	£1,300,000	
Pure Innovations (Stockport)	Stepping Out	£52,250		£11,700,000
		£815,144	**£21,400,000**	**£13,530,000**

One important caveat associated with this data is that as we do not have a 'control' group it is impossible to completely disaggregate the impact of the ICRF support from other potential explanatory factors such as the broader growth in the social investment market and the increasing outsourcing of public services. However, the attitudinal data we gathered does support the conclusion that the Fund has been instrumental with 72% of ventures reporting increased investment readiness and 89% reporting increased contract readiness as a direct result of ICRF support.

In assessing the maturity of the market it is helpful to consider the value of investment and contracts won required to be economically sustainable in comparison to the resources deployed on investment and contract readiness support. This would be equivalent to the point at which the ventures' return on capital employed (ROCE) less interest costs across the lifetime of the investment and/or the margin on contracts won was at least equal to the value of the investment and contract readiness activity deployed. Using this approach, if we assume a 5% figure for both aspects this would imply a 20x multiple on the Fund or a total of £200 million investments raised and contracts won over the lifetime of the Fund.

As the Fund is currently 89% committed with 22% of interventions completed we might therefore expect about £40 million worth of deals at this stage in a fully sustainable market. This puts the £35 million total so far broadly in line with this trajectory and an impressive achievement given that today's market for investment and contract readiness services is likely to be some way from economic sustainability.

Given progress to date it is reasonable to expect the Fund will deliver over £100 million of investments and contracts once all interventions have completed.

4.2 Building capabilities of ventures

A second important success factor for the Fund is that it helps to build the capabilities of ventures for the longer term rather than simply helping them access specific short term opportunities. Across a range of dimensions, ventures report significant increases in their skills and knowledge thanks to the help they have received [Figure 7]. The most significant increases were for approaching legal issues; measuring impact; and building a case for expansion.

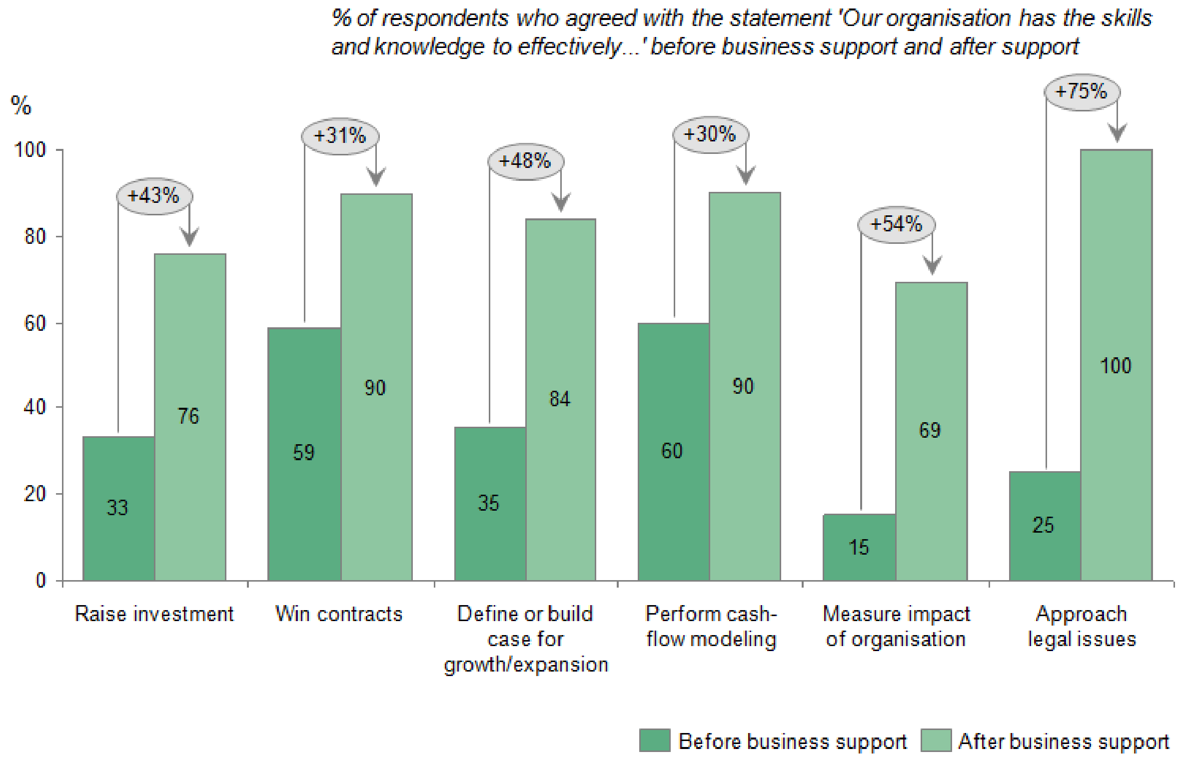
Thinking ahead, 70% of ventures agreed they are likely to require less external support in the future as a result of ICRF support, a sentiment supported by 58% of providers.

The following quotes were typical from our conversations with ventures.

"[ICRF] has been invaluable to helping us understand how to improve our business."

"The level and breadth of experience has been really useful and progressed our contract readiness significantly."

Figure 7: Impact of ICRF on ventures' capabilities



4.3 Strengthening the provider market

The market for investment and contract readiness services presents a number of challenges for providers. On the demand side, many ventures are either unwilling or unable to pay for support – even when there is a direct connection to investment or contract success. On the supply side, providers are often small organisations that find it difficult to expand given the inherent uncertainties of the market.

The introduction of the ICRF therefore represented an important watershed for many providers as it set out to address both demand- and supply-side issues.

On the demand side there is evidence that the ICRF is beginning to increase the willingness of ventures to pay for investment and contract readiness activities. As one member of the Panel noted "*I have seen more ventures becoming aware of what these providers can do for them, and really getting excited about what they can do in the future.*"

Providers report more contact with a broader range of ventures, with 73% agreeing or strongly agreeing with the statement, "*Ventures that might not otherwise approach us have been in contact through the ICRF.*"

Ventures themselves have also tended to suggest a shift in awareness and willingness to pay is taking place, with positive comments including:

"Whilst we are undoubtedly a better business, we still have a long way to go towards being 'the finished article'. There is still a lot we can do better and we could achieve this sooner with continued support from our provider."

"We have already engaged our provider to do additional work through another funding stream."

15% of ventures surveyed would pay to hire the provider in the future, whether or not financial support was available. However, given that 85% of ventures did not respond positively to this question there is clearly still a long way to go before the market is mature enough to survive without subsidy.

On the supply side, there is evidence that the Fund has enabled new providers to enter the market and existing providers to expand. When asked whether the ICRF will have a positive long-term impact on their organisation 61% of providers agreed.

5. Recommendations

Our research identified six areas where the Fund could be improved in the future.

Recommendation 1: Increase transparency of provider performance

As noted above, provider performance in terms of number of applications and success rate varies enormously. The providers themselves also vary in their size, experience and expertise. For ventures who are considering making an application to the Fund, choosing which of the 40 approved providers to work can feel too much like a random selection. The Fund should therefore consider publishing more information about the providers, including their performance in the Fund so far, to better inform the market. This public data would also encourage providers to actively engage with the Fund, rather than simply using approved provider status as another means to advertise their business.

Ultimately, serially unsuccessful providers should have their approved provider status removed and be asked to reapply.

Recommendation 2: Improve feedback from the panel to applicants

Ventures and providers have expressed some frustration at what they perceive as a lack of clear feedback from the panel as to why certain applications were rejected with no clear avenue for appeal. While an effort is made to include some feedback when conveying the outcome of panel decisions, providers have highlighted the need for more standard feedback that will allow them to understand individual decisions against clear criteria. For example, a lack of clarity as to what counts as 'capacity building'—and is thus excluded from funding—was cited repeatedly by providers and ventures during this research.

One specific suggestion would be to maintain a 'Frequently Offered Feedback' document that provides an overview of some of the common themes featuring in Panel feedback. This document could be regularly updated and made available via the ICRF website.

Recommendation 3: Enhance the contract readiness experience on the panel

As noted above, the design of the Fund, including the experience of the investor panel, is more directly related to investment rather than contract readiness (despite the fact that most successful applications relate to contract readiness).

To address this, the panel should be rebalanced to include more contract readiness and public sector commissioning experience – indeed the panel could be split to reflect these two areas different areas. With that experience on board, it might also be appropriate to discuss and potentially refine the criteria that are used to measure contract readiness applications, and ensure the application form captures appropriate contract readiness specifics to facilitate decision making by panel.

Ultimately, it might be appropriate to split the Fund and create a separate contract readiness fund as this would offer an opportunity to completely redesign around the specific demands of this area.

Recommendation 4: Reduce the use of direct grants to ventures

The awarding of direct grants to ventures sits awkwardly with the aim of building a more sustainable market for investment and contract readiness services. While ventures are expected to devote significant effort to both the application and the business support phase (the justification for the venture portion of the grant) a common theme amongst panelists and providers is that this should be considered a normal part of their operations.

As one panelist noted *"[Ventures] need to move beyond a 'grant' mindset to a 'market' mindset, and giving them money like this doesn't help."* It is widely acknowledged that ventures will be more incentivised to push for outcomes if they feel they have some 'skin in the game' themselves.

The use of direct grants to ventures should therefore be the exception rather than the rule and only awarded when the panel believes that without such funds the proposed workplan would be significantly weakened. Over time, the increased use of repayable components or matched funding by ventures would help to move the market towards a more sustainable basis and allow ICRF support to be spread more widely. Such mechanisms also help to reduce 'feather-bedding' of applications by providers.

Beyond individual applications, it is worth reflecting on the broader dependency on subsidy amongst social ventures and the degree to which they are likely to ever accept the full costs of professional support. The market today is clearly a long way from this ideal *even under circumstances when the funds are clearly available within the venture*. The extent to which market subsidies such as the ICRF can help to shift this mindset should be an important success factor against which they are judged as opposed to the risk that they simply reinforce and perpetuate a grant mindset.

Recommendation 5: Improve the predictability of the Fund

Ventures, providers and investors all value predictability but a widely expressed criticism of the Fund to date is that it has not provided a sufficiently consistent, predictable source of funding. For providers (and ventures) in the process of developing their businesses, it is critical to offer a line of sight into the future availability of grants. The impression of many stakeholders is that the ICRF has been too stop-start with periods when the Fund appeared "closed" (even though technically it was not).

Restricting applications, especially when these restrictions are time limited, has also created significant obstacles for providers needing to plan resourcing and develop broader strategies. While future funds may not be open to applications at all times it is critical to make the amount, duration and nature of application windows available from the outset, to avoid surprises.

In addition, themed calls should reflect genuine demand in the market – for example, due to national commissioning events – to avoid unhelpful spikes in application volumes.

Recommendation 6: Enhance the role of the fund administrator

Administration of the Fund is currently constrained by a very limited budget in part to maximise grant support available for frontline ventures. In the future, a similar fund would significantly benefit from increased budget to support an enhanced role for the administrator. For example, increased resources would allow additional screening and interaction with ventures and providers prior to an application reaching panel. This would allow the administrator to assist in ensuring applications are within the ICRF criteria, and could reduce instances of requests for clarification or rejection by the investor panel.

Increased involvement during the application phase could also reduce the volume of materials put before panel, with the administrator helping applicants focus on what is required for a decision. This streamlining of application materials would make the process significantly less onerous for panelists.

Furthermore, there is potential for an administrator to take a more active advisory role as applications go before the panel. As the administrator interacts directly with applicants and observes panel decisions over time, they are well positioned to offer an additional layer of colour to applications. The administrator would therefore by well placed to offer recommendations to panel regarding applications for approval which would also help to increase consistency of decision making between panels.

An enhanced role for the Fund administrator would also enable more robust post-grant monitoring to take place. Given that ICRF funds are for the provision of very specific services, rather than a general grant, it may be appropriate to consider monitoring the specifics of its expenditure—for example, through timesheets showing the direct link between effort and day rate.

Beyond ensuring appropriate activity within individual awards, post-grant monitoring would also provide important insight into the evolution of the intermediary market and broader aims of the Fund.

Finally, some relatively minor technical improvements to the process would help to reduce the administrative burden and increase efficiency. For example, moving from an email/paper based application to an online submission form would allow better data capture for future tracking and analysis.

6. Conclusion

The success of the ICRF to date should be celebrated. Since its inception it has supported nearly 100 social ventures in improving their readiness to take on investment and win government contracts. It has helped to develop the market of providers and strengthen the pipeline of deals. The innovative design of the Fund itself will no doubt become a benchmark for similar funds elsewhere in the world.

Our research revealed widespread support for the Fund from ventures, providers, investors and other stakeholders. The feedback on the design and management of the Fund was overwhelmingly positive and all concluded that the Fund (or an equivalent) would be needed in the market for several years to come.

As the fund administrator, the Social Investment Business is widely recognised to have done an impressive job on limited resources. This is in part due to their experience designing and managing other funds over the years and the fact that they already had suitable systems, processes and relationships in place upon which they could build.

As the social investment market continues to evolve it will be important that the design of the Fund evolves with it. Market shapers such as Big Society Capital, Big Lottery and the Cabinet Office as well as the Social Investment Business can help steer that evolution by continuing to lead the conversation about what kind of social investment market we are seeking to build, the extent to which ongoing subsidy is likely to be required, and the areas towards which any subsidy is best directed.

This will ensure that increasing numbers of social ventures are investment and contract *ready*, *willing* to seek specialist support as required, and *able* to win in the market.

Annex A: Research methodology

Evidence was gathered from three main sources as part of this research.

1) BCG were given access to the full dataset of ICRF applications and awards as at December 31st 2013

2) Web surveys were sent to all Fund applicants. Separate surveys were designed for successful and unsuccessful ventures as well as for providers. Surveys were completed during January 2014 with the following response rates:

- Successful applicants 54 out of 94 (57%)
- Unsuccessful applicants 27 of 89 (30%)
- Providers 26 of 37 (70%)

3) Interviews were conducted with senior stakeholders (listed below) during December 2013 and January 2014.

Interviewee	**Organisation**	**Stakeholder group**
Antony Ross	Bridges Ventures	*Investor Panel*
Ceri Jones	Baxendale	*Provider*
Daniel Brewer	Resonance	*Provider*
Danyal Sattar	Esmee Fairbairn	*Investor Panel*
David Hutchinson	Social Finance	*Provider*
Deborah Smart	SIB	*Fund administrator*
Emily Jolley	ACEVO	*Provider*
James Perry	Panahpur	*Investor Panel*
James Vacarro	Triodos	*Investor Panel / Provider*
Jeff Dober	The FSE Group	*Investor Panel*
Jonathan Jenkins	SIB	*Fund administrator*
Kelly Glaser	Cabinet Office	*Cabinet Office*
Nat Sloane	Big Lottery	*Big Lottery*
Natasha Price	Cabinet Office	*Cabinet Office*
Nicola Swann	PWC	*Provider*
Paul Harrod	Midlands Together	*Venture*
Phil Hall	Nat West	*Investor Panel*
Richard Butler	CAF	*Investor Panel*
Richard Litchfield	Eastside Consulting	*Provider*
Rod Schwartz	ClearlySo	*Provider*
Rupert Gather	Claridge Capital Partners	*Provider*
Sally-Ann Baker	Bidright	*Provider*
Sarah McGeehan	Formally SIB	*Fund administrator*
Sonia Ramanah	StreetVibes	*Venture*
Susan Ralphs	The Ethical Property Co.	*Venture*

About the Authors

Adrian Brown is a Principal in the London office of The Boston Consulting Group. You can contact him via email at brown.adrian@bcg.com and via Twitter @_adrianbrown

Katie McAllister is a Consultant in the London office of The Boston Consulting Group. You can contact her via email at mcallister.katie@bcg.com

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