Local Partnerships

Obtaining gap funding for mutuals and social enterprises

Julie McEver, Local Partnerships

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Local Government Association

What is Local Partnerships?

Local Partnerships

- Local Partnerships is a joint venture between HMT and the LGA.
- We work with government, local authorities, local public bodies, and the community focussed third sector, to support them to deliver investment in local infrastructure or local services.
- We don’t work for the private sector, and we are not profit maximising.
- We have a core operating principle of sharing intellectual capital and learning across the public and third sectors.
- We operate throughout the investment cycle; from investment appraisal to project or programme delivery to contract management.

Contents

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- The mutual and social enterprise development journey
  - When will you need gap funding and what will you need?
- Who will provide gap funding?
  - Types of Finance (Loans, Grants, Equity (and quasi-equity))
  - Sources of Finance (Government, Commercial / Specialist lenders, Social venture capital, social investors, other intermediaries)
- Conclusions

The journey – key milestones

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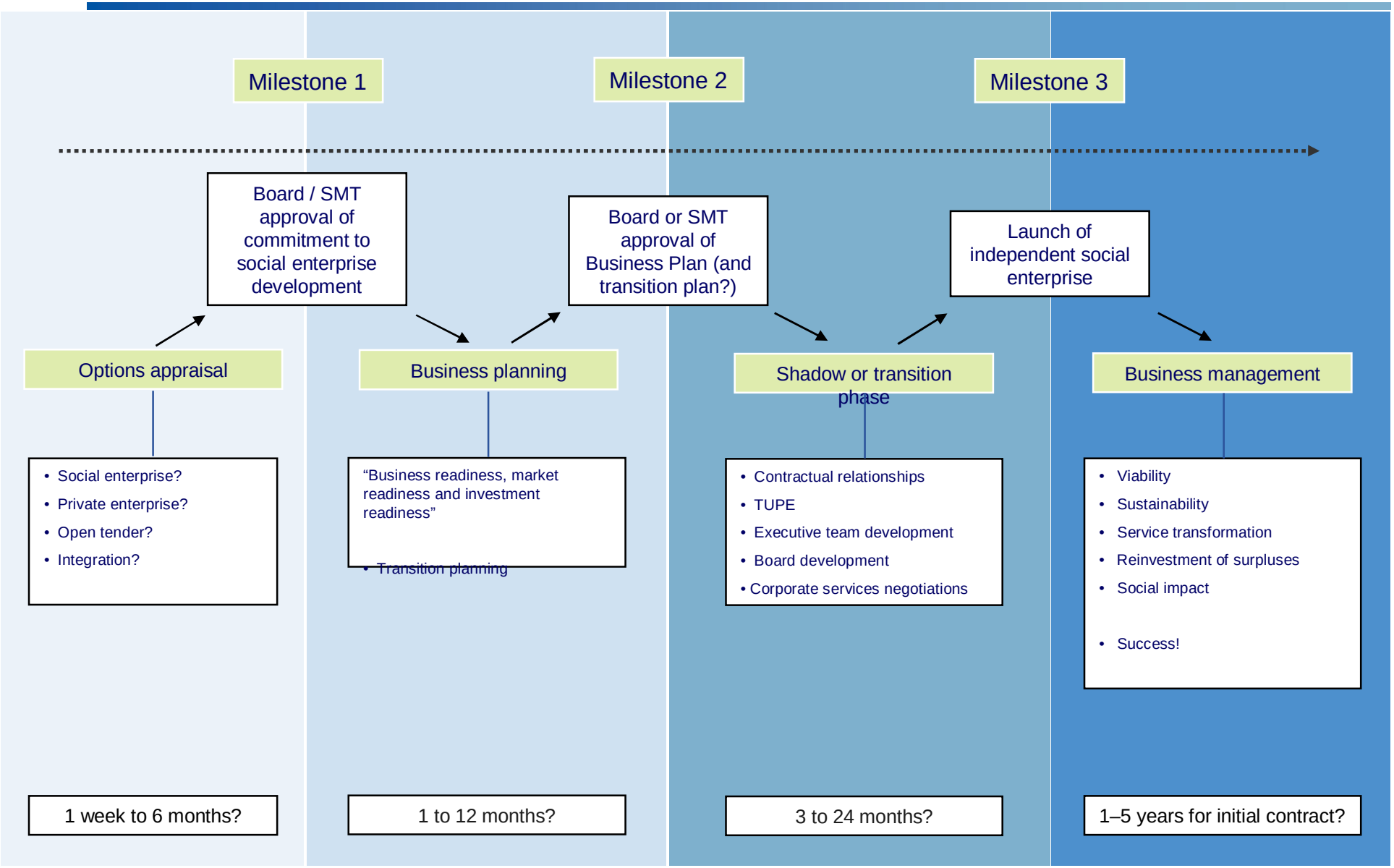

What gap funding will you need?

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When

- Options appraisal
- Business planning
- Shadow / transition
- Launch

What

- Internal (staff time, back-fill)
- External expertise (tax, finance & accountancy, legal, business planning)
- Staff engagement
- Relocation
- Insurance
- Equipment (IM&T, other)
- Communications / Marketing
- Staff / Board development
- Assets
- Professional accreditation / membership
- Working capital / development capital

Who will fund your gap needs?

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- Parent organisation
- Historic surpluses / profits
- Traditional finance providers
- Pro bono support
- Bespoke investors
- Emerging models…

Types of Finance

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- Debt
  - Types: Loans, bonds, overdrafts, underwriting, mortgages
  - Challenges: debt aversion, appetite of lenders, impact on balance sheet
- Grants
  - Types: development grants, capital grants, feasibility
  - Challenges: restricted funds, clawback
- Equity / quasi-equity
  - Types: equity, revenue participation agreement, annual turnover levy, grants with clawbacks / triggers
  - Challenges: restrictions on dividends, restrictions on ownership

Sources of Finance

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- Government
  - SEIF, Futurebuilders, Communitybuilders, Risk Capital Fund
  - Other future funds?
  - Challenges: annuality, politics, perverse incentives for fund managers and investment approach vs programme model
- Social venture capital
  - Bridges, Baxi Partnership, Big Invest, Triodos?
- Social investors
  - Esmee Fairbairn / other foundations, Impetus Trust, CAN Breakthrough, CAF Venturesome

Sources of Finance (cont'd)

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- Commercial / Specialist lenders
  - Unity Trust Bank, Co-operative Bank, Charity Bank, Triodos Bank, Community Development Finance Institutions (CDFIs), high street banks
- Stakeholders
  - Staff, community, local public body?
- Others
  - Intermediaries: Social Finance, ClearlySo
  - Hot topics: Big Society Bank, Social Impact Bonds, Social Stock Exchange

Conclusions

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- Each journey is different and gap funding will vary
  - Consider your options / needs
  - Revisit as appropriate
- Gap funding does exist
  - No silver bullet
  - Seek to diversify financing streams
  - Negotiate hard
  - Consider risk capital