rebuilding the relationship between affordable housing and philanthropy

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Preface: towards a memorandum of understanding

Affordable housing and philanthropy have a long established and productive relationship. Their social purposes are similar: both aim to invest for a social return and seek to use any financial surplus for the benefit of the community. However, the two sectors have steadily grown apart in recent decades. In these tough times there is a pressing rationale for closer collaboration and learning from each other.

As this set of papers shows, philanthropy on its own can't hope to solve the crisis in affordable housing. But philanthropists and foundations could play a bigger role in social housing and community investment. And it could encourage innovation and help housing associations develop their own philanthropic activities.

Philanthropists, grant-making trusts and foundations could help fund the vital community investment work of housing providers, such as programmes to boost employment, enterprise and skills. They could get more involved in a range of projects; for example, providing equipment to community groups, resources for youth programmes, or funding to facilitate work to tackle isolation among older people. Housing providers are uniquely placed to deliver these services, which might previously have been provided exclusively by local authorities. However, to do so comprehensively will require new partnerships and funding streams.

There may also be opportunities for investing in new or existing homes. This might be in the form of subsidised land, cheap loans, or taking equity stakes and offering grants. Investment or donations could be made for a partial stake in a community building, for example, which would free up capacity to enable more new homes to be let rather than sold outright. They could also help develop community gardens, landscaping or allotments.

If some of these ideas are to materialise, then stronger partnerships will need to be built. Social housing providers cannot expect philanthropic organisations to fund them and then be left alone. Those giving money will want to understand what impact it is having. Housing and philanthropy must be a two-way street. Perhaps, then, this is a good moment for the two sectors to think about more formal ways of working closer together.

One idea could be for the National Housing Federation, supported by Peabody and other willing housing associations, to work towards a memorandum of understanding with New Philanthropy Capital. This could provide the organising framework for a new partnership between the housing and philanthropy worlds. A working group could be established to raise awareness of the distinct relationship between the two sectors, and help foster a better and more productive understanding of housing and philanthropy.

Building on the comments and ideas collected here, the group could identify the barriers and opportunities to grant giving and investment in housing and communities, highlight best practice here and abroad, match philanthropists with individual housing associations and projects, and explore ways of learning from each other. The group could also encourage people from both sectors to meet, discuss funding models, and look at the merits of pooling funds to support housing and opportunities for tenants on a larger scale.

This timely and insightful report demonstrates what can be achieved. The big challenge now is how to ensure that the good will and shared interest between the two sectors is carried forward in a meaningful way.

Stephen Howlett, Chief Executive of Peabody
Dan Corry, Chief Executive of New Philanthropy Capital
Paul Hackett, Director of the Smith Institute

Introduction

Stephen Burns, Executive Director for New Business at Peabody

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Stephen Burns, Executive Director for New Business at Peabody

This collection of essays represents a new beginning in the relationship between affordable housing and philanthropy. Housing providers and the philanthropy sector share common goals: they both fundamentally exist for the advancement towards a better society. Yet the housing sector and the world of philanthropists and strategic donors have seldom been further apart.

As a number of contributors note in this collection, housing providers are themselves engaged in philanthropic activity for the benefit of their communities. Of course, Peabody has its roots in the philanthropy of the 19th century and is a registered charity. George Peabody's total donation amounted to £500,000; equivalent to around £40 million in today's money. Peabody's trustees made a decision at an early stage that the fund should be self-perpetuating, so that its benefits could be spread over several generations. George Peabody approved their proposal that the capital should produce a 3% return, which was significantly below commercial rates but enabled further building to be funded. They would not have foreseen that 151 years later Peabody would own and manage around 20,000 properties, housing more than 55,000 people in London.

Other contributors will discuss how and why the state became the dominant actor in providing housing during the 20th century. But as public spending is again reduced, this is an opportune time to consider how charitable housing providers like Peabody can work with foundations, companies and individuals to deliver our mission of making London a city of opportunity for all.

Today, we have extended the self-perpetuating principle of Peabody's donation to our investment in our homes and communities. Our objective is to provide a good home, a real sense of purpose and a strong feeling of belonging. These are not separate things, but go hand in hand and complement each other. We are building homes across London, creating new neighbourhoods for the 21st century, with first-class design principles that have sustainability and the well-being of our residents at their heart.

Many of our estates have community facilities which we share with the wider community and voluntary groups. In 2012/13 we delivered over 14,000 hours of community work – in areas as diverse as literacy workshops, parenting programmes and youth-led projects. We also helped more than 320 unemployed people into jobs, got over 850 young people involved in community programmes for the first time, and are leading a consortium of businesses to create hundreds of apprenticeship opportunities for young Londoners.

We are already making a big difference, and we can achieve even greater things by forming new partnerships with like-minded people.

We believe there are significant opportunities for businesses, foundations, grant-making trusts and individuals who want to help build a better society to work with us – perhaps with a smaller financial return, but certainly with an excellent social return on their investment. This project brings together a range of perspectives on how these opportunities can be progressed.

The chapters which follow discuss how philanthropic and social investment may be attracted to affordable housing – whether it is contributing to building fantastic, innovative homes and community buildings, or changing lives through the kind of investment in people that I have described.

We are not suggesting that philanthropy or strategic giving can solve the affordable housing crisis on its own. Nor are we advocating the withdrawal of government investment in affordable homes. But it is clear from these essays that there is a role for philanthropy in affordable housing, and there are shared aims and aspirations between the sectors for us to build on.

The question now is: where do we go from here?

The suggestion of a memorandum of understanding or partnership agreement between the housing sector and philanthropists is a good one. A working group to increase collaboration between the two sectors, introduce philanthropists to the work of registered housing providers, explore the opportunities and help housing providers demonstrate the impact of their charitable activities would be a fitting outcome to this excellent piece of work.

I would like to thank everyone involved. As I said at the start, this collection of essays represents a new beginning in the relationship between affordable housing and philanthropy. I hope it will serve as a catalyst to make these possibilities a reality.

Chapter 1

Can we rebuild the relationship between philanthropy and affordable housing?

Vicki Prout, Media Relations Manager and Housing Lead at New Philanthropy Capital

Can we rebuild the relationship between philanthropy and affordable housing?

One hundred and fifty years ago, housing and philanthropy were closely interlinked. George Peabody and other philanthropists, including Joseph Rowntree and George Cadbury, devoted vast sums of money to building homes for the poor. By 1900, the number of homes provided reached into the thousands.[1] Estates and, in some cases, whole towns sprung up across the country, particularly around major industrial centres such as London and Birmingham, where huge numbers of people lived in some of the worst slums in Europe.

Over time, this relationship drifted; the last major development funded by a philanthropist was Silver End in Essex, a model village built by the industrialist Francis Henry Crittall in 1925.[2] After the first world war, David Lloyd George committed to building "homes fit for heroes"[3]; gradually, affordable and social housing became the responsibility of the state and philanthropists withdrew from the sector. The building of council housing peaked in the mid 20th century, but by 1942 – when William Beveridge published his famous report paving the way for the introduction of the welfare state – the "problem of rent" had already become a thorn in the state's side.[4] Successive governments have been doing battle with the issue of housing ever since.

The housing and homelessness problem has worsened in recent years, and voices suggesting that the time has come for philanthropists to rediscover this sector are beginning to be heard. For several years, organisations such as Shelter have delivered warnings that the country faces a housing crisis, but recent reforms to the social security system – including housing benefit – have brought the issue to a head and thrust it firmly into the political and media spotlight. Recent government figures showed that there were 53,130 households living in temporary accommodation at the end of 2012 – 9% higher than the previous year.[5] Several million people across the UK are classified as being in housing need, defined as falling under one or several categories: lacking own secure tenure, mismatch/unsuitability, house condition and social needs.[6]

The UK is confronted by a worrying combination of drastic housing shortages and changes

1 Peabody *The Thirty-Sixth Annual Report of the Governors of the Peabody Donation Fund* (1900)
2 Silver End Parish Council's website: www.silverendparishcouncil.gov.uk/history.html
3 London Councils' website: www.londoncouncils.gov.uk/policylobbying/housing/supply/homesforheroes.htm
4 Beveridge, W *Social Insurance and Allied Services* (1942)
5 Shelter's website: http://england.shelter.org.uk/campaigns/why_we_campaign/housing_facts_and_figures/subsection?section=temporary_accomodation
6 Department for Communities & Local Government *Estimating Housing Need* (2010)

to welfare that will leave hundreds of thousands of people worse off. The collapse of the housing market, owing to the rising cost of building and, crucially, the spiralling cost of land and the associated issue of land banking – where developers purchase bare land with the intention of holding on to it until it is more profitable to build on or sell – have meant that fewer homes are being built. In 2012, some 98,280 house builds were started, an 11% drop on the previous year,[7] and far short of the 230,000 households which were formed.[8] Based on the government's projection for growth in household numbers, continuing in this direction will result in a shortfall of 750,000 homes by 2025.[9]

Although it has only crept up the media agenda relatively recently, welfare reform has in fact been under way for a number of years, beginning in 2008 when the Labour government introduced the employment and support allowance that went on to replace incapacity benefit. The pace of reform quickened after the Coalition government came to power in 2010, and this year has seen a raft of changes, including the removal of the spare room subsidy (also known as the "bedroom tax") and the benefit cap, the replacement of the disability living allowance with the personal independence payment, the abolition of the Social Fund and the localisation of council tax benefit. The headline act, of course, is universal credit: Ian Duncan's Smith's brainchild, which took its first tentative steps in April this year. It is important to view all of these reforms in the broader context of social spending cuts, for example to legal aid, social care and support services, such as those offered by the voluntary and community sector.

Impact already being felt

Adapting to new rules, a potential fall in income and changes to access and the delivery of benefits will have a cumulative effect on many people's lives. Only a few months in, we are already starting to see the impact of the reforms on people's housing situations. Housing associations have reported that tenants affected by the spare room subsidy, losing as much as 25% of their housing benefit, are failing to cover the shortfall in their rent.[10] As a result many associations are putting extra resource into their income management teams, which often means resources being removed from other areas. Councils across England have also received as many as five times the number of applications for discretionary housing payments – the emergency hardship funds available to people in urgent need. The government has increased its discretionary

7 Department for Communities & Local Government *House Building, December Quarter 2012, England* (2012)
8 Department for Communities & Local Government *Household Projections, 2008 to 2033, England* (2010)
9 Schmuecker, K *The Good, the Bad and the Ugly: Housing Demand 2025* (Institute for Public Policy Research, 2011)
10 Inside Housing website: http://www.insidehousing.co.uk/tenancies/bedroom-tax-tenants-failing-to-pay-rent/6526870.article

housing payments pot from £60 million in 2012/13 to £155 million in 2013/14,[11] but the surge in applications over the first few months indicates that this might not meet demand.

Changes to other benefits will also have a knock-on effect. The fewer resources available – financial as well as other forms of support, including advice services – will struggle to help growing numbers of people in housing need. There is a risk that those affected may get sucked into a vicious cycle, with the potential for housing need to trigger other issues, such as mental health problems. A stable home underpins a host of other important factors that influence an individual's ability to play an active role in society, such as education, employment, health and well-being.

In the face of all this, however, many charities who work within these areas are facing increasing difficulty in bridging the gap between rising demand for their services and falling income levels. Housing associations are also seeing their funding streams for "extra" community programmes cut, so they are less able to offer support services for their tenants in areas such as employment and training. Despite all this, philanthropic efforts are directed at tackling the consequences of housing need, rather than the basic root cause: the insufficient supply of decent homes.

So, with the government rolling back support, and housing need getting steeper, there is a growing case for attempts to try and rebuild the relationship between philanthropy and social housing. Recent work by New Philanthropy Capital, including a round table organised with Peabody and the Smith Institute, reveals two main reasons why trusts, foundations and philanthropists are unwilling to fund in this area.

First, they are reluctant to fund areas of work considered to be the government's responsibility, wary of being cast as a substitute welfare net and relied upon to plug the gaps if and when the state withdraws. Second, there is a degree of nervousness about taking on housing, with many feeling the issue is "too big" and the cost of actually making a difference prohibitively high. There is clearly a space for analysis into how philanthropists can play an effective part in tackling this enormous challenge and, crucially, how it can be measured, so that we can build and improve on their experiences.

Land prices and construction costs have reached stratospheric levels; therefore, unlike their Victorian forebears, it is simply not feasible for modern philanthropists to develop thousands of homes – especially in places like London. However, although building on

11 Department for Work & Pensions *Housing Benefit and Council Tax Benefit Circular* (2013)

this scale might not present a practical solution to the problem, it does not mean that philanthropic money should not be used to build at all. On the contrary, funding the design and construction of exemplary homes and the development of best practice in housing services can create the opportunity for these to be mainstreamed. In addition, even if only 50 homes were built by a 21st-century philanthropist, this would still transform the lives of 50 households, offering multiplied returns over time as the benefits pass down through families and other new tenants.

Making a real difference

However, this kind of activity, though important, is not going to solve the housing crisis. A long-term solution will require co-ordinated efforts across a number of sectors and government departments. In the meantime, there are a number of areas related to housing where funders have the opportunity to make a real difference. For example, there are over 700,000 empty homes across the UK. Most belong to individuals, though some are owned by housing associations or councils. Aside from being an affront to the 1.8 million people who are on the waiting list for social housing,[12] empty homes also cause many other local problems, such as by attracting antisocial behaviour.

A number of charities have taken advantage of the government's empty homes funding, getting grants to do up and rent out empty homes. However, many are finding that the government money doesn't go as far as they need, and furthermore there is uncertainty about the future of the fund. There is a real opportunity here for funders to work with organisations who seek to tackle the empty homes issue, and make the most of the bricks and mortar lying empty.

Another suggestion revolves around tackling the factors that lead to individuals ending up without decent housing. A range of factors influence someone's housing status, ranging from employment to mental health. For example, an individual struggling with an alcohol problem, who may be in and out of work, is more likely to fall behind on rent payments and be at risk of homelessness. By supporting interventions that work to address these issues – substance abuse, mental health – funders can indirectly relieve pressure on housing and homelessness services.

A huge area to consider is the opportunity to support the wider work of social housing providers. Many housing associations try to deliver "extra" services to their tenants, ranging from help with skills and work search to support with mental health and obesity issues, a setup which could be easily capitalised on. Often the hardest part of running a

12 Department for Communities & Local Government *Improving the Rented Housing Sector* (2013)

service is engaging with the people you seek to help; by working with housing associations and existing providers, funders would have access to a captive market of residents, who are often among those most in need of support. This would also provide an opportunity to make the most of pre-existing landlord/tenant relationships, as well as expertise on the specific social issues affecting residents who are in, or at risk of, housing need.

Funding for these "non-housing" services has proved much harder to come by for social housing providers in recent times: support from philanthropists directed to this area would enable them to continue and to enhance such services and to meet the additional needs of tenants and the local community. Relative to other groups involved in such work, housing associations are often among the strongest not-for-profit organisations in an area, as they have both assets and a reliable stream of revenue. This makes them viable candidates through which to leverage other projects, such as community investment work.

A final suggestion for philanthropists looking to become involved in the housing sector would be to support organisations already working in this field. In our 2008 report, *Lost Property*, New Philanthropy Capital reviewed the homelessness and housing charity sector and identified many charities doing excellent work, including Shelter, the main campaigning body in the sector. Supporting such an organisation – for example, by offering core funding, which can be hard to fundraise for – can be an extremely valuable way of making a contribution.

If the world of philanthropy takes steps to re-engage with the issue of social housing, then discerning philanthropists and other funders will want to know exactly what it is trying to achieve, and how its success will be measured. It would be dangerously easy to throw huge sums of money at initiatives designed to help people in need and assume they will deliver some benefit. However, having a lasting impact in the mould of Peabody, Rowntree and Cadbury calls for careful planning as well as a framework for evaluating success (or failure).

We know that many third-sector organisations measure some or all of their work, in order to satisfy funders.[13] Housing associations, however, are in general a bit behind the curve here,[14] not least as they have not until recently made many applications for non-statutory funding from philanthropists, corporations and others, so have not had the same need to evaluate.

13 Pritchard, D, Ni Ogain, E and Lumley, T *Making an Impact* (New Philanthropy Capital, 2012)
14 See presentation to CIH Conference 2012 by New Philanthropy Capital chief executive Dan Corry (http://www.cih.co.uk/resources/PDF/Marketing%20PDFs/Presentations/Dan%20Corry%20CIH%20June%2012%202012.pdf)

Before funding is given to an existing project or before a newly funded intervention is introduced, it is vital that those set to deliver the service know what they aim to do, what it will entail, and how they plan to evaluate whether or not it has worked. This requires measurement tools, which a number of housing associations already have in place to evaluate their work in community investment.[15] We know, however, that some organisations struggle to develop appropriate outcome measures, particularly when analytical skills are lacking. None the less, a number of off-the-peg tools do exist and organisations such as New Philanthropy Capital can help offer support. For example, we have published an outcomes map for housing and essential needs, which documents the relevant outcomes and indicators measured by charities, government, academics and practitioners working in this field.[16]

Measurement forms part of co-ordinated efforts

Once measurement and evaluation systems are in place, the results can be fed back into the strategy and methods, and lessons can be applied to fine-tune the intervention. A step further ahead, shared measurement tools can be developed to co-ordinate efforts with other organisations working in a similar field. This would enable results to be compared from one initiative or area to another, providing organisations and funders with the opportunity to learn from others.

Philanthropy and affordable housing have been separated for over a hundred years. We have seen successive governments struggle to get to grips with the UK's growing housing crisis, and in combination with the economic climate, welfare reforms and cuts, philanthropy has its greatest ever opportunity to play a pivotal role in helping those in housing need.

The relationship between philanthropy and housing needs to be fostered and supported, by organisations such as the National Housing Federation and New Philanthropy Capital, so that a mutual understanding can develop and we can learn what effective collaboration between the two sides might look like. There is an opportunity here for the philanthropy sector and housing associations in particular to work together, identify and overcome the barriers to grant giving or social investment in this sector, collect examples of best practice and try to replicate them across the country.

In the 21st century it will not be possible for one man or woman, trust or foundation to build the tens of thousands of homes needed by those at the bottom of the housing

15 Wilkes, V and Mullins, D *Community Investment by Social Housing Organisations: Measuring the Impact survey report for HACT* (Third Sector Research Centre, 2012)
16 Bagwell, S *Outcomes Map: Housing & Essential Needs* (New Philanthropy Capital, 2013)

ladder. Even if philanthropic money can only nibble around the edges of this huge and deeply entrenched problem, surely this work is worth doing, and worth evaluating. It is in this way that we can learn what works, and what else can be done to support people in need.

Chapter 2

What could philanthropy achieve in housing?

David Orr, Chief Executive of the National Housing Federation

What could philanthropy achieve in housing?

What could philanthropy achieve in housing – from the housing perspective? What are the real opportunities, in both bricks and mortar and housing support services?

We are in the midst of a housing crisis – reaping the impact of generations of underinvestment in housing, and a housing market that works for the few rather than the many. One in 12 families in England is now on a housing waiting list, and the last three years have seen an 86% increase in the number of working people relying on housing benefit to pay their rent.

Today the crisis is crossing demographic boundaries, impacting an entire generation of young people and extending its reach beyond the very poorest in society.

From 1982 to 1990, England saw a jump in births to nearly 6 million. Over roughly the same period, just 2.1 million homes were built. Over the next decade, as those babies approached their teens, the number of new homes dropped by 13%. Many of those are now in their late 20s and early 30s and struggling with housing costs.

The housing crisis has not grown up overnight. For generations the country has not built enough homes to keep pace with the number of new households being formed, let alone to satisfy some of the pent-up demand from those on waiting lists. We need at least 240,000 new homes each year, but last year just 111,250 new homes were built – less than half the number needed.

The 2010 spending review saw capital investment in housing reduced from £8.4 billion for the period 2008-11 to £4.5 billion for 2011-15, a 63% cut in real terms. As a consequence, the only way to maintain the supply of affordable homes was to increase rents, supporting building by relying more heavily on future housing benefit expenditure. As a one-off response to dire economic circumstances, it was a challenge to which housing associations rose. They are on track to deliver 170,000 new affordable homes between 2011 and 2015. However, this scale of investment cannot be sustained further without pushing housing associations towards unacceptable levels of risk and impossible borrowing levels.

The recent rise in the housing benefit bill is a result of the recession and higher unemployment. However, the long-term trend appears more structural than cyclical. With the housing benefit caseload remaining largely consistent, the dramatic increase in housing benefit spending can be attributed to claimants increasingly being housed in the more expensive private rented sector.

The consequence is that, of every £1 of government expenditure on housing, 95p is spent on housing benefit and only 5p on building new homes.[1] This ratio is unsustainable.

The simplest and most effective way of redressing the balance and reducing the housing benefit bill is to build more affordable homes. Without taking a long-term view of how we deliver the homes the country needs, we are in danger of aggravating the housing crisis, increasing the housing benefit bill and ignoring the needs of future generations.

The scale of the housing crisis is so significant that tackling it must be a government priority. That said, anything and everything that might offer a potential solution must be examined and utilised.

With the gulf between supply and need continuing to grow, reaching out and rebuilding philanthropic contributions can only be a good thing. And indeed philanthropy has certainly had a large and influential role to play historically, in helping to meet housing need.

From the almshouses established in the Middle Ages to the significant efforts of benefactors like Peabody, Guinness and Rowntree in the Victorian and Edwardian eras, housing associations have their roots in philanthropic giving and a history and mission wedded to meeting need and plugging the gap between those that have and those that don't. Those early social housing pioneers were operating pre-Lloyd George, Beveridge and the welfare state.

The national insurance scheme first introduced by Lloyd George acknowledged, for perhaps the first time, the contribution to society and social cohesion of a state-wide investment in managing want. Throughout the 20th century, albeit in the context of changing emphasis and priorities, recognition of the role of the state in providing for the welfare of the poorest and most vulnerable gained ground. In that context and especially during the post-war years, the provision of affordable and decent housing became less about individual philanthropy and more about a collective responsibility for civil society and the state.

Philanthropy in the austerity age

In today's austerity age, with a retreating state and public services under increasing

1 IPPR *Backing "'Benefits to Bricks": Our Big Cities Need Deal-Wheeling Housing Powers* (May 2013)

pressure, what role might philanthropy play? Is it time for a renewal of philanthropic investment in housing, and should and could that ever be an alternative to government support for affordable housing?

Housing associations are already major philanthropic organisations. Increasingly they have introduced efficiency measures, looked at creative and innovative ways to generate additional funds and put those to good use in building new affordable homes, ensuring that the communities in which those homes are located are sustainable and thriving through targeted community projects. In 2010/11 they invested more than £500 million of their own money in neighbourhood services.[2] They set up 1,000 projects designed to create jobs and help people back into work, and more than 270,000 people took part in these schemes. Around half a million people took part in projects to boost their knowledge and skills.

This is financially sustainable philanthropy, built on the implicit business model of the housing association and not the whims of wealthy donors. It builds on the old principle of generating resource for social purpose. Through it housing associations are delivering, driving and encouraging social enterprise in the communities in which they are based.

Investing in this way, to create and sustain vibrant communities and fill some of the gaps left by wider public-sector spending cuts, makes sound business sense for housing associations. Creating a sense of belonging encourages the community to take pride in the place they live and is a great way of protecting the physical housing asset.

Housing associations have turned the legacy of early traditional big philanthropy into a new "entrepreneurial philanthropy" that is more sustainable and better targeted. Perhaps the best example of this is their use of cross-subsidy. Many housing associations now carry out a wide range of commercial activities to support the delivery of their charitable objectives. Far from forgetting their roots, housing associations are reinvesting the profits generated by non-core activity (such as shared ownership or outright sale) in meeting their core, social purpose.

This type of "entrepreneurial philanthropy" is essential to meeting the housing needs of the most vulnerable and excluded.

Digital opportunities

The digital age brings new opportunities too. Digital-age initiatives which embrace

2 National Housing Federation *Building Futures* (Neighbourhood Audit, 2011)

the scale and reach of the internet and its immense power for bringing together like-minded individuals are changing the nature of philanthropy itself. It is no longer the preserve of wealthy individuals and traditional "big" donors. Crowdfunding websites like Kickstarter offer enormous potential for individuals and communities to come together to raise money and funds for new ventures.

There is real potential here for housing associations to embrace a crowdfunding approach to smaller affordable housing provision and community projects. For example, a housing association could agree with a community land trust that it would pledge 50% of development costs for a number of new rural homes if the local community crowdfunded the other 50% from local residents and businesses.

Similarly, a housing association could pledge to redevelop a local park or other community facilities if the local people, business and other organisations match their contribution. One of the drawbacks of traditional philanthropy is that it puts decisions about priorities for investment into the hands of the individual holding the purse-strings. The digital crowdfunding approach would avoid that, delivering local buy-in and ownership and ensuring that decisions about funding are firmly rooted in the community.

There may be other ways too for a wider group to play a philanthropic role in the provision of affordable housing. Social impact bonds could also be a useful vehicle for drawing in investment for capital and revenue. Unlike crowdfunding, social impact bonds are more likely to attract corporate investors or high-net-worth individuals. This model would work most effectively for clearly defined projects where there is solid evidence that intervention would lead to reduced public expenditure. Such products are still in their infancy, and it remains to be seen whether they become a significant source of new funding.

Their potential to contribute to capital funding for supported housing in particular has been a recurring discussion in recent years in supported-housing circles. However, as yet, no viable model has been proposed that could allow for a reliable capital funding stream. One of the drawbacks of this capital funding model is its reliance on a measurable outcome. For example, a social impact bond could be established for an older people's housing project. Part of the conditions of the bond would be for a measurable outcome, such as a reduction in emergency hospitalisations by 10% and a consequential reduction in healthcare costs. If that outcome were not met, funding for the development would disappear, with all the negative consequences that would entail. It is hard to see how such a model could have widespread application until an effective way of offsetting that inherent risk can be found.

That said, high-quality supported housing has enormous potential to deliver long-term savings, and there could be other ways of utilising the potential saving from the social outcomes it creates to generate some form of upfront capital investment. Discounting the sale price of public land by the sum the local authority expects to save from providing supported housing places, for example, might provide a more secure and viable social investment model for specialist and supported housing.

The availability and price of suitable land for building affordable homes is one of the key factors at present limiting delivery of the homes the country so desperately needs, and this is one area where there is perhaps real potential for Carnegie-style philanthropy. By donating suitable land, either entirely or at a discounted price, through community land trusts or similar arrangements, wealthy individuals could really make a difference to the provision of affordable homes. Philanthropic donation of land in this way could safeguard the affordability and stewardship of the resulting homes or other community assets in perpetuity and be of real benefit to the local area.

Solving the problem of scale

So does philanthropy have a role to play today in the provision of affordable housing? In its more traditional form, the donation of a million pounds or so by a wealthy individual, it is unlikely that philanthropic funding could deliver the scale of investment necessary to make a significant contribution to providing the homes we need. If philanthropy is to play a significant role in affordable housing provision, it would also need to be properly targeted and directed to those schemes where it can have most impact. Perhaps what is needed is a mechanism like a "philanthropists' fund" that unites individual philanthropists and helps direct their donations in a way that ensures that investment is at scale and can be invested in projects that society as a whole, or communities, have decided is a priority.

It is difficult to see that philanthropy could ever provide sufficient capital to make a dent in the housing crisis in terms of supply. But as the state increasingly rolls back from involvement in and provision of some services, it could help fill the gap in some of the other neighbourhood and social activities that help to build social cohesion and protect the public investment and asset base of social housing.

As businesses with strong roots and assets in their local communities, it makes sound business sense for housing associations to invest in local services that contribute to a sustainable and healthy community. One only has to look to the riots of August

2011 to see the risks that local assets face when community cohesion breaks down. As they manage that risk, housing associations are increasingly looking to themselves – adopting entrepreneurial models to generate their own philanthropic funding streams, and using the proceeds of commercial activity to make up the shortfall in state provision, particularly for those activities designed to deliver their more traditional social purpose and charitable objectives such as providing housing and support for the most vulnerable and excluded in society.

Philanthropic cross-subsidy by housing associations, the potential for local communities to engage in crowdfunding, new models of social investment bonds and potential donations of land to community land trusts all have an important part to play in meeting the country's demand for homes. But none of these initiatives can deliver on the scale necessary to replace state investment in housing and local services.

Chapter 3

Philanthropists' interest in housing and what can be learned from sectors successful in attracting them

Theresa Lloyd, Theresa Lloyd Associates

Philanthropists' interest in housing and what can be learned from sectors successful in attracting them

Philanthropy has enjoyed a long relationship with social housing. Many of the great 19th-century philanthropists were at the forefront of improving housing conditions for those in poverty. Peabody, Rowntree, Ebenezer Howard, Guinness and Octavia Hill, along with many others, were all innovators of model housing developments. Many of today's housing associations have their roots in the philanthropic activity of the past. However, in more recent times, charitable giving has focused more on individuals in housing need (those who are homeless, on housing welfare support etc) rather than on new social housing development. This chapter will explore how the relationship between philanthropy and affordable housing can be rebuilt; ask who is today's George Peabody; and evaluate the realistic potential for philanthropy and corporate giving in regard to social housing, both to build new homes and deliver housing-related services.

Decent housing is at the root of a huge number of social issues: both urban and rural. But the needs are not the same as in the Victorian age. The cost of doing anything significant is very high, so the cost of making a real difference is very high. And few people give very big sums.

Quote from *Richer Lives* by Beth Breeze and Theresa Lloyd[1]

One successful entrepreneur and philanthropist who lives in a very rural area gives just under £1 million a year, and their company gives more, with a focus on the environment (the personal giving) and on children and young people (the corporate donations).

When we look at 19th-century philanthropy, what is striking is the pioneering nature of the investment by wealthy private individuals in the Victorian age. As with so much philanthropy in this period, it is hard to disentangle the motivations of a humanitarian commitment to social justice and a less polarised society from the paternalism of good works and the desire to keep the lid on potential social unrest.

An example of this innovative approach to philanthropy, and the development of new models, is Octavia Hill (1838-1912), who identified the lack of housing for unskilled labourers as a key problem. She collaborated with John Ruskin (a relatively wealthy man) to develop a model in which investors were provided with a guaranteed return of

1 This quote and various findings reflected in this analysis come from *Richer Lives*, due to be published by Directory of Social Change in September 2013 (http://www.dsc.org.uk/Publications/Fundraisingtechniques/@171690). See also: www.richerlives.org

5% and anything above that was ploughed back into property acquisition and development for the benefit of new residents. A team of female rent collectors who visited weekly ensured personal contact with tenants and minimal bad debts. What we see in the model developed by Octavia Hill is that of an investment that provides a financial and a social return.

Another outstanding Victorian philanthropist was the American entrepreneur and banker George Peabody, whose model dwellings company was established in 1859. Three years later Peabody established the Peabody Donation Fund, which continues to this day as the Peabody Trust,[2] to provide housing of a decent quality for the "artisans and labouring poor of London".

A completely different approach is that exemplified by Lord Leverhulme. Leverhulme set up Port Sunlight, his model village, in 1887, with the idea that good housing would ensure a contented and productive workforce. This was closely followed in 1893 by the development of Bourneville, funded by George Cadbury.

These philanthropists – mainly entrepreneurs and bankers – and many others at that time were driven by a profound religious conviction, as well as what might be called (at least in the cases of Cadbury and Leverhulme) enlightened self-interest.[3]

But these very well-intentioned initiatives were characterised by what we would now regard as paternalistic supervision. The lives of Hill's tenants were monitored very closely by the weekly rent collectors; a similar approach operated at the Peabody Trust, where there were rules such as a night-time curfew. The model villages were essentially tied to employment, which would more often than not be for life, unless one was dismissed, when one might be evicted. As Jonathan Keates wrote in *The Spectator* when reviewing Adam Macqueen's book on William Lever, "tenants of the ideal villas could find themselves evicted for slothfulness, gambling, reluctance to participate in community activities or even failing to grow the species of flowers approved by the boss".[4]

Nevertheless, throughout this period, while the state (in the form of parliament and

2 http://www.peabody.org.uk/about-us/history.aspx
3 It is notable that two of the significant grant-making trusts that exist today were created by Lord Leverhulme and George Cadbury, although neither has a focus on housing. The Leverhulme Trust, set up in 1925, supports "scholarships for the purposes of research and education". The Barrow Cadbury trust, founded in 1920, "promotes social justice through grant making, research, influencing public opinion and policy and supporting local communities".
4 http://www.spectator.co.uk/books/20957/a-bully-with-a-heart-of-gold/

various reviews) was attempting to come to terms with the challenges of providing decent affordable housing for the poor, private philanthropists were developing various practical financial solutions to address the problem.

Ground-breaking social investment

In these models we have already identified examples of trends and developments thought of as new in the 21st century: collaboration to effect strategic change and address underlying causes, and the development of structures that provide for a financial as well as a social return for investors looking to resolve major societal problems.

One aspect of Victorian philanthropy that continued into the 20th century was that poverty was blamed on causes such as improvidence and alcoholism among the poor, ignoring many of the underlying reasons, which were economic and structural. By 1914 it had largely been agreed that the state should play a greater role in providing the basic necessities of life for all the population, whether by clearing slums to build better housing or by paying a pension to all old people. Despite the ever-growing role of the state, and despite an opinion poll in 1948[5] which found that an astonishing 98% of the population felt that the new "welfare state" institutions would make philanthropy superfluous, voluntary work, funded by voluntary donations, continued and remains as important today as it was in the past.

But what about housing?

Since the famous Preamble to the Charitable Uses Act 1601[6] the definition of charity has been restated a number times, notably in 1891, when Lord MacNaghten set out what became known as the Pemsel classification, or "the four heads of charity": "the relief of poverty, the advancement of education, the advancement of religion and other purposes beneficial to the community"[7].

The following century brought immense social change in terms of public attitudes and outlooks: but the definition of charity did not legally alter again until 2006, when the Charities Act listed 13 new categories of activity.[8] But although there is a

5 This survey is reported by Chesterman (1979), as cited in Kendall, J and Knapp, M *The Voluntary Sector in the UK* (Manchester University Press, 1996).
6 The Charitable Uses Act of 1601 (known as the *Statute of Elizabeth*) was repealed by section 13(1) of the Mortmain & Charitable Uses Act 1888 (c42) (but see section 13(2) of that act).
7 For an example of this classification being cited, see page 2 of the Charity Commission 2001 report *Recognising New Charitable Purposes*.
8 http://www.legislation.gov.uk/ukpga/2006/50/contents

catch-all class, and the relief of poverty is mentioned, housing as such is not – unlike, for example, education, the arts, human rights, amateur sport, the environment and animal welfare.

In the context of this collection of essays it might be regarded as a curious omission. It could be suggested that even if they didn't think of it in these terms, the great housing philanthropists of the past were developing models of social intervention, providing a social and a financial return, that later provide a framework within which to consider whether private volunteer action is more effective than provision by the state.

Then, as now, there could be said to be three ways in which philanthropists intervene. First, they have sought to change the behaviour of the poor, and to address symptoms of poverty. Many philanthropic individuals and foundations now provide grants to various organisations to provide emergency services for the homeless and advice and rehabilitation support. Second, philanthropists have aimed to improve housing conditions, in the past by developing model schemes of the type described and more recently by supporting community-based housing development and helping a range of groups, including housing associations, to renovate and manage low-income housing. Third, private philanthropy has tried to influence public policy, whether by setting standards, funding research or supporting various campaigning groups and tenant organisations.

All this raises questions that are high on today's agenda. What is and should be the role of private philanthropy in housing? How should society meet this basic need? Should housing be regarded as a private good, regulated by the marketplace? Given the size of the problem, should 21st-century philanthropists attempt to influence public policy and action, or attempt to help those in need of housing directly, and if so how?

It is conditioned by the amount of money we have. One needs a staggering amount to make an impact.

Quote from *Richer Lives* by Beth Breeze and Theresa Lloyd

A successful entrepreneur, living in a sizeable town, gives about £1 million a year, mainly to disadvantaged children and young adults.

In considering private philanthropy and housing in the 21st century, it is the size of the problem that is itself one of the problems. People feel that it is too large an issue for individual intervention. The case for their involvement has not been made, and in any case they cannot see where, how and to whom they could make a difference.

The indications are not that philanthropists no longer care about the social conditions of the poor. As we see, it is not the case that the concept of what we would now call venture philanthropy is new to the world of housing; on the contrary, it has been around for nearly 200 years. Rather I would argue that the lessons of success in generating major donations and philanthropic investment in other sectors such as higher education and the arts have not been learned and transferred to housing.

What philanthropists want

What do we know about what present-day philanthropists seek in their relationships with the organisations and causes that they fund?[9]

They give because they believe in the cause and they want to be a catalyst for change. They enjoy the experience of learning more about the issues that affect the constituencies about whom they care, of meeting those who deliver the mission and the beneficiaries themselves if appropriate, and of sharing their concerns and passions with other like-minded donors. They do not support "the arts" or "higher education" or "medical research" in the abstract. They may be inclined towards those sectors because of a personal or family experience, a deep commitment to an art form or gratitude for an excellent university education. But what reinforces the relationship and hugely increases the likelihood and level of recurring giving is the opportunity to see the difference made to individual lives.

For example, in the arts and culture sector, many high-level donors are concerned to explain that the focus of their support is improving access for disadvantaged and excluded constituencies, or to help young artists, rather than the sponsorship of mainstream productions or exhibitions. Those who support scholarships or research report the joy of meeting new graduates and their parents, hearing a young artist perform, or visiting a medical research facility to learn from the team about the latest developments.

Organisations that are successful at securing philanthropic investment in these sectors and others demonstrate a corporate culture in which the chair, trustees and senior management team are fully engaged with this process, and are themselves donors according to their means, however modest. They recognise that major funders want to engage with those who deliver the mission, and indeed see them as genuine partners in the enterprise. They develop a compelling case for support underpinned by a business

9 This next section is based on findings from Lloyd, T *Why Rich People Give* (Association of Charitable Foundations, 2004) and *Richer Lives*.

plan that clearly shows how philanthropic investment will make a real difference. They invest in a fundraising or development infrastructure that ensures effective research and a planned and bespoke programme of involvement and feedback for each major donor. Their communications consistently and clearly reinforce the messages about the importance of what they do and why it matters. And within these communications they tell stories about the challenges people face and the changes in the lives of individuals made by past donations.

In other words, they ensure that the relationships with their donors are fulfilling and fun.

Strategic giving

Wealthy donors increasingly see themselves as strategic; older as well as newer philanthropists seek to be "hands on". What do they mean by strategic philanthropy? It is seen to be thoughtful and considered, maximising positive outcomes and creating sustainable projects. At the root of it all lie:

- a search for solutions; and
- trust between the donor and the organisations being funded.

Some develop strategic partnerships with existing NGOs. Others design, test, refine and implement an operational model. Yet others are working in partnership with government. For many this is not only because they want to be both strategic and hands-on, and to find real solutions, but also because they do not respect the way they think charities operate.

Indeed, there is a small but significant trend for new entrepreneurial philanthropists to establish and run their own non-profit organisations, sometimes raising money from others – like Octavia Hill. However, while the issue of trust is universal, the establishment of new entities is still the approach of a small minority.

But if they are not (yet) driven by a vision of how their money could make the world a better place, or they are not sure about the efficacy of particular interventions or the competence of specific organisations, how do they decide what to support in the first place? An influential peer is almost as important as a belief in the cause and confidence that the donation will have an impact. The most important factor for new donors was developing a deeper understanding of the issues. Increasingly their choices are prompted by an adviser, but as much if not more they will ask the adviser to introduce another donor with similar interests.

This does not mean that the role of the professional "major donor fundraiser" is unimportant. The best approaches are when the orchestration that underpins cultivation and stewardship is invisible to the prospect and donor. The combination of the right asker and excellent research is very powerful.

For many, the approach of the fundraiser is not seen to be important because their expectations of their relationship with the causes they support goes beyond and in some cases excludes the fundraising staff. With major donations (usually at least six figures) there are expectations of different kinds of involvement. These range from being kept fully informed about how their money is being used to participation, such as invitations to events or to view the work. A quarter of emerging donors expect to be fully engaged – for example, serving on the board or being in regular contact with the charity leaders. We already know from the findings of *Why Rich People Give* that for the majority of donors, over 80% of their giving goes to organisations with which they are involved.

All of this will take time. Initial gifts may be low in relation to the prospect's capacity to give. One must take a very long view about the eventual value of the donor to the charity – over several years of engagement. It will then be up to the organisation seeking funding to persuade the prospect that the cause is consistent with their own values and predetermined objectives, *and* to look after them properly and be able to show how donor investment will be spent effectively and make a real difference to the lives of people about whom they care.

And because we know from Money for Good UK[10] and elsewhere that 60% of donors (and for really large-scale donors, much more) care about impact, but only 30% of those who care undertake research, and only 20% research impact, it is up to charities to make the information on impact very accessible indeed – along with being transparent about costs, explaining about core costs, salaries and so on.

There are also very clear messages about specific mechanisms or approaches to which wealthy donors respond. These include:

- matched funding;
- collaborative giving; and
- social investment.

10 New Philanthropy Capital *Money for Good UK* (March 2013)

Matched funding

While tax relief undoubtedly determines or influences overall giving levels, wealthy donors agree that matched funding schemes are an attractive incentive, with many reporting that they have been nudged to give as a result of an offer to match their gift.

And the government – or at least some departments – appears to agree. A crucial development, strongly influenced by the 2004 Thomas report on increasing voluntary giving to higher education,[11] was the launch of a matched funding scheme for the higher education sector. This scheme, and its impact, are described in the report by the More Partnership of September 2012.[12] The government made available up to £200 million for a matched funding initiative for England, intended to create incentives for giving to universities and to encourage professionalism within institutions.

The scheme was a success. Funds raised by universities in the UK increased from £513 million in 2006/07 to £693 million in 2010/11. This represents an overall rise of 35% in funds raised, and 54% more donors. The More report assessment is that if universities continue to invest in the same way, they have the potential to receive £2 billion a year from some 630,000 donors by 2022.

An example of matched funding in a completely different sector was Grassroots Grants. This was a £130 million government-funded programme, running from September 2008 to March 2011, which supported the voluntary sector in building stronger, more active communities. Grassroots Grants included an £80 million small grants programme and a £50 million endowment match challenge. Both elements were delivered by local funders, who had local knowledge and experience in giving out grants and managing endowment funds. Local groups meeting all the criteria could apply for a Grassroots grant of between £250 and £5,000. This programme succeeded in reaching grassroots activity, and eventually supported around 19,000 groups.

According to the evaluation report: "Thirty-nine per cent of those funded were under-the-radar groups; their Grassroots grant was the first publicly funded grant they had received. The majority of groups funded (59%) had an annual turnover of less than £5,000."[13]

11 http://bis.gov.uk/assets/biscore/corporate/migratedd/publications/i/increasingvoluntarygivingreport.pdf

12 http://www.hefce.ac.uk/pubs/rereports/year/2012/philanthropyreview/

13 http://www.cdf.org.uk/wp-content/uploads/2012/02/CDF-Grassroots-Grants-Executive-summary-.pdf

In addition, the programme enabled nearly half (45%) of the funded groups to increase their number of volunteers. On average, five more volunteers joined a group.

In September 2011 the Department for Culture, Media & Sport, Arts Council England and the Heritage Lottery Fund announced details of a £100 million Catalyst scheme to boost private giving to culture. The scheme is designed to enable arts and heritage organisations to diversify the way they generate income, increase their fundraising potential and develop new ways to secure private giving. It includes a £55 million endowment scheme with a matched funding incentive jointly funded by the DCMS, Arts Council England and the Heritage Lottery Fund, and multimillion-pound capacity building schemes funded by Arts Council England and the Heritage Lottery Fund. These provide investment in training organisations in the cultural sector to help them to become more effective at governance, clarify their business model, make their case for support, identify and look after major donors, and develop a legacy income stream.[14]

Another government department making use of matched funding schemes to incentivise donations is the Department for International Development, which launched UK Aid Match[15] in 2012, offering charities working on poverty reduction projects in developing countries the opportunity to apply for "pound for pound" matching, up to a cap of £5 million. A further DfID matched funding scheme was announced in June 2013 when £280 million of matched funding was made available to tackle global malnutrition.[16]

It is too early to report on the impact of some of these initiatives, but as well as the success of the scheme in the higher-education sector we have noted the positive responses by some of those interviewed for *Richer Lives* to the concept of matched funding, because of the idea of a "deal".

Collaborative giving
Almost half those interviewed are part of a regular or occasional group of donors. Giving collaboratively may be one of the best-kept secrets of the rich donor community. A further striking finding is that newer donors are far keener to consider giving by this method in the future.

Venture philanthropy and impact investing
In the US, the number of foundations using mission investment (either mission- or

14 Theresa Lloyd is contributing to the governance programme as part of the Catalyst-funded training to be provided by the Arts Fundraising and Philanthropy Consortium.
15 https://www.gov.uk/uk-aid-match
16 http://www.telegraph.co.uk/news/10108151/Britain-commits-to-375m-extra-in-aid.html

programme-related investment) is increasing, according to a report produced by the Foundation Center in 2011. Some 14% (168) of the foundations surveyed were making some kind of programme- or mission-related investment. More than half of those began doing so within the past five years, and a quarter (28%) within the past two years.

In terms of impact investment, a report in January 2013 by JP Morgan and the Global Impact Investing Network indicates a growing market, with respondents planning to commit $9 billion to impact investing in 2013, up from a total commitment of $8 billion in 2012. Additionally, the vast majority of investors surveyed report that their impact investment portfolio performance is meeting or exceeding social, environmental and financial expectations, with two-thirds of respondents principally pursuing market-rate financial returns.

This matters because (as in the 19th century) many people see the discipline of a financial return as an effective way of investing in social development, rather than grant making. And of course this data does not feature in tables of charitable giving.

In addition, a handful of social stock exchanges have appeared. A UK version has been added with the Social Stock Exchange (SSE). In June 2013 the first batch of companies admitted to the SSE platform were announced. It is hoped that the SSE will address one of the key constraints for advisers and others who wish to promote social impact bonds and analogous products, which is the lack of evidence and of measurement and the cost of due diligence and search, by providing a single reference point for investors as well as standardised and comparable social impact disclosure.

Bringing philanthropy home

So what might this mean for encouraging philanthropic investment in housing in the 21st century? As the brief poses, what is the realistic potential for philanthropy and corporate giving in regard to social housing both to build new homes and to deliver housing-related services?

While the patterns of employment are such that it is very unlikely that a major private-sector employer would invest in housing for its staff (although tied cottages remain on landed estates), as we see, many of the elements we have identified as important in developing this market were present in the models developed by Hill, Peabody and others. These include:

- peer advocacy and asking;

- collaborative giving; and
- investing for financial return and social impact.

And we are seeing the emergence of new approaches, with cases supported by private foundations, a bank and even, on an embryonic basis, the retail market. For example, in the US, as reported in the *Wall Street Journal* on 29 April 2013,[17] a "nationwide coalition of housing-related nonprofits has formed a private real-estate investment trust, mostly to preserve affordable rentals in communities across the country where rising values have led to shifts from low-income housing to higher-priced properties".

The Housing Partnership Equity Trust is owned and operated by non-profit organisations, and just acquired its first property. It has raised more than $100 million from private-sector investors, including Citigroup and Morgan Stanley, as well as funding from the John D & Catherine T MacArthur Foundation. It seeks to raise $500 million from institutional investors.

Another US example linked to the corporate sector is that provided by JP Morgan Chase[18] – a bank that can trace its roots back to George Peabody. As it reports, JP Morgan Chase invests in affordable housing and helps "people transition along the housing continuum, with an emphasis on permanent supportive housing, affordable rentals and home ownership. The firm supports programme models that address problems faced by individuals, including the need for transitional, permanent supportive and affordable housing; disaster relief; and community-level models that stabilise neighbourhoods, rehabilitate properties and increase the supply of affordable housing".

And in February 2013 Allia, a charitable social investment organisation, announced the first public opportunity in the UK to invest in a social impact bond.[19] Although the product was later withdrawn from sale, owing to lack of investors, the "future for children" bond combined a relatively low-risk ethical investment into affordable housing to provide the funds to repay capital to investors, with a higher-risk investment into a social impact bond with the aim of delivering a high social impact and providing an additional variable return. It would have invested into the social impact bond for Essex County Council to "improve the life outcomes" of children aged 11-16 at risk of going into care.

17 http://articles.washingtonpost.com/2011-06-05/business/35234887_1_enterprise-community-partners-investment-bank-safe-investments
18 http://www.jpmorganchase.com/corporate/Corporate-Responsibility/corporate-philanthropy.htm
19 http://allia.org.uk/our-products/capital-plus-bonds/future-for-children-bond/. See also http://www.thinknpc.org/publications/the-future-for-children-bond-lessons-learned/

How can we build on these examples, using what we know about the success factors for the successful engagement of private philanthropists in addressing major social needs?

In my view there is no intrinsic reason why the housing sector could not inspire the commitment of private philanthropy. As we saw from our quotes, donors recognise the problem but think it is too big for individual intervention and have not been shown how they could make a difference. Housing is now seen as the responsibility of the state. Of course a visionary and perhaps maverick individual such as a Hill or a Peabody might emerge, but meanwhile there are specific lessons to be learned and practical steps that can be taken. These include:

a) serious investment by non-profit housing organisations in the fundraising expertise and corporate culture of engagement demonstrated in fields such as higher education and the arts;

b) government commitment to kick-starting or renewing the engagement of private philanthropy in housing, through the incentive of matched funding, in this sector as in others; and

c) developing confidence, though the emergence of the Social Stock Exchange and in training of wealth managers and philanthropy advisers, in the security and appropriate nature of the various double bottom-line models for philanthropic investment.

If these models could serve as a beacon for the involvement of Victorian philanthropy in the provision of housing, why not again in the 21st century?

Chapter 4

Developing the offer – understanding the barriers and opportunities

Danyal Sattar, Social Investment Manager at the Esmée Fairbairn Foundation

Developing the offer – understanding the barriers and opportunities

This chapter will set out a brief overview of charitable foundations. It will then look at the current guidance in which charity investment strategies are set, and at the differences between financial-first and social-first investment approaches. It will give some examples of recent social investments in which charitable foundations have participated, and finally draw together some concluding thoughts on how social housing can better draw on foundation funding.

An introduction to foundations

Foundations are a diverse group of entities. In the UK, there is no firm technical or legal definition. What can be said about them?

They are likely to be charities. A typical foundation will have an investment pot, invested in a diverse way, loosely called the endowment. The endowment may have come from a private individual, a family or a company, but has been gifted into the charity sector. That founder may still be alive and guiding their philanthropic activity, or the responsibility may have been passed on to future generations of trustees. Some of these endowments are permanent – that is, must be kept forever, with just the surplus return given away – and some completely expendable. In either case, this is the pool of assets used to generate money. Most but not all foundations will have a grant-making side, which gives away the money generated by the asset.

Not all foundations are like this. A small number are not charities; their founders saw the foundations' work as being for the public good, but not charitable. The Omidyar Network prefers the freedom to pursue market-based investments, which might generate equal or greater social outcomes in the areas of their interests, alongside charitable works. Others, such as the Joseph Rowntree Reform Trust, seek to bring about change through supporting political campaigns, and as such are not charities, but tax-paying companies.

Furthermore, not all foundations will seek to support charitable activity through grant making. Some will use their endowment to hire staff and pay for work internally. Others do not have an endowment at all, but are the direct owners or beneficiaries of a single company, receiving income from its profits.

Charitable foundations are just one of the pools of money in the charity sector. Other significant holders of money are large, mainstream charities, some of which hold substantial reserves to support their cause in the long term. Some of these large operational charities can be significant grant makers in their own right.

In looking at these money pools, each one has its own purpose. This is not necessarily a purpose of choice for the trustees (directors) currently governing that entity. Instead, their governing document or trust deed sets out what they can and cannot do. So a charity concerned with animal welfare may view the cause of social housing with sympathetic eyes, but not be legally allowed to put its grant-making activities towards that goal.

Some social purpose foundations, or those with specific remits in the housing area, have long supported the housing sector. Before looking at the investment side, it is worth acknowledging that charitable foundations have been active and engaged across the social housing space for many years. The Joseph Rowntree Foundation,[1] for example, has a wealth of intellectual resources in the area and is an active funder of research and policy work. It is a good example of how a foundation seeks to get leverage through a grant intervention. A grant, rather than an investment, can be a relatively cost-effective strategy to achieve policy change in addressing social housing problems.

The investment side

Noting the exceptions above, most foundations operate with a split between the investment side, which historically focuses (with caveats) on profit maximisation, and the grant-making side, which gives away money for charitable good. The former is designed to maximise the latter. Charitable foundations have over the years become increasingly open to the idea of ethical or responsible investing, avoiding investment that may act counter to their mission or seeking to engage with companies to improve their practices. A few, spurred by experiences from the US, have sought to explore whether they can put their endowments directly to work. Instead of holding 100% of the assets of the charity in mainstream investments and giving away 4% a year, what if that entirety of the foundation's assets could be applied to mission?

The next section summarises the Charity Commission guidance in this area,[2] commonly known as CC14, which broadly draws three investment approaches. These are financial investment, programme-related investment and mixed-motive investment.

Financial investment

Here, the trustees of the charity are seeking to maximise risk-adjusted return in pursuit

1 www.jrf.org.uk
2 Charity Commission *Charities & Investment Matters: A Guide for Trustees* (October 2011)

of their charitable objectives. In this context, looking at charitable foundations simply as pools of funds and housing providers simply as demanders of funding, there is no particular reason why charitable endowments would not invest in housing associations, given the opportunity to do so, so long as the risk-adjusted return looks appropriate. However, there would be no positive driver to do it either, if the purpose were solely about risk-adjusted financial return.

Indeed, it may well be in the social housing sector's advantage to have foundations continue to maximise foundation financial returns, if that yields useful grants back to the social housing sector.

Programme-related investment – mission first
Programme-related investment is investment made primarily to achieve a social objective, within the mission of the charity. It is here that most of the non-grant foundation-related activity has been happening.

Some recent examples:

- Commonweal Housing's "peer landlord" approach. Three investors, being a social investment fund, Bridges Social Entrepreneurs Fund and two foundations (the Trust for London and Esmée Fairbairn Foundation), invested together to buy six properties and house formerly homeless people, supported through a "peer landlord". This peer, someone formerly homeless themselves, would help their fellow tenants with any problems/issues and be supported by one of two delivery agencies in the pilot, Catch 22 and Thamesreach. The goal is to test the peer landlord approach.

- Resonance has partnered with homelessness charity Broadway to set up the Real Lettings Property Fund, with a fundraising target of £45 million. The fund is acquiring around 240 flats in greater London, which are then leased to Real Lettings, a social enterprise set up by Broadway to help those who have been homeless or are at high risk of homelessness, to make the difficult transition to independent living in the private rented sector. The fund has achieved a first close of £16.25 million from L&Q Foundation, the Esmée Fairbairn Foundation, the Lankelly Chase Foundation, Big Society Capital and the City of London (via City Bridge Trust), and Resonance is targeting a second round of investment later in the year.

The investment offer to the foundations was in line with their mission. Essentially, the capital of the foundations is lent out, and at the end of the investment period, returned. Financially – if all goes well – the value of the funds lent is retained by an investment offering more than inflation.

To the foundations, the main reason for investing is for testing potentially useful models for supporting recently homeless people, who may then be able to move on to regular, private rented accommodation from an environment that has enabled them to stabilise their lives. The primary purpose is not the provision of housing stock, but to support people in need. Housing happened to the means to the end.

This is also demonstrated by Bristol Together. In this initiative, derelict houses in need of extensive renovation are bought and renovated by ex-offenders. The houses are then sold onto the private market. The uplift in value, over a five-year period, should generate enough surplus to repay the original investors, and demonstrate a good case for refinancing, for a revolving fund to continue the project in perpetuity. The ex-offenders, paid the minimum wage, are trained and supported into employment within the construction industry or self-employment. For investors, the financial return should match inflation, and the investment is reasonably secure, with a charge over the assets of the company.

Again, the purpose of the project is not to renovate private accommodation in Bristol. It is to help ex-offenders, who experience high levels of unemployment as a group. Initial signs from the project are that reoffending is low and progression to self-employment and employment good. The organisation hopes to replicate its project in another region of the country.

Sometimes programme-related investments can accept a real financial loss, as the next example shows. The Community Land Trust pilot fund, operated by CAF Venturesome, invests to meet the pre-development and development fund costs of community land trusts. Just over £2 million in size, it is funded by five charitable investors. The goals of the fund are to support the CLT model of community-led affordable housing by providing access to finance. In doing so, the fund aims to build 150 affordable homes and, ultimately, demonstrate a model by which commercial funds might then support the future financing needs of the CLT sector.

Here, there is no financial return. The foundations hope to receive back the funds they put into the CLT fund, but do not receive a financial return. Income generated by the CLT fund, in fees and interest charges to the community land trusts it invests in, is modelled to cover costs and losses. In this case, at the end of the pilot, at best, all the original funds lent to the CLT fund will returned to the foundation supporters. In real terms, the value of the funds drawn will have been eroded by inflation.

The foundation's intentions are that their social return – in this case, proving a model for affordable rural (and possibly urban) housing – justifies the risk of loss of their funds and the opportunity cost of the return they could have had as a straight financial investment elsewhere.

Mixed-motive investments
This recognises that there may not be a binary position to the foundation, in terms of financial versus programme-related investment. The investment approach may sit between these two poles. Using the examples above, the Real Lettings fund may be a mixed-motive investment for some charities.

Finally, it is worth noting that the Charity Commission guidance is just that. The underlying law in relation to investments has not changed. The guidance reflects that a charity's assets should be to achieve its mission, and that its assets as well as its income can be put to that end.

Social investment – the wider context
Charitable foundations are not the total sum of social investors in the UK. Far from it. Much of the sector comprises social deposit takers and lenders – such as Triodos Bank, Charity Bank and Ecology Building Society – who take deposits from ordinary people, pool them and lend them to charities, social enterprises, social-purpose organisations and individuals. Alongside the Social Investment Business Group, these are the major providers of secured and unsecured lending for social purposes.

Community development finance institutions (which the social lenders group overlaps) in 2012 lent £200 million to 33,400 customers and facilitated £116 million of bank finance.[3] Individual social investors have also directly bought shares and bonds from social-purpose businesses, such as the Ethical Property Company, Cafedirect and Ecotricity.

The whole UK market is undergoing a new phase of growth and development. The founding of Big Society Capital, which has just completed its first year of operation, has seeded a new wave of social finance intermediaries, with some £70 million committed in 2012. For a good overview of the wider social investment space in the UK, see The *First Billion: A Forecast of Social Investment Demand*.[4]

3 *Inside Community Finance* (Community Development Finance Association, 2012)
4 Boston Consulting Group, 2012

Philanthropic investors in the wider context of social investment

In the UK, philanthropic investors may have followed the individual investors who have led this space, but they are not yet at substantial scale. The 10-15 foundations most active in social investment might have set aside 2-5% of their endowments for investment in this area, at most. This translates to programme-related investment ranging from £2 million to £26 million, and perhaps a total foundation social investment commitment level of at most £50 million-£100 million. This is growing, but it is a small part of foundations' total overall funds.

Developing the offer

What can we draw from the above?

There are no particular barriers to charitable foundations investing in social housing or housing associations.

Reflecting on the Charity Commission guidance, hypothetically, three different approaches could be taken.

Social housing as a financial investment

Were individual housing providers or a group of housing associations to pool their bond offerings in a common investment fund and offer it to charitable foundations and the charity sector more widely, then so long as the risk and return were aligned with the underlying assets and business of social housing, there is no theoretical reason such a pool of bonds could not match a part of an investment strategy. Such a product would have the advantages of relatively simplicity, an asset base and an income stream. There is little advantage to the social housing sector, though, if finance-first investment could be drawn instead from the wider commercial markets.

Social housing as programme-related investment

Where charitable investors have come into housing on the programme-related investment side, it has been in two broad areas. First, to achieve social goals not solely related to the provision of housing as a social good. The examples of projects focusing on transition housing for people formerly homeless, or on re-engaging ex-offenders into the workplace, are arguably primarily using housing for a social purpose other than the actual provision of housing itself.

Second, where charitable money has come in that is related to the provision of housing, it has looked at trialling, modelling or demonstrating solutions such as CLTs for persistent problems of affordability in rural areas. They have not focused on the provision of solutions at scale on the investment side, but on the early demonstration of approaches that might have a wider applicability to lowering the cost of affordable housing. It would be reasonable to assume that foundations and philanthropists might be willing to consider programme-related investments in these areas again.

While it may be worth trialling products in the financial investments area, and there is fruitful ground for continuing housing-based social change projects, it does not seem at first glance that either financial-first or programme-related investment will directly unlock additional resources at scale in the short to medium term from foundations and philanthropists.

How should housing providers raise money from philanthropy to tackle problems at scale?

If housing associations and their investment advisers believe there is a good financial product to offer investors, there is no reason not to offer it to charitable investors. Equally, there is no discernible benefit to the housing association if the money comes in on straight financial terms.

It is in the area of programme-related investment that the opportunity probably lies. Where social housing providers have initiatives in their portfolios that align most strongly with charitable and philanthropic concerns, but where the risks are too high for conventional investment, or the returns (owing to the support costs) too low, programme-related investment may come into play.

Social housing, in combination with a strong set of social outcomes, offers something rare in the social investment marketplace: the possibility of a relatively secure investment, in that it is backed by an asset, with the potential to match or exceed inflation. Although not a risk-adjusted return, it may be at the relatively low-risk end of the social investment spectrum. For newer philanthropic social investors or those wishing to construct portfolios, it offers potential.

Certainly, anyone from the housing sector looking at the examples mentioned above would probably find three or four similar possibilities in their mind that might translate to a social investment opportunity.

It may be there is an offer to be developed in the mixed-motive investment area as well. The recent Cabinet Office report *Achieving Social Impact at Scale: Co-mingling Social Investment Funds Mix Charitable and Private Capital to Deliver Financial Returns* *and Make a Social Contribution*[5] offers some good case studies of how philanthropic funds have participated in wider investment structures.

If there is a need for a greater risk buffer or security in a financial offer, to lever in greater funds, or lower the cost of finance to housing providers, it is conceivable that a mixed-motive investment offer might be worth exploring.

A foundation might be prepared to take a higher risk than a commercial investor, only partially offset by a higher financial return, if it levered in a greater amount of commercial funds than otherwise would have been the case, and delivered a social housing solution at scale.

Clearly, such a risk layer could also have the effect of lowering the cost of finance, if risk was a significant factor in the project in the eyes of the commercial lender. In the absence of real-life testing of the above hypotheses, it is difficult to say that in reality funds would flow, but there appears to be enough potential to be worth exploring.

A wider context – structural breaks between charity and finance

The issues faced in a gap between philanthropic investors and the housing sector may not be a unique one. Mark Campanale, co-founder of the Social Stock Exchange, who has a long track record in ethical investment, makes an interesting point. Most other sectors of the economy invest in themselves. An employee of a large company will see some of their pension invested back in their own company, or at least in their own sector, via the financial markets. However, in the social or charitable sector, that link is not there. If you work for a charity, your pension savings, your main asset, does not have a mechanism for investing back in the charity sector. The flow of funds goes one way – out of the sector. Similarly, the assets of charities and foundations have the same break – they will be invested everywhere but in their own sector. Housing associations, which in recent times have accessed the mainstream banks and capital markets for significant commercial finance, may be an exception to this.

Perhaps the solution to reconnecting housing association finance and philanthropy lies in reconnecting these breaks. Housing associations have the potential to offer a product that serves the wider social investment sector.

How do we get there?

Wiser and more knowledgeable commentators on the housing sector have set out its

5 Cabinet Office *Achieving Social Impact at Scale: Co-mingling Social Investment Funds Mix Charitable and Private Capital to Deliver Financial Returns and Make a Social Contribution* (May 2013)

problems and the constraints to solving them well. As in so many other markets, there are only so many things you can do. Social investors intervening in this area can only provide marginal amounts of funding relative to the scale of solutions needed. But they can provide genuine risk money, if they perceive their social objectives are being met.

Partnership is an overused word in our sector, but it is probably necessary. To a philanthropist, when you are asked to be a partner, it usually means "just give me a large cheque and let me get on with it, please". In this case, though, true partnership probably is needed. If funds are to be brought out of the philanthropic sector, it needs structures that meet the needs of foundation/philanthropist and social housing provider alike.

Finally, the social investment market was built by individuals. It was, and remains, those ordinary people that have through ethics, values and morality supported fair trade, social banking and value-based businesses. If we are building new products and creating linkages between philanthropists and housing, then making these accessible to these ordinary retail investors might well answer Mark Campanale's challenge and reconnect the broken link between investors and society. It may not be the philanthropist's funds that are needed, but those of the wider saving community.

Chapter 5

Is social investment relevant?

Nick Salisbury, Director at Social Finance

Is social investment relevant?

What is social investment?

Social investment covers investment in organisations whose primary purpose is to create a positive change in society. It is not charity. Nor is it "ethical investing", where screening is used to exclude certain investments. It is investment that is seeking a financial return alongside delivering a positive, defined social impact.

Over the past 10 years the social investment market has grown rapidly, from almost nothing to over £200 million a year today. While the market is relatively small compared with other asset classes, demand is forecast to continue to grow substantially. Recent research by the Boston Consulting Group estimated that the market could reach over £1 billion a year by 2016.[1]

This rapid growth in the social investment market is being driven by the rising number of social organisations and enterprises needing and reaching for investment to support them in expanding their activities. Equally an increasing number of investors are entering the social investing arena –these include trusts and foundations, high-net-worth individuals and government, as well as institutions looking for social impact. The reasons are manifold: some investors believe that sustainability drives long-term impact; many simply wish to see their investments making a positive difference to the world.

For such a highly asset-intensive – and therefore capital-intensive – activity as house building, the scale of the challenge is large relative to the social investment market. Even on conservative estimates, the cost of delivering just 10% of new homes required each year in the UK would require investment of over £3 billion a year, something beyond the capacity of this growing pool of social investors. However, social investment can act as a catalyst to innovation and help create scalable and replicable models which make it easier for mainstream investors, both institutional and retail (where the bulk of investable cash sits), to follow.

Can social investment support social housing?

Social investment in housing to date has focused on supporting specialist housing providers. These organisations' activities typically extend beyond just providing a place to live for vulnerable individuals and families, often delivering significant amounts of additional support.

1 Brown, A and Swersky, A *The First Billion: A Forecast of Social Investment Demand* (Boston Consulting Group, September 2012)

Many specialist housing providers are relatively small, with complex or non-standard business models, and where investment is potentially tied to innovation. These features often result in organisations not being well served by mainstream sources of finance, where investment is viewed as either too small or too risky for the level of returns available.

Consequently, social investment has the potential not only to deliver a clearly identifiable and significant social impact, but also to address the mainstream capital market's failings. This can be achieved either through investing for the life of the project, or through helping to de-risk projects to a point where mainstream capital becomes available. For smaller projects this can be achieved, for example, by social investors providing finance through the construction and stabilisation phases of a new development, or by helping organisations to establish a track record.

There are numerous examples of the significant impact that social investment can and has delivered in supporting specialist social housing. Two examples are Golden Lane Housing and the Real Lettings Property Fund. Both provide opportunities for investors to deliver significant social impact through the support provided to disadvantaged groups, those with learning disabilities or the homeless respectively, alongside the potential for receiving a financial return.

Golden Lane Housing

Golden Lane Housing's £1.8 million bond in 2003 was the first retail bond issued by a national charity. It provided deposits to support commercial borrowing and throughout its 10-year lifespan helped support the purchase of 68 houses for 152 people with a learning disability. Following this, in 2013 Golden Lane Housing launched a five-year unsecured fixed-rate bond, paying interest at 4% gross.

Real Lettings Property Fund

Over £15 million of a total target of £45 million has been raised for a real estate fund that will acquire around 250 one- and two-bed properties in Greater London. These properties will be available for those at risk of homelessness, or who are homeless and attempting to move out of hostels and other temporary accommodation, into the mainstream rental sector. The fund has been established by the homeless charity Broadway, and Resonance, a social finance intermediary. Properties purchased by the fund will be leased and managed by Broadway's wholly owned lettings subsidiary, Real Lettings, and will provide investors with a commercially risk-adjusted return without the risk of voids. The fund, which has a seven-year life, is targeting returns of around 5% a year.

As noted earlier, existing social investors alone do not have the capital to meet the investment requirements of more general-needs affordable and social housing development. Consequently, like the social investment market more broadly, the ambition must be to find ways to access the wider pools of capital that sit with institutional and private retail investors.

Registered housing providers, particularly the larger ones, enjoy good access to institutional investors through traditional sources of capital such as bonds and bank debt on commercial terms. Use of retail investors has been more limited, with the main example to date being the issuance of retail bonds by Places for People, a registered housing association. While this overall situation may be satisfactory for funding projects which can exceed risk-adjusted commercial rates of return, social housing operates with the additional constraint of maintaining affordability.

Places for People

Places for People, a registered provider housing association, has raised debt through the issue of retail bonds to support its general-needs housing. It initially raised £140 million at a coupon of 5% through the issue of a five-year bond in 2011. A further retail bond with 10-year duration was launched in January 2012, this time index-linked. It carries a 1% coupon, with coupon and capital increasing in line with the RPI each year. Some £40 million has been raised, with a minimum investment of just £2,000.

In the simplest terms the ability to access capital reflects whether the expected return of a project is above a level that exceeds the target required by an investor for the perceived level of risk and uncertainty. Therefore measures that aim to improve the ability to access capital to fund social housing development must either improve the sharing of risk or deliver a way to enhance returns.

In the past, bridging the gap created by projects that deliver a substantial social return, but fail to reach risk-adjusted financial returns, has been achieved through the use of grants. Grants reduced total build costs, consequently improving returns to levels that were acceptable enough to facilitate development. However, with further significant capital grants unlikely after the end of the Affordable Homes programme in 2015, other solutions are necessary.

Various options exist which, if properly implemented, could help to deliver improvements in the returns to investment in social housing. These include:

- more active use of planning conditions, potentially through existing section 106 requirements, thereby reducing initial cost of land;
- partnership approaches with landowners, developers, property managers and investors to align incentives and better share risk, thereby reducing the corresponding capital, profit and return requirements at each stage of development and therefore the subsequent total cost; and
- new approaches to build and design that minimise development and lifecycle costs.

In addition, the opportunity exists to better use tax incentives to capture the positive externalities from social housing and reduce the gap between private and social rates of return. This could be through specific tax breaks on interest income from social housing development, or extension of existing schemes to incorporate property-related activity, such as enterprise investment schemes or venture capital trust schemes, which provide upfront tax relief to private investors who provide risk capital to smaller ventures.

Alternatively, by reducing the risk facing an investor, financial return requirements can be lowered. This can be achieved through better allocation of risk towards parties who are best positioned to manage that risk, or through reducing uncertainties. Potential options include:

- providing greater visibility and certainty over future welfare and benefit payments to tenants, reducing uncertainty and risk around rents;
- use of better risk-sharing agreements with managers of properties to minimise risks such as voids and bad debts;
- targeted government guarantee to enhance credit quality, thereby reducing risk premiums; and
- efforts to improve liquidity and support secondary market activity for smaller bond issues, thereby reducing liquidity risk and investment exit risk.

What about social impact bonds?

One particular financial innovation in recent years which has addressed both sharing of risk and the alignment of social and financial returns is the social impact bond. The key features of a social impact bond or SIB can be summarised as follows:

- Social impact bonds are contracts with public-sector commissioners under which government commits to pay for improved social outcomes.

- On the back of this contract, investment is raised from investors outside the public sector.

- This investment is used to pay up front for a range of interventions to improve social outcomes.

- The financial returns are generated by the payments from government for improved outcomes, typically representing a proportion of cost savings.

- The investor takes the risk that the interventions may not deliver the desired outcomes. The greater the improvement, the greater the return.

The advantages of a social impact bond are several. By paying for predefined outcomes, social and financial returns are clearly aligned – investors are able to generate positive financial returns only if positive social outcomes have been delivered. Investors take the risk of failure, protecting delivery partners who often are unable to absorb outcomes risk. Conversely, since commissioners only pay for success, this creates freedom for investors and delivery bodies to innovate delivery, something not possible under a traditional output-based commissioning model. SIBs also offer the potential for longer-term sources of funding, thereby supporting preventative work where outcomes may not be visible until several years later.

The first social impact bond was launched by Social Finance in September 2010, focused on reducing reoffending among short-sentence prisoners being discharged from Peterborough prison. Since then a further 13 SIBs have launched in the UK, with an average investment size of under £5 million. These SIBs have varying social objectives, ranging from reducing rough sleeping, supporting vulnerable adolescents to addressing the problems of chaotic families.

Could a social impact bond be successfully applied to social housing?

A number of elements are required for a social impact bond to have the potential to address a given issue successfully:[2]

- a clearly defined target group;
- robust outcome metrics, against which success or failure can be measured;
- reasonable and preferably evidence-based interventions;
- a low cost of intervention, in comparison with potential public-sector savings or

2 For more detailed information on developing social impact bonds, see: Barclay, L and Symons, T *A Technical Guide to Developing Social Impact Bonds* (Social Finance, January 2013)

efficiencies; and
- for the issue to be a priority for both the public sector and potential investors.

The elements described above resonate well in considering developing a social impact bond that would fund services to support specific disadvantaged groups, built around accommodation needs. Potential applications could include addressing issues such as troubled families currently housed in B&Bs or ex-offenders leaving prison without accommodation. These areas have outcomes that are clearly measurable and where it seems possible that the identifiable savings or efficiencies to public-sector commissioners from achieving positive outcomes would be large enough to justify the cost of the support provided.

In contrast, unfortunately it is much harder to visualise a social impact bond structured around investment in general-needs affordable housing, given that:

- defining a specific target group with well-defined needs and measurable targets is difficult;
- incremental social benefits compared with current provision are not as easily identified;
- financial benefits to government are not always tangible;
- while housing is often a critical facilitator for provision of additional support services, attribution of direct impact is difficult;
- the cost of the housing investment is high relative to potential annual public-sector savings or efficiencies (and corresponding outcome payments), with the exception of very specialised support; and
- the scale of SIBs to date is also very modest in comparison with the size of the investment need.

Conclusion

Social investment has the potential to continue to unlock much-needed funding for specialist housing to support the most vulnerable members of society, either directly or as a stepping stone to accessing more mainstream funding. As the social investment market continues to grow, the scale of these activities is almost certain to increase.

However, social investment in its current form, including social impact bonds, is not of a scale to be able to address wider general social housing needs alone, although it has a potentially important role in acting as a catalyst to the market in some areas. What is needed is a ground-breaking initiative to allow social housing providers to draw upon the huge reservoirs of institutional capital from pension funds and insurance companies or the vast pools of retail investment in order to better support social housing.

To achieve this, efforts need to be concentrated on new ways of working that result in better sharing and management of risk, both perceived and actual, among all parties involved in generating new social housing. Additionally, explicit recognition needs to be made of the positive wider social benefits that exist in the provision of a secure, safe and affordable home, over and above what is earned from current financial returns. Measures should be focused on capturing these externalities in a way that helps to structurally enhance financial returns, bringing them closer to the true social returns delivered by social housing.

Chapter 6

The experience of the Dolphin Square Foundation

Brian Ham, Chief Executive of the Dolphin Square Foundation

The experience of the Dolphin Square Foundation

The Dolphin Square Foundation was set up in 2005 with a large private capital endowment. With earnings on investments it stands today at £125 million.

The origin of the cash is an interesting story of social enterprise in itself. Dolphin Square is an apartment complex in Pimlico, built in the 1930s. At that time it was the largest privately developed apartment complex in Europe. However, after the post-war introduction of the rent acts it lost money for its developer, Costain. It planned to sell the building in the early 1960s to a party who wanted to turn it into a hotel complex, but eventually sold the complex to the tenants, who had formed themselves into a charity, to protect its use as a residential building. The city council acted as a mortgage guarantor and itself had a leasehold interest as protection.

Fast forward to the early 2000s, when the complex needed significant investment and was sold to a private residential landlord. The charity received a significant windfall from the sale, as did the council. And they decided to set up the Dolphin Square Foundation with some of the sale proceeds, with a mission to provide housing for Westminster's key workers. So our mission is essentially to develop a new generation of baby Dolphin Squares, in and around Westminster.

This means that we have £125 million of philanthropic money to develop a pipeline of new homes for people who live or work in Westminster. How are we investing it?

The board of governors of the Dolphin Square Foundation have laid out some clear principles:

- We will focus on the development of intermediate rental homes, a form of affordable housing.

- Whilst we still use the phrase "key worker", we do not define the term by the jobs our tenants have. We rely instead on the planning system's income definition of affordability, based on salaries. This means that workers in the private sector and the third sector are as important to us as the conventional list of public-sector workers.

- We prefer to develop our own sites or to work in partnership with others who are developing new sites. We do not generally buy existing stock.

- We fund all our developments from our cash pile, and will raise external finance once we have developments completed and fully let.

- We are not a registered provider, preferring to stay independent and outside the grant framework.

Since 2010 we have established a development pipeline of over 500 homes, of which 70% are in Westminster and 30% outside. Those that are outside are less than 25 minutes' journey from the centre by bus or tube. Our first new-build property opens in July 2013, and we will see homes being built for working Londoners becoming available at rate of about 200 a year thereafter.

The rents are generally set by the planning consents we secure. Our cheapest rents will be affordable to those who earn the London living wage, whilst our most expensive will be affordable to households earning up to £64,000 pa. The vast majority of our apartments are affordable to the household income range of £25,000-£50,000 pa, and those who earn more cross-subsidise those who earn less.

Across our whole portfolio we are projecting to charge, on average, 60% of the prevailing local open-market rents. This provides us with a financial model which will allow us to grow organically, without any state support, effectively in perpetuity, provided we get our numbers right and don't make too many mistakes. In 25 years' time we should have grown to about 2,500 homes, and in 50 years' time to about 5,000, all based on our original philanthropic endowment.

Our current pipeline includes homes in Pimlico, St John's Wood, Maida Vale, St John's Hill, Earl's Court, Westbourne Park, King's Cross, Soho and the South Bank; all high-value areas.

So what lessons are we learning, how could we do even better, and could our model work elsewhere?

Lesson 1: You need to be commercially sharp
Like many others in the affordable housing sector, we live by the mantra "social hearts, commercial heads".

We aim to earn a net yield of 4% on all our developments, much like the original Victorian investment model. However, it's vitally important to have a carefully calibrated financial plan. There is little room for error.

Efficient management is critical, to maximise the retention of gross rent. We contract out the management of our tenants and buildings, but with a very clear set of financial targets and service standards for the managing agents. It is crucial that we have low turnover and low void rates, so we have to provide excellent services. And our agents have clear targets, with incentives, for upselling additional services – we'll offer furniture packages, entertainment and broadband, contents insurance; even local pizza deliveries and dry cleaning will be available through our portal. Why do so few landlords treat their tenants as customers? Why aren't these services more commonly offered? It's a puzzle, because they can all add to the bottom line.

It is possible to buy sites on the open market and make them work financially for affordable housing, but you have to buy intelligently, and government grant can sadly distort the market. We see many instances of land prices being inflated because there are buckets of grant sloshing around. This is usually only temporary, but it is a real headache, and it is important not to get sucked in. So we have to buy land when the price is right, not to meet external delivery targets.

And the design has to be right. One of the benefits of not being a registered provider is that we are not slaves to the HCA design standards. This means that we can listen to our tenants and provide what they tell us they want. This has allowed us to design a brilliant one-bedroom apartment at 41 square metres. Our tenants told us they wanted plenty of space to put stuff. So we are providing open-plan homes without an internal lobby, with plenty of storage space, and have put sprinkler systems in to give the required fire protection normally provided by the lobby. By getting the design right, we keep our tenants happy, and build more cost-effectively.

So the philanthropy model can still work, but your business model has to be exceptionally well-calibrated. You have to be commercially minded. You can't be sloppy with your overheads, your costs or your designs.

Lesson 2: 'Investment' philanthropy is important

Once we have spent our original cash we will be borrowing money from external sources. We will look at the government's loan guarantee scheme for the private rented sector, but in principle we could develop an investment offering a good index-linked financial return for the philanthropy sector. If we are able to secure a net return of 4% on our developments, we can offer to pay an interest rate not far behind that. We would need some risk cover, but an initial 3.5% rate of return, index-linked, on a socially beneficial investment, must be of appeal to philanthropic investors. There will no doubt be a tangle of regulation and red tape to navigate through, but we will probably give it a go when the time is right.

In addition to philanthropic individuals, there is the capital-rich section of the charitable sector. Our finance director often sits in conference rooms full of charities that are struggling to earn a decent return on their capital investments. We are struggling to earn more than 2% a year on our non-property investments now that interest rates are so low, and there are plenty of other charities with far bigger endowments than we have, with equally big headaches. We also sit in (different) conference rooms with affordable housing colleagues who would like to raise money for new schemes. Time for a joint conference, an open agenda, and to hire a few experts to throw some ideas around?

If we can tap into either of these two sources, it will be happy days.

Lesson 3: The planning system could be a lot more helpful
I know I am supposed to be discussing the role of philanthropy in affordable housing, but I have to raise the problems that the planning system continues to throw at us, because they are very real problems that are specific to our model.

Planning policies are written on the premise that, as an applicant, you are either:

- an avaricious private developer who is trying to get away with providing the bare minimum of affordable housing (meaning rules are rigid, to minimise wriggle room); or
- an affordable housing provider with grant in your back pocket, who will do what the local housing department wants you to.

Planners struggle to respond to an applicant who wants to provide a large amount of intermediate housing, without any social or private units. Planning is therefore often a battle, and battles take time and cost a lot of money. It need not be like this. But we need local planning authorities to write explicit affordable housing planning policies for organisations that are trying to make the grant-free philanthropic model work.

Planning policies could also be written to allow the trading of affordable housing credits. Private developers have affordable housing obligations. These are a cost on development, and planning authorities now put an actual monetary value on the obligation. The developer may provide the units on-site or off-site, or give the planning authority a commuted sum. If we could receive those sums against the cost of our own developments, based on the private developer having contributed to our units as a credit, it would make it easier to get schemes off the ground. This can be made to work now, in circumstances where we are fortunate to have a local site that we and the developer can identify as a donor site. But you have to have the right opportunity, in the right place, at the right time. If we knew we could sell the credit, we could look for bigger opportunities and market a quota of units to a range of private developers. It's not rocket science; it just needs some creativity from the planners.

My final planning gripe concerns the community infrastructure levy, otherwise known as CIL. This has been designed to replace the older, established, section 106 planning obligations tariffs. The concept is fine; the aim was to provide some certainty and clarity about how the payments taken would be used. Affordable housing is supposed to be exempt, as are charities. Unfortunately in the drafting of the regulations, a different definition of affordable housing has been used from that found in the National Planning Policy Framework. This means that only registered providers of affordable housing can claim exemption from CIL. And the charitable exemptions contain so many loopholes that we can't use those either (we have had three completely different reasons from three different planning authorities to date).

We now face a £1 million London mayor's CIL bill on a £100 million affordable housing development programme, but when the London boroughs' CILs are introduced, the bill will be between five and 10 times higher. So our next wave of CIL liabilities could be £5 million to £10 million on £100 million of affordable housing. The glimmer of light at the end of the tunnel is that the CIL regulations are being consulted on, again. We have lobbied for changes and we have our fingers crossed.

Lesson 4: The model should work elsewhere

Okay, this isn't a lesson; it's conjecture. Our model is designed to deal with the specific problem of workers on modest incomes not being able to live in central London, and that unaffordability being bad news for the London economy and for the communities who live there. We are clearly not a general solution to London's overall housing problems. Grant-assisted social housing is needed too. But we are part of the solution, helping those who would never qualify for social housing, but who are critical to keep the London engine room running.

Would the model work elsewhere? Quite simply, if we can make it work in the context of very high central London land values, it can work elsewhere. The commercial arithmetic works. Whether there is a demand for the product is another matter. But if there is a strong demand for private rented housing, the market is there. So perhaps it is a model that will work best in big cities with vibrant rental markets for young professionals.

My overall conclusion, based on our experience at the Dolphin Square Foundation, is that there is scope for a strong relationship between philanthropy and affordable housing. But the lessons we have learned are crucially important.

You must be commercially astute in all that you do. Investment from the philanthropic sector is viable and helpful; it needn't just be about giving. The planning system could be a lot more helpful. And the model should work elsewhere.

I'm an optimist. But with good reason.

Chapter 7

The role of government

Lord Richard Best, Chair of the Hanover Housing Group

The role of government

The question asked in this pamphlet is: "Can we rebuild the relationship between philanthropy and affordable housing?" And my answer is, "I sincerely hope not!"

That relationship of yesteryear – the dependency on charitable donations and the goodwill of wealthy individuals – necessarily confined provision of affordable housing to the margins. It was traded in for a relationship with government. Dependency on the state has had its downside, but it has led to a massive increase in the size and importance of non-profit housing providers.

The author's perspective
My contribution to this publication takes a somewhat autobiographical perspective in tracing the transition from reliance on philanthropic giving or investing to reliance on government support.

In the 1960s I was engaged in promoting new "voluntary housing" organisations, which involved the hard task of raising the essential charitable funds. In the 1970s and 1980s I was secretary of the London Housing Associations Council, which negotiated with the Greater London Council for capital and revenue subsidies; on becoming chief executive of the then National Federation of Housing Associations (1973-1988), my main duty was to negotiate the central government grants that ended the requirements for philanthropic funding.

As chief executive of the Joseph Rowntree Foundation/Joseph Rowntree Housing Trust (1988-2006), I was able to explore the continuing role of philanthropy while also taking advantage of the available government investment in affordable housing.

Now, as chair (since 2006) of a relatively large housing association – Hanover, which celebrates its 50th anniversary this year – I can look back at the transformation of the sector over the last half-century. It is a story of incredible growth, based on the bringing together of the commitment and entrepreneurship of not-for-profit/charitable organisations and the money and regulatory framework that only government can provide.

The history lesson
Here is a potted history of the switch from philanthropic to governmental support over 150 years.

1860-1914

- Development of third-sector housing occurs, dominated by the philanthropic investors/donors, especially George Peabody, Edward Guinness, William Sutton, George Cadbury, Joseph Rowntree and Samuel Lewis.
- Octavia Hill invents the housing management profession.
- In 1885 the Royal Commission on the Housing of the Working Classes leads to the 1890 Act of the same name.

1919-1960

- Local authorities build hundreds of thousands of post-war "homes for heroes" (twice).
- New housing associations (industrial and provident societies) emerge, using loan stock and donations.
- In 1935 the National Federation of Housing Societies is formed.

1960-1974

- Council house building continues apace.
- Cost-rent housing societies are created under the Housing Act 1961, then overtaken by the co-ownership model (subsidised by tax relief and funded through the Housing Corporation) under the Housing Act 1964.
- In 1960 the Housing Associations Charitable Trust is created to raise donations.
- Specialist housing providers for older people flourish, and new ones appear, such as Hanover (1963), Help the Aged (Anchor) (1968).
- In 1966 *Cathy Come Home* is broadcast on TV and Shelter is founded: funds go chiefly to pay for staff of associations, buying and modernising of pre-1919 properties, and combating Rachmanism (intimidation and exploitation of tenants); these funds also boosted by the 1967 Housing Subsidies Act.
- The London Housing Associations Council and theNHFS Improvement Action Committee champion a new wave of "twilight areas" housing associations.

1974-1988

- The Housing Act of 1974 transforms the sector with funding (loans and grants) from the reconstituted Housing Corporation, which also acts as regulator.
- The introduction of the council tenant's right to buy diminishes council stock.
- In 1983 the House of Lords defeats government's bid to extend the right to buy

to tenants of charitable housing associations.
- In 1985 the Duke of Edinburgh's inquiry into British housing leads to the phasing out of mortgage interest tax relief.
- Property prices escalate following the liberalisation of lending: housing associations get richer.

1988-2008

- Property prices fall, then double, further increasing the wealth of housing associations.
- The 1988 Housing Act starts large-scale institutional borrowing for social housing.
- The 1988 act also eases rent controls and security of tenure for the private rented sector.
- Large-scale voluntary transfers of council housing sees housing association stock double.
- Arm's-length management organisation or ALMOs emerge, and "decent homes" funding upgrades millions of social housing properties.

2008-2013

- The credit crunch hits; home ownership declines; private-sector home-building output tumbles; the private rented sector grows dramatically.
- Grant levels for housing associations keep falling; housing associations continue to borrow; rents rise.
- In 2011 welfare reforms commence that bring substantial cuts to housing support to tenants.

The case for philanthropy in affordable housing
A number of arguments can be advanced in favour of a return to closer ties between donors/social investors and non-profit housing bodies. Let me explore some of these.

"Dependency on the state is even more precarious than dependency on philanthropists."

Although the role of the state has also diminished in the housing sphere, charitable giving has also declined in recent years. At least 40% of the economy (much more at the moment) is controlled by the state and housing is a national priority, even in these days of austerity. It makes economic sense in times of recession for government to invest in construction: and housing gives the biggest bang in terms of jobs and related gains.

It is true that government's cuts to the welfare budget – and payment of housing benefit directly to tenants, not social landlords – demonstrates the vulnerability of the sector: higher levels of rent arrears could threaten the viability of affordable housing providers. But (a) for the most part tenants, not landlords, will take the hit, in a lower standard of living – however unfair that may be – and (b) no government would be so foolish as to achieve its deficit reductions with measures that undermined the very agencies it needs so desperately in order to ease housing shortages.

"In America, philanthropy represents a big part of the budgets of low-cost housing providers: so why not here?"

In the US, Habitat for Humanity and other charities have benefited greatly from philanthropic support. But the non-profit sector there is miniscule by UK standards and mostly serves those with special needs, such as the street homeless. This seems to be partly because the market in America has worked more successfully for decades (but not forgetting the over-exuberance of sub-prime lending in the US) and partly because there seems to be greater tolerance in the US of poor people having to accept abysmal housing conditions.

Despite the US population being five times that of the UK, the non-profit housing sector in the former is probably less than a fifth the size of ours. If we shrunk our contribution to a tiny, residual sector – as it once was, when philanthropy was the driving force – we too might turn again to wealthy benefactors. What a sad day that would be.

"Investment – not charitable giving – appeals to today's philanthropists: isn't affordable housing the perfect socially responsible investment opportunity?"

There are sensible opportunities for investment of private funds in housing association property. And City investors have invested over £60 billion in this sector over the last 25 years. The housing association I chair, for example, has facilities in place to draw down many millions at rates of interest better than those available to most countries! Making lending available to housing associations does not achieve much, compared with socially motivated lending to many other worthy enterprises, because most associations can already borrow on attractive terms. Except in special circumstances, what makes the difference is not loans but grants.

So what can philanthropy do for social housing?

Loans to housing associations

Today's big housing associations may be able to borrow billions on the strength of their balance sheets. But smaller, usually more specialist or co-operative housing bodies may not have the security or the scale to offer institutional investors. And even the biggest operators can run out of capacity to borrow on the excellent terms currently available.

My preference would be for government to devise ways of enabling these organisations to borrow against the future rents that can repay their loans. The multibillion-pound guarantees and equity loans which government is providing for home ownership under the "Help to Buy" banner, and for infrastructure projects, do not get counted when the national deficit is assessed. This kind of help for social housing means "5% philanthropy" should not be required. But if housing slips down the political agenda, sadly that time might come again.

"Mission-related investment"
Some individual philanthropists and endowed charitable foundations may engage in "mission-related" investment by funding housing projects that will produce a respectable yield while accomplishing social objectives.

Clearly this is not particularly helpful if the activity is in competition (for sites or for additional sums of public money) with other providers. Nor does it seem very creative if it is simply replicating the approach of the existing housing associations and does not add any new dimension to the mix. But for pioneering – and mildly risky – projects that the current social landlords are not attempting, investment from a less risk-averse source can break new ground.

In the 1990s the Joseph Rowntree Foundation decided to set aside some of its capital for two areas of activity which it believed represented commercially valid investments. First, it financed its in-house housing trust to build a continuing care retirement community for some 250 residents without government subsidy or charitable money. This demonstrated a model of housing and care – based on the sale of the accommodation to downsizing home-owners – that has proved successful for its residents and financially sound for the foundation. Hopefully, it has encouraged others – particularly in the private sector – to create similar retirement communities elsewhere.

Second, the foundation took on the risks of its CASPAR (City-centre Apartments for Single People at Affordable Rents) project of "building to rent". Its developments of 100 flats in Birmingham and Leeds showed that institutional investors could get a decent return on their capital from market rents in architecturally high-quality schemes for mobile, younger tenants. Although individual investors piled into this sector, creating the buy-to-let boom, it took the financial institutions – incentivised by the government's private renting initiative – a decade to get serious about schemes along the lines of CASPAR.

The 2007 Westminster Housing Commission advocated this approach (suggesting mission-related investment in shared-ownership schemes for those working locally) for the Dolphin Square Foundation, and this charity is now producing some important results.

Good old-fashioned charitable grants
The major landlords in the social housing sector themselves now make substantial grants, and provide benefits in kind, to charities and voluntary bodies in their localities. They will provide meeting facilities, match donations raised by staff fundraising, help smaller charities with funding applications, allow staff time for volunteering in the community, and make significant contributions to local good causes. This is all part of their corporate social responsibility. And many go much further in forging links with those voluntary and community bodies that can benefit the housing organisation's own residents: this can mean working with bodies that can help tenants acquire skills and employment, or with those that can provide extra support for older and more vulnerable residents. The housing associations have themselves become philanthropic agencies.

However, larger as well as smaller housing providers can be assisted – and stimulated to be innovative or take a risk – by relatively modest grant aid. In making choices about where to put their time (and money), some extra cash from a philanthropic source can influence behaviour.

In producing high-quality homes at rents affordable for those on the lowest incomes, providers using their borrowing powers, sweating their assets and recycling surpluses from sales or rents cannot substitute entirely for good old-fashioned grants. Social housing grants (previously housing association grants) have fallen from covering 80-100% of the cost of a new home 40 years ago to about 10% today. Philanthropic donations cannot make up much of this gap; but sometimes they can make all the difference.

A contemporary illustration of the way housing associations can work with major charitable foundations is a senior co-housing project in north London. Because the modus operandi for this kind of co-operative housing provision did not fit the requirements of the local authority, social housing grant could not be drawn down from the Homes & Communities Agency; without grant aid, it was not feasible to include below-market/affordable rental housing, let alone extra communal facilities. Rather than developing this pioneering scheme exclusively for those able to buy their apartment, charitable funds were sought: a grant of £1 million was forthcoming from a farsighted foundation. Hopefully the outcome will demonstrate the value of senior co-housing so that in future such schemes will have access to public funds.

In conclusion

Rather than talk of a return to the days when philanthropic investment fuelled the (modest) output of the social housing sector, before the role of government became paramount, I prefer the theme of new partnerships between philanthropists and housing associations.

Such partnerships – preferably developed over time, not at a moment of crisis – require the two parties to ask: "How can we use each other's strengths to maximise the chances of achieving our separate and our common objectives?"

The answer is likely to lie, I suspect, in innovative, creative ways of developing more and better homes and accompanying services. With proper evaluation of outcomes, pioneering approaches can influence the private and public sectors as well as stimulating the housing association sector itself.

In the past – when the relative cost of housing was far less and the current scale of provision was unimaginable – philanthropists financed the nation's affordable housing. Today it is the role of government to ensure that funding for social housing is in place. But philanthropists can oil the wheels; they can make possible imaginative extras; they can enable the entrepreneurial housing provider to take the risk of doing something different; they can encourage even the largest social housing providers to break new ground and, indeed, put some of their own resources into doing things differently.

Such partnerships can start a process of change. That might mean accommodating an unpopular or a forgotten and ignored section of society; it could mean testing aspects of design that could lead to a breakthrough in energy efficiency or reducing carbon emissions; or it could involve trying out new technology that might improve the quality of life of residents.

I conclude that ever since the role of government became central to the growth of the sector, and the increase in property values made housing associations richer, a new relationship between philanthropy and affordable housing has been needed. To crystallise and consolidate the partnership working which this can comprise, perhaps this Smith Institute/New Philanthropy Capital initiative will lead the key players from the two worlds of social housing and of charitable endeavour to engage with each other – and to do more to pool resources, to their mutual benefit.

Chapter 8

Lessons from the past

Peter Malpass

Lessons from the past

The two most important lessons we can learn from studying the history of housing in Britain are, first, that the market always and everywhere fails to provide enough homes of a decent standard at rents that are affordable by the least well-off. And second, despite this, housing policy has persistently favoured the interests of the better-off.

Over the years, tens of millions of people have benefited from owning residential property, as either landlords or owner-occupiers. In many cases, most obviously following the introduction of the council tenant's right to buy in 1980, when local authority homes were sold off at deep discounts, gains have derived from simply being in the right place at the right time. The right to buy was hailed as a highly successful instrument of housing policy, but it did nothing for the poor, who saw their chances of securing an affordable council tenancy diminishing year by year.

Since then it has become even clearer that successive governments are wedded to policies designed to maintain high house prices, not least because high values underpin consumer debt and help to boost spending. In addition, as people see the value of their future pension entitlement falling, the wealth stored in their homes provides a degree of reassurance. Large numbers of people (existing home owners), powerful lobby groups (builders and landowners) and governments all have an interest in high prices. For all these groups, reducing shortages by promoting large-scale building of affordable housing is not a priority, not least because increasing the supply poses a long-term threat to house prices. Where the maintenance of high prices is given priority over affordability, the losers are inevitably the least well-off.

Past efforts to fill the gap

Given the entrenched failings of both the market and government policy in relation to housing the poor, there is plenty of scope for philanthropy to fill the void. The key questions are about whether and how philanthropic resources can be mobilised. History strongly suggests that we should not expect philanthropy alone to make much impact on the problem. Caution is necessary when making comparisons with earlier periods, but as 21st-century Britain moves towards 19th-century levels of inequality in income and wealth, it is instructive to look at what was achieved by well-meaning people at that time.

One approach, pioneered by George Peabody in 1862, was simply to donate a very large amount of money to be used for the benefit of the poor (he did not specify that the money should be used to provide housing; that was a decision made by his appointed trustees). In total Peabody gave £500,000 (more than £30 million in today's money). His example was later followed by Edward Guinness, who gave £250,000 to establish a trust in his name in 1889, and by William Sutton, whose massive bequest in 1900 exceeded £2 million. These people were true philanthropists, giving away their wealth with no expectation of any personal return on their investment (although Edward Guinness was given a peerage within 18 months). They were also exceptional, for in the context of the Victorian economy, which allowed the accumulation of huge fortunes, very few of the rich and prosperous were willing to make a philanthropic gesture of this magnitude. Moreover, even large-scale gifts were soon exhausted; the Guinness trustees, for example, spent all their endowment building 1,900 dwellings in five years, and then had to rely on borrowed money in order to continue building.

A different approach is best described as semi-philanthropic; a number of so-called model dwellings companies were established to raise capital at less than a commercial rate of interest. This was known as "philanthropy and 5%", for the idea was that in order to provide decent homes at affordable rents in expensive areas, it was necessary to find investors who were prepared to accept a rate of return somewhat below the normal range of 7-10%.

The largest of these was the Improved Industrial Dwellings Company, founded in 1863, which built some 6,000 dwellings in London on 45 sites in 40 years. In 1866 the founder of this company, Sir Sidney Waterlow, secured government agreement to allow model dwellings companies access to cheap loans from the Public Works Loans Board. This was not a direct taxpayer subsidy, but it certainly allowed the 5% philanthropists and charitable trusts to augment their supplies of capital. Another form of subsidy came from the provision of land at well below its market value. In the late 1870s the Peabody Donation Fund, among others, was able to buy several sites that had been subject to slum clearance by the Metropolitan Board of Works.

The strategy of both the model dwellings companies and charitable trusts was new building, at high density, on large estates of several hundred dwellings. This did not produce environments that today's philanthropic housing providers would necessarily want to emulate. High density was a consequence of the need to produce rents that were affordable by working-class tenants and also to provide a notional return on capital (3% in the case of Peabody). Another consequence was that the flats themselves were of a very basic standard, with shared water supplies, lavatories and washing facilities. A third consequence of this strategy was the need to adopt an authoritarian style of estate management, and it was normal practice to employ former military or navy men, used to imposing discipline, as resident estate managers. This combination of characteristics was not universally popular, and turnover of tenancies was high. At the Guinness Trust's Fulham Palace Road estate, for example, where letting began in 1901, more than half of first tenancies lasted for less than two years.

Home improvements

Even though the rents set by the charitable trusts were well below market levels, they remained out of reach of the poorest; in 1891 Charles Booth found that fewer than a quarter of the tenants of philanthropic and semi-philanthropic organisations in London were within his definition of the poor or very poor. One person who did aim to accommodate the least well-off was Octavia Hill, whose system was based, initially at least, on taking over existing houses and seeking to improve both the houses and their tenants.

It is important to recognise that Octavia Hill was primarily concerned with the redemption of the demoralised poor, and housing management was a means to that end, not an end in itself. Whereas other middle-class do-gooders reaching out to the poor for the same purpose often had doors shut in their faces, Hill used her position as a landlord to exercise right of access to tenants' homes. She was quite prepared to insist not only on regular payment of rent but also that tenants met her expectations in terms of housekeeping standards, level of alcohol consumption and whether they sent their children to school on a regular basis. Her focus was on the deserving poor, by which she meant people who were willing to respond to her firm guiding hand and to improve themselves.

Octavia Hill did not found a formal organisation, for her preference was that individual middle-class property owners would themselves undertake to manage their houses according to her principles. Unsurprisingly, this sort of direct, regular and sustained contact with the poor did not have wide appeal among the prosperous Victorian middle class. Recognising this, Hill was prepared to undertake the supervision of women housing managers on behalf of property owners, and by the time of her death in 1912 she had several thousand homes in London under her management. Octavia Hill was a moral entrepreneur, a skilled promoter of her ideas, and her system attracted interest not only in London and elsewhere in Britain but also in parts of the Empire and even in the US. However, it was not the model adopted by local authorities when they began building houses on a large scale in the 1920s, largely because they were not targeting the poor and her sort of intrusive management was deemed to be inappropriate for the better-off working-class tenants who predominated on the new estates.

Victorian philanthropy reflected genuine concerns about the social and moral implications of huge industrial cities, but in terms of housing the earnest endeavours of many well-meaning people must be counted as a failure at worst, and a disappointment at best. The tide of people needing to be housed was so great and the resources so limited that in quantitative terms housing philanthropy made virtually no impact on the problem. By 1891 the various providers in London were accommodating about 72,000 people, or not a lot more than the *annual* increase in the population. Outside London they made even less impact.

The most important lesson to emerge from Victorian housing philanthropy was that there was simply not enough money available at a price that enabled decent standards to be achieved while keeping rents affordable. Other lessons, concerning the avoidance of very high densities, austere standards of provision and condescending, class-based methods of housing management, are pretty obvious and have been well learned over the years. Some housing historians have drawn a different lesson from the failure of Victorian philanthropy. Enid Gauldie, for example, has argued:[1] "The conviction grew that housing should not be left to charitable enterprise but should become a state responsibility."

Once the state became involved in subsidising housing production after 1919, local authorities rapidly eclipsed the voluntary providers. There is some evidence from the inter-war period that senior civil servants found the local authorities more businesslike and easier to deal with. In the context of a serious national housing shortage the shortcomings of the voluntary organisations were exposed: they lacked the necessary organisational and financial strength to build at scale, they were committed to a socially obsolete model of landlord-tenant relationships, and they failed to display the agility required to adapt to the new circumstances. They were never excluded from access to state subsidy, but they struggled to raise private finance (philanthropic or commercial) and their output remained trivial compared with the rapid growth achieved by municipal housing between the wars.

After 1945 the voluntary organisations were again marginalised by the post-war government's policy of relying on local authorities to achieve high levels of house building throughout the country, with private enterprise for once in a supporting role. From the mid 1950s policy was rebalanced to favour the private sector, but the housing associations remained unable to raise their profile. Some organisations survived and grew by carving out a particular niche for themselves; for example, by targeting the provision of rented homes for elderly people, who were not then a priority for

1 Gauldie, E *Cruel Habitations* (Allen & Unwin, 1974), p235

governments intent on tackling the gross shortage of family houses.

State support paved the way for growth

Despite a resurgence of activity in the 1960s – supported by a variety of church-based organisations and some innovative fundraising by Shelter, which was launched in 1966 and benefited from the wave of public sympathy generated by the BBC film *Cathy Come Home* – it was not until the 1970s that the not-for-profit sector achieved a basis for sustained growth. Crucially, however, the breakthrough was not based on philanthropy; it was generous support from the exchequer, in the form of housing association grant, that enabled housing associations to grow in a benign financial environment over the 15 years from 1974. It was a benign environment in the sense that associations were able to raise all the capital they needed through the government-sponsored Housing Corporation, and around 80% of capital costs were ultimately written off by housing association grant.

In these circumstances it is not surprising that little effort was devoted to raising money from philanthropic or commercial sources. However, it can be argued that this period allowed housing associations to build up their organisational strength and professional expertise to the point where they were able, after 1989, to move to a position of greater independence from government, and to raise substantial amounts of private finance. It is important to say here that the strategy was based on private finance from banks and building societies, not from philanthropic donors or 5% lenders in the Victorian mould.

The implications of this long history are not encouraging. On the one hand, both the market and government policy have failed to provide adequately for the poor, while on the other hand philanthropy has not been able to make good the deficiency. Not-for-profit housing has thrived only when underpinned by taxpayer support in the form of capital grants and subsidised rents. During the 20th century local authorities proved that they could build at scale in times of great need, but there is little prospect of a return to that model. Indeed, cuts in local authority budgets are putting pressure on housing associations to use their own limited resources to support the communities in which they are the landlords. In effect, housing associations are themselves becoming philanthropists.

Nor should we expect a more propitious environment for independent social housing in future. Raising charitable funds is easier for some causes than others, and the more the occupants of social housing are defined by governments and the media as an undeserving group (in contrast to so-called "hardworking families"), the harder it will be to secure substantial supplies of reasonably priced capital. Flag days and jumble sales won't work, and the acquisitive accumulation of vast fortunes by the fortunate few is taking place in a culture where the rich are less inclined to recognise their obligations to the least well-off than they were in the past.

On a more positive note, it was shown by Shelter and others in the 1960s that a well presented and targeted message can generate public support and succeed in raising useful sums of money. There is no obvious reason why this should not work again. But the scale of the problem suggests that strategy and tactics need to be tailored to limited objectives, preferably in partnership with the public and/or for-profit sectors. The bigger task is to persuade the political class that the housing system should be reimagined as a means of accommodating the people and meeting a basic human need, not as a way of accumulating and storing wealth.

Chapter 9

Can we rebuild the relationship between US philanthropy and affordable housing?

Alexsis de Raadt St James, Chairman and Founder of the Althea Foundation

Can we rebuild the relationship between US philanthropy and affordable housing?

Philanthropy always has something to do with power and the shaping of the future of society.

Thomas Adam

Research over the last 30 years shows that access to affordable social housing contributes to a strong society, healthy communities and an economically productive nation. So why has it been so difficult to address the growing shortage of social housing, and what can we do to address the problem?

Americans are the most philanthropic people on earth, donating over $300 billion to charities in 2012, with 1.8 million IRS-recognised tax-exempt organisations. According to Charity Navigator, philanthropy is growing every year.

Few people realise how large philanthropy and charities have become in America and how many essential public/private services they provide. According to Charity Navigator, "Without charities and non-profits, America would simply not be able to operate. Their operations are so big that during 2012, total giving was more than $316 billion."[1] Charities now provide more essential services to society than ever before.

Total giving to charitable organisations in America was $316.23 billion in 2012 (or about 2% of GDP):

- The majority of that giving came from individuals. Specifically, individuals gave roughly $223 billion, or 72%. Bequests accounted for $22.14 billion, foundations gave $47.44 billion and corporations donated $18.97 billion.

- Corporate giving accounted for just 6% of total giving.

- Despite a decrease in religious donations, 32% of all donations went to religious organisations. Many of these contributions can be attributed to people giving to their local place of worship.

- The next largest sector was education, with 13% of all donations.

1 Charity Navigator (www.charitynavigator.org)

2011 US charitable contributions by type of recipient organisation

Religion	$95.88 billion
Education	$38.87 billion
Gifts to foundations*	$25.83 billion
Human services	$35.39 billion
Public society benefit	$21.37 billion
Health	$24.75 billion
International affairs	$22.68 billion
Arts, culture and humanities	$13.12 billion
Environment and animals	$7.81 billion
Foundation grants to individuals	$3.75 billion
Unallocated	$8.97 billion

*Estimate developed jointly by Foundation Center and Giving USA
Source: Giving USA, 2012[2]

In 2012 there were 35,920 individual charities focused on donating to the housing sector or the categories of human services and public society benefit.

A common myth is that large American corporations and foundations are the largest donors. In fact, 80% of donations are contributed by private donors – a large majority coming from individual bequests. According to the Foundation Center and Giving USA, this rises to over 88% if you include family foundation donations. This is part of the opportunity as well as the challenge: how do you get the individual donor to focus their attention into the social housing sector? The individual donor is more difficult and expensive to cultivate, but by far the largest donor base, with $223 billion dollars to spend last year.

Origins of social housing in the US

Social housing in 19th- and 20th-century America was largely created to address social problems caused by rapid industrialisation. Early entrepreneurs like George Peabody, Andrew Carnegie and John Rockefeller wanted to change society and the way people lived, worked and interacted to achieve a commercial and social objective. They had socially progressive thoughts and ideals, just like entrepreneurs today. These early entrepreneurs and philanthropists wanted to move from the old concept of almsgiving

2 www.givingusareports.org

to effective charity with a mission and purpose.

The new model had an economic and social purpose. Early social housing was a structural solution that created economic benefits for both tenants and employers. It was an important part of maintaining the nation's emerging economic ecosystem. Without a stable, healthy and predictable workforce the pace of economic development and profitability was uncertain. As Thomas Adam points out:

In 19th-century Leipzig, Toronto, New York, and Boston, a newly emergent group of industrialists and entrepreneurs entered into competition with older established elite groups for social recognition as well as cultural and political leadership. The competition was played out on the field of philanthropy, with the North American community gathering ideas from Europe about the establishment of cultural and public institutions. The process of cultural borrowing and intercultural transfer shaped urban landscapes with the building of new libraries, museums, and social housing projects.[3]

The concept of charitable organisations has evolved since the 19th century; the model of the financial patronage has shifted and the socioeconomic landscape has changed dramatically. It moved from the industrialist patronage model into being more regulated and subsidised by the government. "Local, state, and federal governments in the United States have shaped, limited, regulated, and funded non-profit organisations in key ways," according to Adams. This is especially true from 1930 onwards.

Social housing today in America is administered by federal, state and local agencies, not by entrepreneurs, philanthropists or churches. There are now many models of social housing across America, largely administered and funded by the US Department of Housing & Urban Development (a federal government housing authority created in 1965). More than 1.3 million households are living in government-funded public housing of some type, according to this department, and there are 3,400 public housing authorities across America.

The problem today

Since the 1980s, falling incomes as well as limited job security (with fewer benefits) has resulted in the largest demand for social housing since 1880. In the 19th and 20th centuries, philanthropists and industrialists provided housing to ensure better living conditions for their workers. These industrialists then had stronger social and economic ties with their

3 Adam, T *Buying Respectability: Philanthropy and Urban Society in Transnational Perspective, 1840s to 1930*s (Indiana University Press, 2009)

workers. However, the practicality of these emotional and social bonds broke down in the 1930s and 1940s, when Americans became more mobile and when real incomes rose, creating more options for a young workforce that was no longer reliant upon the charity of an individual or institution.

In America, as in other industrialised economies, low-wage earners in recent years have been left behind as the disparity between rich and poor continues to widen. At the heart of the issue is buying power, or the real value of the minimum hourly wage in America. In 2004 the hourly wage was 26% less than in 1979.[4] There have also been steep falls in the number of unions and in manufacturing jobs, set against globalisation and a large increase in part-time workers.

There has also been a decrease in housing and housing assistance programmes from federal, state and local government – all of which has added to the extreme situation in America today. The majority of people who seek social housing in America also seek housing assistance in the form of financial vouchers or rent subsidies. Housing assistance subsidies can and often do make the difference between stable housing or no housing. Vouchers can represent up to 30% of financial contribution towards rent. The demand for housing assistance far exceeds the supply, resulting in only a third of those needing housing assistance actually receiving some form of federal, state or local subsidy.[5]

Compounding the problem, the recent recession in America and the collapse of the financial markets in 2009 have meant that what little government subsidies there were in the form of housing assistance programmes and affordable housing have been further reduced. Since the 2009 recession, research has shown an ever-increasing and important relationship between social housing and a healthy society. By raising the awareness of these challenges and the effect a lack of housing has on society, we can engage and inspire a new generation of philanthropists and problem-solving entrepreneurs.

In an on-going $25 million research initiative by the MacArthur Foundation,[6] the findings demonstrate that access to affordable housing has far-reaching social and psychological consequences beyond just providing shelter. Access to affordable social housing is an important link to a healthy and productive nation, just as it was in the 19th and 20th centuries. The MacArthur Foundation study further shows that access to affordable housing plays a complex role in the financial, social and psychological health of families.

4 Economic Policy Institute *Minimum Wage: Frequently Asked Questions* (2005)
5 Daskal, J *In Search of Shelter: The Growing Shortage of Affordable Housing* (Center on Budget & Policy Priorities, 1998)
6 *How Housing Matters to Families and Communities* (MacArthur Foundation, 2012) (www.macfound.org/programs/housing/)

Their research concludes: "Stable and secure housing affects the long-term employment, education, and economic outcomes for families and their communities."

There is an intrinsic and spontaneous positive network effect between the variables tied to housing. The MacArthur Foundation research considers the idea that affordable housing may be the "essential platform that affords the possibility of positive human outcomes" in physical and mental health which are a prerequisite to finding employment and securing education. All of which sounds intuitive, but no one has undertaken a research programme of this scale and expense to consider the many layers and constituencies involved.

Time for new ideas

In order to create practical and affordable solutions to address the imbalance of supply and demand for housing, we need philanthropists, entrepreneurs and policy makers to work together to develop new and more effective models for social housing that integrate the financial power and ingenuity of modern philanthropy.

Some ideas might include:

- charities, think thanks and government organisations forming commercial partnerships that engage in joint outreach/research programmes which detail the social cost and consequences of not providing adequate housing;
- consolidating the 35,000 housing-related charities that do similar things but cannot achieve the necessary scale to be impactful;
- providing additional tax incentives to corporations and their foundations if their philanthropy is focused on the affordable housing sector;
- creating a national database of what and where the social housing requirements are, in order to personalise the donor base;
- involving family foundations, corporate foundations and private donors in creating and financing new social housing instruments (bonds and corporate debt); and
- transferring management, maintenance and ownership of social housing properties from government agencies to private organisations, where there are expertise, lower cost and greater efficiencies.

Drawing upon the research of formidable institutions like the MacArthur and the Pew foundations, as well as other foundations and academic institutions, it is reasonable to expect more progressive and dynamic solutions. All of the above would take us a step closer to rebuilding the relationship between philanthropy and affordable housing in America.

Additional references:

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Stoloff, JA *A Brief History of Public Housing* (US Department of Housing & Urban Development, 2004)
National Coalition for Homelessness (www.nationalhomelessness.org)
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