



Supported by Vancity Credit Union

Social Finance Case Study

Victoria Social
Innovation Centre

October 2017

Acknowledgements

The researcher (Heather Hachigian) is grateful to the interviewees for sharing their ideas, knowledge and experiences. The researcher is also grateful to those that provided feedback on the draft report: Lee Herrin, Kristi Fairholm Mader. Any errors and/or omissions are the sole responsibility of the researcher.

Social Finance Case Study: Victoria Social Innovation Centre Society

Social enterprises and ventures often face significant challenges accessing financial capital to ideate, launch and grow. Many not-for-profit social ventures do not have the cash flow required to service large debt obligations, leaving these organizations largely dependent on traditional sources of short-term and cyclical grant funding. While for-profit social enterprises and ventures have the option of raising equity capital, these organizations also face challenges related to finding investors that are willing to tolerate patient returns and avoiding investors that expect them to compromise their social mission to grow.

The aim of these case studies is to illustrate how Vancouver Island-based social enterprises and ventures have leveraged innovative financing to support their launch and growth, while maintaining a strong commitment to their social mission. The case studies are selected to represent a diversity of organizational forms, stages of growth and financing mechanisms. It is hoped that their stories will inspire other social enterprise and ventures to explore innovative financial mechanisms to scale up their own social impact, and to identify social finance tools and options that could be further strengthened. The table below summarizes the key attributes of the four case studies selected for this research.

VICTORIA SOCIAL INNOVATION CENTRE SOCIETY (VSIC) was formed in 2017 by two founding member organizations, the Victoria Immigrant and Refugees Centre Society and Family Services of Greater Victoria. In early 2017, VSIC purchased a 15,000-square foot building in downtown Victoria (1004 North Park St) to create value for member agencies and to serve as a hub for collaboration among not-for-profit organizations.

Financial Structure: The \$2.5 million building purchase and renovation costs are financed by a 25-year mortgage from Vancity Savings and Credit Union and a five-year interest-only loan from the Vancity Community Foundation. Member societies pay market rents for the space that they occupy within the building. VSIC retains direct ownership over the building. Remaining year-end cash after maintenance costs and debt servicing are refunded back to each member society. Member societies are free to give up their occupancy in the building and rent elsewhere. However, member societies cannot take equity out of VSIC.

This social finance case study will examine how Victoria Social Innovation Centre Society have used social purpose real estate (mortgage) to increase their social impact. The Victoria Social Innovation Centre Society is a non-profit cooperative based in Victoria, BC.



The new Victoria Social Innovation Centre - under renovations in 2017

Rationale: The VSIC model provides a way for member societies to diversify their funding source by generating income from renting out other units in the building. The occupancy costs for each society should reduce considerably in the long term after paying off renovation costs. It is anticipated that the cooperative ownership structure will strengthen member organizations' financial positions, making it possible for these organizations to self-finance innovative social services that are often ineligible for conventional funding. As a result, member organizations will become more resilient to changes in government funding. The structure of the VSIC provides a continuous incentive for both member societies to collaborate, since neither society owns the building. If the VSIC board is vacated, neither member society would receive equity.

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—David Lau, Executive Director, VIRCS

Process: The first task was to establish a new organizational structure. Using part of a \$10,000 grant from the United Way of Greater Victoria the two member societies hired a consultant to assess options for organizational structure and to create the constitution and articles to form the new non-profit society. The executive directors of Victoria Immigrant and Refugee Centre Society and Family Services of Greater Victoria created a memorandum of understanding to engage other potential members. They also asked Vancity to speak to the board about the risks and long-term benefits of joining VSIC. During this early phase, VSIC members invested time in board development. This involved creating relationships at the board level, where member societies would spend time attending each other’s board meetings to better understand how each other’s boards operated.

To find a suitable building, VSIC initially engaged with the City of Victoria. However, the City had other priorities at the time and was unable to find suitable space for the Centre. VSIC then turned to Vancity Savings and Credit Union, knowing that the credit union has a mandate to support social purpose real estate and cooperatives. VSIC identified a suitable building previously owned by the MS Society of Canada. Family Services of Greater Victoria and the Victoria Immigrant and Refugee Centre Society worked together on a plan to purchase the building. Vancity Savings and Credit Union and Vancity Community Foundation agreed to jointly finance 100 per cent of the building purchase and to provide VSIC with a short-term loan to undertake renovations so that member societies would not have to rely on their own reserve funds.

Key Outcomes: It is still early days (at the time of writing, VSIC is undertaking renovations) but it is expected that both societies’ financial positions will improve once they begin collecting rents from other societies that occupy the building. It is also expected that VSIC will catalyse collaborations across not-for-profit member organizations and create long term financial advantages associated with its cooperative ownership structure to strengthen members’ financial positions. It is hoped that this will have several downstream effects related to creating more innovative social services.

Key Challenges: Finding suitable partners with strong alignment between long-term interests was challenging. In some cases, it may not be feasible for client groups of different societies to share the same space. Moreover, not-for-profits are often at different stages of development, which makes collaboration challenging. VSIC originally began with four partners and ended up with two. While this presented some initial challenges, it also presents an opportunity by leaving the remaining two societies in a favourable position to select member organizations that demonstrate strong alignment with VSIC’s strategic direction. Another significant challenge was that the member societies had to float \$60,000 for closing costs.

Key Conditions for Success: There were several key conditions that contributed to the success of VSIC in achieving key milestones to date. First, both member societies benefit from strong leadership that is committed to a long-term vision. Executive directors of both member societies saw an opportunity for ensuring long-term viability of their organizations through this model. Second, member societies emphasized the competencies required to take on a large capital project, from project planning and financial modelling to relationship management. As the executive director of the Victoria Immigrant and Refugees Centre Society, David Lau, explains, “if you do not have the impulse to bring friends to the table, then this model is probably not for you. We bought a building four times the size that we needed for our own organization because we know we can fill it with other like-minded organizations that offer a diversity of services.” Third, VSIC benefits from the strong and supportive partnership with Vancity Savings and Credit Union. The willingness of Vancity to finance the building and renovation costs without the requirement of upfront capital was essential to making the numbers work.

Lessons Learned:

Effective partnerships depend on mutual respect: Equally important to finding suitable partners with aligned interests is establishing a partnership model that is flexible and based on mutual respect to ensure on-going collaboration. As Lau explains, “when these types of partnerships break down, it is often due to a perception of inequality among members. Members can become unhappy about what they are getting from the relationship relative to what they have been required to sacrifice. It can be over something as petty as parking spaces.” VSIC is conscious of this challenge. One advantage of the VSIC model is that their funder does not occupy the same building, which is often the case in other innovation centres. This means that member societies themselves have control over rules that govern the use of the shared space, such as office hours, parking allocation and conflict resolution.

Forward-looking leadership and long-term commitment: This model requires leaders that are considering long-term options to stabilize their organizations over a 2-decade span. ‘Stability as a legacy’ may have more gravitas for leaders who are at end of their careers and are concerned with leaving their organization in a strong position. Lau advises, “if you are not thinking about what your organization will look like long after you are gone, then you may not be ready to take on this level of collaboration on a real estate acquisition.”

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Internal dynamics matter: Not-for-profit organizations are often staffed with altruistic people who want to see their organization succeed and improve. However, staff members will likely have different motivations and time horizons for executing initiatives than board members. In some cases, board members will be more interested in a model such as VSIC than staff because board members are often thinking about how they can contribute to the success of the organization within the span of their board term, whereas staff have the span of their careers to contribute to the organization and they may be less inclined to take on such a large endeavour, particularly if they are in the earlier stages of their careers. As Lau explains, “staff members and board members are often operating on different wave lengths. It is important to understand at what octave everyone is singing.”

Resources:

Interview: David Lau, Executive Director, Victoria Immigrant and Refugees Centre Society.