BETTER FINANCE, BETTER SOCIETY

February 2015

Policy priorities for social investment for the 2015 General Election and beyond

THIS PAPER IS A 'LIVING DOCUMENT' AND BIG SOCIETY CAPITAL WILL PERIODICALLY REFINE AND UPDATE IT

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SOCIAL INVESTMENT POLICY PRIORITIES FOR 2015+

Social challenges persist, public finances are weak, and mainstream finance is mistrusted

The UK faces significant social challenges. Stark differences in health, educational attainment and social mobility persist. The nation's public finances will continue to be under severe pressure throughout the next Parliament and beyond, and mainstream finance is under continued scrutiny.

But a strong social economy is emerging. Many pioneering charities and social enterprises are adopting more sustainable business models. Individuals are finding new ways to work within their communities to address social issues that matter to them. Innovations in the delivery of public services are showing how new partnerships can address long-term social problems.

Social investment can help

Social investment is appropriate repayable finance that charities, social enterprises and communities can use to grow, become more sustainable and increase their impact on society.

Social investment can help by supporting trusted and experienced partners in charities, social enterprises and communities to deliver change. It can help to shift focus from inputs and process to ensuring that social outcomes are achieved. Importantly, it can provide access to deep pools of capital – from corporates to foundations, or individuals. It also aims to be sustainable - the recycling of investment can see multiple rounds of impact created, and generate long-lasting benefits for investors and society.

Social investment is already producing results

Social investment-backed initiatives have already demonstrated results as diverse as: improved GCSE results for East London teenagers at risk of dropping-out of education and employment; lower reoffending rates for ex-prisoners; improved energy efficiency and financial sustainability for community assets such as swimming pools and community centres; and new housing for the most vulnerable in society.

The level of social investment deal-making was around £200 million in 2012, and is likely to have grown since. Over the last few years new social fund managers have emerged, new products such as charity bonds and community shares have matured, and thousands of new investors are getting involved. We have also seen the announcement of the world's first Social Investment Tax Relief.

An intelligent policy regime is critical for the future of social investment

Successive governments have done much to promote social investment in the UK. However, further policy change would help social investment do more. This paper outlines four steps through which sensible policy change can lead to greater social impact:

Step 1. **Empower individuals to invest** in their communities

Step 2. **Invest in prevention** and better public services

Step 3. **Connect the financial system** to address social challenges at scale

Step 4. **Support charities and social enterprises** seeking to become more sustainable

These steps will not just help to raise millions of pounds, but more importantly support millions of the most vulnerable people in our society.

STEP 1. EMPOWER INDIVIDUALS TO INVEST IN THEIR COMMUNITIES

The context

Individuals are increasingly interested in where their money goes. Many want to actively use their money to achieve more than just a financial return, and to reinvest it into their communities. For example, over £60 million has already been invested by individuals through community shares into pubs, sports grounds and village halls. Empowering individuals to make positive choices with their money will help yield substantial new capital for important social issues or communities in need of regeneration. It could also improve the connection between individuals and their money, helping contribute to an improved culture of personal finance in the UK.

How social investment is already working

Some individuals are already investing in their local communities to make a positive social impact. Ecodynamic in Redruth, Cornwall, is a Community Benefity Society that has installed wind turbines to provide green energy and consistent revenue to support local projects tackling social issues such as unemployment, fuel poverty and rising food prices. This project has been funded through a combination of community shares and loans, raising £198,088 in its first offer from members of the local community, buying shares from as little as £500.

The challenge

Too many ordinary individuals who want to make a positive contribution with their money currently find it difficult to do so. Restrictive financial promotions regulation prevents direct contact from local charities and community interest companies, without disproportionate compliance costs. There are few genuine social investment options that ordinary investors can invest in through their existing financial mechanisms, such as pension contributions. Communities want to harness finance to take control of local assets (with over 1,500 local assets of community value registered), but still struggle to get past the registration process to actually buy and manage them.

We propose the next government should:

- **Mandate a social pension option**: Legislate to compel corporate employers to offer all savers a choice of at least one social investment fund. This option would enable ordinary pension savers to use their money to support charities, social enterprises and bodies with broader public purposes, as well as companies with social missions. Initial funds could be kick-started by the National Employment Savings Trust (NEST) in partnership with Big Society Capital, which could serve as the pathfinder for broader take-up by other pension providers.

- **Establish a social investor exemption from the financial promotions order**: Consult on how the current financial promotions rules restrict investment by individuals into local charities and community interest companies. For investors who have social motivations, a new targeted exemption to the financial promotions rules would provide the means for ordinary people to invest in the full range of charities and social enterprises, whilst maintaining overall standards of investor protection.

- **Support greater community asset purchases**: Provide greater support to purchase local assets of community value. Measures might include: increased transparency of Local Authorities with regard to available community assets; ensuring that there are no legal barriers (such as restrictive covenants) that prevent mortgage finance for the purchase of former public assets; and ensuring adequate feasibility grants are available for communities wanting to take the first steps to purchasing and controlling a valued local asset.

STEP 2. INVEST IN PREVENTION AND BETTER PUBLIC SERVICES

The context

Public finances are under increasing strain and public services are already affected. We know that early action is likely to produce better results and be cheaper in the long-run, yet we are caught in the spiral of providing expensive acute reactive services. The reality is also that the best quality of services will often result from a diverse and plural market, in which the experience of social sector organisations can play an active role.

How social investment is already working

Big Society Capital has invested in Developing and Empowering Resources in Community (DERiC), which provides finance to community-owned social enterprises working with older people. Following a successful pilot from Garforth near Leeds, £150,000 has been committed to help older people use their personal budgets in new ways, including harnessing local volunteers to provide support and services not available through statutory social care provision. By using partnerships for early intervention, DERiC helps to improve the quality of later life, whilst also developing new social enterprises and reducing costs for commissioners.

The challenge

Investment in prevention is still limited. Public service funding is trapped within traditional organisational silos, and not arranged around individuals, families and communities with more complex needs. Evidence of which interventions do and don't work is hard to find. Existing procurement practice is restricting charities and social enterprises from participating meaningfully in large public service contracts, and concerns still remain about how fairly they are treated by private prime contractors.

We propose the next government should:

- **Boost the transparency of public service contracts**: Require the identity and volume of business delivered to be published by all major sub-contractors in public service supply chains, as well as the final social outcomes achieved by these contracts. This would provide greater clarity on how charities and social enterprises are being treated and performing (especially as sub-contractors), and increase the evidence base for future social interventions.

- **Hold a social outcomes-based spending review**: Ensure that part of the next spending review includes settlements based around social issues and prevention, not just departments. Focus on social issue areas for which funding is lost between departmental silos – young people not in education, employment and training (NEETs), homelessness and mental health. Make the settlements as long as possible – ideally five years. This should lead to the establishment of a significant new social outcomes fund(s) with the scale to meaningfully address complex social issues and implement preventative measures.

- **Require public agencies to develop social investment strategies**: Each major public sector body (including local authorities and clinical commissioning groups) should develop a social investment strategy identifying where charities and social enterprises, as well as social investment approaches, could support their own needs for social innovation and greater diversity of service provision. The National Audit Office should review what public services are currently purchased on a spot basis, and assess which spot contracts can rapidly be shifted to a social outcomes-based model.

STEP 3. CONNECT THE FINANCIAL SYSTEM TO SOCIAL CHALLENGES AT SCALE

The context

Traditional financial institutions have not recovered the public's trust. Banks have been under increasing pressure by regulators to demonstrate their own robustness to prevent future crises, leading to a reduction in certain lending activities and closure of bank branches. Many small and medium enterprises, chairites and social enterprises are still not able to obtain the finance they need, and eight million people across the UK are financially excluded. Alternative finance providers (such as crowdfunding) are growing, but not fast enough to fill the gap.

How social investment is already working

Santander has recently made a £13.5 million investment into the Third Sector Loan Fund (managed by Social and Sustainable Capital) alongside Big Society Capital to help provide simple loans for charities and social enterprises. This fund aims to provide finance to regulated social sector organisations that are struggling for traditional secured lending, and will aim to provide between £250,000 and £3 million, both secured and unsecured. The fund recognises that different investors have different priorities, whether it be socially motivated investors seeking both a social and financial return, philanphropists who want their money to have a maximum impact on social causes, or financial institutions investing on a purely commercial basis.

The challenge

Traditional financial institutions still have the scale and market power to reach a wide range of organisations and people. However, they are retreating from the level of access they once offered. Alternative financial institutions, such as financial inclusion-focused social enterprises, community development financial institutions and credit unions, offer new approaches but don't have the information, capacity or funding to reach mass scale. Greater partnership between mainstream financial institutions and social investment could bring significant mutual benefit.

We propose the next government should:

- **Launch a Community Banking Act**: Legislate to require all financial institutions (including banks and high-cost lenders) to properly disclose their lending to, and deposits from, small business, charities and social enterprises across all areas of the UK. This disclosure should be under the oversight of the Financial Conduct Authority and it could report on emerging credit 'deserts', responding as necessary.

- **Direct proceeds from financial fines towards social investment**: Direct further penalties payable by financial service providers and the banking levy to be reinvested over the long-term in emerging models of socially responsible finance. These monies could support local partnerships tackling financial exclusion in deprived areas, such as social investors, community development financial institutions, local authorities, local enterprise partnerships and mainstream financial institutions.

STEP 4. SUPPORT CHARITIES AND SOCIAL ENTERPRISES SEEKING TO BECOME MORE SUSTAINABLE

The context

Charities and social enterprises provide a vital lifeline to the most vulnerable, delivering services to many millions of people. It is also a bigger part of the economy than most think. Charities themselves represent more than 160,000 organisations, employ more than 800,000 people with 15 million volunteers, whilst adding over £39 billion annually to the economy. Many charities and social enterprises are developing new business models to deliver services on a more sustainable basis, with over 70,000 identifying as social enterprises. To support this shift better, infrastructure and the right type of finance is needed.

How social investment is already working

4Children is an established charity that supports 100,000 vulnerable families a year in 170 locations, including children's centres and nurseries in some of the UK's most disadvantaged communities. Through support from the Investment and Contact Readiness Fund and £700,000 investment from the FSE Group's Social Impact Accelerator fund, 4Children will now be able support an extra 50,000 families a year. Big Society Capital has invested £10 million into The FSE Group's Social Impact Accelerator Fund.

The challenge

Many organisations need support or very small amounts of finance prior to receiving their first full social investment, so the recent array of vital investment readiness programmes need to be put on a long-term footing. The new Social Investment Tax Relief (SITR) is designed to help provide simple affordable finance to small local charities and social enterprises, but is still in its early stages and its wider use needs support. The complex mix of fragmented regulations for non-charity forms of social sector organisations constrains and confuses entrepreneurs and external stakeholders. There is a opportunity to reform this area of regulaton in order to empower them.

We propose the next government should:

- **Expand investment readiness support**: Expand and sustain existing investment readiness programmes (Investment and Contact Readiness Fund and Big Potential) to provide continued support to charities and social enterprises looking to take on investment. Future programmes could have a specific focus on targeted issues such as health, social care and education. It should also provide support to improve performance management to ensure that social impact grows with scale.
- **Support the take-up of Social Investment Tax Relief**: Support the implementation of Social Investment Tax Relief over the next Parliament to ensure that take-up grows amongst individual investors and social enterprises. This should include education campaigns, developing common platforms, increasing the investment limit to £5 million and ensuring social impact venture capital trusts are formally legislated.
- **Establish a Social Economy Commission**: Establish a new Social Economy Commission (in parallel to the Charities Commission) to consolidate the existing fragmented regulation of registered societies (e.g. cooperatives and community benefit companies), Community Interest Companies and social impact bonds under one unified body. The simplified regulation should also focus on improving the transparency of social impact achieved more broadly across businesses with social missions and the public sector.

LIST OF POLICY PRIORITIES

The full list of our policy priorities:

Step 1. Empower individuals to invest in their communities

1. Mandate a social pension option

2. Establish a social investor exemption from the financial promotion order

3. Support greater community asset purchases

Step 2. Invest in prevention and better in public services

4. Boost the transparency of public service contracts

5. Hold a social outcomes-based spending review

6. Require public agencies to develop a social investment strategy

Step 3. Connect the financial system to address social challenges at scale

7. Launch a community banking act

8. Direct proceeds from financial fines towards social investment

Step 4. Support charities and social enterprises seeking to become more sustainable

9. Expand investment readiness support

10. Support take-up of Social Investment Tax Relief

11. Establish a social economy commission

ABOUT BIG SOCIETY CAPITAL

Big Society Capital is a financial institution with a social mission, set up to build the social investment market in the UK, so that charities and social enterprises can access appropriate repayable finance to enable them to grow, become more sustainable and increase their impact on society.

It is doing this by building a diverse social investment market: encouraging investors to lend or invest money to achieve a social as well as a financial return. Since it was set up as an independent organisation in 2012, Big Society Capital has invested more than £158 million into specialist organisations who lend to charities and social enterprises. Over five years Big Society Capital will be capitalised with approximately £600 million, from a combination of English dormant bank accounts and the four main UK high street banks.

For more information, see www.bigsocietycapital.com

Contact

To discuss these policy ideas or for further details on social investment or Big Society Capital, please contact:

Matt Robinson, mrobinson@bigsocietycapital.com

Simon Rowell, srowell@bigsocietycapital.com