Impact Report 2017

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A message from Cliff Prior

Welcome to Big Society Capital's Impact Report. Everything we do as the UK's wholesale social investor is to improve people's lives and achieve social impact. This report looks back at the impact which we and our partners have achieved since our inception, the successes and the challenges, and what we have learned for the future.

Big Society Capital was set up five years ago to help charities and social enterprises access the kind of repayable finance they need to become more sustainable and to grow their social impact.

Social investment has come a long way over those five years. We've seen a big **growth in the number of investments** made, and more confidence in making investment deals. We've seen a far **wider range of investment models** develop and many more funders to choose from. We can also now see a **realistic path to sustainability** for social investment.

But this isn't enough. There has been considerable progress but much more to do. Here are some of the lessons we've learned after 63 investments into 36 fund managers and social banks (our intermediaries), reaching over 420 social organisations:

It's tough. Developing social investment takes time and effort – just like any major new approach. Balancing affordability for charities and social enterprises, with the risk and returns that co-investors need, means achieving progress is challenging. Social investment is not for everybody, but it is a crucial tool for many and can achieve substantial impact.

Innovation is even tougher. Venture funds, those that support early-stage innovative organisations with high-growth potential, face the greatest challenge because of the high risks and often longer paths. More blended finance and venture philanthropy is needed to make this a success in the UK: it's a vital route to new ideas, new energy, and addressing new challenges in society.

Public sector markets are tougher still. Business-to-public sector models frequently grow much more slowly than business-to-consumer models. New approaches are needed to get innovation into public services, and we are starting to see these develop.

Social risk is very real. If a charity or social enterprises takes on investment and fails, the risk isn't just financial. It could mean that vulnerable people suddenly lose the support they need. This has to be factored into decision making: for charities and social enterprises when taking on investment; for intermediaries when they make investments; and deciding when to intervene if an organisation faces difficulty. There have been some very courageous and capable leaders demonstrate how to avert harm to beneficiaries in difficult times.

Leadership is critical. It takes strong and resilient leadership to take a social venture to its full potential to help disadvantaged people. It's that quality of leadership, that combination of enterprise savvy, inspiring others, and including the people it's for, that makes it all work.

Impact management is challenging but essential. Improving people's lives is the goal. However difficult it is to get useful impact information, it is a must have. We have put forward seven principles for good impact practice, drawn from the experience of our work to date.

It's a growing and powerful movement. Social investment is growing and achieving more. It is a global movement of people who want to their money, their talent and expertise, into its highest purpose: improving people's lives.

Through what we have achieved, what we have learned, and from what you have told us, we can now identify the areas where social investment can have its greatest social impact. These are the areas where we will focus the next rounds of our investments into intermediaries, adding to the wide range of investment funds already available and continuing.

The UK property market is failing lots of people, with rising levels of homelessness and people living in unsuitable accommodation. We will use social investment to help **provide a home** for people most in need.

Some areas of the UK have been left behind, and even in better off areas there are pockets of disadvantage. We will use social investment to help **communities** in the most under-served places to rebuild and to improve lives.

Huge amounts of money are spent dealing with tough social issues which could have been prevented. We will use social investment to improve people's lives by **tackling problems at an early stage**.

It all starts with the social issues. Social investment is a tool which organisations dedicated to solving those issues can use to boost their work and help people improve their lives. This report shows how it can work, how much more we still have to do, and what are the next steps.

If you have any thoughts about our approach, or about our Impact Report, we would like to hear from you.

Impact on people

There are lots of charities and social enterprises working hard to deal with some of the most challenging issues in the UK – such as youth unemployment, financial exclusion and homelessness.

There are many challenges facing society including poverty, inequality, ill health and homelessness. Charities and social enterprises can use social investment as a tool to help them create solutions, addressing these challenges through sustainable business models.

This section highlights intended and achieved social impact across the nine areas of our Outcomes Matrix, and uses examples from our own investments and the broader social investment market.

Employment, training and education

Providing opportunities for people to reach their potential

£38.6m committed to charities and social enterprises

74 investments

26,000 number of jobs and training opportunities created

86% of investments on track to deliver social impact

Summary

Education plays a fundamental role in young people's lives, influencing their opportunities now and in the future. But the attainment gap for pupils from less advantaged backgrounds remains huge. There is also a challenge equipping young people with the skills needed for work and retraining older people to secure jobs in emerging industries.

Charities and social enterprises are using repayable finance to address these issues by delivering additional education programmes, preparing students for life after they leave the school system, connecting people with jobs, supporting young people at risk of unemployment and providing training opportunities to people further from the labour market. Revenue is generated from both from selling products and services to consumers and business as well as directly contracting with government, sometimes through outcomes-based payments.

High quality impact measurement in this area is essential to help organisations sell services to commissioners, win business from employers and understand the relationship between impact and profitability. Metrics which appear to be used commonly focus on education, jobs created and sustained employment. We would like to see greater alignment and transparency about success and challenges of different interventions in this area. This will help commissioners and investors make more informed choices about investment.

Video Title

Social Impact

Connecting people with jobs

GetMyFirstJob, an innovative web based platform that improves the speed and quality of matching young people to suitable apprenticeships, took on £1 million of repayable finance from Nesta Impact Investments to help scale-up its reach and impact. Revenue is generated through subscription fees paid by employers and training providers. At the point of investment 145,000 young people were using the platform. Now over 300,000 young people are currently registered and 25,000 apprenticeships have been arranged.

Supporting young people at risk

In 2012 we invested £1.7 million in five social impact bonds that delivered early interventions to improve the lives of disadvantaged young people at risk of not being in education, training or employment as part of the Department for Works and Pensions Innovation Fund. Target outcomes for young people were met or exceeded, particularly those that improved confidence and broadened employment prospects. The evaluation of the Innovation Fund found that the employability and transition to work aspects of interventions were seen by schools as the most valuable, having a particularly positive effect on disadvantaged young people. There was concern that young people with complex needs were harder to recruit and help within the timing of the programme.

Providing training opportunities

In London, K10 helps young people find sustainable full-time employment by providing pre-employment training and paid apprenticeship opportunities in the construction industry and financial sector. K10 employs apprentices directly, billing developers, contractors and subcontractors for the hours an apprentice works on site. An £800,000 loan Impact Ventures UK provided working capital to grow the team and build the business. Of K10's apprentices, 84% were previously unemployed, 12% are ex-offenders, 10% have a disability and 30% were unemployed for more than 12 months.

Learning

Employment social enterprise margins reflect the higher cost of support

- Social enterprises that employ people furthest from the labour market need to allow for around 20% additional operating costs to cover their support. Social enterprises that have grown and taken on repayable finance without addressing this core aspect of their social business model have struggled to scale and repay investment. To ensure long term sustainability, social enterprises can adopt a mixed revenue model by finding additional funding for support or selling a higher value product (for example Miss Macaroon), or diversify their workforce to include people with lower or no support needs, such as Social Bite.

Outcomes commissioning can be effective at tackling employment barriers early

- Preventative spending unlocked by social impact bonds has been shown to provide positive outcomes for young people at risk of unemployment and can generate a significant new income stream for those organisations with a well-evidenced intervention. For example, Career Connect and Teens & Toddlers were the first providers from the DWP Innovation Fund to be recommissioned as part of its Youth Engagement Fund. However, the lack of a sustained strategy for outcomes commissioning and the complexity of developing such schemes continues to be a barrier to replication.

The design of government 'welfare to work' programmes has not created a level playing field for the social sector

- There has been relatively low take-up of social investment by charities and social enterprises delivering employability support through programmes such as the Work Programme. This largely reflects the terms on which contracts were awarded to charities and their position in the contracting structure. This affected their ability to operate a viable social business and deliver sustained outcomes.

The importance of knowing your market – selling into schools

- With school budgets fragmented and under pressure, it can be challenging for social enterprises to sell their services and products into schools. However, here are some successful examples such as Third Space Learning, who have taken on social investment at different stages to invest in their management team, sales capacity and technology platform. Improved infrastructure to link schools with social enterprise could improve opportunities to grow impact for more organisations.

Social enterprises could play a role in improving the quality of work

- Although national unemployment rates are relatively low overall, the growing 'gig economy' means that the quality and security of some jobs is poor. By comparison, social enterprises aim to provide high-quality jobs and support and be responsive to local economic conditions and skills. Social investment is enabling them to scale up their operations and compete with other employers.

Housing and local facilities

Offering affordable housing and homelessness support

£370m committed to charities and social enterprises

132 investments

2,000 number of people that have been housed so far

96% of investments ahead or on track to deliver social impact

Summary

Housing and homelessness are major challenges in the UK. The lack of affordable housing means that more people are living in the private rented sector where over a third of homes do not meet the Decent Homes Standard and homelessness is rising.

Social investment is providing finance to charities and social enterprises to deliver specialist accommodation for vulnerable people, explore alternative ways of delivering more affordable homes and offer transitional housing so that homeless people can make the step from temporary housing into long-term, permanent affordable accommodation. Revenue is generated mainly from rental income including housing benefit. There is significant scope for social investment to do more to test innovative housing schemes which provide effective support and create social impact.

Impact evidence is relatively well developed in this area. Common metrics used tend to cover outputs including the number of people housed and properties purchased and outcomes such as improved social connections and networks. We would like to do more to consolidate different measurement approaches in housing to build up a clearer picture about the collective impact that social investment is supporting.

Homes for Good

Social impact

Providing specialist accommodation

Golden Lane Housing and Thera Trust provide specialist accommodation for people with learning disabilities. They have raised over £17 million by issuing charity bonds which are repaid by the rental income from the properties. Tenants are able to live more independently in stable and suitable accommodation, with 98% of Golden Lane residents reporting that they feel safe and secure and 95% happy with the size and layout of their home.

Supporting transitional housing

The £57 million Real Lettings Property Fund has purchased 259 properties in London which are housing 600 people who were homeless or at risk of being homeless. Revenue is generated from rental income including housing benefit. For 87% of tenants, finding a property has a positive impact on their support networks and relationships. Impact evidence and learning are helping to shape the fund's development. For example, an exit survey will be used to address a gap in evidence about what happens to tenants after they move on to alternative accommodation. The National Homelessness Property Fund is replicating the Real Lettings model in Milton Keynes, Oxford and Bristol and is planning to operate in other locations across the UK.

Delivering more affordable homes

Cheyne Capital's Social Property Fund aims to tackle the chronic shortage of affordable housing and has invested £25 million to help build 219 flats at the former steelworks site on Kelham Island in Sheffield in partnership with South Yorkshire Housing Association. Revenue is generated from rental income from the properties. The Affordable Homes Rental Fund is providing more suitable homes by working with Community Land Trusts to deliver community-led affordable housing in six areas in England and testing innovative models including self-build projects. Revenue is generated from rental income and property sales.

Learning

The need for scale versus innovation

- Housing projects need to reach scale to achieve breadth of social impact and to create systemic change in the housing market. However, there is also a need for 'first mover' investors in housing innovations – whether this is by pioneering solutions for particular vulnerable groups (such as Commonweal's Peer Landlord or Housing First approaches) or scaling up alternative approaches such community-led housing, social lettings agencies and supported living.

Housing requires large amounts of investment

- The number of people to benefit per pound is significantly lower than other interventions and large amounts of capital are needed. Fortunately, there are investors such as pension funds who are looking for asset-backed investments they can deploy at scale with long term, stable returns. We have played a role in developing institutional products for these investors, attracting investment at large scale.

Housing is a 'platform' for impact

- Good housing can facilitate other social interventions to address issues and improve wellbeing. Social investors have provided charities and social with homes that have helped them support vulnerable people more effectively.

The need for subsidy

- A level of subsidy or grant is needed to make social rented housing schemes viable, unless investors are willing to accept returns that are substantially below market rates. Revenue subsidy such as housing benefit underpins the business models of many charities within housing. Although capital grants have substantially reduced in recent years, they are available for new affordable housing developments. However, some social investors have been developing investment models which work without such subsidy, including Real Lettings and Cheyne.

Housing business models are vulnerable to policy changes

- Given the importance of revenue subsidy to most housing charities' business models, potential changes to the Local Housing Allowance are a material barrier to future investment and affect the viability of potential housing schemes. This is particularly the case for supported housing where there are increased costs involved in enabling people with support needs to live fulfilling independent lives in the community. This is despite the fact that these housing options could be expected to reduce the overall cost to the state.

Citizenship and communities

Communities are using social investment to develop local solutions to local issues.

£43.9m committed to charities and social enterprises

68 investments

250,000 people benefiting from £3.4m generated by community energy projects

93% of investments ahead or on track to deliver social impact

Summary

Communities across the UK can face significant challenges including poverty, crime and the closure of vital local services. Some places suffer from particular disadvantages. Social investment, including community shares, can be the catalyst to help communities develop local solutions to meet local needs with the right kind of finance and support.

Communities are using social business models to buy community buildings, develop community spaces and install community energy schemes which generate unrestricted income from selling energy which can be spent on local services. There have been over 350 community share raises, supporting a range community businesses from energy and housing to pubs and sports clubs. Recent community share issues have also used Social Investment Tax Relief to offset some of the risk for investors.

Impact evidence is variable in this outcome area as many local projects are run by volunteers with restricted time or capacity. We are working with partners to develop a shared measurement approach for community groups. For example, Pure Leapfrog are currently developing a toolkit to support community energy projects by developing proportionate tools for impact measurement.

HCT Group

Social Impact

Developing community energy

We have supported over 20 communities to develop community energy over the past five years. Plymouth Energy Community used £3.9 million of repayable finance from Pure Leapfrog to install a 4.1MW solar array on a derelict brownfield site. Revenue is generated by selling energy to the national grid and Feed-in Tariffs, a government scheme to encourage the uptake of renewable and low-carbon electricity generation. The solar array will produce enough clean energy to meet the annual needs of 1,000 homes and generate an estimated £2.9m of additional income to help tackle fuel poverty and develop climate change projects.

Supporting locally owned assets

Local people in Burley Gate created a Community Benefit Society to retain the Post Office and Village Shop that was under threat of closure, raising £57,000 using Social Investment Tax Relief. As the only shop and post office on a 15-mile road between Bromyard and Hereford, it is a valuable asset to local residents. The new larger store offers a wide range of groceries to meet local needs and promotes local food and drink products. The revenue generated from sales will repay the investment.

Improving community spaces

Unit3Sixty is a skate park for young people in Dudley. They took on an unsecured loan from Charity Bank that will be repaid by income from visitors. The skate park supports around 1,500 young people each week and helps them to be creative and active in a safe, supportive and inspiring environment. Local police report that anti-social behaviour has decreased while local businesses have noticed a marked reduction in the number of young people skating near their premises.

Learning

Replicating successful approaches must recognise local context

- Understanding the context and local issues are key factors for establishing a successful community enterprise such as Bramley Baths in West Leeds. In instigating new projects, peer learning can be very valuable but what works is one community may not necessarily work in another – and the approach taken to asset transfers can vary between local authorities.

Community shares can engage and inspire local people and 'underwriting funds' create confidence

- This model of investment can raise long term, low cost finance from local people and other investors to develop assets such as shops or pubs for the community. We have learnt from the Community Shares Underwriting Fund that having local shareholders enables projects to raise patient capital, where investors anticipate returns in the long-term. It helps to build an engaged and invested local customer base which increases the chances of success.

It takes time, skill and patience to deliver community-led projects

- Many community organisations are run by volunteers with limited time so capacity building support is an important ingredient for success. Grant subsidy may be needed to complete community development work to engage local people, assess the viability of projects and prepare a business plan. Large scale, complex projects such as energy, housing and asset transfers can need professional support to help the community negotiate fair terms with other parties such as landowners and local authorities, and deliver on time and within budget.

Ensure all voices are heard

- There is a risk that stronger voices can dominate and some people can be excluded. Effort must always be made to ensure that projects do all they can to include the voices of all members of a community. This should be reflected in governance structures with consideration given to how these will evolve over time

Understanding the community business model

- The drivers of impact and sustainability for community business models can be very different depending on the nature of the activities and local demand. Community organisations need to consider how they will generate revenues to cover the costs of maintaining a building or providing a local service. Some models may not be able to sustain entirely repayable finance, particularly in the initial years, creating a role for blended finance.

Income and Financial inclusion

Supporting people who are financially excluded

£14.3m committed to charities and social enterprises

18 investments

24,000 affordable loans provided to people on low incomes

89% of investments ahead or on track to deliver social impact

Summary

Four million low-income households have poor access to mainstream financial services. People living in poverty pay an additional ‘poverty premium’ of around £490 a year for goods and services.

Social investment is supporting social business models that provide ethical finance, help people buy affordable household items with affordable credit and support small businesses. Revenue is mainly generated by interest and repayments to loans from customers. The Fair by Design initiative which we are currently developing with the Joseph Rowntree Foundation aims to end the ‘poverty premium’ in the UK in the next 10 years.

Social impact evidence in this area has traditionally been light but this is now changing as organisations adopt better measurement approaches. We would like to see better evidence about the wider impact of both financial capability and inclusion. This will help build a clearer understanding of how social investment can best be used alongside other forms of support.

Furnistore

Social impact

Providing ethical personal finance

Big Issue Invest have invested in Street UK and Moneyline who both provide small loans to customers on low incomes. Revenue is generated by interest on the repayments from customers. Interest rates are priced lower than other sources of credit but they also have to cover the costs of expected default rates and operating costs. For 79% of Street UK customers, getting a loan had more than just a financial impact, contributing towards reductions in stress, improved health and better relationships.

Buying affordable household items

Fair for You makes affordable loans to low income households, helping them to purchase household items from its online high street and offers an alternative to hire purchase businesses such as BrightHouse. They received investment from multiple organisations including Social Investment Scotland, the Robertson Trust, Esmée Fairbairn and the Tudor Trust. Revenue is generated from loan repayments from customers. Half of all Fair for You customers reported that the loan had made it much easier to cope with the day to day costs of running the household and 38% reported that using Fair for You had significantly helped them to manage their money and build up regular savings.

Supporting small businesses

Social Investment Scotland invested £250,000 in Grameen UK who offer financial support by providing micro-credit business loans to people who cannot access mainstream finance. Grameen's goal is to improve the economic situation of the most financially disadvantaged in the UK with an initial focus in the West of Scotland. The Grameen model of micro credit was developed 35 years ago by Nobel Peace Prize winner Professor Muhammad Yunus.

Learning

Financial inclusion businesses could impact millions of lives but are not yet at the scale to do so

- By dedicating time and effort to understanding the preferences and behaviours of people on low incomes, social businesses models such as Fair For You can design products and distribution channels that better meet their needs. However, businesses that tackle financial exclusion have been slower to take off despite a high public profile and regulatory intervention. To compete with less ethical alternatives, businesses need to balance affordable pricing and customer knowledge with operational efficiency, distribution reach and effective use of data.

Creating an ecosystem is a growing model for impact

- For example, the Fair by Design initiative, led by the Joseph Rowntree Foundation, is drawing together grants, investment and influencing work to provide a holistic approach to tackling the 'poverty premium' which affects people on lower incomes.

Benefits of financial technology (fintech) to people on lower incomes is unproven

- There is a growing fintech market but it is not clear if it is reaching financially excluded people from disadvantaged backgrounds or on low incomes. However, social businesses such as Ffrees – which has taken on social investment from Nesta Impact Investments – have designed their digital current account for families in lower incomes.

Social investment is only a piece of the puzzle for some community lenders

- Credit unions do not always have a requirement for external investment beyond that provided by their members – indeed many have surplus depositor money available to lend. However, some analysis suggests there may be a requirement for more capital for growth if a suitable investment instrument can be designed.

Regulatory changes can have a significant impact on the market

- The 2015 Financial Conduct Authority high-cost short-term credit price cap means that customers taking out a loan will now never need to pay back more than twice the amount borrowed. This has affected the wider payday lending market but its ultimate impact on more vulnerable consumers is not yet known.

Physical health

Testing new approaches to support better health

£23.4m committed to charities and social enterprises

34 investments

165,000 number of people have taken part in physical activity

95% of investments ahead or on track to deliver social impact

Summary

Demand on the health and social care system is rising due to an ageing population and increased life expectancy for people living with long-term health conditions. Budget pressures mean that it is increasingly challenging to meet the growing demand for services.

Social investment is supporting charities and social enterprises that are developing preventative and community-based services to provide higher quality care for older people both at home and in residential settings and help people stay active and well. Revenue is generated from care fees from individuals or contracting services to commissioners. The development costs for social impact bonds is a barrier for commissioners to engage in testing new solutions.

As in the mental health area, high-quality impact evidence is essential in this to understand changes for patients and clients and sell services to commissioners.

Ways to Wellness

Social impact

Increasing high quality home care

Care and Share Associates (CASA), an employee-owned social enterprise, delivers 20,000 home visits per week to 1,000 clients in the North of England which range from short calls to 24/7 care. Since taking on investment from the Bridges Social Entrepreneurs Fund in 2011, CASA won new local authority social care contracts and as a result, has increased its turnover by four-fold and doubled its staff. Big Issue Invest invested in 2015 in the second round of capital raising.

Improving health and well-being of older people

In Belfast, Creative Local Action Response and Engagement (CLARE) received £150,00 0 of investment from DERiC and are helping to reduce isolation, improve health and well-being and promote independence. Revenue to repay investment is generated from savings in care costs to the local authority as formal care is replaced by volunteers. So far CLARE has supported 126 people and 89% of clients reported that they now feel more connected. This approach has widespread support from a range of statutory bodies who are seeking for the CLARE approach to be use across Belfast.

Connecting patients and providers

SXT Health received a £50,000 investment from Big Issue Invest and offers time, place and service specific information online about sexual health. SXT's goal is to help reduce the burden of sexually transmitted diseases and unwanted pregnancies by matching health service provider capacity with patient demand. Revenue is generated from payments for service from commissioners.

Learning

Social investment can help replicate innovative models of social care

- Charities and social enterprises play a key role in developing innovative models to address health and social care in communities, often in a complex and fragmented funding environment. Social investment can provide the risk capital to expand those models once there is evidence of impact – for example, Shared Lives, where vulnerable adults live in carer's homes, as well as CASA and DERiC.

Fragile business models may undermine support for vulnerable people

- The profit margins from delivering social care services are often low, particularly where charity providers face strong competition from lower cost private providers as well the impact of paying staff the Living Wage and for 'sleep-ins'. Continued reductions in fees paid for care will make it challenging for charities and social enterprises to use repayable finance to grow their business. Most importantly this pressure will make it difficult to continue to provide good care and support to vulnerable people by employing well-trained and responsible paid carers.

Outcomes commissioning offers a path to shift spend from acute to preventative services, but hurdles remain

- Programmes like Ways to Wellness show there is increasing openness to using outcomes-based contracts to test innovative preventative services by aligning multiple stakeholders, in this case the NHS, Big Lottery Fund and the Cabinet Office. But there are still significant cultural and structural barriers in commissioning practices which include commissioning capabilities, lack of data on current costs and outcomes as well as difficulties in combining multiple budgets and decommissioning acute services.

Longer term development support for new approaches/interventions is crucial

- Social fund managers can play an important role in unlocking commissioner-led investments. For example, the Care and Wellbeing Fund has established the End of Life Care Incubator as a single entity that allows commissioners, charities and social enterprises, clinicians, academics, philanthropic funders and social investors to develop investable propositions around a single issue.

Community-based interventions have significant potential for impact

- This type of approach, such as DERiC, can significantly improve quality of life for vulnerable people and also reduce longer term public health expenditure. However, it can often take a lot of time to establish partnerships and become embedded in local areas, and it requires strong local leadership.

Mental health and wellbeing

Providing better support for mental health and wellbeing

£15.7m committed to charities and social enterprises

29 investments

30,000 people signed up to access online support fortheir mental health

90% of investments ahead or on track to deliver social impact

Summary

One in four adults and 10% of children experience mental health issues. People from a disadvantaged background are disproportionately affected by mental health issues and 90% of people with a mental health problem experience stigma and discrimination.

Social investment is supporting social business models that are building evidence for digital and community-based support for people experiencing mental health issues and providing housing and support to people with learning disabilities, piloting and scaling preventative rather than acute mental health provision. Revenue is generally generated from commissioned services including outcomes-based payments.

High-quality impact measurement is essential in this area to understand changes for patients and clients and to secure contracts from commissioners. However, standardisation of metrics is a challenge due to the wide range of needs that are supported. It is also difficult to get funding for independent evaluations that gather robust evidence to demonstrate the impact of a service.

Harrogate Skills 4 Living Centre

Social impact

Testing digital support for those with dementia

Impact Ventures UK and Bridges Ventures have both invested in Unforgettable which was set up by the founder after his own experience of caring for his mother with dementia. It aims to improve the lives of people living with memory loss and dementia by bringing together specialised products, practical advice and a supportive community which generates revenue from product sales. Unforgettable has now raised £3.8m investment from social investors and also from international venture capital funds. Impact is measured through a rating system on the website and telephone interviews with customers, with 10% of profits going to the Unforgettable Foundation.

Supporting adults with learning disabilities

The Harrogate Skills 4 Living Centre provides quality care as well as essential lifelong skills to over 90 adults with learning disabilities. Social and Sustainable Capital provided a £1 million loan to help HS4LC purchase two care homes that were in administration. The revenue generated from care fees will help to fund new services such as housing-related support, workshop and training and employment opportunities for their clients. The health and wellbeing outcomes star is used to measure the impact of services on clients.

Early intervention to reduce loneliness

The Reconnections social impact bond aims to tackle loneliness for 3,000 older people in Worcestershire and received investment from Nesta Impact Investments and the Care and Wellbeing Fund. Age UK Herefordshire and Worcestershire deliver support to help older people overcome social barriers, make meaningful connections and engage with activities to address isolation. Revenue is generated by outcome payments from the commissioners. One of the initial challenges facing the project was recruiting volunteers which has been resolved by developing an online system which matches volunteers and clients. So far, 1,244 people have been referred to the programme and there have been significant reductions in loneliness.

Learning

Social investment is testing less medicalised models of mental health support

- Social investment can help organisations build an evidence base for new approaches to managing mental health, such as social prescribing, where patients are linked with sources of support within their community. However, the time and cost needed to develop viable models with multiple commissioners can be a barrier.

Selling digital solutions to health commissioners can be a challenge

- Through intermediaries we have backed several technology solutions that support people with their mental health needs, like Big White Wall, but the interventions have yet to develop sufficient evidence for commissioners to buy them at large scale. Social ventures in this area need substantial and patient risk capital to give them the time they need to grow an evidence base and build the relationships they need with commissioners to secure contracts.

Affordability of finance is often set by the terms of public contracts

- As in the physical health outcome area, the profit margins from delivering mental health services can be low: surpluses are sometimes less than 1% of revenues generated. This can make it difficult for charities and social enterprises (including those that spin out from the NHS) to take on repayable finance, or to invest to win new contracts or expand their operations in order to benefit from economies of scale.

Personal budgets offer potential for new enterprise models that better meet beneficiary needs - but few have emerged

- This primarily reflects that personal budgets have not been deployed at substantial scale. There may be a need for more brokerage that allows beneficiaries to access a choice of services

Social investment can help enable models where the benefits accrue to multiple commissioners

- The Reconnections Social Impact Bond was commissioned by Worcestershire County Council and three co-commissioners from Clinical Commissioning Groups. Social impact bonds can play an important role in coordinating and combining multiple budgets to provide preventative and / or long-term care support, especially in health and social care where budgets are over-stretched and commissioning boundaries are less clear.

Family, friends and relationships

Supporting families through the challenges they face

£10.7m committed to charities and social enterprises

28 investments

5,000 number of children accessing affordable nursery or childcare

74% of investments ahead or on track to deliver social impact

Summary

The consequences of relationship breakdown, poverty, domestic violence and loneliness are significant for individuals and society. It can be difficult for some people to cope with the challenges in life without a proper support network.

Charities and social enterprises are using social investment to support vulnerable young people, provide high-quality childcare and help children on the edge of care – with an emphasis on early action and prevention. Revenue is largely generated through fees or payment by results contracts from local authorities, although it can take time to build partnerships with commissioners to replicate successful interventions.

Impact evidence is well developed in this area as charities and social enterprises have to report back to commissioners about what has been achieved. Over time, we want to build up a better understanding about the longer-term effect of interventions for vulnerable children to help strategically target our investments.

London Early Years Foundation

Social impact

Improving the lives of young people in care

Family Action received £700,000 of investment from Social and Sustainable Capital to develop Safe Haven, an intervention that aims to improve the lives of vulnerable young people in care. Revenue is generated from commissioning by local authorities who pay for successful results that are achieved. The service provides intensive wraparound support that is tailored to the young person's needs. The programme offers young people a 24 hour a day bespoke package of support which is also available to carers and their birth families.

Providing high quality childcare

The London Early Years Foundation is a leading provider of nurseries in the capital and has taken on £1.25 million investment from Big Issue Invest and Bridges Ventures. Over 4,000 children have attended nursery and 95% of customers were satisfied with the services provided. The organisation is the largest provider of free two-year-old nursery places in London and uses an innovative cross-subsidy model which involves using surpluses from its nurseries in affluent parts of London to subsidise 43% of places in more deprived areas for people on low incomes.

Helping children on the edge of care

Action for Children delivers the Children's Support Services £3 million social impact bond in Essex, using Multi Systemic Therapy to help families build resilience, skills and the confidence they need to turn their lives around. So far, 242 people have received support resulting in over 40,000 days of care being averted and revenue is generated through outcome payments as part of the social impact bond contract.

Learning

Social impact bonds can be an effective tool for commissioners to support children on the edge of care

- Outcomes contracts give providers greater scope and flexibility to adapt and improve their existing approaches in evolving operating environments since the commissioner is no longer specifying exactly how the services should be delivered. In addition to the improved life chances for the children and families affected, keeping children out of care results in savings in the cost of care for commissioners, and has been replicated in different Local Authorities across the country.

Benefits of performance measurement

- Social impact bonds have robust performance management systems to ensure that rigorous impact data is gathered. This is particularly relevant in areas such as children's services, where the personal and financial benefits of enabling children to grow up in a family home are clear and easily quantifiable. The performance measurement process has helped the Government and organisations involved in social impact bonds to sharpen their impact approach and refine their delivery model.

Scaling up successful innovations within children's services is still difficult

- Approaches and requirements can be very different across local authority boundaries and commissioners face many demands on their time and resources which can be a barrier to developing preventative models. We have invested in an organisation (EBSI) that provided support to develop products such as social impact bonds in children's services but found that this business model is challenging because of the long time frames needed to engage commissioners and ultimately generate revenue.

Providers can find it difficult to make it financially viable to run nurseries and maintain quality in deprived communities

- There are innovative approaches like the London Early Years Foundation who use cross-subsidy to provide high-quality childcare to children from more disadvantaged backgrounds and improve their life chances. However, the viability of early years providers in less affluent areas, and their ability to scale, is heavily dependent on the rate paid by the government for childcare and whether or not this is enough to cover the salary costs of well-trained childcare workers.

The changing policy environment can affect success, presenting challenges and opportunities

- For example, changes to national adoption policy had a significant impact on the viability of the Adoption social impact bond. The Department for Education's Keep on Caring, building on the 2013 Care Leaver Strategy, and Sir Martin Narey's review into children's residential care increased the policy priority in this area, leading to centrally-led programmes to improve provision using social investment.

Arts, heritage, sport and faith

Improving health and wellbeing and strengthening community links

£23.0m committed to charities and social enterprises

66 investments

300,000 people have taken part in arts or cultural events

95% of investments ahead or on track to deliver social impact

Summary

Reductions in public funding mean that local services such as libraries, leisure centres and community organisations are under pressure and may need to find new ways to raise money to grow or survive. Charities and social enterprises are using social investment to provide affordable sports facilities, develop inclusive arts centres and community programmes and preserve heritage buildings. Revenue is often generated by charging for facilities and services which are then used to fund community-based programmes.

Organisations frequently collect data such as visitor numbers but more organisations are recognising the need to produce better evidence of how they affect people's lives and communities. Additional impact support in this sector would help organisations starting out on their measurement journey.

South Bristol Sports Centre

Social impact

Engaging young people

South Bristol Sports Centre raised £250k through Social Investment Tax Relief to develop the Fives Soccer Centre, including six all-weather five-a-side football pitches. Using a cross-subsidy model, where one group of consumers pays higher prices to subsidise lower prices for another group, the income from renting out the pitches is used to fund engagement programmes with young people from disadvantaged backgrounds and offer coaching and leadership opportunities.

Preserving heritage

The Willow Tea Rooms in Glasgow used £1.3 million investment from Social Investment Scotland to restore the site to its former glory and create a visitor and education centre which will generate revenue from customers. The restored site will also create local jobs and support tourism in the local area.

Supporting inclusive arts

The Bow Arts Trust in East London used a £600,000 investment from Nesta's Arts Impact Fund to purchase and develop a property. The charity offers affordable studio space to artists and designers at the start of their careers and runs the Nunnery Gallery which displays visual art about the history of the local area.

Learning

Balancing competing demands

- There can be a tension between pure cultural goals with delivering social outcomes, although these can also be mutually reinforcing – for example, the Sherman Theatre in Cardiff used a loan from Charity Bank alongside support from trusts, foundations and individuals to redevelop a building which provided rehearsal space new works as well as larger facilities for youth theatre and community projects. Investors and organisations need to be aligned in the artistic and social outcomes they seek to achieve.

The importance of impact evidence

- Arts, heritage and sport organisations deliver clear benefits to communities but may need to demonstrate their social impact more clearly to raise investment or win contracts. For example, by building on metrics such as visitor numbers and demographics to better understand how that organisation could help with social isolation or public health. Pioneering organisations such as Street League have built on their evidence of working with young people who are not in employment, education and training to secure new contracts to run academies in more locations, supported by Social Investment Scotland and CAF Venturesome.

Sustainability of revenue models

- Many arts and leisure organisations have relied on public subsidy to operate or to provide community programmes. As public sector cuts continue these organisations will need to consider alternative approaches to generating income. Although repayable finance can help organisations with this transition, it will only be appropriate if the income they generate enables them to provide inclusive and affordable services while generating enough surplus to repay the investment. This was the case for Greenwich Leisure Limited's charity bond issue as well as for Folkestone Sports Centre Trust, who took on investment from Charity Bank.

The role of blended finance

- Repayable finance is new for many arts, heritage and sports organisations. They may need further capacity building support to access investment, as well as some smaller loans blended with grants at an earlier stage. Arts Council England supported investment readiness for arts organisations ahead of the launch of the Arts Impact Fund, and several of the organisations that received support went on to raise repayable finance.

Building demand and understanding

- Repayable finance has not been viewed as being relevant for some organisations in this sector – nor has it been directed at the sector - but there are signs that demand is increasing. This has likely been aided by dedicated social investors focusing on the sector, such as the Arts Impact Fund and the Architectural Heritage Fund.

Conservation of the natural environment

Preserving the environment for future generations

£8.1m committed to charities and social enterprises

9 investments

2m kilowatt hours of renewable energy generated

153,000 kilograms of furniture has been saved from landfill by Storeroom

Summary

The environment is under increasing pressure due to climate change caused by pollution, poor waste management and the burning of fossil fuels. Social investment is enabling charities and social enterprises to develop social business models that link environmental and social benefit by supporting renewable energy, recycling furniture and preserving nature sites. Recent policy changes for Feed-in Tariffs will have an impact on the viability of future community energy and other renewable schemes.

This is an outcome area where we have has been less active as most of our investments have been in community energy projects (see Citizenship and Communities). So far impact evidence has been quite limited and we would like to see better information that demonstrates the link between environmental and social and impact in areas such as fuel poverty or improving health and wellbeing.

Southmead Development Trust

Social impact

Generating renewable energy

Community energy projects provide social and environmental benefits as well as locally owned assets that generate long term income to support local issues. Low Carbon Hub developed the largest hydro scheme on the River Thames with support from Resonance, FSE and Charity Bank. The scheme will generate over £1 million of surplus for community energy projects such as smart metering and insulation for areas of high deprivation in Oxford.

Recycling furniture

Storeroom on the Isle of Wight helps deprived families by providing affordable furniture and education and training opportunities in areas such as carpentry and joinery. Social and Sustainable Capital provided a £354,000 secured loan which has been combined with a grant from Power to Change to help purchase a new warehouse. Revenue is generated by selling furniture to local customers. So far, 153,000 kilograms of furniture has been saved from going to landfill and used by more than 5,200 households, while over 200 people have taken part in accredited training to help improve their employment prospects.

Preserving nature

Worcestershire Wildlife Trust received £350,000 of social investment from Esmée Fairbairn's Land Purchase Fund to buy the 16 hectare Hollybed Farm Meadows. The land contains a Site of Special Scientific Interest because of its traditional hay meadow plants. A wide range of insect life is supported by the plants including bees, butterflies and crickets that support bird and mammal life. The investment from Esmée Fairbairn enabled the Trust to save the meadows when they came up for auction in 2012 and gave them time to raise the funds to secure the site's future.

Learning

Linking environmental and social benefits

- We have chosen to prioritise investments that achieve social benefits as well as environmental impact, so have less evidence of what works from focussing exclusively on environmental issues. Other organisations such as the Esmée Fairbairn Foundation have experience investing in environmental outcomes.

Social Impact measurement is underdeveloped

- We have learnt from our community energy investments that many projects are run by volunteers with limited time, so gathering impact data can be a challenge. Our current project with Pure Leapfrog aims to provide simple tools to help organisations with impact management (see Citizenship and Communities for more detail).

Changing policy context

- Reductions to the Feed-in Tariff for community energy projects has made it more challenging to find investment opportunities.

Large scale complex projects often need professional support

- Investors may need to pay commercial rates to purchase, develop or service complex projects such as solar energy which will ultimately provide community benefit.

Impact on organisations

Social investment is a tool available to charities and social enterprises to build and grow their organisations.

We have aimed to build and share understanding of the use of repayable finance, as well as developing new products with partners that better address social need. In this section, we review the progress that has been made and the challenges that remain.

3,500+ outstanding investments into charities and social enterprises

87% of social investment was raised by charities and social enterprises outside of London

82% of charities and social enterprises said their understanding of social investment had improved in the past 2 years

21,000 number of unique users of our Outcomes Matrix

"Social investment has taken Oomph! from a small business in Scarborough to a national business. We now help people from the Shetland Isles all the way down to Brighton and pretty much every town in between. We are now a national business looking at international opportunities. We would still be in Scarborough without the social investment."

Ben Allen, CEO and Founder, Oomph!

What can social investment enable you to do?

Increasing uptake

We have worked with co-investors and intermediaries to enable demand for social investment to better meet supply.

- 3,500+ charities and social enterprises have raised social investment
- £467 million of our capital has reached charities and social enterprises, of which £325 million came from our co-investors
- 4 Growth Funds totalling £19.2 million were launched by Access to provide combined loans and grants targeting smaller charities and social enterprises

Social investment is often perceived as being irrelevant for all but the largest organisations, and we will continue to promote awareness of the options now available and being used by smaller organisations. The numbers only tell a small part of the story. What excites us most is the different ways that charities and social enterprises, big and small, are using social investment to build and grow their organisations.

Money reaching charities and social enterprises

PRODUCT TYPE

50%
is capital for charities and social enterprises the funds and social bank.

39%
is into property, mainly to help charitable service industry.

4%
is helping charities deliver services using Social Impact Bonds.

4%
management fees paid to intermediaries.

3%
is capital for arrangers.

ORGANISATIONAL FORM

74%
asset locked charities and social enterprise.

19%
non-asset locked social enterprises.

4%
management fees paid to intermediaries.

3%
is capital for arrangers.

Broadening reach

Social investment is available for charities and social enterprises throughout the UK to improve people's lives.

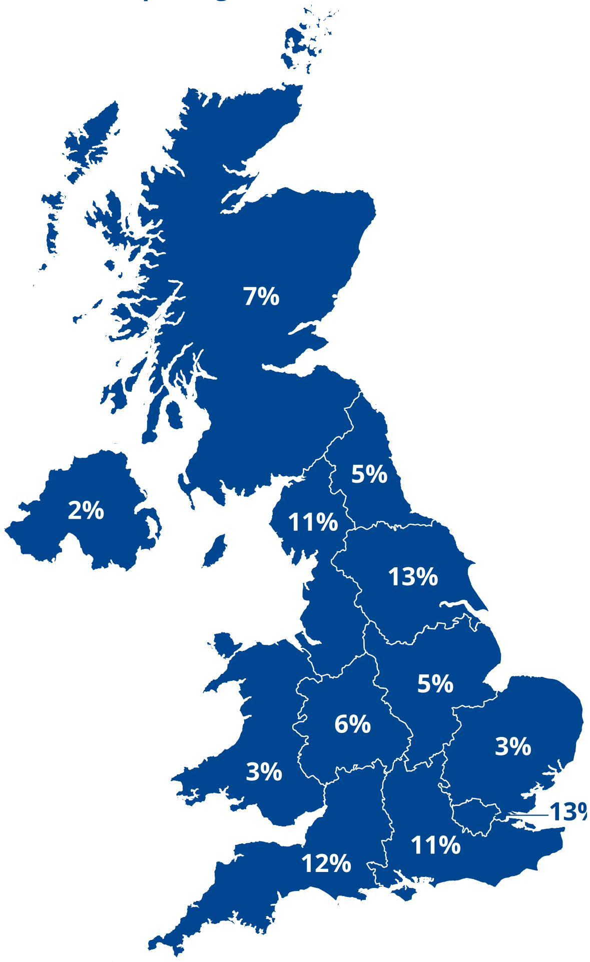
- 87% of social investment was raised by charities and social enterprises outside of London
- 71% of charities and social enterprises using social investment work in the 50% most deprived areas of the country
- More than 300 people attended nine regional Let's Talk Good Finance events

Homeless Link has recently launched the first social investment fund managed by a membership charity with investment from the Growth Fund, developed out of our partnership to raise awareness of social investment with homeless charities

We have supported the creation of regional funds such as NESIF and Key Fund, and worked with local government and the social sector in areas such as Newcastle.

There are still parts of the UK where there has been little uptake of social investment (for example the East of England) and we continue to support awareness raising work where there is appetite.

Percentage (by number of Big Society Capital investments per region



Improving confidence

We have reached out to charities and social enterprises to increase awareness, knowledge and confidence in repayable finance.

- 82% said their understanding of social investment had improved in the past 2 years
- 63% of co-investors said Big Society Capital played a role in their decision to invest
- £60 million capacity building support were made available via Access' Reach Fund

We have launched nationwide initiatives such as the Get SITR and Get Informed campaigns and Good Finance to help stakeholders understand how social investment could be relevant to them. Despite sources of support, capacity for many charities and social enterprise leaders to be able to explore social investment, and to develop sustainable revenue models remains a very real challenge.

"Without question, the increased discipline which social investment requires has made Portsoy Community Enterprise a better and stronger organisation"

Roger Goodyear
Co-Chair, Portsoy Community Enterprise

Managing impact

We have taken a leadership role in promoting enhanced standards and principles of impact management so that organisations can better understand how their activities create positive change.

- Our Outcomes Matrix has more than 21,000 unique users
- We have supported the Access with designing the Access Impact Management Programme
- 10 social fund managers received bespoke consultancy support to refine their impact approach

There are capacity challenges at the front line and intermediary level in collecting and reporting on impact, and there is a tension between not being prescriptive in reporting requirements, and being able to collect information which enables us to draw out lessons across our portfolio. We will continue to support charities and social enterprises to measure, deliver and manage their impact, communicating examples through our blogs, case studies, and transparency data.

"It's about understanding your effectiveness - don't just measure something because your funder or investor asks you to."

Luke McCarthy,
Programme Development Manager, Think Forward

Social investment can be used in different ways to build and grow charities and social enterprises

Pilot

Social investment can enable charities and social enterprises to try new approaches and find investors who are prepared to share the risk of piloting a new service.

Family Action has developed Safe Haven, an innovative intervention designed to improve outcomes for vulnerable young people in care. The service is delivered based on a commissioned payment by results service where the local authorities of Sandwell and Wolverhampton make payments to Family Action when defined social outcomes are met. Social and Sustainable Capital structured a £700k investment on a risk-sharing basis for Family Action to pilot the untested service model.

"Money is tight and innovation can be difficult to achieve. If you can get the right deal and choose your financial product well, social investment can provide a route to innovation and offer the opportunity to test ground-breaking ideas."

David Holmes
CEO, Family Action

Startup

Social investment can be used to accelerate the growth of early stage social ventures.

Unforgettable is a social venture that provides products and community supports to people living with dementia and those that care for them. The venture was incubated and seed funded by social investors such as Bridges Impact Foundation and Impact Ventures UK, providing office space and mentoring alongside equity investment. Early-stage capital has enabled Unforgettable to accelerate its growth, attracting almost one million site visitors in 2016. Bridges Fund Management and IVUK provided follow-on investment with McKesson Ventures (the venture capital arm of the oldest and largest healthcare company in the US) to fund Unforgettable's international expansion.

"I didn't want a bank looking over my shoulder saying "We've lent you money". I wanted an investor to sit alongside me saying "We buy into your vision, we get the risks and we want to work with you for the benefit of your customers"

James Ashwell
Founder, Unforgetable

Scale

Social investment can be used to help organisations significantly grow their impact.

Oomph! is a social enterprise that provides specialist exercise classes from older people. It started with support from the Big Venture Challenge and has now grown its services with social investment to reach 1,000 care homes and residential settings across the UK. The organisation is continually developing and has recently received additional investment from Nesta and the Care & Wellbeing Fund to run a new transport services so older people can get out and about.

"We wanted to work with a partner who shared our social mission, who shared our belief, but also wanted to work with a high growth enterprise to take us to the next level"

Ben Allen
CEO and Founder, Oomph!

Replicate

Homelessness charity St Mungo's launched the £30 million National Homelessness Property Fund in partnership with Resonance to acquire residential property which will be let to individual and families who have been homeless, or are at risk of homelessness. The Fund replicates nationally the formula that Resonance and St Mungo's have successfully used for three years in London with the Real Lettings Property Fund (RLPF), which raised investment of £57 million. The RLPF have a portfolio of almost 300 properties in London, helping around 1,000 people who faced homelessness.

"The Real Lettings Property Fund is really showing its strengths as a way we can help prevent homelessness before it starts. We're very proud to see the impact it has on people's lives."

Howard Sinclair
Chief Executive, St Mungo's

Sustain

Social investment can help organisations to diversify their income streams and become more sustainable.

Direct Help & Advice (DHA) is a charity that provides free legal housing and debt advice to help prevent homelessness. During a critical period when DHA's cashflow dropped to a level where their bank refused to increase it, Key Fund provided them with a £45k loan to adapt and survive. With Key Fund's support, DHA has diversified from being a charity reliant on grants, to a sustainable business with a £1 million turnover.

"The Key Fund supported us; we were a big risk. They had confidence in us, and it's in fairness to them 100% that we're here now"

Steve Clayton, Head of Finance
Direct Help & Advice

Investor

Charities and social enterprises can become a social investor or social investment intermediary to provide repayable finance to sectors and regions where funding gaps are identified. They bring valuable expertise on specific social issues, interventions and of the sector which can help shape how investment is used.

Macmillan Cancer Support and Big Society Capital launched the £12 million Care and Wellbeing Fund to develop and scale community care services for people affected by cancer and other long-term conditions. This is the first time a large charity has invested in a social investment fund that is in line with the charity's objectives.

Homeless Link, a network umbrella body for homelessness voluntary, community and social enterprise organisations, has recently launched its Social Investment Fund with support from Access to provide small-scale loans for its members. Once launched, Homeless Link will be the UK's first charity-led social investment intermediary.

Learning

Means not an end

- Our efforts should begin and end with social impact and repayable finance should be seen as simply the tool that can support it. Charities and social enterprises care deeply about the people they wish to serve and less about complex products and structures. It is important to firstly engage with them on social issues and then work out how repayable finance can help.

More emphasis on understanding revenue models

- The main challenge for most charities and social enterprises considering social investment is "who pays" for the service or activity. We'll continue to share the practical learnings around revenue models which social investment can help support.

Understand where people are starting from

- It is important to understand the stakeholder's motivations, resources, expectations, capacity and objectives. This applies to both investors and charities and social enterprises.

Complexity and language can be confusing

- For charities and social enterprises unfamiliar with investment, the language and processes of taking on repayable finance can be confusing. Efforts such as Good Finance will help but there is still work to be done. It is important to be clear that repayable finance is not right for everyone.

Partnerships and trust are key to success

- Many components are needed to make repayable finance work well and create social impact. Our partners include co-investors, social fund managers, infrastructure bodies, arrangers, foundations, experts and networks are all a critical part of the ecology for repayable finance. They are all important stakeholders in ensuring social investment works well.

Not just about money

- The process of working with social fund managers has helped charities and social enterprises to build their capacity, capability and sustainability.

Impact on the market

A series of recent government initiatives in the UK have aimed to connect investors to charities and social enterprises so they can grow their positive impact on society.

This builds on a long history in the UK of socially conscious investing. As part of these initiatives Big Society Capital was launched in 2012 with investment from dormant bank accounts and four high street banks. At the time the social investment market was still relatively small and dominated by secured lending, with sub-scale intermediaries who were reliant on investment from government and foundations.

In this section we outline how the social investment market has developed since 2012 and highlight some of the challenges that still remain.

- £595m annual deal flow versus £213m in 2011/12*
- £291m annual non-bank investments in 2016 versus £47m in 2011/12*
- 75% of our investments have been in start-up intermediaries, teams or products
- 2.3x match on our investments

"Resonance started back in 2002 with a mission to connect investment capital with transformational social enterprise. Over that 15 years we have stuck to that mission, and found new ways to deliver it more effectively. There's still a long way to go, but in the last five years we've gone from having no funds under management to creating and managing 7 funds worth £150m, from a team of 3 to a team of over 30, and from one office to five. Along the way, the partnership of key investors like Big Society Capital has been essential to this growth."

Daniel Brewer, Managing Director, Resonance

Increasing capital

We have helped increase the money flowing from investors to charities and social enterprises to improve people's lives.

- Annual deal flow of £595 million, versus £213 million in 2011/12 – annual growth rate of 28%
- Overall £2 billion outstanding by the end of 2016, versus an estimated £800 million in 2012
- Over 3,500 social investments, of which approximately 810 were in 2016

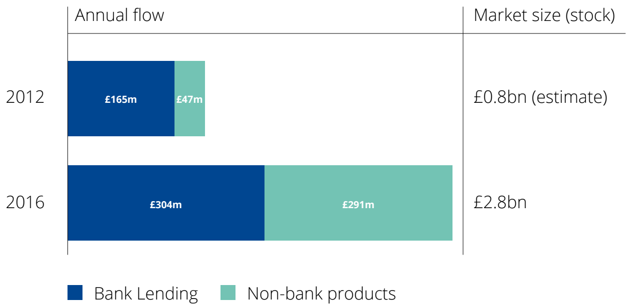
Social investment is not a single market or product so we work closely with partners to develop solutions that provide different types of finance to meet the different investment needs of charities and social enterprises and investors. We have aimed to find the appropriate balance of supply and demand in each of the many sub-segments we target, to grow the market and not be the market.

Over 3,500 social investments have been made since 2012, transforming the lives of hundreds of thousands of people all around the UK.

Broadening products

We have helped develop a broader mix of repayable finance products to better match the needs of investors and charities and social enterprises.

- Annual investments in non-bank products (beyond secured loans) has gone from £47 million in 2011/12 to £291m in 2016*, an increase of 6x
- As a result, investments from social banks have declined from 77% of deal flow in 2011/12* to 51% in 2016.



Additional non-bank products available to investors and charities and social enterprises today include charity bonds, property funds and community shares. Challenges remain in trade-offs between producing returns to attract investors and the riskier products demanded by charities and social enterprises. Initiatives we have supported such as Access – the Foundation for Social Investment and Social Investment Tax Relief aim to bridge this gap.

Developing intermediaries

As a wholesaler, our focus is on identifying high potential intermediaries who can provide appropriate capital and support to charities and social enterprises.

- Over 75% of our investments have been in start-up intermediaries, teams or products. Many investors are reluctant to invest at this stage so we aim to help intermediaries establish a track record
- There are now seven fund managers with over £50 million in social investment assets under management (versus one in 2012)

As an early-stage intermediary investor, post-investment support is crucial. We have developed our Building Blocks, a framework to identify best practice and scope sector-wide solutions to common challenges faced by intermediaries in areas such as governance, financial management, and impact measurement. Challenges remain, especially with the margins available to those intermediaries who arrange deals.

Fund managers - what makes a good intermediary?

VISION
Compelling social mission with a clearly articulated, understood and acted upon strategy

CULTURE
Lived by values encouraging collaboration and transparency

BUSINESS MODEL
Sustainable growth based on understanding of beneficiary needs and competitive landscape

GOVERNANCE
Balanced, diverse decision makers working with clearly defined processes

PEOPLE
Adaptive team, that is supported and rewarded in delivering mission

COMMS & FUNDRAISING
Strategies based on clear understanding of mission, beneficiaries, audience and investors

IMPACT
Clearly defined social impact, regularly reported and acted upon

INVESTMENT PROCESSES
Purposefully designed, proportionate tools and processes

OPERATIONAL SYSTEMS
Considered, proportionate legal, financial and portfolio management procedures

Engaging investors

We have aimed to widen the pool of co-investors by engaging with them, helping to develop appropriate products, investing our money alongside them and tackling regulatory barriers.

- 0.3x match ratio on our investments, with the majority from private sector sources including pension funds, banks and individuals
- All of the five largest UK asset managers are actively developing social impact products, versus none in 2012
- 110 trusts and foundations now in the SIIG, which we help convene, versus 25 in 2012

Our co-investors often bring great knowledge of social issue and investment areas, such as the Joseph Rowntree Foundation for our work on the poverty premium. We also use research to better understand the potential of future impact investor groups such as corporates, social pensions and retail investors.

We advocated for Social Investment Tax Relief to encourage risk-taking investment from individuals into charities and social enterprises, and have worked with fund managers and financial advisers to encourage uptake of the relief. Since the relief was introduced, there have been almost 50 deals worth over £5 million.

Challenges remain on creating simple investment structures that make social investment easily accessible to a broad range of investors.

Attendees at the Worthstone Social Investment Academy. 83% of co-investors in our investments have gone on to make other social investments.

We have helped develop a broader mix of social investment products

Lending

We have invested £27.5 million in Charity Bank and Unity Trust Bank to grow their investments into charities and social enterprises.

In addition, we have invested significantly to make riskier non-bank lending more widely available:

- £30 million to grow existing lenders such as Big Issue Invest, Key Fund and Social Investment Scotland
- £40 million to establish new national social lenders such as SASC, and regional lenders such as NESIC who focus on the North East of England
- £22.5 million committed to Access' Growth Fund, which alongside funding from Big Lottery Fund will organisations to access small, flexible and unsecured loans below £150k

Ongoing challenges exist in balancing pricing to attract investors and affordability for social impact revenue models.

"Our recent fundraise gives us the opportunity to reach the next level of scale in our business and, most importantly, to massively increase our social impact."

Dai Powell
Chief Executive, HCT

Charity bonds

Charity bonds can provide lower cost funding for larger projects, as well as an additional route to engage with supporters. The charity bond market has grown from £2.4 million in 2012 to £121 million by the end of 2016. We have:

- invested £30 million in the Rathbones Charity Bond Support Fund which we developed to backstop new issues.
- invested £10 million to cornerstone the Threadneedle Social Bond Fund – the first of its kind in the UK.
- supported Allia to establish the Retail Charity Bond vehicle on the London Stock Exchange, which significantly reduces the issuance costs for charities.

Ongoing challenges exist in bringing down the cost of smaller issues to increase the range of charities who can access investors through bonds.

"Retail Charity Bonds provide charities with a new source of funding and offers investors opportunities that both provide a financial return and create tangible social benefit."

Tim Jones
Chief Executive, Allia

SIBs

Social impact bonds (SIBs) enable investors to share the risk of outcomes-based contracts with charities and social enterprises that are able to test new approaches. Bridges Fund Management have also found that outcomes contracts can help improve existing services, align incentives across policy areas and coordinate multiple stakeholders on complex issues.

There are also alternative models developed to finance outcomes-based contracts, including Social and Sustainable Capital's risk sharing investment with Family Action.

The market continues to develop with 33 social impact bonds or £36 million. We have:

- initially invested directly in seven social impact bonds when the pool of investors was small
- invested £26 million to establish social impact bond funds such as Bridges Social Impact Bond Fund and the Care and Wellbeing Fund with Macmillan Cancer Support
- invested in advisors such as Social Finance, Numbers for Good and EBSI to drive improved performance

Social impact bonds so far remain a tiny part of the broader outcomes commissioning market. Ongoing challenges include engaging commissioners in developing social impact bonds due to pressures on their time and a lack of available resources.

"Social investment has played a crucial role in enabling Teens & Toddlers to expand our activities with schools and teenagers in the North West."

Joanne Hay
Chief Executive, Teens and Toddlers

Equity

Where social enterprises can take on equity, it can be an effective way of financing long-term growth. We have invested in the growth of equity-like capital through:

- £23 million cornerstone investments into NESTA's and Impact Venture UK's venture funds
- £15 million into Bridges Evergreen Fund to provide long-term finance
- £1 million into Bethnal Green Ventures, to expand its accelerator programme for tech-for-good enterprises
- £1.5 million into ClearlySo and Mustard Seed to grow their angel networks supporting impactful early-stage investments

Availability of long-term co-investors remains a challenge, as identified more broadly in the UK's recent Patient Capital Review.

"We've proved our accelerator model works, but it's not enough on it's own. Big Society Capital's investment makes more seed-stage capital available to startups in the tech for good space."

Paul Miller
CEO, Bethnal Green Ventures

Property funds

For many charities and social enterprises, property is a significant part of service provision, but direct ownership is not always possible or suitable. Social property funds can be a solution, and have invested over £200 million by 2016 compared to zero in 2012. We have catalysed this market through:

- £30 million cornerstone investments into two of Resonance's Homeless Property Funds
- £30 million cornerstone investments into affordable housing funds such as the Cheyne Social Property Fund

There is significant investor interest in property funds, but some tension remains between returns and the higher impact models.

"The Real Lettings Property Fund is really showing its strengths as a way we can help prevent homelessness before it starts. We're very proud to see the impact it has on people's lives."

Howard Sinclair
Chief Executive, St Mungo's

Crowdfunding

Advances in crowdfunding technology have made it simpler for charities and social enterprises to directly access retail investors. Community Shares are a notable success story, with 120,000 people having invested £100 million to support 350 community business since 2009. We also advocated for Social Investment Tax Relief to encourage more individual investors to make social investments.

We have invested:

- £1 million into platforms such as Spacehive and Ethex
- £13 million in funds to catalyse the market, such as Resonances Community Share Underwriting Fund or our SITR Crowd Match Fund, which are enabling local people to develop solutions to local issues
- £45 million in funds that bridge to community share issues, such as Pure Bridge Fund or Community Housing Co-investment facility

For crowdfunding to continue to succeed, greater accessibility must be balanced with appropriate information on risks.

"The level of interest in the positive investment in the UK is high. Over half the population eligable to save or invest positively are either already doing so or are interested to get involved."

Understanding the Positive Investor research report, Ethex 2017

What next?

We define social investment as being into charities and social enterprises with an objective to achieve both financial and impact returns. We were established to grow the social investment market, and therefore this section has only focused on data from that market to evaluate our impact. In reality though we work frequently with other purely financial investors in charities and social enterprises, making the most of this capital where it is available. We also contribute to a broader movement including impact investing and responsible investment, which may include investment in to private companies.

We think it is likely the definitions between market areas are likely to become increasingly blurred over time. Nevertheless, our new strategy continues to focus our capital on growing investment into the area where we see the greatest opportunity to improve lives, which is impact driven investment into charities and social enterprises.

The social investment market has developed significantly over the past five years, from our activities and the vital contributions of our partners. Our first strategy aimed to grow a broad market to better connect capital to social need. Our new strategy, launched in July 2017, will aim to deepen the market in the areas we think have the most potential for social investment to improve lives.

Learning

Changing our approach

- **Market failure to market creation** - We received over 200 expressions of interest in our first year, of which only a handful progressed to investment as very few had experience, sustainable plans and/or intent to create impact. Given the nascent market, we have been unable to rely on incoming proposals as planned. Instead, we have had to move to the other side of the table to actively develop proposals alongside partners. In our first two years we only made £48m of investments, over the next three years (2014-2016) we made £292m of where the majority came from programs and proposals we developed.

- **From product focus to social issue and revenue model** - We started in our first year overly focused on the financial product as the answer. We have learnt that all our work needs to start with the social issue and the revenue model that will aim to address it. We have then aimed to broaden the range of available social investment that best supports and grows those revenue models.

- **Segmenting our market vision** - Our initial decision making was too complex as we tried to get every project or investment to live up to every objective. Our strategy helped define differing market development visions alongside the impact we aimed to achieve and helped us make better decisions in each area.

- **Disrupting ourselves** - Our mandate to find the best ways to connect capital to impact means we have learnt we need to actively disrupt existing investments, which can take a bit of getting used to both for us and our investees. For example we will invest in crowdfunding sites that are aiming to disrupt our existing debt funds and will support multiple competitors.

- **Leading when needed** - We were set up to grow the market not be the market, to build the capability of intermediaries above all. But, there are some areas where we were too slow to lead where it was needed for market growth. One of these was data and market information, we now coordinate market data and built Good Finance with partners.

Engaging partners

- **Building development partnerships** - There is a group of partners who are absolutely crucial to what we do. They tend to have in-depth knowledge of the social issue, broad experience of what's possible and the capacity to co-invest in risky untested proposals. We have learnt building enduring relationships with these key development partners is vital to our work. We can improve how we adapt our approach to different partners and when/how we bring in broader social sector input.

- **Listening deeply** - Any significant funder needs to work hard not to hear the echo of its own voice. We have learnt we need to listen harder when working with all our partners, including allow many of our assumptions to be tested. For example some of the assumptions in our investment committee on poverty led to challenging conversations on financial inclusion investments. We invited Juila Unwin from JRF to come to talk to us on poverty which led to us working together to try and abolish the poverty premium in the UK. We feel we have ongoing work to do in this area.

- **Prizes can break inertia** - For two years we knocked on the doors of FTSE 350 companies offering to co-invest with them on social investment, we had significant interest but little movement. We then launched the Business Impact Challenge, with a high profile panel, where the prize was...our co-investment. We received multiple high-quality proposals and had a significant step up in dialogue.

- **Better strategic prioritisation with government** - Government is our most significant partner, but in many cases can have shifting priorities and a shorter time horizon. The majority of projects we have spent time developing with government have not happened, but many important ones have (such as £100m Access and £80m Life Chances Fund). We have learnt to temper our excitement on possible scale of impact and adjust our work to likelihood of success.

Building effective teams and process

- **Being trilingual** - We have learnt to be an effective social investor you need to be equally comfortable in the languages of the social, government and financial sector. We now actively hire and develop teams to do this, and have found innovation and quality execution flows best from teams that are truly trilingual.

- **Social needs sharper thinking** - It was recently said that impact investing can be an excuse for good people to do bad deals. We have learnt given the multiple objectives impact thinking requires more (not less) structured thinking and process than conventional investing.

- **Building clear and proportionate processes** - While social investment requires sharper thinking, it needs to be proportionate to the task at hand. We have learnt we need to say no as early as possible when dealing with stretched and under-resourced intermediaries, bringing strategic decision making before performing due diligence. We have also learnt we need to get better at adapting our investment and legal process between larger transactions where we hope to attract significant institutional capital, and smaller pilots with key partners. We still need to improve in this area.

- **Adaptability of leadership** - We have learnt that one of the greatest success factors of social investment leaders is adaptability to what's possible. We see the most successful social investors combining deep understanding of both investor and charity and social enterprise needs, with an entrepreneurial understanding on how to shift their business to deploy capital for impact. By contrast the less successful will often get stuck on considering the barriers they face.

- **Building a learning culture** - We understand we are early in our learning journey, and given the complexity of the multi-sector markets we work in, building a learning culture is vital. We have built a Social Investment Development Framework for our staff, a Learning Database and a Social Investment Manual. We learn most from our partners, intermediaries and other organisations. Most of our team sit on the ICs of our funds, volunteer regularly and sit on the boards of multiple charities and social enterprises.

Developing investment solutions to connect capital to social issues

- **Developing wholesale tools** - We started overly reliant on investing through private-equity style structures. We have developed further wholesale finance tools that will bring in capital, such as developing a support fund for new charity bond issues, a co-investment facility to help Charity Bank make larger loans, a bridge fund to renewable community share issues, a blended facility with Access to enable smaller loans and a match fund to grow SITR on crowdfunding sites.

- **Flexibility to market conditions** - In trying to connect capital to social issues we have learnt to adjust to market opportunity. For example, we have prioritised community renewables and social property as low index-linked gilt yields provided a relative value opportunity to attract significant capital to these areas. We have also learnt to stop earlier projects that are getting little traction with co-investors.

- **Moving complexity to the middle** - Successful financial innovation moves complexity to the middle over time, away from the end-investor and/or enterprise, think of ETFs or crowdfunding. In social investment, RCB plc has done this through creating an issuance shelf which reduces cost and complexity for charities to issue charity bonds. We have been less successful so far in standardising innovation and moving it to the middle in other areas such as social Impact bonds.

- **Structuring in familiar packages** - While structural innovation is sometimes needed, where familiar structures are appropriate they will attract co-investors fastest. Examples include our cornerstone investments in Columbia Threadneeedle's Social Bond Fund and Cheyne's Social Property Fund, both which have gone on to raise over £100m.

  *The comparisons in this report between 2011/12 and 2016 have been updated since this report was first published in July 2017. We have provided a description of how the two market estimates were compared.

Social Impact

A summary of our approach

Our social impact priority is to use repayable finance to support vulnerable and disadvantaged people across the UK. We do this by investing in social banks and fund managers who provide repayable finance to charities and social enterprises.

Principles

Impact measurement can help investors, funders, charities and social enterprises to understand if they are delivering their mission and making a difference to the people they serve. It enables organisations to improve, compare and learn and potentially raise investment or funding.

Our own approach to gathering impact data is to only ask charities and social enterprises to gather information which is useful for their own purposes and then share it with us so that we can build up an overall picture of impact and learning in different social issue areas. We have set out the following principles for good impact measurement:

Strategic

- Evidence should drive decision making and improvement

Useful

- Impact evidence should be used for everyday business operations and have parity with financial management

Timely

- Results should be timely so that they can be acted on appropriately

Proportionate

- Only gather what is useful and relevant and keep it simple where possible

Inclusive

- The views of services users on what good impact means for them should be the cornerstone of impact measurement and management

Accessible

- Evidence gathered should be presented in a clear way and avoid unnecessary complexity

Transparent

- Results should be published where possible so that others can learn from them

At the social fund manager level, we have seen a significant improvement on the quality of impact measurement practice over the past year. Nearly all social fund managers have good processes in place but there is still some progress to be made in terms of being more transparency about success and failures and publishing impact assessment criteria so that applicants are more aware about what is involved in the process.

For charities and social enterprises, a recent survey from Pioneers Post about impact measurement in practice found that 81 per cent of respondents felt that it was 'important to improving their business and services' and 85 per cent found measurement 'challenging but worthwhile'. This goes against the view that measurement is simply a top down tick box exercise and supports the view that the trend is now shifting to organisations gathering information which is useful and relevant for them. We know that more needs to be done to support better impact measurement so we are committed to continuing to work wish partners to provide accessible and useful resources.

Over the past five years we have made a diverse range of investments addressing social issues. Some of our investments have targeted specific social issues, others can cover a wide range of needs and some focus on a particular geographical area. Our three-year Social Impact Plan underpins our work and has four key areas including delivering impact, building evidence, sharing learning and provide impact measurement support. The plan reflects what we would like to see in place by 2019. We strive to be a learning organisation and welcome feedback about our impact approach and how we can continually improve.

Our social impact plan

As a market champion

- Connect knowledge and networks
- Communicate research and tools
- Build broader supporting environment

Sharing Infrastructure

We will take a lead role in developing theories of change and sets of metrics standardised by sector. We actively seeks out and supports ideas, innovations and organisations that deliver impact frameworks and services (in the UK).

Sharing Learning

We will use impact data to influence government, commissioners, investors, charities, social enterprises and the public to consider impact in their decision-making. Successful models have been replicated across the UK, and learning on what works is widely available.

As an investor

- Find and develop new proposals
- Assess and co-develop ideas
- Portfolio performance management

Delivering Impact

Our investment approach is impact-driven: opportunities are prioritised based on need. We have has a clear understanding of impact risk and use evidence to originate and make better decisions

Building Evidence

We support social fund managers with planning, measuring and reporting their impact. We track metrics standardised by sector for each investment. There is available comprehensive, transparent, comparable and validated data about the impact of our investments.

Highlights of progress to date

Impact support

- Our Outcomes Matrix has 21,000 unique users.
- Supporting the Access Impact Management Programme, providing practical support to charities and social enterprises.
- Piloting shared measurement approaches in community energy

Delivering impact

- Developed internal theories of change for outcome areas.
- Originating deals to tackle specific issues such as the 'poverty premium'.
- Updated our Social Impact Tests for Assessing deals.

Building evidence

- Developing tech solutions to gather impact data from deals.
- Set minimum monitoring requirements in legal agreements with investees.
- Providing bespoke consultancy support to social fund managers to refine their impact approach.

Sharing learning

- Publishing case studies of social investment in action.
- Publishing examples of impact measurement in practice.
- Writing top tips blogs about impact measurement.

Our impact approach for investments

Developing ideas

We actively seek partners to develop or co-design proposals which address specific social issues and fill gaps where social investment is not available.

Assessment

All proposals for investment are assessed against our Pre Due Diligence Screen and then our published Social Impact Tests which look at key areas including mission, governance, risk and potential impact. We balance social impact, financial return and market development considerations in all our investment decisions.

Evidence and learning

We gather impact evidence from all our deals to build up a picture of the social change through monitoring the investments. Evidence and learning is shared publicly to help raise awareness about the potential of repayable finance.

How social investors assess impact

- Impact assessment is a key part of the due diligence process and should have parity with financial assessment. Most investors have their own impact assessment approach to reflect the specific aims and objectives of their capital but there is common ground across them all. In short, social impact assessment is mainly focused on what you intend to change and how will you deliver it. Here is a summary of the 10 critical questions used by us and other social investors to assess impact:
- Does the organisation have a strategy for creating impact which details activities, outputs, outcomes and indicators and how revenue will be generated?
- Who are the people that will benefit from the organisation's work? How are they involved in developing and shaping services? Are the services inclusive?
- What is the depth or breadth of impact that will be delivered?
- What evidence does the organisation have about the effectiveness of its work? How does the organisation measure impact and use the evidence to learn, improve or influence?
- What is the level of impact risk? Does the organisation have a track record or is it new?
- What external factors could have an impact on its work or what negative impact could occur?
- Are the services provided additional? Would the outcomes happen anyway if the services were not delivered? Will the service displace the work of other organisations?
- How does the work of the organisation compare or complement to what is already available?
- Does the organisation have the right team and skills in place and appropriate governance? How are service users involved in decision making?
- What will happen when the investment ends? How will outcomes continue to be delivered?

Learning

Be clear about impact reporting requirements from the outset

Our own impact reporting requirements have changed over time so our earlier deals did not specify a minimum level of impact reporting. This means that the quality of impact information from them is variable.

Set aside appropriate resources for impact measurement

It can make a real difference to have a dedicated person that can help investees to develop and refine their measurement approach and be a champion for impact.

Encourage transparency

At the moment only some fund managers publish impact evidence externally. We would like to see more impact information available publicly in an accessible format so that more people can learn about the potential of repayable finance.

Be open about failure

It is just as important to share learning about failure as it is about success so that other organisations can learn from it. We need to do more to showcase failure from our portfolio.

Support peer learning

Organisations value the opportunity to network and learn from one another. We are trying to do more to support learning to promote good practice and share ideas.

Aggregation is a challenge

It is relatively easy to aggregate contextual data about investments but more challenging to add together impact indicators. We invest in organisations that work across a complex range of social issues and believe that it is important for them to measure what it useful for their own work. This means that we cannot simply add all impact indicators together as there is not always a common ground. We are developing the concept of shared measurement approaches to help resolve this challenge and are piloting it in some areas including community energy.

Comparing market size

In this Impact Report, we have compared our current estimates of market size with a survey that was done before Big Society Capital was launched in 2012. We believed it was important to understand the level of change in social investment reaching charities and social enterprises over the last five years.

As a reminder we are aiming to assess here the size of the social investment market, where both investors and users of are capital are aiming to produce a positive social impact. This was the Segment A in our broader market report. This is the segment where we believe capital can achieve the greatest social impact, given aligned interests, and is where our efforts and capital are targeted.

Since releasing our impact report David Floyd from Social Spider CIC has pointed out to us some errors we made in comparing with 2011/12, especially that the ICF GHK 'Growing the Social Investment Market' report did not include community shares and charity bonds. This has caused us to go back and fully review the comparability of the two market estimates.

One of the challenges is the ICF report involved surveying around 100 investors, but was only reported in aggregate and we do not have sight into the underlying transactions. We know the vast majority of investments came from 10 investors. Our 2016 estimate included 60 investors, which we believe captures the most significant parts of social investment today. In 2016 we have sight into most of the underlying transactions (to improve transparency much of this is publicly available in our deal-level data).

We have laid out our review of the investors in the two data sets, and now lay out our adjustments by product area below:

Charity bonds

2016 estimate: £55 million

In ICF report for 2011/12: unknown

Comparability: We have reviewed other data from investors involved in Charity Bonds and confirmed there were £3.1 million of issues in 2011/12. It is possible given some of the organisations in the ICF survey (e.g. Triodos and Esmée Fairbairn) that some of these transactions were in the 2011/12 numbers such as Bristol Together's bond issue. Nevertheless it is likely the majority were not so to be prudent we have added the full £3.1 million to the £20 million estimate.

Confidence: We are relatively confident we have now included all charity bonds in both years.

Conclusion: There has been significant growth in the segment of 18x.

Community Shares

2016 estimate: £30 million

In ICF report: unlikely

Comparability: Using Community Share Unit data we have estimated deal flow in 2011/12 to be £7.7 million (since data is only available for 2011 and 2012, we have taken 75% of 2011 and 25% of 2012 to compare to the 2011/12 ICF period). We have added this £7.7 million to the market size estimate for 2011/12.

Confidence: Given the CSU data we are relatively confident in the data here.

Conclusion: Growth has also been significant here of 4x.

Equity-like capital

2016 estimate: £6.5 million

In ICF report: £4.7 million

Comparability: There are 8 investors in our numbers. Of the three who were investing in 2011/12 (BGV, Barrow Cadbury, NESTA) all are also included in the ICF report. There are a number of organisations in the ICF report which we have not included in our 2016 estimate that could be making equity investments today. We therefore believe the numbers are at least a fair comparison.

Confidence: This is an area where definitions of a social enterprise are an ongoing debate, and while we believe the definition of a social venture in the ICF report is similar to the one we are using in 2016 both are open to interpretation. There are also a number of investors known to us (for example incubators) that we have not surveyed in 2016 in the interests of time and proportionality. It is also likely there are significant equity impact investments in social ventures that are taking place away from both sets of numbers, either individuals or other institutions. Overall we have low confidence in this number fully reflecting activity in this market.

Conclusion: Growth here is unknown, but has likely been lower than in other areas.

Non-bank lending

2016 estimate: £64.9 million

In ICF report: £27.7 million

Comparability: Initially we compared the 2016 estimate to the £10.8 million unsecured number in the 2011/12 report as we know the majority of the 2016 deals to be partially secured or unsecured - and we then removed any 2016 deals we knew to be fully secured. In reality though the distinction around security is not always clear, so we have felt a more conservative comparison would be to use all non-bank lending in the 2011/12 report against all non-bank lending in 2016. All the specifically listed lenders in our 2016 estimate are either in the ICF report or were not investing 2011/12. There are some gaps in the remaining responsible finance lenders but we believe we have captured any who were making significant investments in either 2011/12 or 2016. We have laid out the full comparison of organisations included in the two data sets.

Confidence: This is another area where there is likely to be significant social investment activity away from our surveys, such as from individual supporters or local authorities. Nevertheless from conversations with charities and social enterprises we believe we have captured a high proportion of non-bank lending activity.

Conclusion: We believe growth here has been around 2-3x.

Profit with purpose

2016 estimate: £34.8 million

2011/12 estimate: unknown

Comparability: Two of the four managers in our 2016 survey (Mustard Seed and Abundance) were not investing in 2011/12. Triodos and ClearlySo are both in the ICF survey, but we are not sure if their 2011/12 deals in this segment would have been included. We are also aware of some transactions that took place in 2011/12, such as Café Direct and Triodos Renewables. Given this uncertainty , we think it is best to remove the full £34.8 million from the comparison with 2011/12.

Confidence: This is another area where the definition of profit with purpose makes exact market sizing difficult. We have included it in our overall market sizing as we believe it is an important part of the market, but it is likely we have not captured significant areas and are underestimating its size.

Conclusion: Our data is too incomplete here to accurately assess change.

SITR

2016 estimate: £3 million

2011/12 estimate: none

Comparability: As Social Investment Tax Relief did not exist in 2011/12 we can be confident on this comparison.

Confidence: Our data is based on surveys, so likely will not capture every transaction.

Conclusion: Growth from a standing start

Social Impact Bonds

2016 estimate: £2.3 million

2011/12 estimate: £2.1 million

Comparability: We believe the relevant organisations are in both data sets so these numbers are comparable.

Confidence: While this is an estimate across multiple funders we believe it captures the majority of the deal flow

Conclusion: There has been little growth between these two years, though pipeline has picked up significantly in 2017.

Social Property

2016 estimate: £130 million

2011/12 estimate: none

Comparability: This segment has been largely established by these investors such as Resonance and Cheyne and we believe was not available to charities and social enterprises in 2011/12.

Confidence: We have tried to capture the investments here with significant impact intent, such as Resonance's Real Lettings Fund for St Mungos, or Cheyne's Social Property Fund. Other investments are now emerging such as Civitas Social Housing which we have not included as the impact intent is less clear.

Again depending on definitions it is possible we are underestimating the growth here.

Conclusion: This is a new area catalysed by social investment which is experiencing significant growth.

Post these adjustments we believe the most comparable data points to compare the growth in non-bank capital will be £47 million in 2011/12, and £291 million in 2016, a 6x increase. We lay this out in the table below.

	BSC 2016 estimate of deal flow £m	**ICF 2011/12 report**	**BSC 2016 estimate adjusted for comparability**	**ICF 2011/12 report plus adjustments for comparability**
Charity Bonds	55.0	-	55.0	3.1
Community shares	30.2	-	30.2	7.7
Equity-like capital	6.5	4.7	6.5	4.7
Non-bank lending	64.9	27.7	64.9	27.7
Profit-with-purpose	34.8		-	
SITR products	3.0	-	3.0	-
Social impact bonds	2.3	2.1	2.3	2.1
Social property	129.5	-	129.5	-
Other		2.1		2.1
Total non-bank capital	**326.1**	**36.6**	**291.3**	**47.4**

In our impact report we have also compared total market size including social bank lending, so we again need to compare the composition of the two data sets:

Social bank lending

2016 estimate: £304 million

In ICF report: £165 million

Comparability: The lending in both 11/12 and 2016 is almost exclusively from Charity Bank, UTB and Triodos. The question is if our inclusion of profit with purpose lending is comparable to the social venture definition in the 11/12 report. We have attempted to review their 11/12 accounts and believe the orders of magnitude in the ICF report are in fact comparable to their total lending. We therefore think the two data sets are largely comparable.

Confidence: There are some other banks that aim to achieve social impact with their lending, though from conversations with charities and social enterprises we believe our data captures the most significant ethical lender options. A further consideration is the significant mainstream bank lending to charities and social enterprise – which we first highlighted in our social investment market compendium in 2013 (p27) and was further expanded in David Floyd's 2016 report. We have not included this as we are estimating where both investors and investees are focused on social impact.

Conclusion: Social banks have roughly doubled their lending in the period, and likely increased market share against mainstream banks.

We therefore think the best two numbers to compare overall social investment market growth are:

2011/12: £213 million (ICF report plus community shares and charity bonds)

2016: £595 million (total market estimate minus non-bank profit with purpose)

Or, a total market growth of around 3x.

As we have discussed any market sizing exercise is always an estimate, and it is likely both estimates are understating the amount of social investment that is taking place. We hope though post these adjustments the 2011/12 and 2016 estimates are comparable, and estimates of market growth are conservative. We would be interested to hear any thoughts on the methodology we have used and how it can be improved.

We are also working on a number of fronts to make the current data we are capturing more accessible to others to see how social investment is being used across the country. In addition to our deal-level data, and publishing of impact metrics being collected, in the coming months we will be publishing data visualisations on how our capital is reaching frontline organisations including analysis on the range of revenue models it is supporting. Looking forward we are working with Access and DataKind to try make our data sets more comparable to others, such as Big Potential and 360 giving.

Do get in touch with us if you would like to be involved in future projects around social investment data.