

# Big Society Capital

Our strategy for the next three years

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May 2014



## Introducing our strategy

Big Society Capital is an independent financial institution with a social mission, set up to help grow the social investment market in the UK.

Since we were set up in 2012 we have committed nearly £150m in investments to specialist organisations that invest in charities and social enterprises.

This document sets out our vision for the future social investment market and what we will do to work towards this vision, in partnership with others.

To develop this strategy we have analysed how social investment can address different social issues, segmented the range of social investors and their motivations, reviewed our own investment and other efforts to date, and involved all of our staff, our main board, our advisory board, the Big Society Trust and close partners. Our strategy will continue to evolve and we welcome further ideas and suggestions from anyone interested in our work.



# Our mission and principles

Our mission and company objects remain unchanged:

To promote and develop the social investment marketplace in the United Kingdom.

Our founding principles endure and are:

## Independence

The Big Society Trust, an independent holding company that owns 60% of our shares, was set up to ensure that we are held "on mission". We are not owned or controlled by Government, nor are we controlled by the banks that have invested in us.

## Transparency

We are committed to producing details of the financial and social impact of our investments. We act as a champion for sharing information and expertise across the social investment sector.

## Self-sufficiency

Over time we need to cover our operating costs and any losses from the return on our investments, as well as earn a small financial return. This will demonstrate that the social investment model is sustainable.

## Wholesaler

We act as a wholesaler, deploying capital through social investment finance intermediaries (SIFIs), including organisations providing market infrastructure.



# Our vision for the social investment market

The social investment market is hugely diverse, and yet it has an ability to knit together a vast range of social issues, organisations, products and investors. Our vision for the social investment market reflects this diversity, and sees social investment leading to significant social impact in the UK by:

## 1 Small and medium sized-charities

Improving access to finance for small and medium-sized charities and other social sector organisations. We want to ensure that every social organisation for which repayable finance is appropriate can access a range of simple, sustainable products.

## 2 Innovation

Providing capital that allows the most innovative approaches to tackling social problems to quickly grow and replicate. We want to support social entrepreneurs to access the capital they need to tackle the most entrenched social problems and support the most vulnerable beneficiary groups.

## 3 Mass participation

Building mass participation in social investment. We ultimately want to see millions of people contributing to social change through their own personal finance choices, and thousands of grassroots organisations being able to access the finance they need to support their local communities.

## 4 Scale

Allowing the market to achieve far greater financial scale in order to finance social issues. We believe that some social organisations can be larger, and the social economy as a whole should play a larger part in the overall economy. Mainstream financial institutions can play a much greater role by providing and channelling capital to social causes. Ultimately we want social investment in the UK to be an asset class measured in the billions of pounds.

This is not a vision that will be realised quickly, and some components may require a decade or longer to come to fruition. It is also not a vision that can be realised by Big Society Capital alone. It requires partnerships between investors, foundations, public agencies and most importantly charities and social enterprises. But we do believe substantial progress can be made in the next three years, and that Big Society Capital has a major part to play.



# Our goals for the next three years and how we will work towards them

We have identified a number of goals that we think are feasible to work towards over the next three years.

Component of vision	2017 goals
<b>1 Small and medium-sized charity finance</b>	<ul style="list-style-type: none"><li>• Strong uptake of available social investment products by front-line organisations</li><li>• Greater availability of smaller-size investments, enabled via 'blended' capital</li></ul>
<b>2 Innovation</b>	<ul style="list-style-type: none"><li>• More capital targeted on specific social outcomes or issues</li><li>• Easier access to growth capital for innovative social organisations and interventions</li></ul>
<b>3 Participation</b>	<ul style="list-style-type: none"><li>• More everyday retail investors involved in social investment</li><li>• More grassroots or community projects able to access capital</li></ul>
<b>4 Scale</b>	<ul style="list-style-type: none"><li>• Greater use of social investment in capital-intensive sectors and products</li><li>• More institutional capital attracted to social investment</li></ul>
<b>General</b>	<ul style="list-style-type: none"><li>• Improved social impact for communities and vulnerable beneficiary groups</li><li>• More sustainable intermediary organisations</li><li>• Improved policy and research environment for social investment</li></ul>

We will support the market to make progress towards these goals in two principal ways:

- **As a champion** for the social investment market helping to increase awareness of, and confidence in, social investment.
- **As an investor** that provides capital to social investment finance intermediaries (such as fund managers or specialist banks serving the sector) that in turn provide finance and support to charities and social enterprises.

The next few pages outline some of the more detailed activities we plan to undertake as a champion and an investor, set against the four components of our long-term vision for the market.



# 1

## Access to finance for small and medium-sized charities and other social organisations

### Goals for 2017

- Strong uptake of available social investment products by front-line organisations
- Greater availability of smaller-size investments, enabled via 'blended' capital

### What we've done so far

Around half of all our investment commitments in our first two years have focused on improving the availability of 'bread-and-butter' investment products to small and medium sized charities and social organisations. Our signed investments to-date include £25m into funds managed by Social and Sustainable Capital and FSE Group, and up to a £15m capital injection into Charity Bank. We have also grown our social sector team so we are better able to respond to the needs of charities and social enterprises, promote awareness of social investment, and clarify when social investment is and is not appropriate to help social organisations achieve their goals.

### How we will act as a champion

In the next three years we will champion the financing needs of small and medium-sized organisations by:

- working with partners to increase awareness of social investment among charities, including piloting an awareness campaign for charity trustees
- improving the signposting, information and support available to organisations who are considering social investment, for example, through the on-line query system we have recently launched via our website
- continuing to contribute to the debate on social identity and form, for example by publishing work into the different forms of social business as part of our contribution the G8 taskforce
- doing what we can to support the improvement of credit data in lending to small and medium-sized social organisations

### How we will invest

Some of the more likely investment opportunities that we foresee include:

- blending our capital with grant capital to improve the supply of products for investments of less than £150,000
- ensuring that social organisations can access the capital they need to compete on a more level playing field with private companies when they bid for larger-scale public sector contracts

Other ideas we will explore include:

- providing additional capital to intermediaries if front-line demand outstrips currently-available supply
- looking at additional regionally-focused funds, to build on our commitments in the North-East of England and Scotland
- investigating how else we can help smaller organisations participate in public sector markets, for example whether social prime contracting bodies could better partner with smaller charities and social enterprises



# 2

## Capital that allows social innovation to grow quickly and replicate

### Goals for 2017

- More capital targeted on specific social outcomes or issuer
- Easier access to growth capital for innovative social organisations and interventions

### What we've done so far

Our efforts to help grow innovative organisations and interventions include seven Social Impact Bonds, investments into funds such as Nesta Impact Investment Funds and Impact Ventures UK, and further commitments to health and social-care focused funds. Our investment into ClearlySo is helping social organisations raise capital for growth. And we have also worked to link specific social issues with issue-focused investors, for example in educational attainment for disadvantaged pupils.

### How we will act as a champion

In the next three years we will champion the role social investment can play in innovation by:

- supporting the environment for Social Impact Bonds (SIBs) in a number of ways including: publishing more of our learnings from our own SIB investments; aiming to bring in a major financial institution into future SIB investments; and, engaging central and local public sector commissioners, where we can, to help think-through SIB based market models for preventative interventions in areas including health (e.g. reducing hospital admissions), education, and families.
- expanding the capacity of our investor marketing team to cover mission-driven foundations, and family offices
- creating a new capacity in Big Society Capital to engage with corporations, and the role they can play as a social investor, a purchaser of social value, a creator and incubator of social enterprises and through the engagement of their employees
- investigating alternative routes to growth for social sector organisations, for example by studying international models

### How we will invest

Some of the more likely investment opportunities that we foresee include:

- working with partners to target more social investment that addresses specific social issues, potentially including education-focused and financial inclusion-focused funds
- ensuring that all feasible social impact bonds that come to market can access the capital they require through the existing or additional SIB funds
- collaborating with the 'What Works centres' to identify where social investment can be used to incubate or scale evidenced approaches to tackle entrenched social issues.

We want to explore how we might support organisations graduating from the range of social incubators and accelerators.



# 3 Mass participation in social investment

## Goals for 2017

- More everyday retail investors involved in social investment
- More grassroots or community projects able to access capital

## What we've done so far

We have put significant effort in championing this part of the market in our first two years. This has principally involved our advocacy for a social investment tax relief, but also engagement with the financial advisor community through our sponsorship of the Worthstone Social Investment Academy. We have invested £10m from our Treasury to cornerstone the Threadneedle Social Bond Fund, which is the first retail bond product that includes social investments and which can be used within an ISA-wrapper. Our main capital pot has made several, relatively small, investments including into PURE and the FSE Group's community energy funds, and into Community Land Trusts.

## How we will act as a champion

In the next three years, we will act to champion a participatory market by:

- pursuing the uptake of the new social investment tax relief, by supporting the earliest deals, and awareness-raising thereafter
- advocating for a 'right-to-choose' ethical products in defined contribution private pension schemes, learning from the French Fonds Solidaire law

## How we will invest

Some of the more likely investment opportunities for us include:

- supporting retail platforms for charities and social enterprises wanting to issue their own bonds
- facilitating investments in community assets, including whether a one-stop-shop can improve access to grants, loans and advice, and looking at ways of accelerating the community share investment market
- backing regeneration projects in deprived areas that substantially involve the local community

Other ideas we want to explore include how we might support crowdfunding platforms that channel funding to social organisations.



# 4

## Greater scale in the financing of social issues

### Goals for 2017

- Greater use of social investment in capital-intensive sectors and products
- More institutional capital attracted to social investment

### What we've done so far

Investment activity to date that has focused on this component of the market includes our investment in Real Lettings' Property Fund. We have also put substantial efforts into attracting at-scale investors into the social investment market, with encouraging movements from L&Q, one of the largest housing associations, and Waltham Forest Local Authority Pension Fund who have both co-invested alongside us.

### How we will act as a champion

Over the next three years we will act to champion at-scale investors and investees by:

- continuing to cover institutional investors and encourage involvement in social investment e.g. pension funds, and potentially insurance companies
- working more closely with housing associations as key partners in the social economy and potentially significant co-investors
- advocating for clearer rules and guidance governing the application of social objectives to the fiduciary duties of pension fund directors and trustees of charitable endowments
- encouraging the entry of mainstream financial institutions' research units to research social investment funds
- targeting wholesale international social funds which might make investments in the UK

### How we will invest

Some of the likely investment opportunities that we foresee include:

- accelerating the market for charity bonds. We think this will have particular relevance for capital-intensive delivery models, e.g. social services delivered within specialist accommodation
- supporting more funds that help social organisations that require property or other assets to deliver their services

Other ideas we want to explore include:

- looking at potential niche roles in social housing, for example by improving access to finance for smaller housing associations or more empty-home models involving social enterprises
- considering additional high-impact property funds
- exploring the additional role mainstream banks can play, and whether our capital can help encourage this for example via risk-sharing agreements



# More general approaches to market building

## Goals for 2017

- Improved social impact for communities and vulnerable beneficiary groups
- More sustainable intermediary companies
- Improved policy and research environment for social investment

## What we've done so far

We developed the Outcomes Matrix – a tool to support charities, social enterprises, investors and investment managers in planning and measuring social impact. We have played a role in connecting social investment with the public policy agenda, including in tax, Community Interest Company (CIC) regulations, and in reforms to the probation service. We have commissioned directly and/or funded more than ten pieces of market research, and published a 'compendium' that summarises what is known about social investment.

## How we will act as a champion

General market champion activities, that span all four components of our vision, include:

- piloting an advisory service for larger charities to help them understand whether and how social investment can help them meet their objectives
- creating and demonstrating social impact through our investments, and supporting impact measurement practice to become better and more widely adopted
- advocating for sensible public policy changes that encourage social investment
- promoting high-quality social investment research, both through the Research Council and by directly commissioning research
- contributing to international work on social investment, such as the social investment taskforce established by the G8, and the work of the European Commission



# How our strategy translates across different social issues

We are developing the social investment market to help deliver social impact. In developing our strategy we looked at how social investment can be relevant to specific social issues. We will publish more detail in due course, but some examples include:

- In **health and social care**, charity bonds will be particularly relevant for large and diversified organisations that need capital to support their scale. There are also opportunities to test preventative interventions through Social Impact Bonds (SIBs) and the better use of personal budgets .
- In **housing**, there are opportunities to use property to support specific beneficiary groups (such as homeless people or ex-offenders), and we also note the importance of housing associations as potential co-investors and originators of social enterprises. It may also be possible to make more use of the existing assets of smaller housing providers such as small housing associations and almshouses.
- In **education**, there is an opportunity with pupil premium funding targeted on raising attainment amongst the most disadvantaged pupils. This is an issue that strikes a strong chord with co-investors. There is also an opportunity for greater roll-out of SIB models and possibly an education-focused fund.
- In **communities**, there is potentially high demand due to sheer number of local groups and the range of new community rights, but also the importance of a diverse funding mix, with social investment only part of that mix. There are opportunities to support platforms that bring together a range of funding, and also to catalyse greater use of community shares.
- In **financial inclusion**, there are challenges for a sector that is evolving from historically subsidised non-profit lending models to more sustainable models. There are opportunities for scale and aggregation of services among providers, greater use of technology and closer collaboration with relevant stakeholders like housing associations and utility companies, amongst others.
- In **justice**, we see the dominance of public sector commissioning and the different capital needs of social prime contractors bidding for contracts, and social organisations operating as sub-contractors within supply-chains.
- In **families and relationships**, social isolation is a rising issue alongside the challenges of supporting children at risk of, in, or coming out of care services. There are opportunities for greater use of SIBs to improve outcomes for this group, and again charity bonds could be relevant for the largest providers.
- In **employment**, there are currently low levels of social investment use despite high levels of social need. We are keen to see how investment can be used in interventions outside the current Work Programme (e.g. social enterprises as employers), and the design of the next generation Work Programme will be critical.

Many social investment opportunities will span several social issues at once, for example empty home redevelopment models that provide affordable housing as well as employment opportunities for disadvantaged groups. There are also some common challenges across different issues including: the level of awareness about social investment; the need in some areas for blended capital; and the complexities of public sector commissioning markets. Several of the activities detailed in our strategy will help to address these challenges..



# Our organisation

Big Society Capital will need to work in new ways to implement such a broad strategy. These will include:

- An ongoing shift towards **partnership** working with other organisations. Many of the investment ideas detailed in this strategy will be at very early stages and will require significant co-creation with partners, who could be mission-driven foundations, existing or new intermediaries, corporates, social sector bodies or public sector agencies.
- A cementing of **social issue-based approach** within Big Society Capital. We will develop specialists within each major outcome area in our Outcomes Matrix, who will be charged with understanding the nature of social need, what effective interventions and business models exist, and who the leading social organisations are in each area.
- Being clearer on **how we measure our progress**. We will develop a set of market indicators that will help to track progress towards the goals identified in this strategy. And we will report on progress against our strategy in future annual reports.
- Being clearer on **what we will not do**. We will not get involved in very broad public policy debates, for example on wider public service reform or general reforms to retail investment regulation. We will not make grants, other than to research projects or events that promote the social investment market. And we will not operate outside the UK, other than where it is to understand models and concepts that might be helpful to the UK.

# Your thoughts

Our strategy will need to be continually updated and refined to reflect any changes to the environment for the social investment market. We welcome views and suggestions from anyone interested in our work over the next three years.

Please email any comments to: [ideas@bigsocietycapital.com](mailto:ideas@bigsocietycapital.com)

Photos courtesy of Teens and Toddlers and Adviza





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