DELIVERING IMPACT
BUILDING EVIDENCE
SHARING LEARNING

annual review 2014

BIG SOCIETY CAPITAL
Transforming social investment

Contents

CHAIR'S FOREWORD

Harvey McGrath visits the Energise Social Impact Bond, delivered by Adviza

Welcome. This is Big Society Capital's third annual review and my second as Chair. Our remit is to grow the social investment market in the UK. We do this by making capital available to social finance intermediaries who in turn invest in charities and social enterprises. We also act as a market champion to build understanding and capacity across social enterprises, charities and government around the use of repayable capital in delivering social outcomes.

In this context, 2014 has been a year of significant progress on many fronts. Big Society Capital has developed from being a start-up to now having an emerging track record on which to build the next stage of the social investment market in the UK.

In terms of funding available to frontline organisations via the social finance intermediaries supported by Big Society Capital, 2014 has seen good progress. Between Big Society Capital's investment and the related match-funding raised from third parties, £359 million had been made available by the year-end. Investment in frontline organisations by our intermediaries is now providing a growing evidence base of social impact, which you can read about in more detail in the Social Impact section of this report, which begins on page 34.

As always, the most gratifying aspect of my role is visiting projects to see how social investment is making a difference to people's lives. I recently visited Energise in the Thames Valley to see some of the young people benefiting from the Social Impact Bond initiative there, and Edinburgh, where I saw the very positive effects that Spartans Community Football Academy is having on local young people – a great example of what's possible in terms of community engagement through sport.

In terms of our role as a market champion, 2014 has seen a number of significant developments.

To help develop understanding of ways social investment can be used, in December we published case studies to highlight both the work and business model of the organisations that are being supported and illustrate how the investment was facilitated through a social investment finance intermediary. These are concrete examples of social investments to help others understand and explore what might be possible. Our intention is to continually update this portfolio of case studies to demonstrate the many ways in which the market is developing.

We have also published a series of Investor Insights briefings which explore how social investment can be used to support specific areas of social need. There is a growing appetite for this type of issue-led research as reflected by a successful social care roundtable at the Houses of Parliament, chaired by the Rt Hon Hazel Blears MP, which brought together a range of stakeholders including sector experts, advisers, investors, investees and MPs.

We have actively engaged with policy makers and the market has been significantly helped by government initiatives, such as the introduction of Social Investment Tax Relief in Budget 2014, which received Royal Assent last summer. We were very pleased to see the first investments using the new relief announced in November and welcome the announcement in the Chancellor's Autumn Statement of plans to significantly increase the limit on the relief from £290,000 to £5 million for individual projects.

The establishment of Access - the Foundation for Social Investment by the Big Society Trust was another milestone, made possible by an endowment from the Cabinet Office and co-investment from the Big Lottery Fund. It will target financing in the £10,000 to £150,000 range and provide capacity-building support to the social sector.

The Social Impact Bond market also continues to grow with commissioning initiatives from both local and central government. By the end of 2014 there were 23 established or announced Social Impact Bonds in the UK, funding interventions that address issues ranging from children in care to rough sleeping.

Global interest in social investing has continued to grow and there have been several encouraging international developments. During the year, the Social Impact Investment Taskforce (established under the UK Presidency of the G8) produced individual reports from each of the participating countries (UK, USA, France, Germany, Japan, Canada, Italy and also Australia). Four cross-cutting reports were also published covering: impact measurement, asset allocation, mission alignment and international development. Nick O'Donohoe, our CEO, chaired the UK National Advisory Board and I chaired the Asset Allocation Working Group supporting the Task Force initiative.

At the Clinton Global Initiative, we announced the launch of the Business Impact Challenge to engage corporates with the social investment agenda by offering to provide matched-investment for a social investment initiative driven by a corporate in the UK.

As our activities have grown, so our staff has increased to 37 under the able leadership of Nick O'Donohoe. My thanks go to each member of staff. They have demonstrated their wholehearted commitment to Big Society Capital's mission. Many thanks also to my colleagues on the Big Society Capital and the Big Society Trust Boards, to our four shareholder banks - Lloyds, RBS, Barclays and HSBC - and also to our Advisory Board. Through these bodies, and the Board's Committees, we benefit from a range of perspectives and a wide spectrum of expert advice, which has helped to define our strategy and its implementation. It was also a pleasure to welcome to the Big Society Capital Board during the year Fiona Ellis and Anne Wade. Their experienced contribution has already made an impact.

Above all, I would like to recognise the charities and social enterprises which have taken on social investment to develop and grow their work with people across the country. It is for these individuals - the beneficiaries of these organisations - that we collectively strive.

I look forward to building on our progress going forward, working with colleagues across the sector to deliver an accessible, vibrant social investment market, by bringing capital, entrepreneurship and innovation to bear on the societal challenges we all face.

Harvey McGrath

Around the UK today there are now hundreds of charitable organisations, social enterprises and community groups that have accessed social investment

Nick O'Donohoe visits apprentices from K10, which received investment from Impact Ventures UK

CEO'S STATEMENT

Our goal is to accelerate the development of a social investment market in the UK, to make it possible for charities and social enterprises to access cheaper and more flexible capital.

We believe that by connecting these organisations with socially motivated repayable finance it will allow them to grow and to become more resilient. As a result, they will support more people and contribute to addressing some of the most important issues facing our society.

In this annual CEO statement I will discuss the progress we are making towards achieving this vision and highlight some of our key objectives for 2015. I will also consider some of the long-term challenges facing the development of social investment in the UK and what might be done to address them.

The good news is that around the UK today there are now hundreds of charitable organisations, social enterprises and community groups that have accessed social investment. In this report there are numerous examples of how individuals are benefiting from the £104 million of investment drawn down from Big Society Capital and our co-investors. What these organisations have in common is a commitment to helping some of the poorest and most vulnerable in our communities, using social investment to achieve more impact than if they were relying exclusively on grants and donations.

Last year, we articulated what we believe are the four essential strands of a social investment market and we documented our strategy to succeed in each of them. In this annual report it is useful to remind ourselves of how we defined this and to reflect on our progress in developing each element.

Finance for small and medium-sized charities and social enterprises

In order to grow and improve their services many small and medium-sized charities and social enterprises need easier and more flexible access to capital, ideally from investors that place a value on their social purpose. The benefit of investment can be significant both to the organisations and to the people they serve. To enable many more of these types of investments we have been seeking to provide additional funding and resilience to dedicated social lending organisations, such as Charity Bank. We have also targeted more capital to products and geographies where it is most needed. Our investments in Social and Sustainable Capital and FSE Group funds seek to fill the gap for riskier unsecured lending. Our support for Social Investment Scotland and the North East Social Investment Community Interest Company seek to target those specific areas.

We also recognise that, when smaller loans are needed, lenders will struggle to provide affordable capital and be themselves sustainable. Our approach has been to support the development of the Social Investment Tax Relief and to work with the Cabinet Office and Big Lottery Fund to develop the recently announced Access - the Foundation for Social Investment. Both of these initiatives can provide targeted support while also complementing the existing array of social investment products.

Capital that allows innovation in tackling social problems to quickly grow and replicate

Social innovation can be locally focused and struggle to spread. We believe social investment has a critical role to play here. We have seen a growing number of ambitious social organisations supported by early stage growth capital, such as Big White Wall, which has used investment from Impact Ventures UK to scale up its use of technology to support people with mental health issues.

By year end 2014, close to 50 charitable organisations will have received funding through Social Impact Bonds. They include many of the UK's leading and most innovative charities as well as some much smaller charities. Social Impact Bonds still have many challenges including cost, complexity and scale. These are yet to be fully addressed. But over the last year we have seen a step change in the number of social issues being tackled, as well as being able to see the measurable social and financial impact of early Social Impact Bonds. We believe they have an important long-term role in funding charities and social enterprises and improving the effectiveness of government commissioned programmes, and we will continue to support their development both as an advocate and as an investor.

There is a bigger role for corporates to play in social investment, particularly in supporting and developing ideas. To encourage this we launched the Business Impact Challenge which offers matched investment of £15 million to the best idea from the corporate sector. We will announce a shortlist in May and a winner in the autumn – we have already been very encouraged by the quality of the ideas.

Mass participation in social investment

Broad participation from the public both as investors and investees allows for a broader range of issues and organisations to be funded. Charity bonds provide a way for the public to invest in social organisations. They continued to grow in 2014. One of the largest was by Golden Lane Housing which is using the £11 million it raised last year to provide supported housing for tenants with learning disabilities. We also saw the launch of the first Social ISA by Threadneedle and Big Issue Invest last year. Today that fund has assets of over £67 million.

We all need to be clearer about the framework we use to assess impact

We are also encouraged by the growth of community shares. £30 million has been raised in 2014 alone by 61 different organisations for a range of projects including community shops, pubs, renewable energy and sports facilities. We helped Resonance to further expand its Community Share Underwriting Fund to support this growth.

Crowdfunding platforms can play a bigger role in social investment, giving social organisations access to a new source of long-term capital and individuals an opportunity to connect to their investments. We have invested in Spacehive, a leading crowdfunding platform and continue to explore other potential means of accelerating growth of the market.

Greater financial scale to finance social issues

There are many social issues which can only be addressed with substantial amounts of capital. These include, among others, accommodation for those without permanent homes, assisted facilities for a range of beneficiaries, extended community leisure facilities and community renewables.

Early interventions that prevent young people dropping out of school and becoming unemployed, tackle social isolation in later life or minimise the number of children in care, can also absorb large amounts of capital.

Addressing these issues will require institutional capital to co-invest alongside us and other traditional social investors. There have been some encouraging signs in 2014 that this capital is beginning to emerge. Real Lettings Property Fund, run by Resonance in partnership with St Mungo's Broadway, had raised £46.5 million by the end of 2014, to address homelessness in London. We are working with Resonance on rolling this model out to other regions. Cheyne Social Property Impact Fund is seeking to raise £300 million from a range of investors to help tackle the shortage of housing solutions for disadvantaged groups in the UK. Bridges Ventures now runs £460 million in social investment funds including the Social Impact Bond fund originally cornerstoned by us.

Challenges and risks for social investment

We are confident that a robust social investment market is beginning to develop and are proud of the role we are playing. However, it would be remiss to simply highlight the positives without commenting on some of the broader risks and challenges facing the market as it continues to grow.

The first challenges we must address are politics and the need for patience. The social investment movement in the UK has a long history. The seeds were sown by initiatives like the Social Investment Task Force in 2000 and organisations like Charity Bank, CAF Venturesome and Big Issue Invest, supported by foundations such as Esmée Fairbairn and others. Development has accelerated over the last five years thanks to active policy support from successive governments. But even the best policy initiatives can take decades to realise their full potential. They require a long-term commitment and the discipline to see them through. Building the social investment market is no different. As it grows it has the capacity to transform the way we deal with many social issues. It will take many more years to fully achieve this and it will not do so without ongoing support from future Governments and a long-term commitment to building sustainable institutions and intermediaries.

PEER LANDLORD PROJECT
Commonweal Housing
Housing and Local Facilities

The second challenge concerns some of the historic culture and attitudes among key stakeholders. There is a challenge in Government, particularly with regards to funding preventative outcomes, such as reducing the care support needs of older people, young people who are at risk of becoming unemployed, and homelessness. These are some of the areas where the savings from early intervention are identifiable, measurable and significantly higher than the intervention cost.

And there are high-quality charities, social enterprises and social investors ready to tackle these issues at much greater scale, if only the outcomes can be funded. So I urge the next Government to use the opportunity of the forthcoming spending review to make a substantial commitment to an outcomes-based approach. We will support the next Government to do this and work with the social investment community to ensure the right finance is available to help enable it.

I urge the next Government to use the opportunity of the forthcoming spending review to make a substantial commitment to an outcomes-based approach

FURNISTORE
Charity Bank
Income and Financial Inclusion

Another challenge for Government is to address the disconnect between policy ambitions for a diverse public service market, and the restrictive realities of contracting terms. These terms have the effect of precluding all but the largest businesses at prime-contractor level, and also offer too little transparency around what is happening at sub-contracting level. Policy teams need to better understand the actions of commercial teams and vice versa, and Ministers and top decision-makers need to be more explicit on the trade-off between market diversity and maximum financial risk transfer. Only by addressing public funding for prevention, and addressing the cold reality of current procurement and commercial practice, will other positive efforts like the Social Value Act really start to bear fruit.

There are also challenges with the culture and attitudes of many of the charities and social enterprises seeking funding. Any organisation taking on capital needs to recognise where loans or other investment is appropriate, and where it is not.

Investments need to be repaid and they come at a cost. There are many delivery models for which loans are not prudent. For those models where it may be an option there is a need to be realistic about terms and pricing. The majority of social lenders are themselves social organisations. They need to charge enough to be sustainable. The benefit of this sustainable pricing is the ultimate ability to attract larger amounts of capital and so create greater social impact.

Lastly the attitude and culture of investors presents a challenge. Most are much better at articulating the financial characteristics of their investment than the impact characteristics. We all need to be clearer about the framework we are using to assess impact: who are the beneficiaries; what outcomes are we are trying to create; what is the underlying theory of change that drives these outcomes and makes these investments 'social'; how much money will interventions cost; will the impact be spread across many individuals or deeper across a few; what sort of evidence base is needed to confidently claim impact; and are there partnerships that help us to do better?

Our role in this area is important, and there is more we need to do. Social impact plays a critical role in our investment process and we have significant influence over those organisations in which we invest. We need to ensure we are implementing and communicating our own process effectively and as far as possible embedding better practice among those who receive our investment. This annual report includes a detailed analysis of how we evaluate social impact and provides numerous examples of how social investment is helping charities and social enterprises to do more to support vulnerable people and communities.

Other priorities for 2015

We also want to ensure that we invest in research to help both frontline organisations and social investors better understand where social capital can be most valuable.

We know that social investment is not the answer to every issue, but we need to get better at highlighting where it works and where it does not. It works well with youth unemployment because effective interventions provide an immediate payoff to government through savings in the benefit system. The same is true in issues where asset purchase can provide solutions such as housing, homelessness and assisted living. It works well in community energy because it provides capital to buy and develop assets that can create social value. It does not work where there is no revenue model or where budget savings are too far in the future – and sometimes this can be in areas where many would consider the most important social challenges to be.

In 2014 we published papers across a range of social issue areas, such as long-term unemployment and social care, in which we attempted to articulate where social investment could be, and is being, used. Today intermediaries funded by Big Society Capital have over £350 million available in capital. Our task in 2015 is to work with partners across the sector to ensure that this capital is used to develop and scale successful models that address these entrenched social challenges.

Transparency is another important issue for us. We welcome suggestions as to how we can do our job more effectively. In the last six months, a number of organisations including ACEVO, NPC and the Alternative Commission on Social Investment have made contributions. One of the common themes is a desire for greater transparency both on what we do and how we do it. We have always had a commitment to transparency and it is indeed one of our founding principles. Focusing more on this will be a priority in 2015.

Thank you

We are fortunate to have outstanding boards both at Big Society Capital and The Big Society Trust and I want to sincerely thank them for their contributions. We also have an Advisory Board that never ceases to challenge us and I thank them warmly too.

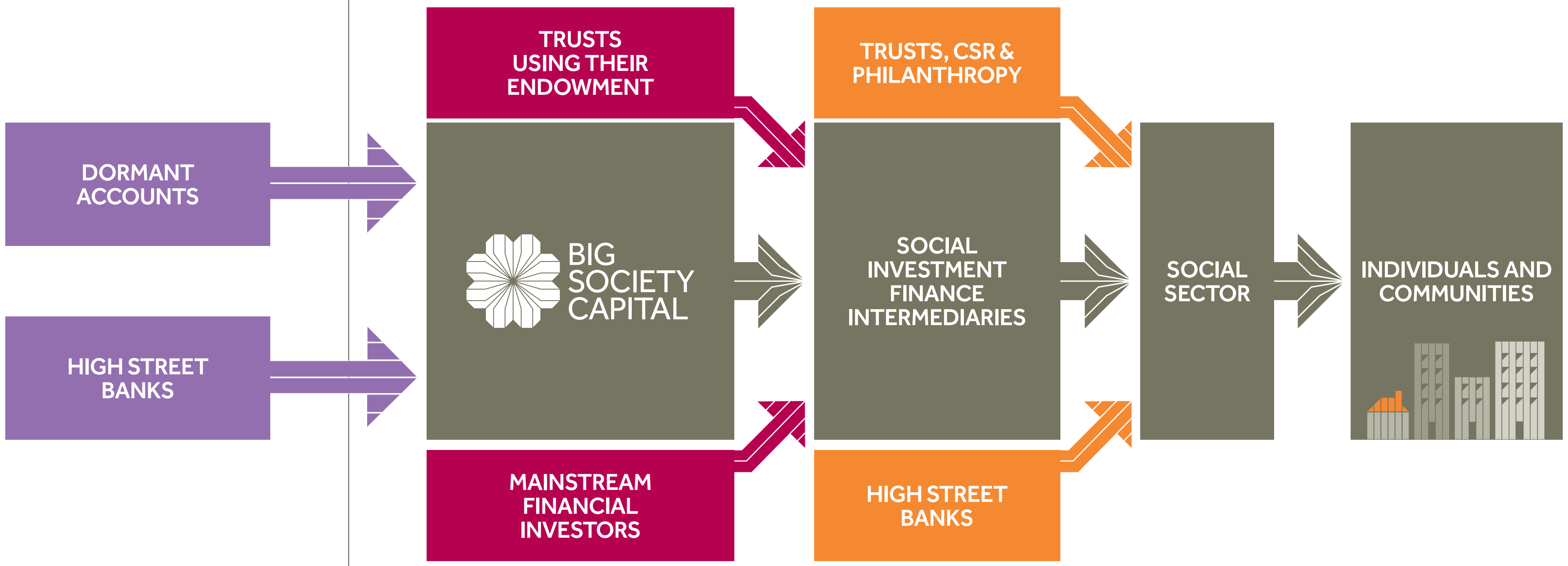
I am very proud of the team we have assembled, the quality of work they do and the commitment they bring to our mission every day. Developing this market is a long-term project. When we look at the list of the hundreds of charities and social enterprises that have accessed social investment, we see how much potential there is and how much difference having access to social capital has made to the people supported by these organisations. Through our championing activities, the power of our capital, our own work, as well as through catalysing partnerships with others, we have the opportunity to magnify that impact many times over in the years ahead.

Nick O'Donohoe

We see how much potential there is and how much difference having access to social capital has made to the people supported by these organisations

ABOUT BIG SOCIETY CAPITAL

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



We are doing this by encouraging investors to lend or invest money to achieve a social as well as a financial return.

We have two roles:

1. We act as a champion for the social investment market to increase awareness of, and confidence in, social investment. We do this by encouraging other organisations to engage with the market, developing research that builds our understanding, improving the measurement of social impact, and advocating for an appropriate policy environment.

2. We are also an investor that provides capital to social investment finance intermediaries (SIFIs) (such as fund managers or specialist banks serving the sector) that in turn provide finance and support to charities and social enterprises. We aim to demonstrate that the social investment model is sustainable through our own portfolio. By investing in intermediaries, rather than directly in charities and social enterprises, we are looking to build a diverse market of finance providers without undercutting the existing providers of finance to the sector.

Our principles

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, which have capped shares of 40%.

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 SIFIs including organisations providing market infrastructure.

Our vision for social investment

Social investment is the use of repayable finance to achieve a social as well as a financial return. 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. An increasing number of them want to use repayable finance to help them increase their impact on society, for example by growing their organisation and extending their reach, providing working capital for contract delivery, or buying assets.

We know that a diverse social investment market can generate significant social value for the UK. We have a clear vision for how to make this happen:

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

Provide capital that allows the most innovative approaches to tackling social problems to quickly grow and replicate: We want to ensure social entrepreneurs tackling the most entrenched social problems can access the capital they need.

Build mass participation in social investment: We want ultimately to see millions of people contribute to social change through their personal finance choices – and thousands of grassroots organisations able to access the finance they need to support their local communities.

Bring far greater financial scale in the financing of social issues: We believe some social organisations can be larger, the social economy should play a bigger part in the overall economy, and mainstream financial institutions can play a greater role in providing and channelling capital to social causes.

KEY PERFORMANCE INDICATORS

We have a range of key performance indicators (KPIs) that we use to evaluate both the social investment market and our organisation's performance. The figures below show our KPIs at 31 December 2014.

Money reaching charities and social enterprises

£104m

Cumulative amount drawn down from Big Society Capital and our co-investors:

Of this £104m

£36m

has come from Big Society Capital's own funds

£68m

from our co-investors

This is how the drawdown has been divided/used (we have based our calculations on Big Society Capital's drawdown):

31%

is into property, mainly to help charitable service delivery. For example, Resonance's Real Lettings Property Fund has helped St Mungo's Broadway get more homeless people and families into suitable accommodation

20%

is into critical social investment infrastructure such as ClearlySo and Charity Bank. These organisations have already lent or arranged approximately four times the amount of our original investment, and we expect this to keep increasing[1]

20%

is loans and equity into asset-locked organisations (charities, community interest companies, community benefit companies and companies limited by guarantee) and co-operatives

9%

is helping charities deliver services using Social Impact Bonds

8%

has been invested in profit with purpose enterprises[2]

12%

The balance of funds is split roughly equally between management fees paid to SIFIs and cash balances remaining on their balance sheets

[1] Lending and arranging from our infrastructure investments such as Charity Bank is not counted in the £104m drawdown total.

[2] We have a Governance Agreement that describes the circumstances in which our capital can flow to for-profit organisations.

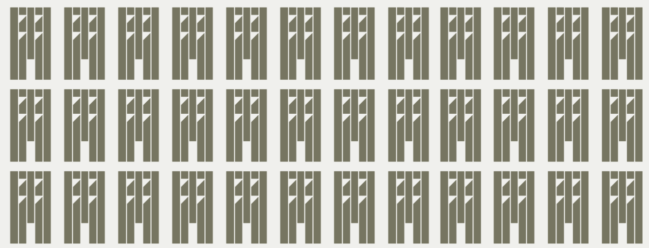
Money available to charities and social enterprises

Cumulative amount of investments signed by Big Society Capital and our co-investors:

£359m

Across

36 different investments.



Of this

£158m

is Big Society Capital's money

£201m

is from our co-investors

When an investment is legally signed, it is then available to SIFIs to invest into charities and social enterprises.

Our major categories of co-investors include:

UK charities and foundations (25%)

UK Government agencies (15%)

Funds (international and UK) (12%)

UK banks (8%)

UK pension funds (5%)

Other (including international investors and private individuals) (35%)

Money available for us to invest

Capital received from the Reclaim Fund and banks:

£305m

This is the amount of capital that we have received from our shareholders, and therefore the total amount available to us to invest.

Of this £305m

£180m

has been committed in principle

£158m

has been signed

£36m

drawdown[3]

[3] In the future, we will focus on reporting drawdown and signed levels of investment. We will place less emphasis on reporting 'committed-in-principle' investment (as we did in 2012 and 2013). We will also report unaudited KPI results every six months.

OUR THEORY OF CHANGE

Our theory of change sets out how we as an organisation contribute to building the social investment market, and in turn drive greater impact and social change.

	INPUTS	ACTIVITIES	OUTPUTS
AS CHAMPION	**Staff resource** **Communication, research, events**	**1 Connect knowledge and networks** Social, Financial, Business and Government Sectors	• Increased proposals for use of social investment • Enterprise and impact capability support • Social investment products part of mainstream investment portfolios transitioning to impact
		2 Communicate Research, tools and examples of social investment	• Sharing social investment best practice • Practitioner tools developed and updated • Communications tools developed and available
		3 Build broader supporting environment Infrastructure, regulatory and public policy work	• Supportive public policy environment • Greater participation by social sector organisations in public sector commissioning • Investments in market infrastructure
AS INVESTOR	**Staff resource** **Capital** **Returns** – recycled funds	**1 New proposals** Partnerships, research and challenge prizes	• Healthy Big Society Capital pipeline • Healthy intermediary pipeline • Increased knowledge, resources and networks for social investment
		2 Assessment and co-development Analysis and capacity building	• Increased impact and investment readiness of intermediaries • Increased growth and sustainability of intermediaries • Increased understanding of how capital can be used to create impact through sustainable models
		3 Portfolio performance management Business development, training programmes, non-exec roles and impact reporting	• Appropriate deal and portfolio level indicators • Improved intermediary impact strategy capability, decision-making and performance • Appropriate exit and realised return

OUTCOMES

Growth in the social investment market across our four strands:

- Finance for small and medium-sized charities and social enterprises
- Capital that allows innovation in tackling social problems to quickly grow and replicate
- Mass participation in social investment
- Greater financial scale to finance social issues

Additional capability of charities and social enterprises

- Increase in appropriate capital reaching charities and social enterprises
- Greater charity and social enterprise capacity to grow revenues and impact
- Increase in charity and social enterprise retained earnings for reinvestment into greater impact

IMPACT

Additional social outcomes for vulnerable and disadvantaged groups across the UK due to receiving appropriate investment across:

- Housing and local facilities
- Citizenship and community
- Physical health
- Mental health and wellbeing
- Employment, training and education
- Financial inclusion
- Family, friends and relationships
- Arts, heritage, sport and faith
- Conservation of the natural environment

HOW THE SOCIAL INVESTMENT MARKET IS DEVELOPING

K10 is supporting young people through its apprenticeships programme. Many of its recruits are long-term unemployed people, 10% have a disability and 12% are ex-offenders.

OUTCOME AREA:
EDUCATION, TRAINING AND EMPLOYMENT

FINANCE FOR SMALL AND MEDIUM-SIZED CHARITIES AND SOCIAL ENTERPRISES

We want to see a social investment market where charities and social enterprises can access basic financial products to help them achieve their aims.

How we have contributed as an investor

We have now signed £55 million of investments targeted at improving finance for small and medium-sized charities and social enterprises. So far, this has been matched by co-investment of £65 million, meaning by the end of 2014 there was £120 million of finance available for this part of the market to use.

In 2014, we saw a significant increase in the availability of simple loans through the closing and first drawdowns of our investments in Charity Bank and our loan funds. Charity Bank's lending activities accelerated through the year following our equity investment. In quarter four they approved 20 new loans of £13 million and a total of 60 new loans since our investment.

Highlighted investments are those signed in 2014

£950,000

Moneyline

Arranger/Manager:
Big Issue Invest

Investment in the largest personal lending Community Development Finance Institution in the UK.

£6,500,000

North East Social Investment Fund

Arranger/Manager:
North East Social Investment Community Interest Company / Northstar Ventures

Regional finance for charities and social enterprises in the North East of England. Developed in partnership with Northern Rock Foundation.

£14,500,000

Charity Bank

Arranger/Manager:
Infrastructure

Lending to small and medium-sized charities, community groups and social enterprises.

£8,000,000

Social Growth Fund

Arranger/Manager:
Social Investment Scotland

Regional finance for charities and social enterprises in Scotland looking for growth capital.

£15,000,000

Third Sector Loan Fund

Arranger/Manager:
Social and Sustainable Capital

Finance for social sector organisations that would not qualify for traditional secured lending. Developed in partnership with Social Investment Business.

£10,000,000

Social Impact Accelerator Loan Scheme

Arranger/Manager:
FSE Social Impact Accelerator Limited

Finance to social sector organisations that would not qualify for traditional secured lending.

FINANCE FOR SMALL AND MEDIUM-SIZED CHARITIES AND SOCIAL ENTERPRISES (CONTINUED)

How we have contributed as a market champion

- We aim to build a broad awareness and understanding of social investment among charities and social enterprises, mainly through working in partnership with sector umbrella bodies to support sector events. In 2014, we participated in sessions attended by more than 2,500 people across the UK, particularly facilitating peer-to-peer learning from charities that have already used social investment.
- We partnered with Community Investment Coalition, Citi and Unity Trust Bank to commission research to better understand the extent of lending by mainstream finance across the UK. We found that there is still a need for comprehensive and coordinated data to show which areas of the UK are not getting access to finance, so social investors can target them.
- We know that charities and social enterprises struggle to access smaller loans and finance. To address this we worked with Cabinet Office, Big Lottery Fund and Big Society Trust to support the setup of a new, independent foundation, Access (see box).

What else is happening in the market

- **Increasing demand:** Big Issue Invest's investments were two to three times higher than in previous years; Key Fund expanded further to cover the West Midlands and also completed a record number of investments; and CAF Venturesome has offered 38 new social investments over the year.
- **More early-stage support:** Programmes were launched to strengthen the capacity of smaller organisations to take on an initial social investment, including Big Potential and City Bridge Trust's 'Stepping Stones'.

Who else is investing

The high street banks have continued to increase their commitment to social investment. This includes the £10 million expansion of Royal Bank of Scotland's (RBS) commitment to the RBS Social and Community Capital Fund; Santander's £13.5 million investment into Social and Sustainable Capital Third Sector Loan Fund; and Barclays' £25 million internal Social Innovation Facility which is looking to drive a range of new solutions for the sector.

In addition, Charity Bank reopened its ethical cash ISA in 2014, and is aiming to attract £190 million in deposits from personal savers by the end of 2018. The Northern Rock Foundation also played a pivotal role in the establishment of the North East Social Investment Community Interest Company.

What we want to see next

Our priority is to continue helping smaller charities and social enterprises to access the small and simple social investments we know are important to them. We will do this mainly by working with Access.

We will also continue to: support the take-up of the Social Investment Tax Relief (see page 29); advocate for improved bank lending data; and push for sensible policy and regulatory improvements, including a Social Economy Commission and improved public procurement. We will continue to engage with charities and social enterprises and help signpost them towards social investment. We will have a particular focus on raising awareness and improving understanding of social investment among charitable trustees.

ACCESS

Access – the Foundation for Social Investment aims to strengthen the social sector by using grant capital to increase access to finance for organisations at earlier stages of developing trading models. It will deliver a wholesale blended capital programme to offer smaller and riskier investments to earlier stage ventures. It will also commission flexible, innovative capacity building programmes to support the social sector to become investment ready.

www.access-socialinvestment.org.uk

An organisation has to be at a certain capacity to take on social investment, but we always recommend that they move away from grant funding to something that is sustainable.

Derek Marshall
CEO, Factory Skatepark

FACTORY SKATE PARK
Social Investment Scotland
Education, Training and Employment

CAPITAL THAT ALLOWS INNOVATION IN TACKLING SOCIAL PROBLEMS TO QUICKLY GROW AND REPLICATE

We want to see a market where social investors provide a unique mix of capital and expertise that allows organisations with innovative solutions to grow and replicate.

How we have contributed as an investor

We have now signed investments targeted at this area totalling £44 million. This has been matched by co-investment of £57 million, meaning by the end of 2014 there was £101 million of finance available for this part of the market to use.

Some of our investments are helping address entrenched social issues, from increasing demand on social care services, to homeless young people. These issues have high costs for individuals and communities, as well as for the taxpayer. Our investments are supporting innovative charities and social enterprises to deliver early interventions that unlock longer term savings. We are beginning to see returns from the early Social Impact Bonds, and have invested directly in one new Social Impact Bond focused on youth homelessness.

In 2014 we invested in two additional areas: scaling family-based alternatives to home care and care homes for disabled people, and providing accommodation to destitute families. The venture funds are also increasingly getting money to innovative enterprises, providing them with capital to scale their solutions.

Highlighted investments are those signed in 2014

£8,000,000

Nesta Impact Investments

Arranger/Manager: Nesta Investment Management

Risk capital for social ventures using technology and innovation to support ageing well, educational attainment and sustainable communities.

£825,000

Essex Social Impact Bond

Arranger/Manager: Social Finance

Intervention for 11 to 17 years olds at the edge of entering care or custody, so that they can safely remain with their families. Delivered by Action for Children for Essex County Council.

£1,564,000

Department of Work and Pensions Innovation Fund Social Impact Bonds

Arranger/Manager: Social Finance / Impetus-PEF / Triodos Bank / 3SC

Social Impact Bonds to tackle youth unemployment: Energise, delivered by Adviza; ThinkForward, delivered by Tomorrow's People; Triodos New Horizons, delivered by Greater Merseyside Connexions Partnership; and 3SC Capitalise, delivered by Dyslexia Action and include (a subsidiary of Catch22).

£10,000,000

Bridges Social Impact Bond Fund

Arranger/Manager: Bridges Ventures

Finance for social sector organisations to improve social outcomes through payment-by-results contracts.

£1,000,000

FranchisingWorks Licence Fund

Arranger/Manager: Shaftesbury Partnership

Finance to enable unemployed and financially excluded people to set up their own franchise businesses.

£1,000,000

It's All About Me Social Impact Bond

Arranger/Manager: Consortium of Voluntary Adoption Agencies / Baker Tilly

Targeted interventions to support families adopting harder to place young people.

£15,000,000

Impact Ventures UK

Arranger/Manager: LGT Venture Philanthropy and Berenberg Bank

Growth capital for social enterprises that will improve the lives of disadvantaged people in the UK.

£3,000,000

Technology Spin-out Fund

Arranger/Manager: Local Partnerships

Loans to health and social care spin-outs for investment in technology to improve service delivery.

£1,050,000

Developing Empowering Resources in Communities (DERiC) CIC

Arranger/Manager: DERiC CIC

Loans to community-owned social enterprises that engage community supporters to improve social care services.

£550,000

Shared Lives Incubator

Arranger/Manager: Social Finance

Proof of concept fund to support the expansion of a community-based alternative to care homes for disabled adults in need of support.

£1,100,000

No Recourse to Public Funds

Arranger/Manager: Commonweal Housing

Finance for a housing project helping families and individuals facing destitution in the asylum system, delivered in partnership with Praxis.

£1,249,910

ClearlySo Limited

Arranger/Manager: Infrastructure

Growth finance to expand activities in raising capital for charities and business focused on impact, including investment readiness.

£100,000

Local Solutions SIB

Arranger/Manager: Social Finance

Cabinet Office and DCLG Fair Chance Fund to support vulnerable young homeless people in Merseyside.

[4] In 2014 Big Society Capital increased its investment in ClearlySo from £1,000,000 to £1,249,910

CAPITAL THAT ALLOWS INNOVATION IN TACKLING SOCIAL PROBLEMS TO QUICKLY GROW AND REPLICATE (CONTINUED)

How we have contributed as a market champion

- We launched the Business Impact Challenge to encourage more corporates to get involved with social investment (see box).
- We worked in partnership with AgeUK and London Economics to publish *Scaling up Solutions to Social Care*, a report that explores the role of social investment in tackling the challenges in social care. We will continue to take these discussions forward, bringing together social sector innovators, commissioners and investors.
- As of December 2014, there are now 23 Social Impact Bonds in the UK being used to tackle a range of social issues including homelessness, youth unemployment and children in care. This year we have worked with commissioners to develop new programmes and helped share knowledge.
- We increased our efforts with individual investors. We continued our sponsorship of the Worthstone Social Academy in its work with Independent Financial Advisers (IFAs), and also provided opportunities for IFAs to express their views on the new Social Investment Tax Relief. We increased our focus on supporting angel investor networks. For example, we sponsored a social investment conference organised by Angel News, and helped organise an event at 11 Downing Street through a new social angel steering group we co-founded.

What else is happening in the market

- New Social Impact Bonds launched: The Department for Work and Pensions, Ministry of Justice and Cabinet Office launched the £16 million Youth Engagement Fund that will test innovative interventions to help disadvantaged young people aged 14 to 17 and tackle the attainment gap. These interventions will be financed through Social Impact Bonds and help build up an evidence base of what works in reducing youth unemployment.
- More social incubators: The Cabinet Office set up a £10 million Social Incubator Fund, run by Big Lottery Fund. The Fund provided grants to ten social incubators, including The Health Social Innovators Fund, a partnership between UCLB, Healthbox, Numbers4Good, Trafford Housing Trust and Janssen Healthcare Innovation. Social Finance launched its Impact Incubator, backed by Esmée Fairbairn Foundation, Tudor Trust and City Bridge Trust. The first outcome areas identified are black and minority ethnic mental health inequalities, children leaving care and the rehabilitation of perpetrators of domestic abuse.
- Social angel networks expanded: With the support of the Big Lottery Fund, ClearlySo ran events for angel-level impact investors in the North and North-West, including Birmingham and Manchester, in addition to the London-based Clearly Social Angels network.

Who else is investing

Global insurer QBE made its first commitment to a Social Impact Bond investment in the UK. Other new investors include Greater Manchester Pension Fund, the European Investment Fund and Trust for London.

What we want to see next

Our priority is to find co-investment partners with whom we can address early-stage finance needs in specific sectors, such as technology, and/or channel capital towards targeted social outcomes, such as improving educational attainment or bridging inequalities in health and wellbeing outcomes. We hope to find exciting corporate partnerships through our Business Impact Challenge.

We will continue to support the development of the Social Impact Bond market. Our primary role is to ensure intermediaries have enough capital available to invest in new Social Impact Bonds that come to market, and we will keep under review the idea of capitalising a second, dedicated fund if demand requires it. We will also continue to engage with commissioners and share evidence emerging from programmes that are already up and running.

BUSINESS IMPACT CHALLENGE

BUSINESS **IMPACT** CHALLENGE

The Business Impact Challenge was launched to give private companies the chance to use their skills and resources to invest in social innovation through charities and social enterprises. The Challenge is an open competition for corporates to propose high-impact social investment ideas. We will match the leading proposal with up to £15 million and provide further advice and support.

www.businessimpactchallenge.com

GARFORTH NEIGHBOURHOOD ELDERS TEAM
DERiC
Mental Health and Wellbeing

Social investment may not be a magic bullet to 'solve' the social care crisis but we are convinced that it has an important role to play, and a bigger role than many have so far appreciated.

Caroline Abrahams
Charity Director, Age UK

MASS PARTICIPATION IN SOCIAL INVESTMENT

We want the UK social investment market to provide the opportunity for people and communities to engage and invest in the causes they care about. The market has the potential to create, and fund, new ways to change lives and improve local communities.

How we have contributed as an investor

We have now signed investments in this area totalling £17 million. This has been matched by co-investment of £13 million, meaning by the end of 2014 there was £30 million of finance available for this part of the market to use.

Community shares are an important way for people to get involved in shaping their communities by deciding which projects to back. Resonance's Community Share Underwriting Fund provides financial backing to community share offers and by providing its investment commitment early, gives confidence to other investors. The fund has made more than £3.5 million of underwriting offers so far and hopes to continue to back more community groups in the future as this form of financing becomes more mainstream.

This year we made our first investment into a crowdfunding platform, Spacehive. We believe this type of infrastructure is crucial in helping grassroots projects get off the ground. The success of these projects will inspire their leaders, some going on to become successful local social entrepreneurs.

Highlighted investments are those signed in 2014

£2,500,000

Affordable Homes Rental Fund

Arranger/Manager: Resonance Limited

Loans to Community Land Trusts and other community groups to provide rental properties for local communities at affordable prices.

£750,000

Community Generation Fund

Arranger/Manager: FSE Fund Managers Limited

Supports disadvantaged communities to develop community-owned renewable energy projects that create income for the community.

£1,000,000

Community Energy Fund

Arranger/Manager: Pure Leapfrog

Loans to community organisations in areas of high deprivation to pay for renewable energy equipment and energy efficiency measures.

£10,000,000

Community Investment Fund

Arranger/Manager: Social and Sustainable Capital

Invests in community-based organisations that are improving the lives of local people, particularly the vulnerable and disadvantaged. Developed in partnership with Social Investment Business.

£2,000,000

Community Share Underwriting Fund

Arranger/Manager: Resonance

Underwriting facility to community projects that do not manage to raise the target amount.

£600,000

Spacehive

Arranger/Manager: Infrastructure

Equity investment into the world's first crowdfunding platform for civic projects.

MASS PARTICIPATION IN SOCIAL INVESTMENT (CONTINUED)

How we have contributed as a market champion

- Social Investment Tax Relief, which we have been advocating for, became law (see box).
- Auto-enrolment and growing defined contribution pension funds offer potential for individual investors to direct their pensions to social causes. Despite evidence to suggest over 70% would want to, there aren't currently options to do this in the UK. We're working with the Social Market Foundation on how social pension products could work in the UK and what support is needed to promote take-up.

What else is happening in the market

- More invested in community shares: There have been almost 250 community share offers since 2009, which have raised over £50 million from around 50,000 members. In 2014 alone there were 60 offers, targeting an overall investment of £30 million.
- New funding for communities: Big Lottery Fund announced a programme called Power to Change, bringing £150 million in grants to fund community enterprise. It is expected to be up and running in 2015.
- Developments in community energy: There have been some key developments in community energy. These include the publishing of the UK Government's first-ever Community Energy strategy; the launch of Community Energy England; and the Green Investment Bank gaining approval from the European Commission to expand its investment mandate to include community-scale renewables.

Who else is investing

There are an increasing number of individual investors putting money into community shares and crowdfunding. These investors are being backed by charitable foundations and impact investment funds. The Community Share Underwriting Fund received investment of £0.5 million from Barrow Cadbury Trust, Panahpur, Friends Provident Foundation and the Golden Bottle Trust, alongside an initial investment of £0.5 million from Esmée Fairbairn Foundation. Big Society Capital's investment in Spacehive was matched by the SI² Fund.

What we want to see next

It can be harder for community organisations and small charities to access certain types of social investment due to a lack of resources and difficulty generating repayments. Community shares and crowdfunding can be better forms of finance for these organisations as they offer the opportunity for local people and groups to get involved. We will continue to look for ways to support the locally and community-driven investment market. We hope to build our investments in, or partner with, more crowdfunding platforms for example.

We will look to see how Social Investment Tax Relief can help channel more appropriate finance to communities, particularly for community share issues no longer able to access other venture capital schemes. And we will push for sensible improvements to the financial promotions legislation that will enable retail investors to hear about and invest in local social organisations.

SOCIAL INVESTMENT TAX RELIEF

The Social Investment Tax Relief became law in 2014, a watershed moment that could result in significant amounts of new investment. In 2014 two organisations secured new social investment using the Relief: FareShare South West and FC United of Manchester. We are working with partners to raise awareness of the Relief and improve people's knowledge of how it works. We have also advocated expanding the scheme through raising the investment cap to £5 million and creating new Social Venture Capital Trusts. Both were agreed to by the UK Government in the Autumn Statement 2014, and are now waiting to be approved by the European Commission.

STOCKWOOD COMMUNITY BENEFIT SOCIETY
Resonance's Community Share Underwriting Fund
Citizenship and Community

Community Share Offers are empowering local community groups around the country to get beneficial projects off the ground, and reconnecting smaller investors with tangible investments in their own communities.

Simon Chisholm, Investment Director of Resonance

GREATER FINANCIAL SCALE TO FINANCE SOCIAL ISSUES

Some social intervention models that use property or capital-intensive assets require large amounts of capital. Using high-volume intermediaries and public markets, we aim to get institutional investors to fund capital-intensive interventions, such as building new housing or addressing large-scale healthcare challenges.

How we have contributed as an investor

We have now signed investments targeted at this area totalling £42 million. This has been matched by co-investment of £66 million, meaning by the end of 2014 there was £108 million of finance available for this part of the market to use.

We acted as the cornerstone investor to several larger funds that are attracting institutional investors. The Cheyne Social Property Impact Fund is looking to raise £300 million from institutional and high net worth investors. The Real Lettings Property Fund completed its second close in December 2014, taking the total fund size to £46.5 million, including further investment by a local authority, Croydon Council, which is a first for local authority direct investment in an impact fund of this kind.

We continue to help develop the charity bond market in the UK and launched the £10 million Charity Bond Support Fund with investment manager Rathbones. Following further investment from us, Social Stock Exchange, in partnership with the Recognised Investment Exchange ISCX, launched a fully regulated stock exchange for social purpose businesses. We also used our Treasury portfolio to provide cornerstone investment in 2013 to the Threadneedle Social Bond Fund, run in partnership with Big Issue Invest.

Highlighted investments are those signed in 2014

£15,000,000[5]

Real Lettings Property Fund

Arranger/Manager:
Resonance Limited

Residential property fund to buy and lease properties to Real Lettings, the lettings arm of homeless charity St Mungo's Broadway.

£12,000,000

Social Property Fund

Arranger/Manager:
Cheyne Capital

Provides properties that social sector organisations use to deliver frontline services

£10,000,000

Charity Bond Support Fund

Arranger/Manager:
Rathbones

Backstop facility for new charity bond issues.

£2,700,000

Foundry

Arranger/Manager:
Ethical Property Company

Affordable office space for social organisations in Vauxhall, London.

£1,137,771[6]

Social Stock Exchange

Arranger/Manager:
Infrastructure

Connects social impact businesses with investors looking to generate social or environmental change as well as financial return from their investment.

£875,000

Social Investment Market CIC

Arranger/Manager:
Investing for Good

Secured loan facility to underwrite the inaugural issue of a fixed income bond by disability charity Scope.

5 In 2014 Big Society Capital increased its investment in the Real Lettings Property Fund from £5,000,000 to £15,000,000

6 In 2014 Big Society Capital increased its investment in the Social Stock Exchange from £850,000 to £1,137,771

GREATER FINANCIAL SCALE TO FINANCE SOCIAL ISSUES (CONTINUED)

How we have contributed as a market champion

- In September, the Social Impact Investment Taskforce, which was established under the UK's Presidency of the G8, reported on the policy and investment reforms needed to build a thriving international social impact investing community. We contributed in several ways, including Chairing the UK Advisory Board which shared the UK's unique lessons from developing a social investment market to help other countries.
- Following the success of the Local Authority Pension Fund Investment4Growth initiative we continued to work with motivated funds, such as Greater Manchester, to identify investment opportunities. Events such as the PIRC Annual Conference have given us a platform to engage with a wider group of pension funds. We have also used the report of the G8 Asset Allocation working group to encourage insurance companies and asset managers to examine how they could include impact investments within existing asset class allocations. As part of our plan to see more regulated retail social investment funds launched, we are talking to several fund providers about how they can help.
- We worked with charities and mutuals bidding to become prime contractors for probation services in the Ministry of Justice's Transforming Rehabilitation Programme. We are continuing to work with government to ensure procurement lessons are learnt from the unsuccessful bids, and will continue to make finance available to sub-contractors.

What else is happening in the market

- The charity bond market took significant steps in 2014. Allia launched its Retail Charity Bond plc issuance platform, in association with the investment bank Canaccord Genuity. This was followed by the platform's successful first issue, Golden Lane Housing's £11 million seven-year transaction.

Who else is investing

Some local authorities are proving to be early-adopters of impact investment. Warwickshire County Council invested £40 million in the Threadneedle Social Bond Fund and Croydon's investment helped to take the Real Lettings Property fund to £46.5 million. Insurance company Legal & General has set up an innovative partnership with Patron Capital to invest in social real estate projects and investment company Royal London Asset Management made its first charity bond investment.

What we want to see next

In 2015 we will continue to look for ways of bringing mainstream financial institutions into social investment. There's more scope for the pensions industry to deepen its involvement, such as providing a social option to everyone in a workplace pension scheme. The role of UK banks is also critical, and we will continue to work with a range of banks on their social investment strategies.

We will also help the social sector compete for large government service contracts. This may involve looking at 'social prime contractor' options in preparation for Work Programme Plus, as well as ensuring government procurement processes and commercial terms are feasible for social sector organisations to work with.

Some areas such as housing and social care could be tackled through social property funds focused in a particular area. We plan to work with both social sector service providers, commissioners and social investors to develop future sources of investment to help address these areas.

REAL LETTINGS PROPERTY FUND
Resonance
Housing and Local Facilities

We secured some very positive publicity in relation to the bond issue. This has raised awareness about learning disability and may have helped to challenge stereotypes and change attitudes.

Alastair Graham, CEO, Golden Lane Housing

SOCIAL IMPACT

The Shared Lives alternative model of care recruits and trains families to provide support for vulnerable adults in their own home. It is estimated to save local authorities up to £26,000 per person each year compared to traditional services.

OUTCOME AREA:
MENTAL HEALTH AND WELLBEING

OVERVIEW OF OUR SOCIAL IMPACT

TARGET OUTCOME AREAS OF INVESTMENTS

Some of our investments focus on specific social outcomes, while others will provide finance across a broad range of outcome areas. We also have a small number of investments targeted at market building infrastructure.

Outcome area	Investments
Housing and local facilities	Resonance; propertyfund; Cheyne Capital; Commonweal Housing
Citizenship and community	Resonance; DERiC; Nesta Impact Investments; Commonweal Housing; Community Investment Fund; leapfrog; FSE Group; Spacehive
Physical health	Local Partnerships; DERiC; Nesta Impact Investments; Investing for Good
Mental health and wellbeing	Local Partnerships; DERiC; Nesta Impact Investments; Investing for Good
Education, employment and training	Franchising Works; thinkforward; Nesta Impact Investments; connexions; adviza; 3SC; Local Solutions
Income and financial inclusion	Franchising Works; Big Issue Invest
Family, friends and relationships	iaam; action for children; Social Finance
General	IGF; Berenberg; SASC; FSE Group; SIS; Bridges Ventures; North East Social Investment Fund; Charity Bank
Infrastructure	Social Stock Exchange; ClearlySo; The Foundry; Rathbones; resonance
Arts, sport, heritage and faith	These have not been priority outcome areas for Big Society Capital so far
Conservation of the natural environment	These have not been priority outcome areas for Big Society Capital so far

OUTCOME AREAS

Charities and social enterprises using social investment to support social outcomes

	From investments[7]	From investments plus infrastructure organisations[8]
Housing and local facilities	13%	16%
Citizenship and community	37%	19%
Physical health	5%	8%
Mental health and wellbeing	6%	7%
Employment, training and education	20%	28%
Income and financial inclusion	3%	3%
Family, friends and relationships	16%	8%
Arts, heritage, sport and faith	0%	6%
Conservation of the natural environment	0%	5%

BENEFICIARY GROUPS

Charities and social enterprises using social investment to support specific beneficiary groups from our investments

Beneficiary group	%
Multiple groups	45%
Vulnerable young people and those not in education or employment	14%
Vulnerable children	17%
People in long-term unemployment	6%
People living in poverty or financial exclusion	5%
Homeless people	3%
Older people	3%
People with mental health needs	3%
People with long-term health conditions	2%
People with learning disabilities	2%

[7] Includes investments through Funds, Charity Bonds and Social Impact Bonds from our capital.

[8] As above, plus investments from Charity Bank and organisations which have raised capital through ClearlySo.

WHERE OUR INVESTMENTS ARE MAKING A DIFFERENCE

Physical health

Rugby
Find out more on page 52

"The sessions have made a huge difference to my arthritis, I feel more able to get out and about and also have lots more flexibility and energy."

Mary, 92 (Oomph!)

Northern Ireland

1ST

Find out more on page 52

The first investment has been made into a local community group to provide an alternative model of care for older people who receive personal budgets (DERiC).

Income and financial inclusion

Surrey

100 ADDITIONAL FAMILIES

Find out more on page 58

100 additional families and individuals received free or low-cost household furniture and appliances (Furnistore).

Wales and East Lancashire

2,095

Find out more on page 58

2,095 savings accounts were opened during 2014 by financially excluded people (Moneyline).

Housing and local facilities

Glasgow

150 NEW HOMES

Find out more on page 48

34 new homes are available for low-income tenants, with 120 more homes planned in the next two years (Homes for Good).

Nottingham
Find out more on page 48

"He's always been a homely person and this really is home. He's settled which is what I wanted before the dementia makes his memory fade further."

Roger's Father (Golden Lane Housing)

Employment, training and education

Cardiff

160 YOUNG PEOPLE

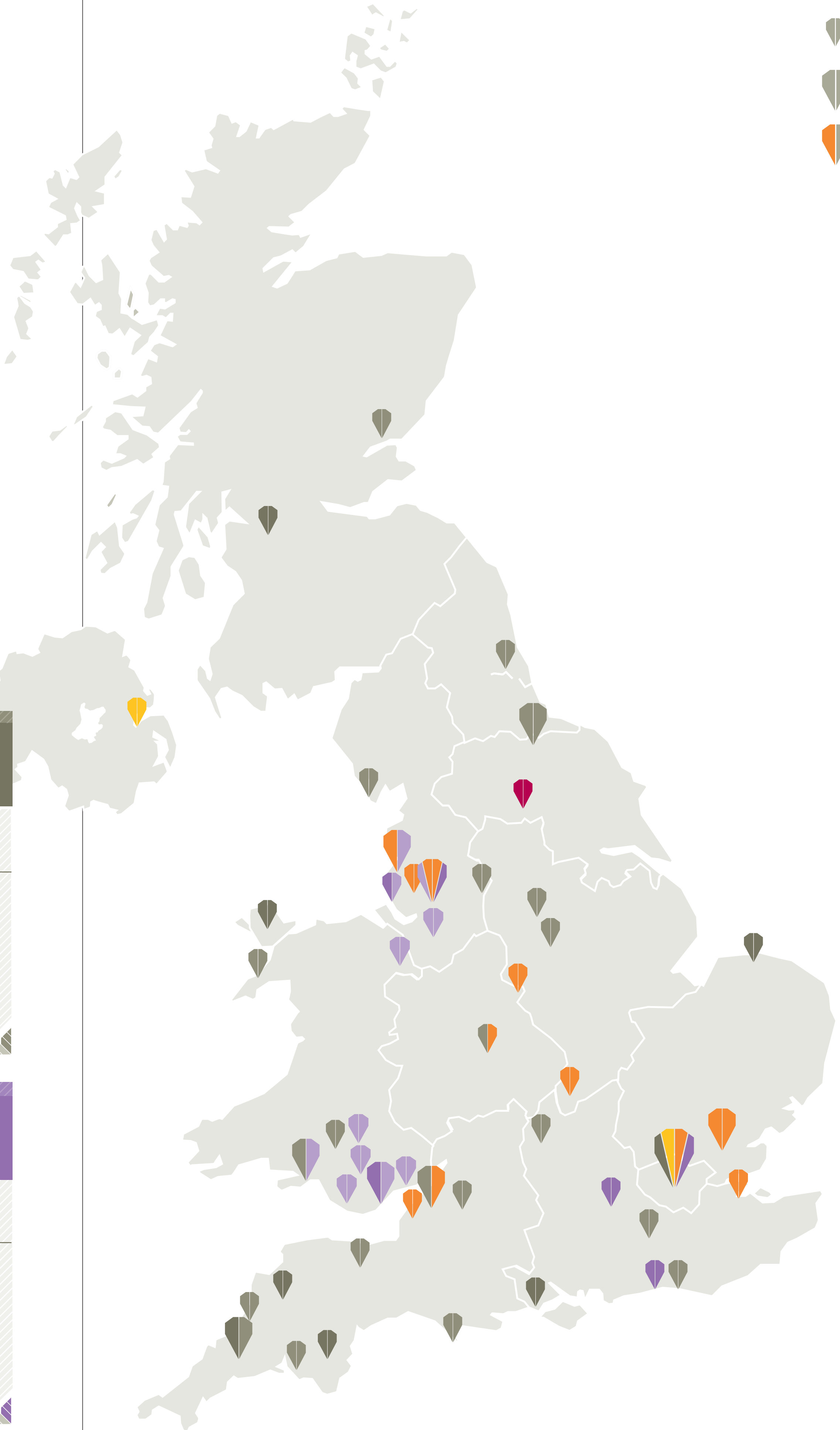
Find out more on page 56

160 young people are now in education or employment, out of a group of 172 identified as high-risk of dropping-out (3SC Capitalise SIB).

London
Find out more on page 56

"Because of my apprenticeship, the way I think about everything is completely different. I've got a lot more drive and determination. Now I come to work to learn."

Richard, 21 (K10)



KEY

Investment location

Investment location with multiple investments

Investment location with multiple oucome areas

This map does not highlight UK-wide projects and organisations such as Scope and Ffrees, or digital projects such as Big White Wall and Buddy App.

Citizenship and community

Norfolk (Homes for Wells)
Find out more on page 50

Family, friends and relationships

Essex

81 YOUNG PEOPLE

Find out more on page 60

By the end of 2014, 81 young people had completed the MST programme. 65 of these (80%) remained at home with their families, saving 6,188 care days (Essex SIB).

Mental health and wellbeing

Harrogate (Harrogate Skills 4 Living)
Find out more on page 54

OUR IMPACT APPROACH

ENERGISE SOCIAL IMPACT BOND
Education, Training and Employment

Achieving a positive social impact sits at the core of our approach to investing. To achieve this we continue to build on and develop our approach to impact.

THE PROBLEM WE ARE TRYING TO SOLVE

There are many intractable social issues that affect millions of people in the UK including poverty, homelessness and unemployment. Thousands of charities and social enterprises help to address these issues through their expertise, experience and innovation, but many can find it difficult to access finance to develop sustainable delivery models or grow their services.

Our priority is to increase access to social investment for social sector organisations so they can improve the lives of vulnerable and disadvantaged people in the UK. We believe that growing the social investment market will ultimately drive greater impact and positive social change.

Greater access to finance enables social sector organisations to improve or scale existing sustainable delivery models or develop and grow new ones. The impact of a social investor is the additional change that happens as a result of their investment which would not have been achieved without it. As a wholesale investor, our social impact is the additional outcomes that social sector organisations can deliver as a result of accessing finance from the organisations that have received our capital.

Our impact activity covers three key areas: delivering impact, building evidence and sharing learning so that successful models to deliver social change can be replicated. Each of these areas supports the activities in our theory of change (see page 14).

DELIVERING IMPACT

Identifying how social investment can address social need

Using external research, case studies and input from experts and practitioners, we have explored how social investment can address the social issues identified in our Outcomes Matrix (see page 44). We have shared our findings in our Social Investments Insights Series (available in the Research Library section of our website) and we welcome feedback. Over the next year we will develop this work to further highlight effective business models that can use social investment to deliver social change.

Our approach to investing has adapted over time, from being heavily responsive to demand from the market, to being more proactive. We now actively seek partners to originate or co-design proposals which address specific social issues and fill gaps where social finance isn't available.

Assessing social impact in potential investments

We want to make sure that the organisations we invest in have a strong understanding of how they and their investees will deliver social impact. Our Pre Due Diligence Screen helps us to quickly identify proposals which do not meet our investment criteria before they reach full due diligence stage.

The Pre Due Diligence Screen covers:

STRATEGIC FIT

We want to ensure proposals will positively contribute to our four key strategic strands and vision for the social investment market.

SIGNIFICANT IMPACT

We look at a priority subsection of our impact tests, allowing us to quickly judge the impact potential of proposals. This is described in more detail on page 42.

BUILDING THE MARKET

We assess how proposals will address market failure, help build a strong intermediary landscape, bring in new sources of capital and have increased reach, either geographically or by sector.

RETURN POTENTIAL

Every proposal we consider needs to be sustainable and produce a moderate return.

The social impact of potential investments is assessed against our Social Impact Tests (see page 42). These tests are based on existing best practice in the sector. They can also be used by intermediaries to assess the potential social impact of proposals which they receive from charities and social enterprises.

The Social Impact Tests can be applied flexibly to assess both general deals which cover a wide range of social outcomes and specific deals which focus on a particular social outcome. With issue-specific deals, we would expect to see a detailed understanding of the social need and how it would be addressed.

Social impact area	Questions	Specific tests
Misson	What is the promise of change?	Strategy Context
Impact	What is the extent of change that will be delivered?	Depth or breadth of impact Impact yield/ beneficiaries reached Innovation and change Frontline organisational development
Governance	What is the management of change?	Mission locks Board/ Investment Committee Exit
Activities	How will the SIFI deliver its mission?	Track record Management Congruency and alignment
Impact assessment and measurement	How will the SIFI evidence the change it is making and learn from it?	Impact assessment and screening Planning and targeting Monitoring and reporting Auditing Learning

Balancing impact, financial return and market development priorities

All proposals are assessed against our three investment criteria: social impact, financial return and the potential to develop the social investment market. In making a decision to invest, we often have to make trade-offs between these three factors. When a proposal performs lower on one aspect, its combined score across the other two may still result in a positive decision. For example, an infrastructure investment may perform well on market development potential, as it is helping to bring capital into the social investment market, but may not perform as well on social impact, as it is not directly investing into social sector organisations. In contrast, an investment into an early-stage pilot addressing entrenched social need could perform highly on social impact but may not deliver strong financial performance, given the high risk nature of early stage sub-scale businesses.

Intermediaries' approaches to assessing social impact

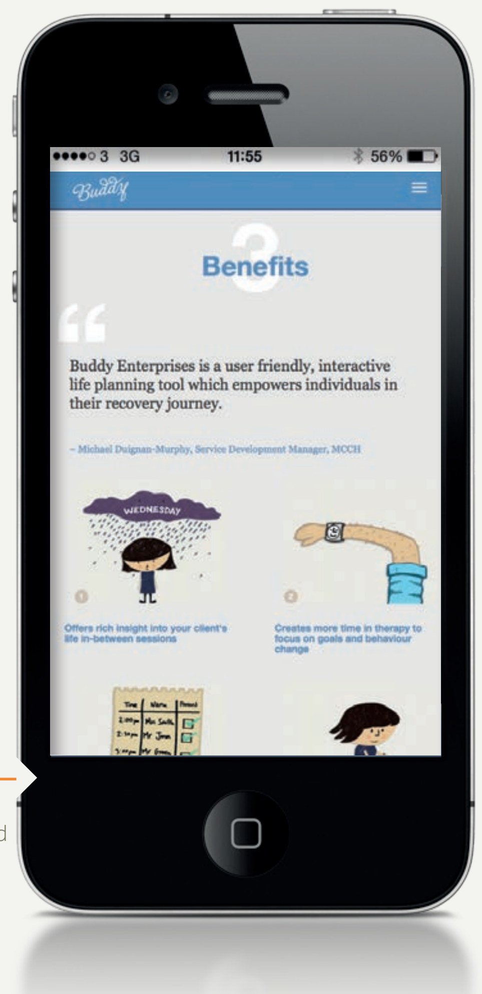
As part of our due diligence process we look at how our intermediaries will assess the impact of proposals they receive from charities and social enterprises. We expect them to use robust processes – these can either be based on our Social Impact Tests or their own methodologies. The level of information that intermediaries require from charities and social enterprises may vary according to the type of investments they offer. For example, an equity fund may require more detailed information about the social impact from a potential investee compared with a fund which offers small loans.

CASE STUDY

IMPACT VENTURES UK

Impact Ventures UK is a £36 million social impact fund that was launched by LGT Venture Philanthropy (LGT VP) in association with Berenberg.

The fund was set up to invest in enterprises that create strong, positive social impact for disadvantaged people and communities in the UK, as well as generate a financial return. The proprietary impact assessment is based on LGT VP's global impact investment approach developed since 2007. As an impact investor with a mission "to improve the sustainable quality of life of less advantaged people", creating positive social impact is at the core of LGT VP's work.



BUDDY APP which received investment from Impact Ventures UK

LGT VP differentiates between two levels of impact:

1 Direct attributable social / environmental impact on less advantaged people

LGT VP established an Impact Assessment Framework to:
1) assess the impact potential of new organisations for an informed investment decision;
2) support investment managers and social entrepreneurs to understand and improve their social performance; and
3) provide evidence on social change.

2 LGT VP's impact (additionality)

LGT VP compiles a clear view on the added value that they could provide to new investments. Only if the team and board are convinced that their financial and non-financial support enhances an organisation's potential to create significant positive impact would LGT VP decide to engage.

LGT VP mainly measures two dimensions of impact: the reach of impact (i.e. number of people directly reached) and the depth of impact (i.e. positive change in quality of life). The depth of impact defines the qualitative benefits of solutions, based on the five constituents of human wellbeing: material, physical and social wellbeing, security and freedom of choice.

LGT VP builds on international accepted systems, standards and methodologies such as IRIS (Impact Reporting and Investment Standards) and Pulse to manage and report on social performance.

Our Outcomes Matrix provides a single framework to help organisations define and measure their social impact

BUILDING EVIDENCE

Charities and social enterprises differ from other businesses as their priority is to effectively deliver change for society. This can only be done by having a deep understanding of how their business models can create change, measuring and monitoring key data and ensuring that feedback is used to improve service delivery and maximise impact.

As our portfolio grows, we will be gathering evidence about the successes and challenges of different social interventions. This will help us to develop a deeper understanding of impact risk in the social investment market. For example, do tried and tested interventions with a good evidence base have a low impact risk compared to organisations which are delivering an innovative but untested approach? It is also important to test the efficacy of how different models of intervention compare with one another as evidence of impact continues to grow.

Some investors are willing to accept a lower financial return due to the potential social impact that can be achieved by social sector organisations that have received investment, so evidencing the social change that has been achieved for this discount is important for them.

Impact resources

Our Outcomes Matrix provides a single framework to help organisations define and measure their social impact. It was developed in partnership with our intermediaries, charities, social enterprises and impact experts and provides outcomes and corresponding measures for the following nine areas:

Big Society Capital Outcomes Matrix
available at www.bigsocietycapital.com

- **Employment, training and education**
- **Housing and local facilities**
- **Income and financial inclusion**
- **Physical health**
- **Mental health and wellbeing**
- **Family, friends and relationships**
- **Citizenship and community**
- **Arts, heritage, sport and faith**
- **Conservation of the natural environment**

We are currently improving our tools and resources to help organisations track their social impact including making the online Outcomes Matrix more user-friendly. We have also supported the Cabinet Office's Social Impact Readiness Fund, which is being delivered by the Social Investment Business and aims to improve the impact capability of charities and social enterprises that want to win contracts or raise investment.

DEPUAL UK FAIR CHANCE FUND
Bridges Social Impact Bond Fund
Family, Friends and Relationships

Monitoring social impact in deals

It is important for us to measure and monitor the impact of our investments to ensure they are achieving their intended impact. This will also give us evidence of what is working, that we can use to help the social investment market grow.

We aim to set a proportionate approach to monitoring the impact of our investments. The level of detail we require generally varies according to the type of investment. Some investments publish public impact reports on an annual basis, whereas others may produce quarterly internal management reports. Over time, we would like to see greater transparency in the social investment market with impact information publicly available so that others can learn from it.

We are currently reviewing our impact monitoring process and aim to gather more systematic impact data from across our investments. This will help us to build a clear picture of the additional impact being delivered through our capital. We will track a baseline of variable core data across social sector organisations that receive investment from our intermediaries.

This will include:

- Mission
- Target beneficiary group
- Target outcomes
- At least one indicator per outcome, tracked over time against a baseline value
- Target value per indicator and performance against target (if applicable)

The indicators used will be mapped back to our Outcomes Matrix so we can build a picture about the impact being generated by charities and social enterprises across our portfolio. Some organisations already gather significantly more information than listed above, but others do not. These indicators will therefore form a minimum core standard for impact evidence across our investments.

Impact reporting requirements for intermediaries will vary depending on which area of our strategy they are addressing. For example, if an organisation has received an investment under the innovation strand of our strategy we want to ensure the impact delivered can be properly measured and evidenced, in order to prove the concept and help the idea spread and scale.

CASE STUDY

NESTA IMPACT INVESTMENTS

Nesta Impact Investments is a £17.6 million fund that aims to scale and evidence new ways of supporting ageing well, educational attainment, community inclusion and sustainability. Impact measurement is central to its strategy and having robust evidence is essential to show that an innovative approach is effectively addressing a social issue. Nesta's approach to impact spans the three stages of the investment cycle.

Nesta assesses potential impact in three ways:

1. Meetings with the venture team to understand their vision, motivation and strategy for impact.
2. Using Theory of Change to understand how the product or service links to the fund's target outcomes.
3. Carrying out a rapid evidence assessment, looking at any previous research that supports the venture's positive social impact.

Nesta works with investees to make sure impact objectives are included in the legal agreements. An impact plan is developed with investees which outlines the outcomes they intend to work towards in years one, two and three of the investment. The investee commits to delivering this plan when they receive funds.

Nesta works with investees to implement impact measurement by:

- Providing advice and support to investees on how to implement their impact plan
- Aiming to move investees up their Standards of Evidence. These standards outline levels of evidence that range from early stage evidence (Level 1) to robust replicable evidence (Level 5). Nesta works with ventures to move up these levels of evidence over time to increase confidence that their investments are having a credible and measurable impact.

SHARING LEARNING

We share learning across our portfolio to help highlight sustainable social business models, grow the social investment market and highlight good practice. As our evidence base continues to grow, we will share it with charities and social enterprises, investors and other stakeholders to help raise awareness about the potential of social investment to achieve social impact. We will also share learning about what approaches do not work to inform the development of the social investment market.

To start to help us achieve this goal, we recently developed a bank of case studies that highlight different social investment products and approaches for addressing social issues. We have also developed a series of short films about social investment and the impact that it can achieve for people across the UK.

Going forward, we want to gather and share evidence about effective business models for meeting specific social outcomes, identifying good practice from the social sector and showcasing more examples of social investment in action.

IMPACT ACROSS OUR NINE OUTCOME AREAS

Our capital is starting to make a difference to the lives of vulnerable and disadvantaged people across the UK. 135 diverse organisations have now received investment directly from our intermediaries or from fundraising support provided by our infrastructure investments.

These organisations are tackling some of the most entrenched issues in society for groups including homeless people, disabled people and people living in poverty or financial exclusion.

We define our impact as being anything additional that frontline organisations can now deliver as a result of taking on social investment from our intermediaries. For example, this could include purchasing an asset to deliver more services, buying property to support people at risk of homelessness or using working capital to deliver a Social Impact Bond.

This section provides an overview of social need, outlines approaches which are being used to deliver social impact and highlights emerging models to create change through social investment across the nine areas of the Outcomes Matrix.

OUR SOCIAL IMPACT IN HOUSING AND LOCAL FACILITIES

Outcome definition:

Individual: The person has a suitable and secure place to live, affordable utilities and access to local facilities and transport.

Community, sector and society: Investment and availability of different forms of tenure ensure that all housing needs can be met now and in the future.

21

Total number of charities and social enterprises that have raised investment.[9]

£41.5m

Total amount drawn down by charities and social enterprises.[10]

[9] From Big Society Capital or intermediaries funded by Big Society Capital

[10] Including finance from Big Society Capital, co-investors and deals arranged by intermediaries funded by Big Society Capital

[11] Housing and Social Investment, Social Investment Insights Series

[12] Homes for Good received investment from Impact Ventures UK

Social need

Nearly 1.7 million households are on social housing waiting lists and there are increased concerns about rising levels of homelessness and the poor quality of some private rented accommodation. There are also key groups, including older people and disabled people, who find it difficult to find suitable accommodation to meet their needs[11].

Social Impact

Our investments are supporting **affordable housing** models such as Homes for Good[12], which provides homes for people in Greater Glasgow who cannot access appropriate housing in the private-rented and affordable-housing sectors. So far 34 properties have been purchased and up to 120 homes will be available over the next two years. Other investments include: the Affordable Homes Rental Fund, managed by Resonance, providing finance to develop community-led affordable housing; and the Cheyne Social Property Impact Fund, buying and building properties to rent at affordable rates to social sector organisations.

The Real Lettings Property Fund is providing **transitional accommodation** for people who were formerly homeless or at risk of homelessness in London. The fund buys properties and leases them to Real Lettings, the social lettings arm of the charity St Mungo's Broadway. Over three years the fund aims to purchase 300 properties and has already bought 136 homes, housing 144 people. So far all clients have maintained their tenancies for over six months and are taking care of their homes.

Golden Lane Housing is using finance from charity bonds to provide **supported housing** for people with a learning disability. So far it has invested over £83 million to buy or lease 700 homes for 1,320 people with learning disabilities (see case study).

We are supporting **people with specific social needs** through Commonweal's No Recourse to Public Funds project. The project is testing a cross-subsidy model: income from accommodation let to families with vulnerable children applying for asylum is used to provide sustainable, free accommodation for those with irregular immigration status facing destitution with no recourse to public funds.

Emerging models to create change

There is demand for finance from organisations that deliver housing and local facilities, which could be supported by social investment. For example, supporting housing organisations that have the potential to scale up and attract large pools of capital, which also deliver clear social outcomes for vulnerable groups. Other areas include providing finance for innovative housing schemes that use cross-subsidy models, which provide affordable housing to low income households in acute housing need, or investing in organisations which generate other social outcomes along with housing, such as employment or training.

CASE STUDY

GOLDEN LANE HOUSING

Problem

Only 16% of the estimated 1.4 million people with a learning disability have a secure long-term tenancy or own their home. There is a lack of appropriate supported accommodation for people with a learning disability who often live in large institutions far away from their families, or stay with family members who are increasingly unable to provide the support they need.

How positive change is created

Golden Lane Housing was established by the charity Mencap to provide quality housing that is well maintained and in a good location, alongside a personalised package of support for people with a learning disability. Impacts for tenants include developing skills such as increased independence in the home, being able to choose more fulfilling activities and becoming more active in their communities.

Revenue model

£11 million was raised through Retail Charity Bonds plc.[13] This is being used to buy and adapt 30 properties. Rental income from the properties (including money coming from housing benefit) will be used to pay interest to investors and cover management and maintenance costs.

Impact

90% of tenants report a high level of satisfaction with their homes and are more confident and engaged in their local communities. The 2014 bond will enable Golden Lane Housing to provide high quality supported housing in the community for a further 120 tenants.

Theory of change:

INPUTS	ACTIVITIES	OUTPUTS	OUTCOMES	IMPACT
£11 million investment	30 new high quality homes	120 people with learning disabilities housed and supported	Improvements for people with learning disabilities in:	Sustainable housing solution
Personalised support			Independence	Reduced reliance on institutional care
			Physical wellbeing	
			Social inclusion	
			Individual choice	

[13] Retail Charity Bonds is an initiative from Allia, a community benefit society with exempt charity status, and established in association with Canaccord Genuity.

OUR SOCIAL IMPACT IN CITIZENSHIP AND COMMUNITY

Outcome definition:

Individual: The person lives in confidence and safety, and free from crime and disorder. The person acts as a responsible and active citizen and feels part of a community.

Community, sector and society: Stronger, active, more engaged communities.

26

Total number of charities and social enterprises that have raised investment.[14]

£14.6m

Total amount drawn down by charities and social enterprises.[15]

[14] From Big Society Capital or intermediaries funded by Big Society Capital

[15] Including finance from Big Society Capital, co-investors and deals arranged by intermediaries funded by Big Society Capital

[16] Communities and Social Investment, Social Investment Insights Series

[17] Criminal Justice and Social Investment, Social Investment Insights Series

[18] New Sandfields Aberavon received investment from Pure Leapfrog's Community Energy Fund

[19] Ecodynamic received investment from Resonance's Community Shares Underwriting Fund

[20] Homes for Wells received investment from Resonance's Affordable Homes Rental Fund

Social need

Vibrant and active communities are an essential part of society. Local people are often best placed to develop local solutions to problems in their communities, but can often lack access to capital or the right support to deliver positive social change. With the recent economic downturn and decline in public spending, many local services are being reduced or facing closure[16]. At the same time, crime is a concern for many communities in the UK, particularly as 45% of prisoners reoffend within 12 months of their release. Almost half of women and a quarter of men in prison suffer from anxiety and depression and between 20% and 30% of all prisoners have learning disabilities[17]. If these issues are left untreated they can have significant social and financial costs.

Social impact

In an ex-coal mining town in Wales, the New Sandfields Aberavon[18] Employment Academy is generating **new income from renewable energy** by installing solar panels. This has helped to reduce running costs and generate income that is used to deliver services for the local community. This includes training programmes and support to start-up local social enterprises, such as computer recycling centres and hair and beauty training.

Ecodynamic issued **community shares**[19] to raise capital to construct a wind turbine which will generate income to provide local food for people on low incomes and support apprenticeship schemes (see case study).

The process of being involved in community shares schemes or developing an asset can leave a lasting legacy by helping to develop the **skills, capacity and resources of local people**. For example, Homes for Wells[20] is using social investment to build eleven new homes for rent in Norfolk. The organisation has involved the local community in raising awareness of and demand for the scheme, which has also encouraged local people to become financial investors themselves.

Emerging models to create change

There are opportunities for social investment to support community energy schemes or provide capital for community investment funds to finance asset ownership or enterprise. There is also potential to support more community shares offers.

In the criminal justice sector, outcomes-based social investment could be used to support early intervention to ultimately reduce reoffending. There may also be opportunities for social investment to support organisations that are providing services through central and local government contracting, in areas such as education and training and improving family relationships. Social investment could also be used to scale high impact interventions in areas such as providing housing or employment opportunities for ex-offenders, using a similar approach to the Real Lettings Property Fund (see page 48).

CASE STUDY
ECODYNAMIC

Problem

Redruth was once the centre of Cornwall's mining industry. Today, two in five people are unemployed and the community faces challenges common in towns across the UK, such as fuel poverty and rising food prices.

How positive change is created

Community benefit society Ecodynamic believes it is possible to invest profitably in renewable energy, pay member investors fair returns and generate a surplus for reinvestment in community benefit. They have installed a wind turbine near Redruth to provide green energy and use the profit generated to invest in energy, food and grassroots projects that bring positive change to the local community.

Revenue model

The £350,000 needed for the project has been funded through a combination of community shares and loans, with the critical last piece of the financing from Resonance's Community Shares Underwriting Fund. The investment will be repaid from revenue from feed-in tariffs generated by the wind turbine which is estimated to be around £45,000 a year.

Impact

So far the wind turbine has generated 181MWh of low-carbon electricity, producing an income of £56,000. Profits will be reinvested to support organic, biodynamic farming and grassroots projects for community benefit. The projects will create local apprenticeships and provide high quality local food for families on a low income.

Investment will provide environmental and social benefits with government-backed, fair financial returns for member investors while significantly contributing to a co-operative social economy.

Robin Evans, Chair, Ecodynamic

OUR SOCIAL IMPACT IN PHYSICAL HEALTH

Outcome definition:

Individual: The person looks after their health as well as possible. The person recovers as quickly as possible, or if recovery is not possible, their health and quality of life are maximised.

Community, sector and society: Good general physical health across the population.

11

Total number of charities and social enterprises that have raised investment.[21]

£6.6m

Total amount drawn down by charities and social enterprises.[22]

[21] From Big Society Capital or intermediaries funded by Big Society Capital

[22] Including finance from Big Society Capital, co-investors and deals arranged by intermediaries funded by Big Society Capital

[23] Health and Social Care and Social Investment, Social Investment Insights Series

[24] Big Society Capital invested in the charity bond issued by GLL

[25] Oomph! received investment from Nesta Impact Investments

Social need

Services that support good physical health outcomes are under pressure due to factors including the ageing population, inequality and persistent long-term health conditions. The number of people with three or more long-term health conditions is expected to rise 50% by 2018, compared to 2008. And the average life expectancy varies by 17 years between different areas of socioeconomic deprivation[23].

Social impact

Greenwich Leisure Limited[24] (GLL) is helping **more people to take part in physical activity** by using finance from a charity bond to transform sport facilities, including the iconic London Aquatics Centre and Copper Box Arena at the former 2012 Olympic site (see case study). The venues generate income, for example through membership fees.

Oomph![25] is helping **older people stay healthy** by running specialist exercise classes in over 750 care homes. There are now a total of 140 active instructors in care homes across the UK and an average of 20 residents take part in sessions in each home. Everyone who completed resident surveys (100%) said that Oomph! has helped to improve their happiness and 96% felt that the activities improved their health.

Developing and Empowering Resources in Communities (DERiC) is providing an **alternative model of care** for older people who receive personal budgets. The help that people receive is supplemented by Community Supporters who are local people that want to put something back into their communities. Savings in care costs are split between the local authority and the delivery organisation, which uses the finance to help older people who do not qualify for statutory support. DERiC has now made its first investment into Creative Local Action Responses and Engagement (CLARE) in Northern Ireland. Further investments into other local community organisations are planned in 2015.

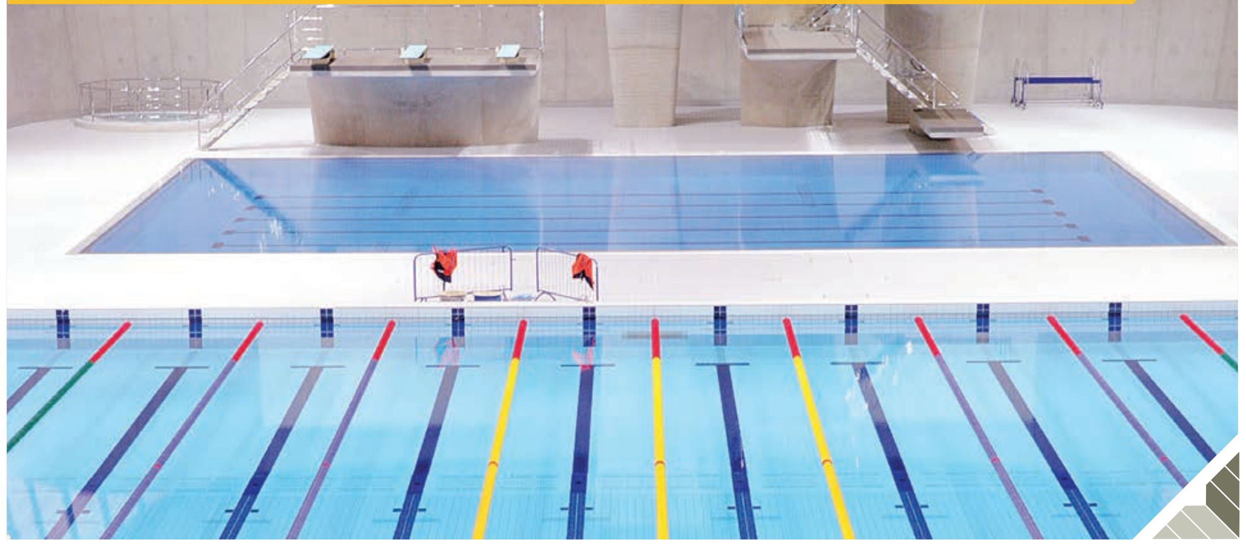
Emerging models to create change

There are potential opportunities to use social investment to develop new models of care to address issues such as eating disorders. These alternative approaches will shift spending away from acute services and into community-based, preventative support. Other potential areas for investment include: supporting new models of care paid for by personal budgets; helping organisations to develop new accommodation; or supporting a social prime contractor that can bid for larger Clinical Commissioning Group or NHS England contracts.

The Ways to Wellness Social Impact Bond is an example of an emerging model to create change for people with long-term conditions by giving them access to 'social prescribing' – an approach that seeks to improve health by tackling patients' social and physical wellbeing. As well as helping patients manage their daily lives better, feel less isolated and look forward to a healthier life, the approach can save Clinical Commissioning Groups significant amounts of money.

CASE STUDY

GREENWICH LEISURE LIMITED



Problem

Two-thirds of people do not take part in weekly exercise, despite inactivity being linked to illnesses such as heart disease, stroke and diabetes. Certain groups in particular are under-represented, including people who by reason of age, infirmity, disability or social and economic circumstances face barriers to inclusion. A lack of affordable, appropriate or accessible facilities is one of the key barriers stopping people from participating in sport.

How positive change is created

GLL believes that by providing quality leisure and fitness facilities at affordable prices, it will help more people take part in sports and leisure activities, helping to improve the health, social welfare and educational prospects its local community.

Revenue model

GLL issued a charity bond to raise £5 million to help make several sport facilities accessible to the whole community. The bond will be repaid with income from the venues including membership fees.

Impact

Over 1.2 million people have visited the London Aquatics Centre and Copper Box Arena since they were opened for community use. GLL promotes their activities to groups who traditionally do not take part in sport, including people on low incomes, people with disabilities, women and older people. They also work with GPs who have referred 500 patients to take part in free physical activity sessions to help improve their health.

Social investment is playing a large part in delivering a successful legacy for the London 2012 Olympic and Paralympic Games.

Tony Wallace, Head of Major Venues, GLL

OUR SOCIAL IMPACT IN MENTAL HEALTH AND WELLBEING

Outcome definition:

Individual: The person has a sense of wellbeing. Those who experience mental illness recover where possible and lead a positive and fulfilling life even if symptoms remain.

Community, sector and society: Good mental wellbeing and life satisfaction across the population.

10

Total number of charities and social enterprises that have raised investment.[26]

£6.1m

Total amount drawn down by charities and social enterprises.[27]

Social need

Mental health problems are the largest single cause of disability in the UK. Almost one in four adults and one in ten young people in the UK have a mental health problem. Nine out of ten people experience stigma and discrimination. Negative attitudes towards health problems can mean that many people hide their condition and do not receive appropriate support[28].

Social impact

Shared Lives is providing an **alternative model of care** in which host families provide home and community-based care arrangements for vulnerable adults in need of support. This model provides flexible and person-centred care and is estimated to save local authorities up to £26,000 per person each year compared to traditional services. Our investment is helping Shared Lives to deliver the service in four local authorities and build evidence to expand the service to more areas.

A range of social sector organisations are using **technology to help people with mental health needs.** For example Big White Wall[29] is a clinically accredited digital platform providing therapy, support and an anonymous peer-led community for people with mild to moderate mental health problems (see case study).

Buddy App[30] is an SMS text messaging and web-based application which helps mental health service users keep a daily diary of what they are doing and how they are feeling. This information is shared with the user's clinician to help identify and reinforce positive behaviour and set goals together to support their recovery. Buddy has helped over 4,100 patients and supported 1,700 clinicians. Users value the service, with 79% of patients and 76% of clinicians saying they would recommend Buddy to others.

Harrogate Skills 4 Living Centre[31] is using a loan to buy a 13-bedroom residential care home for adults with a learning disability, adding to their existing day care services.

Emerging models to create change

There are potential opportunities to use social investment to invest in new models of preventative support for mental illness in the UK, such as supporting older people with early onset dementia or testing new models of care for people which is funded by personal budgets. Organisations could also use social investment to develop new accommodation options for people with a mental illness. For example, the Sandwell Community Care Trust[32] used social investment to buy a 62-bed residential care home to provide high quality, personal residential care for older people with dementia and supported living for people with physical and learning disabilities.

[26] From Big Society Capital or intermediaries funded by Big Society Capital

[27] Including finance from Big Society Capital, co-investors and deals arranged by intermediaries funded by Big Society Capital

[28] Health and Social Care and Social Investment, Social Investment Insights Series

[29] Big White Wall received investment from Impact Ventures UK

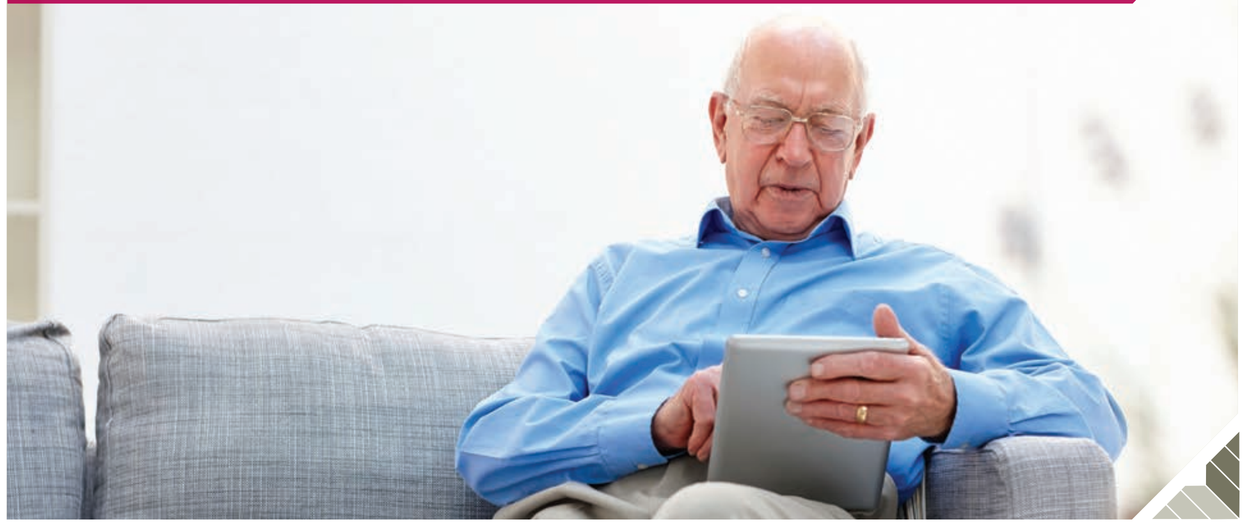
[30] BuddyApp received investment from Impact Ventures UK

[31] Harrogate Skills 4 Living received investment from Social and Sustainable Capital

[32] Using investment from Unity Trust Bank and Big Issue Invest

CASE STUDY

BIG WHITE WALL



Problem

People with mental health issues, or experiencing emotional or psychological distress, may avoid sharing their feelings with friends, family or healthcare professionals due to stigma. Waiting lists for some therapies are very long which can mean people go untreated for significant periods of time. Of the one in four people who experience a mental health problem, the majority will not receive treatment.

How positive change is created

Big White Wall is a digital healthcare company. Anyone experiencing mild to moderate mental health issues can use its digital platform to talk anonymously about their problems and learn to self-manage its own mental health while engaging in a variety of therapeutic interventions.

Revenue model

Big White Wall is a subscription service, which has reached over 24,000 users since 2007. It received a £2 million investment to develop its services, which will be repaid through subscribing organisations, including the NHS, government departments, the armed forces and universities, as well as individuals and employers.

Impact

Members get instant access to 24/7 online support and help to self-manage their mental health. So far 95% of users said they had seen an improvement in their wellbeing and 67% reported taking less time off work due to mental health related sickness.

Theory of change:

INPUTS	ACTIVITIES	OUTPUTS	OUTCOMES	IMPACT
£2 million invested	Professional site moderation	20,000 people with mild to moderate mental health issues using the platform	Improvements for users in:	Long-term improvements to mental wellbeing
Secure online platform	Peer-to-peer support network		Wellbeing	Reduced health inequality
	Online one-to-one therapy		Self-managed psychological distress	
			Saving to the NHS	
			£36,935 per 100 members	

OUR SOCIAL IMPACT IN EMPLOYMENT, TRAINING AND EDUCATION

Outcome definition:

Individual: The person is in suitable employment, education, training or caring work.

Community, sector and society: Jobs, education and training opportunities are available for everyone.

37

Total number of charities and social enterprises that have raised investment.[33]

£16.4m

Total amount drawn down by charities and social enterprises.[34]

Social need

Nearly one million young people are not in education, employment or training and almost two million people are unemployed across all age groups. Education, employment and training are essential to help people fulfil their potential and have the best chances in life. The education system needs to do more to address under-performing students' needs and narrow the gap between the highest and lowest achievers[35].

Social impact

We have directly invested in four Social Impact Bonds commissioned as part of the Department for Work and Pensions Innovation Fund to improve **educational attainment and preventing youth unemployment**. So far, 2,724 young people have improved their behaviour, 1,833 participants have improved attendance, 2,237 obtained a Level One National Qualifications Framework qualification and 89 people have been employed for 26 weeks or more (see case study).

Organisations across the UK are creating **employment opportunities and apprenticeships** for young people. Building Lives[36] has helped over 200 young people to gain employment through apprenticeships and now aims to train and secure jobs for a further 500 people over the next three years. K10[37] is supporting young people through its apprenticeship programme which arranges placements with banks, developers, contractors and professional services firms. K10 reaches a vulnerable segment of the population, and provides opportunities for young people who have previously been unable to gain employment: many of K10's recruits were long-term unemployed people; 10% have a disability; and 12% are ex-offenders.

Local Solutions is supporting **young homeless people** in Knowsley and Liverpool to find accommodation, gain qualifications and secure employment as part of the Fair Chance Fund. If the intervention is successful, investors will be repaid through savings to tax payers from reducing crime, poor health and long-term benefit dependency.

Emerging models to create change

There are opportunities for social investment in: expanding early years provision in disadvantaged areas; providing growth capital to social enterprises that deliver school-based interventions financed through the Pupil Premium; or supporting future Social Impact Bonds to support areas such as transitions from education into work.

There could be opportunities to support social enterprises and charities that help disadvantaged groups to enter higher education, work to support pupils with special educational needs or create employment opportunities for disadvantaged groups through traineeships, apprenticeships and other structured work placements.

[33] From Big Society Capital or intermediaries funded by Big Society Capital

[34] Including finance from Big Society Capital, co-investors and deals arranged by intermediaries funded by Big Society Capital

[35] Social Investment in Education, Social Investment Insights Series / Long-Term Unemployment and Social Investment, Social Investment Insights Series

[36] Building Lives received investment from FSE's Social Impact Accelerator Loan Scheme

[37] K10 received investment from Impact Ventures UK

CASE STUDY
TEENS AND TODDLERS

Problem

Young people with low self-esteem, low educational attainment and lack of positive role models are less likely to make a successful transition into work, training or education, and are more likely to become parents at an early age.

How positive change is created

Teens and Toddlers targets two groups of vulnerable children simultaneously, raising the aspirations of young people by pairing them as a mentor to a child in nursery who needs extra support. By combining this practical experience with classroom training, these young people learn interpersonal skills and build their sense of responsibility, helping them make positive decisions about their education, their health and their future. The mentoring provided helps the toddlers, who may be withdrawn or have behavioural issues, to improve their personal, social and communication skills.

Revenue model

Teens and Toddlers' programme in Greater Manchester is funded through a £3.25 million Social Impact Bond. Repayment is under a payment-by-results contract with the Department for Work and Pensions, out of long-term savings to the taxpayer from reducing youth unemployment. Payments are linked to improvements in attitude, behaviour, attendance and educational attainment.

Impact

1,300 young people will take part in the programme over three years, with performance measured by improvements in attitude, behaviour, attendance and educational attainment. So far 75% of participants have achieved qualifications and 81% reported that Teens and Toddlers had influenced their decisions around having unprotected sex.

Theory of change:

INPUTS	ACTIVITIES	OUTPUTS	OUTCOMES	IMPACT
£3.25 million investment Support from tutors, coaches and mentors	18 week mentoring programme Classroom training	1,300 vulnerable young people supported	Improvements for young people in: GCSE results Ambition Interpersonal skills Self-esteem Improvements for toddlers in: Personal, social and communication skills	Young people make positive decisions about their education, their health and their future

OUR SOCIAL IMPACT IN INCOME AND FINANCIAL INCLUSION

Outcome definition:

Individual: The person has sufficient income to meet their essential needs and access to suitable financial products and services.

Community, sector and society: Everyone reaches an optimum level of income for health and wellbeing, and income differentials support social cohesion.

4

Total number of charities and social enterprises that have raised investment.[38]

£6.2m

Total amount drawn down by charities and social enterprises .[39]

[38] From Big Society Capital or intermediaries funded by Big Society Capital

[39] Including finance from Big Society Capital, co-investors and deals arranged by intermediaries funded by Big Society Capital

[40] Financial Inclusion and Social Investment, Social Investment Insights Series

[41] Ffrees Family Finance received investment from Nesta Impact Investments

[42] Moneyline received investment from Big Issue Invest

[43] iPower received investment from Social Investment Scotland's Social Growth Fund

[44] Furnistore received a loan from Charity Bank

Social need

People in the lowest 10% income bracket suffer most from the effects of financial exclusion. An estimated seven million people use high cost credit and up to four million low-income households have poor access to mainstream financial services. People on low incomes pay around £1,000 a year more for their basic goods and services. Financial exclusion is thought to be a major contributor to this 'Poverty Premium'.[40]

Social impact

Ffrees Family Finance[41] provides **access to a bank account** that helps families to save as they spend. Its services help people who often cannot get an account with a mainstream bank, as 42% of Ffrees' current customers did not have a bank account before joining and 51% did not have a debit card.

Moneyline[42] offers **access to affordable credit** to consumers on low incomes. Two-thirds of Moneyline customers relied entirely on benefits and 73% of its borrowers lived in the 20% most deprived neighbourhoods of the UK during 2014 (see case study).

iPower[43] in Scotland is helping to **reduce fuel poverty** through the UK's first fuel cell programme. The fuel cells will be installed at properties including schools, universities, social housing, council buildings and private care homes and will reduce energy consumption and cut fuel bills.

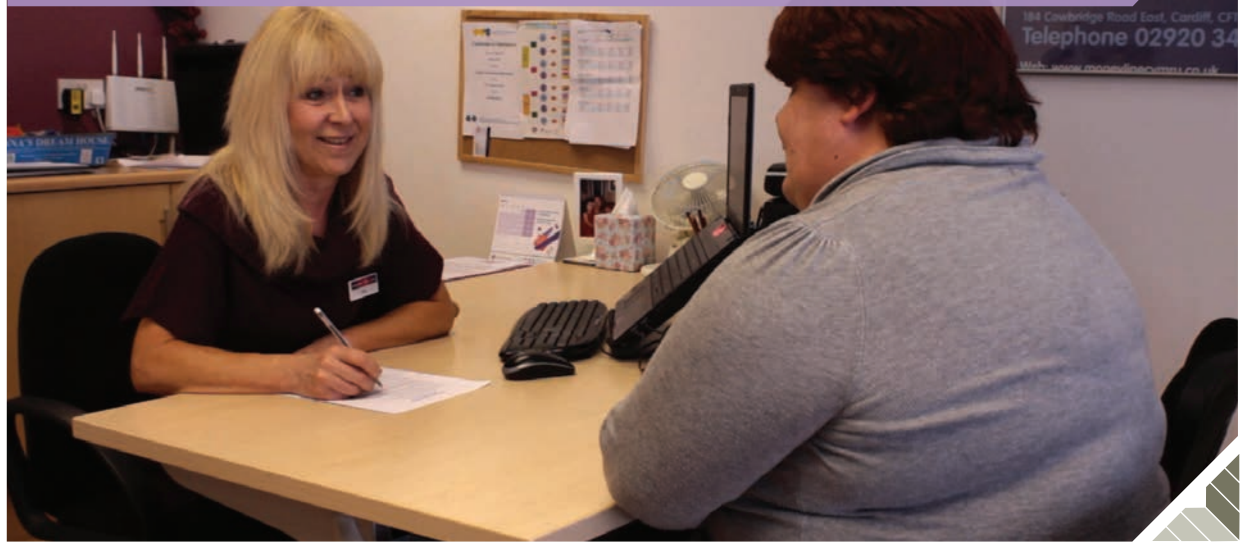
Furnistore[44] is providing **affordable household furniture** and appliances. They work with local agencies in Redhill to recycle unwanted items and supply them to families for free or at discounted prices. Since taking on social investment, Furnistore has been able to support 100 additional families and individuals.

Emerging models to create change

A number of investment opportunities exist in new ventures providing banking services and affordable credit in innovative ways, most of which need early stage funding. Credit Unions and Community Development Finance Institutions (CDFIs) are in need of development or patient capital and CDFIs also need access to lending capital. Beyond the provision of capital, social investors could also support the sector through advocacy, research and increasing collaboration amongst sector stakeholders.

CASE STUDY

MONEYLINE



Problem

Millions of low income households have poor access to mainstream financial services in the UK, which means many people struggle to get bank accounts, affordable credit and other financial products.

How positive change is created

By offering advice and small, short-term, unsecured loans to customers who are denied credit or ignored by high street banks – and who would otherwise pay too much for their money with higher cost lenders – Moneyline helps increase their financial capability and makes a big difference to people's standard of living.

Revenue model

Moneyline used a £950,000 loan to develop its services, which is being repaid from the money it receives in repayments from customers.

Impact

Since it was established, Moneyline has issued over 85,000 loans worth over £46 million to customers in some of the most disadvantaged areas of the UK. It also encourages customers to save through an innovative scheme which means they have money at the end of their loan term, reducing their future borrowing needs. 80% of customers have taken up this opportunity. Where appropriate, Moneyline refers or signposts customers to free, confidential debt advice.

Our customers are mostly young women with children, not working, living in rented housing in the most disadvantaged neighbourhoods. They might need to borrow a couple of hundred pounds because the cooker is broken or they need to plan for Christmas.

Diane Burridge, CEO, Moneyline

OUR SOCIAL IMPACT IN FAMILY, FRIENDS AND RELATIONSHIPS

Outcome definition:

Individual: The person has a positive social network that provides love, belonging and emotional practical support.

Community, sector and society: A society that supports and encourages families and/or good personal relationships.

11

Total number of charities and social enterprises that have raised investment.[45]

£6.4m

Total amount drawn down by charities and social enterprises.[46]

[45] From Big Society Capital or intermediaries funded by Big Society Capital

[46] Including finance from Big Society Capital, co-investors and deals arranged by intermediaries funded by Big Society Capital

[47] Social Investment for Family, Friends and Relationships, Social Investment Insights Series

[48] 4Children received investment from FSE's Social Impact Accelerator Loan Scheme

[49] London Early Years Foundation was supported in its capital raise by ClearlySo

[50] IAMM received investment from Bridges Ventures Social Impact Bond Fund and Big Society Capital

[51] Foster Care Support received investment from the Bridges Social Impact Bond Fund

[52] The Manchester SIB received investment from the Bridges Social Impact Bond Fund

Social need

There is a diverse range of social issues that affect families and relationships, including domestic violence, abuse, loneliness, isolation, mental illness, caring responsibilities and family breakdown. These issues are often complex and interrelated and need holistic approaches to tackle them. Poverty is the root cause of many social issues within families and relationships and many people are under increasing financial and emotional pressure.[47]

Social impact

The Essex Social Impact Bond is supporting **children on the edge of care.** This is the first Social Impact Bond commissioned by a local authority and was developed in partnership with Social Finance. The service provides multi-systemic therapy which is an intervention that focuses on improving parenting and rebuilding positive family relationships. So far the service has supported 81 families and helped to save over 6,281 days of care.

Organisations are delivering **early years support.** 4Children[48] is expanding its services for an additional 50,000 families over the next three years (see case study). London Early Years Foundation[49] plans to open ten more nurseries in London, focusing on areas where there are currently no services to support deprived children and families. The London Early Years Foundation runs a cross-subsidy model where surpluses from its profitable nurseries are used to set up new ones.

New services are available to provide **adoption and foster care.** Six voluntary adoption agencies have signed up to deliver It's All About Me,[50] a service for finding adoptive families for children who are considered harder to place because of their age, background or circumstances. Foster Care Support[51] is delivering a six-year intervention designed to provide a therapeutic fostering programme for children living in residential care homes in Birmingham so that they can transition into stable, long-term fostering placements. Similarly, in Manchester[52] Action for Children is delivering a new programme to provide foster placements for children currently in care.

Emerging models to create change

There are opportunities for social investment to scale up early years support (see page 56), replicate successful Social Impact Bonds when further impact evidence is available, or develop new Social Impact Bonds to support early intervention for families with multiple and complex needs, although this can be challenging due to the length of time it can take to see the long-term impact services are having.

CASE STUDY

4CHILDREN

Problem

Vulnerable families struggling with a complex mix of health, financial and social problems are not receiving the help they need due to fragmented service provision. One in four children are living in poverty; over one million 16-24 year olds are not in employment, education or training; and many children and young people have low aspirations and low self-esteem.

How positive change is created

4Children is a charity which set up a commercial social enterprise to deliver services directly to families through taking over Sure Start nurseries and children's centres across the UK. This model helps improve achievement opportunities for children through early education, provides high quality, affordable childcare options for vulnerable families, supports families to improve their parenting skills, and supports both parents and children to deal with abuse.

Revenue model

4Children received a £700,000 in investment to scale up its services. Income generated from public sector contracts and nursery fees will be used to repay the loan.

Impact

4Children currently supports 100,000 families a year at 170 locations which include children's centres, nurseries and schools in some of the UK's most disadvantaged communities. The investment will enable 4Children to take on 50 more children's centres over the next three years and support an extra 50,000 families a year.

Loan funding can be a great help in accelerating a change of scale.

Tracy Maxwell-Jones,
Director of Children & Family Services

This programme has given me insight into why my children behave like they do and areas that I needed to change to give a consistent approach. It has improved my family life at home and things are a lot less stressful

Zoe, mother of three, Hampshire

OUR SOCIAL IMPACT IN ARTS, HERITAGE, SPORT AND FAITH

Outcome definition:

Individual: The person finds meaning, enjoyment, self-expression and affiliation through informed participation in the arts, sport and/or faith.

Community, sector and society: A thriving cultural landscape with high levels of participation and engagement.

Social need

Arts, heritage, sport and faith play an important role in people's lives and can help to deliver wider outcomes such as educational improvements, health benefits and community cohesion. Levels of participation in arts, heritage and sport are not equal across society. Over recent years cuts in public spending have contributed towards the closure of services including libraries, leisure centres and community arts organisations[55]. This is driving a need for organisations to evolve business models and develop new revenues in order to build organisations more able to sustain themselves.

Social impact

We have not made any direct investments in intermediaries that specifically focus on arts, heritage, sport and faith to date, but we have supported social sector organisations in this area through our infrastructure investment in Charity Bank. For example, Unit3sixty received a loan from Charity Bank to develop a state of the art indoor skate park in Stourbridge. The organisation provides children and young people in the local community with a place to explore new and innovative ideas through urban recreation and social inclusion as well as assisting them to maintain a healthy and active lifestyle, which also helps to reduce the number of anti-social behaviour orders.

Emerging models to create change

There are opportunities for social investment to be used to support well evidenced arts, sports and heritage interventions that address specific social issues for vulnerable or disadvantaged groups. This could include programmes that aim to increase participation in deprived communities, or among groups that are traditionally excluded from culture and recreation activities, as well as interventions that can help address additional outcome areas such as education, health or wellbeing.

Investment could be used to build of refurbish facilities, develop new revenue streams or finance the transfer of assets to the community. Innovative approaches to fundraising such as crowdfunding and community shares would tap into networks of motivated supporters.

8

Total number of charities or social enterprises that have raised investment.[53]

£0.6m

Total amount drawn down by charities or social enterprises.[54]

[53] From intermediaries funded by Big Society Capital

[54] Including finance from deals arranged by intermediaries funded by Big Society Capital

[55] Arts, Heritage and Sports and Social Investment, Social Investment Insights Series

OUR SOCIAL IMPACT IN CONSERVATION OF THE NATURAL ENVIRONMENT

Outcome definition:

Individual: The person has an appreciation of the natural environment and plays their part in protecting it, including reducing their carbon footprint.

Community, sector and society: The natural environment is protected for the benefit of people, plants and animals and habitats, today and in the future.

Social need

Our environment and its resources are under increasing pressure from climate change, pollution and global warming. Changes to our planet will have an impact on everyone, but people who live in areas of deprivation are disproportionately affected by issues such as air pollution or living near to large industrial and waste sites.[58]

Social impact

We have not made any direct investments in intermediaries that have a specific focus on the environment to date. However, some of our investments including Pure Leapfrog do deliver environmental outcomes alongside social outcomes (see page 50).

Emerging models to create change

There are opportunities for social investment to support social sector organisations that deliver models such as renewable energy schemes that deliver positive social impact. They use income generated from assets to fund services for the local community. There is also potential to invest in organisations that use the natural environment to improve physical or mental health outcomes for vulnerable or disadvantaged beneficiary groups.

7

Total number of charities or social enterprises that have raised investment.[56]

£4.3m

Total amount drawn down by charities or social enterprises.[57]

[56] From intermediaries funded by Big Society Capital

[57] Including finance from deals arranged by intermediaries funded by Big Society Capital

[58] Environment and Social Investment, Social Investment Insights Series

BIG SOCIETY CAPITAL AS A SOCIAL BUSINESS

As an organisation dedicated to delivering positive impact through our work, we also need to consider the wider impact of our business on all of our stakeholders. Acting responsibly in all that we do will ultimately help us achieve our social mission and strengthen our delivery of social impact.

Our staff taking part in a volunteering and team building day with Bikeworks

By acting responsibly, we hope to have positive impact on the following stakeholders:

Stakeholder	Aims
ENVIRONMENT	Minimise the impact of our business on the environment
LOCAL COMMUNITIES	Support the local communities of both Big Society Capital and our staff through volunteering and events
SUPPLIERS	Ensure we use every opportunity to promote the third sector within our day-to-day operations
EMPLOYEES	Ensure staff bring diverse views, and have a positive experience working for Big Society Capital not only to drive engagement and retention, but also to set an example
CLIENTS	Build a sustainable social investment market using both investment capital and our treasury to enable our clients (SIFIs and charities and social enterprises) to grow their impact
INVESTORS	Deliver both social and financial returns through our social investment activities

Our progress

Last year, we stated the following priorities:

1. Reviewing who we work with to ensure we buy from social sector suppliers where possible

This year, we increased the number of social enterprises in our supply chain in a range of areas from electrical safety testing and stationery purchasing to design agencies. We hope to continue this trend into 2015, working with more socially motivated organisations throughout our operation.

2. Increasing our involvement with charities and social enterprises through volunteering and other community activities

We continue to support our staff to spend time volunteering for causes they care about, either in an operational or strategic capacity. Our staff hold 11 non-executive positions and have dedicated 631 hours to fulfilling those roles and providing other strategic services to charities and social enterprises. On the operational side, our staff spent 196 hours over the past year volunteering for a range of organisations including Cry-sis, St Luke's Community Centre and St Mungo's Broadway.

3. Reviewing our operations to assess where we can improve our performance as a responsible business.

This year, we have instigated a process for monitoring the waste that we produce and recycle, and have launched a number of other initiatives to reduce our environmental impact.

Looking to the future

We are committed to maximising our impact through all aspects of our business and have identified the following actions as priorities for 2015:

- Support our staff to increase their involvement with and support to the social sector outside of their core roles
- Review our Treasury Policy to move our criteria from negative screening to a more positive social and ethical approach
- Establish a baseline carbon footprint of our business, and begin to measure and monitor our environmental impact as a business
- Become an accredited London Living Wage Employer

COMPANY INFORMATION

Directors

Harvey McGrath (Chair)[59]
Chair of Trustees of Heart of the City, Birkbeck College, the Prince's Teaching Institute, Funding London and icould, and Deputy Chair of the London Enterprise Panel. Former Chair of Prudential plc and Man Group plc.

David Carrington[59]
Independent consultant. Member of the Supervisory Board of Triodos Bank NV and Trustee of GULAN and of SOFII Foundation. (Until June 2014) Chair of the Bridges Charitable Trust.

Sir Ronald Cohen
Co-founder and Chair of The Portland Trust, co-founder and former Chair of Bridges Ventures and co-founder of Social Finance in the UK, US and Israel. He is a former member of the University of Oxford Investment Committee and the Harvard Board of Overseers and was a co-founder and former Chair of Apax Partners. He is currently a Vice Chairman of Ben Gurion University and is also Chair of the Social Impact Investment Task Force, established by the G8.

Fiona Ellis[60]
Chair of the BBC Appeals Advisory Committee, Member of Durham University Council, Chair of St Cuthbert's Society, Trustee of the Nationwide Foundation and Board Member of NAVCA.

John Kingston OBE[60]
Chair of Access – the Foundation for Social Investment, Adviser to Social Finance Ltd, Director of Local Means Ltd and Trustee of HelpAge International. (Until November 2014) Chair of the Association of Charitable Foundations.

Geoff Mulgan CBE[60]
Chief Executive of NESTA. Chair of the Studio Schools Trust and co-Chair of London LEP Digital, Science, Technology and Creative Working Group. Board member of Social Innovation Exchange.

Nick O'Donohoe
Chief Executive of Big Society Capital. Board Member of the Global Impact Investing Network (GIIN).

Dai Powell OBE[59]
Chief Executive of HCT Group. Board Member of Social Enterprise UK.

Lady Susan Rice CBE[59]
Managing Director of Lloyds Banking Group Scotland (Until year-end 2014). Non-Executive Director of J Sainsbury plc, Chair of Scottish Fiscal Commission, Edinburgh International Book Festival and the Chartered Banker: Professional Standards Board.

Keith Smithson[60]
(Big Society Capital Director nominated by the shareholder banks.) Managing Director and Banking Book Treasurer, Barclays.

Anne Wade
Non-Executive Director of Holcim and John Laing UK. Trustee of The F.B. Heron Foundation and Partner of Leaders' Quest.

Danielle Walker Palmour[60]
Foundation Director of Friends Provident Foundation, Trustee of Woodbrooke Quaker Study Centre, York Blind and Partially Sighted Society and Stepchange Debt Charity.

Secretary

Alastair Ballantyne

Auditors

KPMG LLP
15 Canada Square
London
E14 5GL

Bankers

HSBC plc
69 Pall Mall
London
SW1Y 5EY

Registered office

5th Floor
Chronicle House
72 - 78 Fleet Street
London
EC4Y 1HY

Registered number

07599565

[59] Member of Nominations and Remuneration Committee
[60] Member of Audit, Risk and Compliance Committee

CORPORATE GOVERNANCE

Big Society Capital's object is to act as a social investment wholesaler and generally to promote the development of the social investment marketplace in the UK. It also seeks to achieve and maintain financial sustainability over the longer term.

The company is an independent financial institution authorised by the Financial Conduct Authority.

Big Society Capital

Big Society Capital is a company limited by shares with capital comprising "A" shares held by The Big Society Trust and "B" shares held by the four shareholding banks.

The composition of the Big Society Capital Board reflects its purpose and includes directors with financial and/or social sector expertise. The Board is mainly non-executive, with the CEO of Big Society Capital the only executive member.

Big Society Capital has two Board Committees each comprising a majority of non-executive directors:

- the Nominations and Remuneration Committee – responsible for making recommendations concerning the appointment of directors, particularly for ensuring that there is an even balance on the Board between individuals with the appropriate depth of experience and expertise in the financial and social sectors. It also has responsibilities for setting levels of remuneration.
- the Audit, Risk and Compliance Committee – examines management processes and other arrangements to ensure the appropriateness and effectiveness of systems and controls, including risk management.

The Executive Committee is responsible for the day-to-day running of Big Society Capital and risk management. It has established two further committees:

- the Investment Committee - an executive Committee with delegated responsibility for identifying and making investments and for the performance of Big Society Capital's portfolio of investments. It defines the investment policy of Big Society Capital and monitors and reports on investment performance to the Big Society Capital Board. It is chaired by the CEO of Big Society Capital.
- the Valuation Committee - an executive Committee, responsible for determining valuations and assessing investment performance, including social impact. This includes identifying key risks and issues within Big Society Capital's investment portfolio.

The Big Society Trust

The Big Society Trust is the majority shareholder in Big Society Capital. Its role is to ensure that Big Society Capital remains true to its mission.

The Big Society Trust Directors (as at 31 December 2014):

Sir Richard Lambert (Chair)
Chair of the British Museum and Chancellor of the University of Warwick. Senior non-executive member of the Foreign and Commonwealth Office Supervisory Board

Ian Davis
Chair of Rolls Royce plc, non-executive director of BP plc, Johnson & Johnson and Teach For All. Non-executive member of the Cabinet Office Board

Sir Stuart Etherington
CEO of the National Council for Voluntary Organisations

Peter Holbrook CBE
CEO of Social Enterprise UK

Harvey McGrath
Chair of Big Society Capital

Baroness Pitkeathley OBE
House of Lords, Chair of the Professional Standards Authority

David Robinson OBE
Chair, Early Action Task Force and Senior Adviser and founder of Community Links

Helen Stephenson CBE
Director, Early Years, Child Poverty and Children's Services Strategy, Department for Education

CORPORATE GOVERNANCE
CONTINUED

To enable it to carry out its role, The Big Society Trust has a controlling interest in Big Society Capital. It controls 80% of the voting rights at shareholders' meetings. For important issues, such as any change to the company's Articles concerning its objects or powers, a unanimous vote by The Big Society Trust board is required.

Big Society Capital reports regularly to The Big Society Trust on its financial performance, its investments and Board and senior manager appointments. The Big Society Capital CEO is invited to attend The Big Society Trust board meetings as an observer.

There is a Governance Agreement between The Big Society Trust and Big Society Capital detailing the operating and reporting arrangements agreed between the two entities.

Shareholder banks

Each shareholder bank (Barclays, HSBC, Lloyds Banking Group and RBS) has committed to subscribe for up to £50 million of Big Society Capital's shares. Their individual shareholding will always be less than 10% of the paid-in capital.

The banks can vote at shareholders' meetings. Their votes are in proportion to their shareholding, but each is capped at 5% of the overall voting rights. The banks together have the right to nominate one director to the Big Society Capital Board. In addition to information provided to them by that director, the banks receive all Big Society Capital Board papers and quarterly and half yearly reports. In certain circumstances the banks have the right to request a meeting with the senior management of Big Society Capital to discuss its performance.

Big Society Capital Advisory Board

The Advisory board is made up of individuals with specific interest in social investment including prominent practitioners from the social, financial and business sectors and provides advice to the CEO of Big Society Capital. It met three times in 2014.

Advisory board members as at 31 December 2014

Robert Annibale
Citi Community Development and Inclusive Finance

Dawn Austwick OBE
Big Lottery Fund

Rt Hon Hazel Blears

Matthew Bowcock CBE
Hazelhurst Trust

Dan Corry
New Philanthropy Capital

Deirdre Davies
Deutsche Bank AWM

Toby Eccles Social Finance

Julia Grant Impetus-PEF

Victoria Hornby Foundation of Prince William and Prince Harry

Jonathan Jenkins
Social Investment Business

Nigel Kershaw OBE
Big Issue Invest

Kate Markey Consultant

Caroline Mason CBE
Esmée Fairbairn Foundation

Mick May Peel Institute

David Orr
National Housing Federation

James Perry Panahpur

Cliff Prior CBE UnLtd

Tom Rippin On Purpose

Hugh Rolo Locality and Community Shares Unit

Antony Ross Bridges Ventures

Rod Schwartz ClearlySo

REMUNERATION REPORT

This report covers the 12 months ending 31 December 2014 and sets out the policy and disclosures in relation to the remuneration of the employees and directors of Big Society Capital.

The Nominations and Remuneration Committee is responsible for establishing a formal and transparent procedure for setting the remuneration policy for the executive staff of the company and for determining the remuneration packages of executive staff. It also leads the process for setting non-executive directors' fees.

The Committee is appointed by the Board of the company and makes recommendations on these issues to the Board of the company.

The Committee's responsibilities regarding remuneration are to:

- make recommendations to the Board of the company in relation to the remuneration of directors and senior executives;
- make recommendations to the Board of the company in relation to the identity and terms of appointment of independent consultants for the conduct of an independent survey, at least once every five years;
- establish the benchmark for remuneration packages for persons engaged in similar positions in the public, not-for-profit or charity sectors;
- review the on-going appropriateness and relevance of the company remuneration, pensions and employment benefits policies;
- determine the total individual remuneration package of senior executives in consultation with the Chair and/or CEO of the company, as appropriate;
- review on an annual basis the remuneration of non-executive directors;
- ensure that contractual terms on termination, and any payments made, are fair to the individual and the company;
- oversee any major changes in the nature of employee benefits provided by the company; and
- agree the policy for authorising claims for expenses from the directors.

Principles for executive remuneration

- Executive directors and the senior executive team will be paid a comparable remuneration package to persons engaged in similar positions in the public or not-for-profit sectors, as appropriate.
- The senior executive team shall not be paid any bonuses.

Principles for non-executive remuneration

- Non-executive directors will be offered an equivalent sum paid by other comparable not-for-profit and public bodies such as housing associations.
- In 2014, the amounts were £7,000 per annum for the service of acting as a non-executive director, £3,000 per annum for chairing a Board Committee and £1,500 per annum for acting as a non-chair member of a Committee. These figures will be reviewed by Big Society Capital annually in the light of inflation and comparable organisations.
- Total non-executive directors' fees in 2014 were £45,000 (2013: £43,000).

Higher paid employees

The total number of employees, including directors, with annual remuneration of £60,000 or more and employed as at the period end were as follows:

	2014 Number	2013 Number
£60,000 - £69,999	9	4
£70,000 - £79,999	3	2
£80,000 - £89,999	1	3
£90,000 - £99,999	2	-
£100,000 - £109,999	2	2
£140,000 - £149,999	1	1

Fifteen of these employees participate in the company pension scheme. Employees make a contribution of up to 8% of salary to the pension scheme. The company matches the employee contributions and pays an additional 3% of salary.

The total number of employees at 31 December 2014 was 37 and at 31 December 2013 was 29.

STRATEGIC **REPORT**

Principal objectives

Big Society Capital's objectives are:

1. To have a transformative impact on the social investment market in the UK by supporting social investment finance intermediaries (SIFIs) to become financially robust and able to: attract greater and more diverse sources of investment; effectively and efficiently channel appropriate and affordable capital to the social sector; and provide effective financial and business support services to the social sector.

2. To increase awareness of, and confidence in, social investment by promoting best practice and sharing information; improving links between the social investment and mainstream financial markets; and working with other investors to embed social impact assessment into the investment decision-making process.

Strategy

During the first quarter of 2014, we reviewed our strategy. We assessed all of our investment and other activities, analysed how social investment can help different social issues across our outcomes framework and segmented the investor landscape. The work involved all of our staff, our main Board, our advisory board, The Big Society Trust, shareholder banks, and consultation with our closest partners.

We know that a diverse social investment market can generate significant social value for the UK. We have a clear vision for how to make this happen. We need to:

- improve access to finance for small and medium-sized charities and other social sector organisations;
- provide capital that allows the most innovative approaches to tackling social problems to quickly grow and replicate;
- build mass participation in social investment; and
- bring far greater financial scale to bear in the financing of social issues.

Our planned activities in each of these areas are laid out on pages 16 to 33.

Business model and trends

Big Society Capital operates as an investor and as a market champion. Our source of funding, business principles and our place in the social investment market is described on pages 10 and 11.

Big Society Capital will receive equity capital from The Big Society Trust of up to £400m and £200m from the shareholder banks (Barclays, HSBC, Lloyds Banking Group and RBS). The source of the capital from The Big Society Trust is dormant bank accounts managed by the Reclaim Fund Limited (RFL). The RFL passes surplus funds to the Big Lottery Fund, which then grants the funds to The Big Society Trust.

The company continues to increase its resources and, following the strategic review in 2014, particularly increased the resources for its market champion activities. This will lead to a significant increase in expenses in 2015. This increase, together with an increased amount of fees paid to financial intermediaries, will increase losses in 2015.

Principal risks and uncertainties

The principal risks and uncertainties facing the company relate to its investment portfolio. The company has an Investment Committee which has been delegated responsibility to make investment decisions in line with Big Society Capital's Investment Policy. The Valuation Committee monitors the ongoing financial and social performance of investments and identifies key risks.

The financial risks and the steps taken to manage them are outlined in Note 16 to the financial statements.

The company faces the risk that its investments do not deliver the anticipated social impact. Social impact assessment has been incorporated into the Valuation Committee process which considers the social value of the underlying investments. The company works closely with SIFIs on their social impact strategies, models and reporting.

There is the risk that the company fails to deliver its strategy and market-building projects. Also, that the company fails to communicate effectively to the social sector as the social investment market develops. The company is focused on ensuring that adequate resources are available to execute on its plans.

The risks surrounding the development of the social investment market include:

- slower than expected take-up of investment by front-line organisations. The company continues to work with SIFIs and other market participants to improve the ability of social sector organisations to take on finance;
- the failure of an investment leading to damage to market confidence. The company closely monitors the performance of all its investments by holding quarterly reviews with the SIFIs and if appropriate, by having representation or observer rights on the investee board or its investment committee; and
- not meeting matching targets for co-investment, resulting in less capital reaching the social sector. In recognition of the challenges faced with bringing in co-investment at this early stage, Big Society Capital is able to provide seed investments to help SIFIs build a strong track record and increase their chances of raising future matching finance.

Big Society Capital as a responsible business

We seek to maximise our positive impact and demonstrate our values as a social organisation through how we run our operations, our staff policies, our approach as an investor and our wider engagement with the social sector.

Our activities are set out on pages 64 and 65.

Business performance and investment activity

The financial statements on pages 76 to 100 show the profit and loss for the period.

Total revenue for the year was £2.9m (2013: £1.1m). This comprises treasury management returns of £4.4m (2013: £1.7m) and overall net losses on the social investment portfolio of £1.5m (2013: £0.6m). Expenses were £4.6m (2013: £4.0m) with average headcount of 33 (2013: 27).

The company's investment portfolio is made up of a social investment portfolio and a treasury portfolio. The social investment portfolio comprises investments made to meet the company's objectives outlined above. The treasury portfolio represents capital held before it is drawn down into social investment. The treasury portfolio operates with an ethical screen and has an allocation to social investment.

STRATEGIC REPORT
CONTINUED

The losses on the social investment portfolio reflect the current stage of Big Society Capital's social investments. A significant proportion of the investments is into funds that invest into social sector organisations. Big Society Capital's use of fair value measurement in accounting for fund investments results, during this early stage, in the recognition of set-up costs, management fees and other expenses, whilst there is no corresponding income against which to offset these. In future years it is expected that the funds will generate returns sufficient to cover these costs and earn a financial return.

The losses for the year are in line with Big Society Capital's forecasts. The long-term aim is to be sustainable. The business plan shows that for the initial few years, the company will be loss-making while it builds the market and makes early stage investments. In later years, the investments are forecast to make returns to cover the operational and market championing costs and generate a financial return.

Investment Activity:
In principle commitments of £65.5m have been made during 2014, although in principle commitments of £35.0m did not progress to signing. Since launching, Big Society Capital has made total in principle commitments of £179.6m. Of this total, 36 investments with a value of £158.1m have been signed and £36.2m has been drawn down by investees. Alongside this drawdown is £67.8m of capital from co-investors, giving a total of £104.0m of new capital into the market.

Big Society Capital's expectation is that the average investment will typically take between three and six years to fully drawdown. Alongside the signed investments made by Big Society Capital, £200.8m has been committed by co-investors, taking the total value of capital available to the market to £358.9m.

As described above, the treasury portfolio has an allocation to social investment. As at 31 December 2014, the company held £10.8m in social investment through its treasury portfolio (2013: £11.3m).

Market Champion Activity:
Big Society Capital continues to build awareness and understanding of the social investment sector by holding and attending events. These events will involve many different sector stakeholders and include information on market development as well as discussions of best practice.

During 2014, Big Society Capital worked on a number of key sector initiatives:

- The company worked with partners, Cabinet Office and Big Lottery Fund to support the setup of a new, independent foundation, Access – the Foundation for Social Investment. This aims to strengthen the social sector by increasing access to social investment for smaller projects of £10,000 - £150,000 and provide capacity building support for the sector.
- Social Investment Tax Relief became law in 2014 and Big Society Capital worked to raise awareness of this and to increase the limits within the legislation to expand the scheme.
- The company supported the Social Impact Investment Taskforce, which was established under the UK's presidency of the G8. The Taskforce reported on the policy and investment reforms needed to build a thriving international social impact investing community.
- The Business Impact Challenge was launched to co-invest with private companies that have skills and resources to add more value to social innovation than just financial capital.

Key performance indicators

The key performance indicators monitored during the year are set out on page 12.

As required by IFPRU, the FCA Prudential Sourcebook for Investment Firms, the Company's return on assets is a loss of 0.6% (2013: a loss of 1.3%).

This report was approved by the Board on 16 April 2015 and signed on its behalf:

Nick O'Donohoe
Director

DIRECTORS' **REPORT**

The directors present their report and financial statements for the year ended 31 December 2014.

Directors

The following persons served as directors during the year:

Harvey McGrath (Chair from 1 January 2014)

David Carrington

Sir Ronald Cohen

Fiona Ellis (appointed to the Board 1 May 2014)

John Kingston OBE

Steve Morrison (resigned 21 January 2014)

Geoff Mulgan CBE

Nick O'Donohoe

Dai Powell OBE

Lady Susan Rice CBE

Keith Smithson (appointed to the Board 22 January 2014)

Anne Wade (appointed to the Board 7 July 2014)

Danielle Walker Palmour

Dividends

The directors do not recommend the payment of a dividend for the year (2013: £nil).

Directors' Indemnity

The company arranges directors' and officers' liability insurance to cover certain liabilities and defence costs.

Pillar III disclosures

The company makes disclosures on its website - bigsocietycapital.com – setting out the company's capital resources, risk exposures and risk management processes.

Directors' responsibilities

The directors are responsible for preparing the Strategic Report, the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

DIRECTORS REPORT
CONTINUED

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Disclosure of information to auditors

Each person who was a director at the time this report was approved confirms that:

- so far as they are aware, there is no relevant audit information of which the company's auditor is unaware; and
- they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the company's auditor is aware of that information

This report was approved by the Board on 16 April 2015 and signed on its behalf:

Nick O'Donohoe
Director

INDEPENDENT AUDITOR'S REPORT

To the members of Big Society Capital Limited

We have audited the financial statements of Big Society Capital Limited for the year ended 31 December 2014 set out on pages 76 to 100. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on pages 73 to 74, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate

Opinion on the financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2014 and of its loss for the year then ended;
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Lord Rockley
Senior Statutory Auditor

for and on behalf of KPMG LLP, Chartered Accountants

15 Canada Square
London E14 5GL

16 April 2015

PROFIT AND LOSS ACCOUNT

for the year ended 31 December 2014

	Notes	2014 £ 000	2013 £ 000
Investment gains / (losses)	2	1,066	(217)
Income		1,799	1,326
Total Revenue	3	**2,865**	**1,109**
Other income	4	60	55
Administrative expenses		(4,623)	(4,037)
Operating loss	5	**(1,698)**	**(2,873)**
Loss on ordinary activities before taxation		**(1,698)**	**(2,873)**
Tax on loss on ordinary activities	8	5	1
Loss for the financial year		**(1,693)**	**(2,872)**

The results above relate to continuing operations.

The company has no recognised gains or losses other than those included in the profit and loss account.

The notes on pages 79 - 100 form part of these Financial Statements.

BALANCE SHEET

As at 31 December 2014

	Notes	2014 £ 000	2013 £ 000
Fixed assets			
Tangible assets	9	78	116
Investments	10	33,607	13,547
		33,685	**13,663**
Current assets			
Debtors	11	933	736
Investments	12	235,729	156,375
Cash at bank and in hand		31,240	51,224
		267,902	**208,335**
Creditors: amounts falling due within one year	13	(1,796)	(544)
Net current assets		**266,106**	**207,791**
Total assets less current liabilities		**299,791**	**221,454**
Creditors: amounts falling due after more than one year	14	(27)	(44)
Provisions for liabilities			
Deferred taxation	15	(4)	(9)
Net assets		**299,760**	**221,401**
Capital and reserves			
Called up share capital	18	305,461	225,409
Profit and loss account	19	(5,701)	(4,008)
Shareholders' funds	20	**299,760**	**221,401**

Approved by the Board on 16 April 2015
and signed on its behalf:

Nick O'Donohoe
Director

Company registration number: 07599565

CASH FLOW STATEMENT

For the year ended 31 December 2014

	Notes	2014 £ 000	2013 £ 000
RECONCILIATION OF OPERATING PROFIT TO NET CASH OUTFLOW FROM OPERATING ACTIVITIES			
Loss on ordinary activities before taxation		(1,698)	(2,873)
Depreciation and amortisation		59	52
Increase in debtors		(197)	(32)
Increase / (decrease) in creditors		1,235	(30)
Fair value adjustments on current asset investments		(2,569)	(356)
Returns on current asset investments		(929)	(683)
Fair value adjustments on fixed asset investments		746	725
Returns on fixed asset investments		8	(16)
Increase in unamortised deferred commitment fee		(8)	(8)
Amortised commitment fee released in year		8	8
Net cash outflow from operating activities		**(3,345)**	**(3,213)**
CASH FLOW STATEMENT			
Net cash outflow from operating activities		(3,345)	(3,213)
Capital expenditure	21	(20,835)	(9,013)
		(24,180)	**(12,226)**
Management of liquid resources	21	(75,856)	(78,407)
Financing	21	80,052	106,035
Decrease in cash		**(19,984)**	**15,402**
RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET FUNDS			
(Decrease)/increase in cash in the period		(19,984)	15,402
Change in net debt		**(19,984)**	**15,402**
Net funds at 1 January		51,224	35,822
Net funds at 31 December		**31,240**	**51,224**

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

1 ACCOUNTING POLICIES

Basis of preparation

The financial statements have been prepared under UK GAAP in accordance with applicable accounting standards. They have been prepared under the historical cost convention, except for financial instruments which are accounted for in accordance with FRS 26 'Financial Instruments: Recognition and Measurement' and FRS 29 'Financial Instruments: Disclosures'.

Use of judgements and estimates

The preparation of the financial statements in conformity with applicable UK GAAP requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an on-going basis.

The most significant area of judgement is the determination of fair values for investments. This is discussed below, in the accounting policy 'Financial assets and financial liabilities - iii) Fair value measurement'.

Going concern

The financial statements have been prepared on the going concern basis. The company has incurred losses since inception of £5.7m, including a loss for the period of £1.7m. The company had cash and current asset investments of £267.0m as at the year end, having been capitalised with £305.5m of equity investment since inception. This means that despite the losses to date, the company is in a position to continue to finance and support the overall business objectives. The directors have prepared cash flow projections that support the ability of the company to continue as a going concern.

Substantial interest

The company has investments which may be regarded as associated undertakings under FRS 9 'Associates and Joint Ventures', which would require these to be consolidated using the equity method of accounting. As these investments are held to earn investment income and to achieve capital gains on subsequent disposal, they have not been consolidated in the accounts of the company.

Government grants

Government grants received are included within these accounting statements according to the nature of the grant and the terms and conditions contained therein. Grants received that support capital expenditure are credited to the profit and loss account over the expected useful economic life of the related asset, on a basis consistent with the depreciation policy. The revenue-based grants received, which are offset against core expenditure, are recognised in the profit and loss account when such expenditure is incurred.

NOTES TO THE FINANCIAL STATEMENTS
CONTINUED

Interest

Interest income is recognised either using the effective interest method or on an accruals basis, depending upon whether the financial asset has been designated upon initial recognition into the category 'loans and receivables', or 'fair value through profit or loss'.

The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial instrument to the carrying amount of the financial instrument. When calculating the effective interest rate, the company estimates future cash flows considering all contractual terms of the financial instrument, but not future credit losses.

Net gains or losses from financial assets designated as at fair value through profit or loss

Net gains or losses from financial assets designated as at fair value through profit or loss includes all realised and unrealised fair value changes, but excludes interest income.

Financial assets and financial liabilities

i) Recognition and initial measurement

Financial assets designated as at fair value through profit or loss are recognised initially at fair value, with transaction costs recognised in profit or loss. Financial assets or financial liabilities not at fair value through profit or loss are recognised initially at fair value plus transaction costs that are directly attributable to their acquisition or issue. Investments within the social investment portfolio, in which the company has significant influence, are held as part of an investment portfolio, rather than qualifying as associates.

The company recognises financial assets, within the balance sheet, on the date on which investments are closed and a drawdown notice has been received by the company. Additionally the company discloses commitments at two distinct stages: commitments contracted but not drawn down and in principle commitments. Details are set out in Note 23 - Capital commitments.

ii) Classification

The company classifies financial assets and financial liabilities into the following categories:

Financial assets at fair value through profit or loss:

- Designated as at fair value through profit or loss - debt, equity, fund and social impact bond investments

Financial assets at amortised cost:

- Loans and receivables - debt investments, cash at bank and in hand, cash deposits (included in investments held as current assets), and other debtors

Financial liabilities at amortised cost:

- other liabilities - other creditors

Financial assets meeting the definition of loans and receivables are classified as financial assets at amortised cost. Otherwise assets are classified as at fair value through the profit or loss. Financial liabilities are classified as at amortised cost.

Note 16 - Financial risk management and financial instruments - provides a reconciliation of line items in the balance sheet to the categories of financial instruments, as defined by FRS 26.

iii) Fair value measurement

As described in Note 17 - Valuation of financial instruments, the company uses a three-level hierarchy for fair value measurement disclosure. Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction on the measurement date.

NOTES TO THE FINANCIAL STATEMENTS
CONTINUED

In determining a fair value using Level 3 valuation techniques, the company applies the principles included in the 'International Private Equity and Venture Capital Valuation Guidelines':

Where an investment has been made recently, or where there has been subsequent, significant new investment into the company, a more accurate valuation is not available and there is no evidence to suggest that the unadjusted Price of Recent Investment is no longer relevant, the company may apply the Price of Recent Investment, for a limited period following the date of the relevant transaction. Where it is felt that there has been a change to the milestones or benchmark then the company will use the Price of Recent Investment adjusted to reflect milestone/ benchmark analysis.

Where appropriate earnings (or other) multiples are available for comparable business, the company will apply Multiples Valuation techniques to derive a value for the investment.

Where a regular Net Asset Valuation is available for the investment, the company will assess this for reasonableness and consider whether the investment can be valued on the basis of the underlying fair value of its assets, rather than its earnings. If this is considered appropriate the company will apply the Adjusted Net Asset Valuation method.

If future cash flows can be reasonably estimated, and it is felt that the risks, due to the high level of subjectivity, involved in applying the Discounted Cash Flow method do not render the method insufficiently reliable, this will be applied.

If industry benchmarks can be applied to the investment to derive a fair value, these will be applied.

The company may decide to use a combination of the mentioned methods, or other methods that are considered more appropriate to derive the fair value of its investments.

iv) Impairment

A financial asset not classified at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence of impairment. A financial asset or a group of financial assets is impaired if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset(s), and that loss event(s) had an impact on the estimated future cash flows of that asset(s) that can be estimated reliably.

v) Offsetting

Financial assets and liabilities are offset and the net amount presented in the balance sheet when, and only when, the company has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted under UK GAAP e.g. for gains and losses arising from a group of similar transactions, such as gains and losses from financial instruments at fair value through profit or loss.

Investments held as current assets

The company classifies investments (cash deposits or other debt securities) that cannot be readily realised within 24 hours, but can be realised within 12 months as Investments held as current assets.

Depreciation

Depreciation is provided on all tangible fixed assets, other than freehold land, at rates calculated to write off the cost, less estimated residual value, of each asset evenly over its expected useful life, as follows:

Leasehold land and buildings	over the lease term
Fixtures, fittings and equipment	over 3 years

Deferred taxation

Full provision is made for deferred taxation resulting from timing differences between the recognition of gains and losses in the accounts and their recognition for tax purposes.

Deferred tax is calculated at the tax rates which are expected to apply in the periods when the timing differences will reverse.

Pensions

The company operates a defined contribution pension scheme. Contributions are charged to the profit and loss account as they become payable in accordance with the rules of the scheme.

2
INVESTMENT GAINS AND LOSSES

	2014 £ 000	2013 £ 000
Net gains/ (losses) from financial assets designated as at fair value through profit or loss:		
Realised	-	7
Unrealised	1,025	(225)
Net gains/ (losses) from financial assets carried at amortised cost:		
Unrealised	41	1
	1,066	**(217)**

3
TOTAL REVENUE

	2014 £ 000	2013 £ 000
Social investment portfolio		
Net gains/ (losses) from financial assets designated as at fair value through profit or loss:		
Fixed asset investments	(2,012)	(716)
Interest income on financial assets designated as loans and receivables carried at amortised cost:		
Fixed asset investments	240	94
Interest income on financial assets designated as at fair value through profit or loss:		
Fixed assets investments	184	27
Dividend income from financial assets designated as at fair value through profit or loss:		
Fixed assets investments	49	-
Fees	13	15
	(1,526)	**(580)**
Treasury portfolio		
Net gains/ (losses) from financial assets designated as at fair value through profit or loss:		
Current asset investments	3,037	498
Net gains/ (losses) from financial assets designated as loans and receivables carried at amortised cost:		
Fixed asset investments	41	1
Interest income on financial assets designated as loans and receivables carried at amortised cost:		
Cash at bank and in hand	462	591
Current asset investments	851	599
	4,391	**1,689**
Total revenue	**2,865**	**1,109**

As described in the Strategic Report on pages 70 to 72, losses on the social investment portfolio reflect the current stage of the company's social investments.

4
OTHER INCOME

	2014 £ 000	2013 £ 000
Government grants received	60	49
Other income	-	6
	60	**55**

5
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION

	2014 £ 000	2013 £ 000
This is stated after charging:		
Depreciation of owned fixed assets	59	52
Auditor's remuneration for audit services	71	55
Auditor's remuneration for taxation advisory services	17	4
Auditor's remuneration for other services	-	75

6
DIRECTORS' EMOLUMENTS

	2014 £ 000	2013 £ 000
Emoluments	192	185
Company contributions to money purchase pension schemes	16	15
	208	**200**
Highest paid director:		
Emoluments	146	142
Company contributions to money purchase pension schemes	16	15
	162	**157**

NUMBER OF DIRECTORS IN COMPANY PENSION SCHEMES:

	2014 Number	2013 Number
Money purchase schemes	**1**	**1**

7
STAFF COSTS

	2014 £ 000	2013 £ 000
Wages and salaries	2,025	1,809
Social security costs	237	207
Other pension costs	159	135
	2,421	2,151

AVERAGE NUMBER OF EMPLOYEES DURING THE YEAR

	2014 Number	2013 Number
Investment	11	10
Senior Management	2	2
Strategy	4	4
Communications	3	2
Operations	7	6
Social & Finance Sector Engagement	4	2
On Purpose Interns	2	1
	33	**27**

A breakdown of the total number of employees, including directors, with annual remuneration of £60,000 or more and employed as at the period end is disclosed in the Remuneration Report on page 69.

8
TAXATION

	2014 £ 000	2013 £ 000
Analysis of charge in period		
Deferred tax:		
Origination and reversal of timing differences	(5)	(1)
Tax on loss on ordinary activities	**(5)**	**(1)**

Factors affecting tax charge for period
The differences between the tax assessed for the period and the standard rate of corporation tax are explained as follows:

	2014 £ 000	2013 £ 000
Loss on ordinary activities before tax	**(1,698)**	**(2,873)**
Standard rate of corporation tax in the UK	21.50%	23.25%
	£ 000	£ 000
Profit on ordinary activities multiplied by the standard rate of corporation tax	(365)	(668)
Effects of:		
Expenses not deductible for tax purposes	310	182
Capital allowances for period in excess of depreciation	11	10
Pension contributions not paid in the year	-	(2)
Tax loss not recognised as deferred tax asset	44	478
Current tax charge for period	**-**	-

Factors that may affect future tax charges
Future tax liabilities will be affected by the fall in the basic rate of corporation tax from 21% to 20% with effect from 1 April 2015.

9
TANGIBLE FIXED ASSETS

	Land and buildings £ 000	Fixtures, fittings and equipment £ 000	Total £ 000
Cost			
At 1 January 2014	126	86	212
Additions	-	21	21
At 31 December 2014	**126**	**107**	**233**
Depreciation			
At 1 January 2014	50	46	96
Charge for the year	27	32	59
At 31 December 2014	**77**	**78**	**155**
Net book value			
At 31 December 2014	**49**	**29**	**78**
At 31 December 2013	**76**	**40**	**116**

10
FIXED ASSET INVESTMENTS

	£ 000
Fair value	
At 1 January 2014	13,547
Additions	22,563
Repayment of loans	(670)
Capital distribution	(77)
Profit and loss - Unrealised*	(1,756)
At 31 December 2014	**33,607**

* 'Profit and loss - Unrealised' is predominantly fund fees on social investments.

11
DEBTORS

	2014 £ 000	2013 £ 000
Other debtors	76	74
Prepayments	185	145
Accrued income on treasury portfolio	672	517
	933	**736**

12
INVESTMENTS HELD AS CURRENT ASSETS

	2014 £ 000	2013 £ 000
Treasury portfolio - Cash deposits	134,782	77,122
Treasury portfolio - Listed debt securities	90,179	69,319
Treasury portfolio - Unlisted debt securities	10,768	9,934
	235,729	**156,375**

Investments held as current assets can be realised within 1 year, but not within 24 hours. Unlisted debt securities are held in an open-ended investment company with daily quoted prices and are held as part of the social investment allocation within the treasury portfolio, as described in the Strategic Report on pages 70 to 72.

13
CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2014 £ 000	2013 £ 000
Trade creditors	103	54
Other taxes and social security costs	-	66
Other creditors	1,285	-
Accruals	380	388
Deferred income	28	36
	1,796	**544**

Other creditors comprise drawdown notices received before the year end but paid after year-end and accrued fees for an un-drawn down investment. Deferred income comprises:

- The portion of grant for core costs from the Office for Civil Society, part of the Cabinet Office, which will be offset against depreciation on tangible fixed assets purchased up to 31 March 2012; and
- Placement fees received, which become repayable if conditions are met during the term of investment. These will be released to the profit and loss account at the end of the investment term if the conditions for repayment are not met.

14
CREDITORS: AMOUNTS FALLING DUE AFTER ONE YEAR

	2014 £ 000	2013 £ 000
Deferred income	**27**	44

Deferred income comprises:

- The portion of grant for core costs from the Office for Civil Society, part of the Cabinet Office, which will be offset against depreciation on tangible fixed assets purchased up to 31 March 2012; and
- Placement fees received, which become repayable if conditions are met during the term of investment. These will be released to the profit and loss account at the end of the investment term if the conditions for repayment are not met.

15
DEFERRED TAXATION

	2014 £ 000	2013 £ 000
Accelerated capital allowances	4	9
Adjustment in respect of prior period	(28)	-
Impact of change in tax rates	28	-
Tax losses carried forward	(641)	(600)
Tax losses not recognised as a deferred tax asset	641	600
Undiscounted provision for deferred tax	**4**	9

	2014 £ 000	2013 £ 000
Provision for liabilities		
At 1 January	9	10
Deferred tax charge in profit and loss account	(5)	(1)
At 31 December	**4**	9

16
FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

Introduction

The Board is responsible for overall corporate governance, which includes ensuring that there are adequate systems of risk management. The systems and processes aim to identify, measure and report risks. Risk is controlled through a system of procedures, checks, reports and responsibilities. The Audit, Risk and Compliance Committee examines management processes and other arrangements to ensure the appropriateness and effectiveness of systems and controls, including risk management.

As described in the Strategic Report on pages 70 to 72, the company's investment portfolio comprises a social investment portfolio and a treasury portfolio.

The social investment portfolio comprises unlisted equity investments, loans, investments in unlisted funds and investments in social impact bonds. All social investments are approved by the Investment Committee (which has been delegated authority by the Board to operate within set parameters).

The treasury portfolio comprises bank and building society cash deposits and listed and unlisted debt securities, and represents capital held before it is drawn down into social investment. The treasury portfolio operates with an ethical screen to exclude investments in armaments, businesses involved in production/distribution of illegal drugs, businesses with significant revenue sourced from gambling, pornography or tobacco and businesses subject to sanctions. Up to £20m of the treasury portfolio can be invested into social investment. As at 31 December 2014, the company held £10.8m (2013: £11.3m) in social investment. The treasury portfolio is managed in accordance with the company's treasury policy as approved by the Board.

FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS CONTINUED

CATEGORIES OF FINANCIAL INSTRUMENT

2014	Financial assets at fair value through profit or loss £ 000	Loans and receivables £ 000	Liabilities at amortised cost £ 000	Non financial instruments £ 000	Total £ 000
Assets					
Tangible fixed assets				78	78
Fixed asset investments	26,848	6,759			33,607
Debtors		748		185	933
Investments held as current assets	100,947	134,782			235,729
Cash at bank and in hand		31,240			31,240
Liabilities					
Creditors: amounts falling due within one year			(1,796)		(1,796)
Creditors: amounts falling due after more than one year			(27)		(27)
Deferred taxation				(4)	(4)
	127,795	**173,529**	**(1,823)**	**259**	**299,760**

2013	Financial assets at fair value through profit or loss £ 000	Loans and receivables £ 000	Liabilities at amortised cost £ 000	Non financial instruments £ 000	Total £ 000
Assets					
Tangible fixed assets				116	116
Fixed asset investments	10,021	3,526			13,547
Debtors		591		145	736
Investments held as current assets	79,253	77,122			156,375
Cash at bank and in hand		51,224			51,224
Liabilities					
Creditors: amounts falling due within one year			(544)		(544)
Creditors: amounts falling due after more than one year			(44)		(44)
Deferred taxation				(9)	(9)
	89,274	**132,463**	**(588)**	**252**	**221,401**

The financial instruments not accounted for at fair value through profit or loss are assets and liabilities whose carrying amounts approximate fair value.

FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS CONTINUED

Gains and losses recognised in the profit and loss account during the period to 31 December by category are shown below:

2014	Financial assets at fair value through profit or loss £ 000	Loans and receivables £ 000	Other income and expense £ 000	Total £ 000
Investment gains and losses	1,025	41		1,066
Income	233	1,553	13	1,799
Other income		-	60	60
Administrative expenses	(243)	(157)	(4,223)	(4,623)
Tax on loss on ordinary expenses			5	5
	1,015	**1,437**	**(4,145)**	**(1,693)**

2013	Financial assets at fair value through profit or loss £ 000	Loans and receivables £ 000	Other income and expense £ 000	Total £ 000
Investment gains and losses	(218)	1		(217)
Income	27	1,284	15	1,326
Other income			55	55
Administrative expenses	(166)	(100)	(3,771)	(4,037)
Tax on loss on ordinary expenses			1	1
	(357)	**1,185**	**(3,700)**	**(2,872)**

FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS CONTINUED

CREDIT RISK

Credit risk is the risk of financial loss from a counterparty's failure to settle financial obligations as they fall due. The company is exposed to credit risk principally from debt securities held, loans and receivables and cash deposits.

Loans included in fixed asset investments are all social investments. Debt securities, showing as current asset investments, are held within the treasury portfolio. Cash deposits are either held for operational purposes or as part of the treasury portfolio. Cash deposits that can be withdrawn at any time without notice and without penalty or that have a maturity or period of notice of not more than 24 hours or one working day are shown as cash at bank and in hand. All other deposits with a maturity of up to 1 year are shown as investments held as current assets.

Within the treasury portfolio the company has set a maximum exposure limit for each counterparty. The treasury policy seeks to minimise the exposure to counterparties with perceived higher risk of default by specifying an average credit rating for the portfolio. The treasury portfolio is managed externally and counterparty exposure limits and average credit rating are monitored by the external managers. The company receives monthly treasury reports.

The company's maximum credit risk exposure at the balance sheet date is represented by the respective carrying amounts of the relevant financial assets in the balance sheet, with the exception of social investment loans, held as 'loans and receivables', for which the carrying value and the credit exposure are shown below. The carrying value includes adjustments to the amortised cost that do not represent a reduction in credit risk.

FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS CONTINUED

Credit risk exposure as at the balance sheet date comprises:

Credit risk exposure	2014 £ 000	2013 £ 000
Fixed asset investments*	33,610	13,559
Other debtors	14	12
Accrued income	672	517
Rental deposit	62	62
Unlisted debt securities	10,768	9,934
Cash deposits - Investments held as current assets	134,782	77,122
Listed debt securities	90,179	69,319
Cash deposits - Cash at bank and in hand	31,240	51,224
Maximum exposure to credit risk as at the balance sheet date	**301,327**	**221,749**

* Included within fixed asset investments:	Credit risk exposure £ 000	Carrying value £ 000
Loans - credit risk exposure is higher than carrying value	885	882
	885	**882**

As at the year end Cash at bank and in hand and Investments held as current investments were held at institutions rated as follows by Moody's Investor Services:

	Rating	2014 £ 000	2013 £ 000
Unlisted debt securities (average portfolio rating)	A2	10,768	9,934
Listed debt securities (average portfolio rating)	A2	90,179	69,319
Cash deposits - Investments held as current assets	Aa3	15,116	15,037
Cash deposits - Investments held as current assets	A1	19,831	-
Cash deposits - Investments held as current assets	A2	99,835	66,688
Cash deposits - Investments held as current assets	A3	-	20,022
Cash deposits - Cash at bank and in hand	Aa3	598	1,502
Cash deposits - Cash at bank and in hand	A2	30,642	25,097
		266,969	**207,599**

FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS CONTINUED

LIQUIDITY RISK

Liquidity risk is the risk that cash may not be available to pay obligations. The company's policy is to ensure it has sufficient funds to fulfil liabilities as they fall due, including investment commitments approved by the Investment Committee.

The company's financial assets include loans, unlisted equity investments, investments in unlisted funds and investments in social investment bonds, which are generally illiquid.

The company's investments in listed debt securities are considered to be readily realisable as they are actively traded. All cash deposits held as current assets have a maturity of less than 12 months.

The company's overall liquidity is monitored on a daily basis. The company expects to receive quarterly capital inflows to meet its social investment commitments and other obligations.

2014	Carrying amount £ 000	Contractual cash flows £ 000	6 months or less £ 000
Creditors: amounts falling due within one year	422	422	422
	422	**422**	**422**

2013	Carrying amount £ 000	Contractual cash flows £ 000	6 months or less £ 000
Creditors: amounts falling due within one year	468	468	468
	468	**468**	**468**

MARKET RISK

Market risk is the risk that changes in market prices, such as interest rates and credit spreads (not relating to changes in the issuers credit standing) will affect the company's income or the fair value of its holdings of financial instruments.

The company has interest rate exposure. The company currently has £267.0 million in cash or current asset investments, which earn interest at a variety of rates. Any reduction in interest rates will reduce the interest income on these deposits. A reduction of interest rates by 1% would result in a reduction in returns of £1.2 million.

REGULATORY RISK

The company is authorised and regulated by the FCA. It is required to regularly assess the amount of capital needed for operations and will hold liquid capital in excess of this amount.

The company has, at all times during the period under regulatory supervision, held sufficient capital to meet its regulatory capital requirement.

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VALUATION OF FINANCIAL INSTRUMENTS

The determination of fair value for financial assets and liabilities for which there is no observable market price requires the use of valuation techniques as described in Note 1 - Accounting policies, 'Financial assets and financial liabilities - iii) Fair value measurement'.

The company uses a three-level hierarchy for fair value measurement disclosure, as follows:

- Level 1. Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2. Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3. Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

In determining a fair value using Level 3 valuation techniques, the company applies the principles included in the 'International Private Equity and Venture Capital Valuation Guidelines':

- Where an investment has been made recently, or where there has been subsequent, significant new investment into the company, a more accurate valuation is not available and there is no evidence to suggest that the unadjusted Price of Recent Investment is no longer relevant, the company may apply the Price of Recent Investment, for a limited period following the date of the relevant transaction. Where it is felt that there has been a change to the milestones or benchmark then the company will use the Price of Recent Investment adjusted to reflect milestone/ benchmark analysis.
- Where appropriate earnings (or other) multiples are available for comparable businesses, the company will apply Multiples Valuation techniques to derive a value for the investment.
- Where a regular Net Asset Valuation is available for the investment, the company will assess this for reasonableness and consider whether the investment can be valued on the basis of the underlying fair value of its assets, rather than its earnings. If this is considered appropriate the company will apply the Adjusted Net Asset Valuation method.

If future cash flows can be reasonably estimated and it is felt that the risks, due to the high level of subjectivity, involved in applying the Discounted Cash Flow method do not render the method insufficiently reliable, this will be applied.

If industry benchmarks can be applied to the investment to derive a fair value, these will be applied.

The company may decide to use a combination of the mentioned methods, or other methods that are considered more appropriate to derive the fair value of its investments.

The company invests to achieve a financial return, a measurable social impact and to further market development, and success across these factors will influence valuation.

VALUATION OF FINANCIAL INSTRUMENTS
CONTINUED

The fair value hierarchy of financial assets and liabilities as at 31 December 2014 can be analysed as follows:

	2013 £ 000	2012 £ 000
Financial assets held at fair value:		
Level 1		
Investments held as current assets	90,179	69,319
Level 2		
Investments held as current assets	10,768	9,934
Level 3		
Fixed assets - investments	26,848	10,021
	127,795	**89,274**

There have been no changes in classification of assets held at each level.

Level 3 financial assets held at fair value	Financial assets held at fair value through profit or loss £ 000
Balance at 1 January 2014	10,021
Purchases	19,833
Sales	(1,235)
Total investment returns recognised in profit or loss	(1,771)
Balance at 31 December 2014	**26,848**

All level 3 financial assets held at fair value are investments held within the social investment portfolio.

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SHARE CAPITAL

	Nominal value	2014 Number 000	2014 £ 000	2013 £ 000
Allotted, called up and fully paid:				
Ordinary A shares	£1 each	183,460	183,460	135,381
Ordinary B shares	£1 each	122,001	122,001	90,028
			305,461	**225,409**

	Nominal value	Number 000	Amount £ 000
Shares issued during the period:			
Ordinary A shares	£1 each	48,079	48,079
Ordinary B shares	£1 each	31,973	31,973
			80,052

Shares were issued in order to provide capital to the company to enable it to fulfil its objectives, outlined in the Directors' Report. A minimum of 80% of the voting rights is attached to Ordinary A Shares.

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PROFIT AND LOSS ACCOUNT

	2014 £ 000	2013 £ 000
At 1 January	(4,008)	(1,136)
Loss for the financial year	(1,693)	(2,872)
At 31 December	**(5,701)**	**(4,008)**

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RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS

	2014 £ 000	2013 £ 000
At 1 January	221,401	118,238
Loss for the financial year	(1,693)	(2,872)
Shares issued	80,052	106,035
At 31 December	**299,760**	**221,401**

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GROSS CASH FLOWS

	2014 £ 000	2013 £ 000
Capital expenditure		
Payments to acquire tangible fixed assets	(21)	(22)
Payments to acquire investments	(21,561)	(9,205)
Repayment of loans	670	40
Receipts from sale of investments	-	174
Capital distribution from fund	77	-
	(20,835)	**(9,013)**
Management of liquid resources		
Purchase of current asset investments	(105,619)	(113,652)
Sale of current asset investments	29,763	35,245
	(75,856)	**(78,407)**
Financing		
Issue of share capital	**80,052**	**106,035**

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POST BALANCE SHEET EVENTS

In January 2015, the company received £8.4m of funding and issued 8,376,000 Ordinary A Shares to The Big Society Trust, and in February 2015, the company received £5.6m of funding and issued 5,570,040 Ordinary B Shares to the shareholder banks.

Since the year end, the company has paid investee drawdowns of a further £15.5m, increased in principle commitments by £0.8m and signed agreements with a value of £2.9m.

In March 2015, a 10 year lease with a 5 year break clause was signed for the company's new office premises. This will increase annual commitments under non-cancellable operating leases by £413,549.

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CAPITAL COMMITMENTS

The company recognises investments and potential investments at three distinct stages of the investment process:

1. Investments signed and drawn down - legal agreements are completed and signed and funds (in total or partial) have been drawn down. The amounts drawn down are recognised as financial assets in the balance sheet, and the balance of the commitment is disclosed below.

2. Investments signed, commitment undrawn - legal agreements are completed and signed and funds (in total or partial) have not been drawn down. These are not recognised within the balance sheet, but are disclosed below.

3. In principle commitments - the commitment has been approved in principle by the company's Investment Committee, legal agreements and deal terms are in the process of being prepared. These are not recognised within the balance sheet, but are disclosed below.

As at 31 December there were capital commitments, in respect of investments signed, commitment undrawn of:

	2014 £ 000	2013 £ 000
Commitments contracted but not drawn down and not provided in the Financial Statements	**120,975**	**34,795**

As at 31 December, there were in principle commitments of:

	2014 £ 000	2013 £ 000
In principle commitments (approved by the Investment Committee, subject to legal documentation)	**21,500**	**101,050**

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OTHER FINANCIAL COMMITMENTS

At the year end the company had annual commitments under non-cancellable operating leases as set out below:

	Land and buildings 2014 £ 000	Land and buildings 2013 £ 000
Operating leases which expire:		
within one year	75	-
within two to five years	-	80
	75	**80**

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RELATED PARTY TRANSACTIONS

During the period The Big Society Trust, being the parent company, purchased £48.1m (31 December 2013: £63.7m) of £1 Ordinary A shares in Big Society Capital Limited, as detailed in Note 18 - Share capital.

Directors' emoluments are disclosed in Note 6 - Directors' emoluments, and the remuneration report on page 69, and senior management remuneration is included in Note 7 - Staff costs.

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ULTIMATE CONTROLLING PARTY

The directors consider that the immediate parent undertaking and the ultimate controlling party of this company is The Big Society Trust, a company incorporated in the UK and limited by guarantee.

The consolidated financial statements of the group are available to the public and may be obtained from Companies House.

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Big Society Capital Limited is registered in England and Wales at Companies House number 07599565

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Big Society Capital is authorised and regulated by the Financial Conduct Authority

BIG SOCIETY CAPITAL

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