Response to the Independent Review of BSC

January 2025

We welcome the Quadrennial Review of Better Society Capital (BSC) that highlights both the positive impact that BSC continues to have and identifies important areas for development. The Review comes at a key moment as we review our strategy for the next five years.

We agree with the panel's assessment that we face significant strategic choices at a time of considerable change and increasing complexity. Since the last review, the environment around us has changed with a tougher economic climate, a changed government context and the rapidly growing scale of the social impact market itself.

BSC was created to grow the money invested in tackling social issues and inequalities in the UK. Success is judged by two factors: (i) the impact of the investments we manage and (ii) the growth and sustainability of the wider social impact investment market. The Review notes that we are playing an important role in growing the market and we are pleased to see this growth reflected by an increase of £3.5 billion between 2020-23. This twin mission creates inherent tensions that the Review recognises. Given these tensions, we were reassured to see that almost all respondents recognised BSC's value in growing the market and noted that BSC had *'unlocked significant impact across a range of pressing social issues and reduced inequalities.'*

Despite progress on several fronts since the last Quadrennial Review, we recognise and acknowledge that this year's report identified a number of important challenges facing BSC. We are committed to engaging fully with, learning from and responding to the issues raised by the Review. This document sets out how we intend to address them and, where possible, sets provisional target dates for completion. As we have done over the last four years in response to the 2020 Review, we will regularly evaluate and develop our approach as we make progress.

Issue 1. Impact – Where should BSC's strategy focus in the next phase?

Portfolio balance

A key issue raised in the Review is the balance of our portfolio between different types of investment. We recognise this is a key strategic question for us and for our stakeholders.

In our experience over the last 12 years, it is clear there is not a consistent relationship or trade-off between financial return and impact. Therefore, our strategic choice is not whether to prioritise one or the other. Instead, we aim to construct a portfolio that will deliver the greatest impact, financial returns and systems change across a range of potential economic, social and political scenarios. We believe that a range of investments has been central to our success in bringing in other investors alongside us and contributing to our wider mission.

We will review how to allocate our future investments in our post-2025 strategy. It is likely that, following the Review, we will still retain a wide range of investments that reflect different ways of achieving our mission and we believe this is essential given both the range of needs we wish to tackle and the level of uncertainty.

We acknowledge the feedback that the way we make these choices is not always clear or well understood. We recognise that we need to further improve the way we communicate our investment strategy and decision making to our stakeholders and will develop plans in early 2025 to do so.

However, we do believe that our mission is fundamentally to grow the amount of capital invested in tackling social issues. For this reason, we will continue to focus on a range of areas including those with positive returns to 'crowd in' other investor capital and maximise the collective impact on social issues in the UK.

Transparency

A second key issue raised by the Review was transparency. Although it found our 2020 strategy provided greater clarity to co-investors, intermediaries and the panel, we accept the need for greater transparency particularly concerning the rationale behind how we balance the different types of investments made in service of our mission.

We already publish the full details of all our investments on our website including their intended purpose and our investment approach, portfolio risk and return zones and FAQs on topics that typically come up about our investment strategy. Nevertheless, we accept that our approach to investment is still not clear enough and there is more we can do to articulate it better. We recognise the need to evolve our communications as sometimes providing more information doesn't equal more clarity, therefore, we will be taking an 'audience-first' approach which we hope will help us be clearer and more direct.

Fragile Intermediaries and Communities

All our investments target vulnerable or disadvantaged communities, and some are made through intermediaries that could be considered 'fragile'. We recognise that in some cases concessionary capital is required. This is why we helped create our sister organisation Access -The Foundation for Social Investment, as a source of grants for blended capital and have suggested consistently that it should receive additional dormant account funding.

We recognise that we must find co-investors at multiple points on the spectrum of capital – including concessional finance, to work alongside us. This is a key part of our additionality. We agree with the Review that a key challenge for our next strategy period will be to unlock a flow of concessional capital through finding more mission-aligned investors and supporting them to overcome barriers to investing in impact. However, we do not believe the solution is to simply provide more concessional capital from BSC itself. This would not be an appropriate long-term strategy for the business as it would be inconsistent with our mandate of sustainability and would not serve the overall growth of the social investment market.

We agree with the Review's analysis that some intermediaries need more than just capital to help them succeed. Although we already provide support from pro-bono advisors and with other tools, we will examine other methods of support to help fund managers.

We also agree there is a need and opportunity associated with the regional devolution agenda which can increase the role of social impact investment. Therefore, we expect place-based investment to become an increasing focus of our activity, working more closely with regional authorities to tackle inequalities by leveraging additional capital.

Our approach

- We will publish our next strategy for 2026 and beyond and will be fully transparent in sharing our future priorities, ambitions and rationale. [Target date for completion: By October 2025]
- As part of our strategy process, we will review our target asset allocation, taking into account market development, while meeting our twin mandate of sustainability and maximising market growth. [By October 2025]
- We will review our communications strategy to take an audience-first approach to engage our stakeholders by more clearly articulating our additionality and how we address issues raised in the Review, such as perceived overclaiming of impact. [By October 2025]
- We recognise that our capital – 5% of the market - is not sufficient for the level of change we seek to achieve over the next five years. We will, therefore, explore new ways to leverage our experience and expertise to support other investors interested in entering the impact market and growing the amount and range of capital available. [End 2025]
- We will continue to support and catalyse smaller and more emerging fund managers (including through direct investment where appropriate) where that is the best way to grow financial and operational capacity in the impact market or extend it to new areas. [Ongoing]

Issue 2. Sustainability – How can BSC fund its strategy?

The Review focuses on sustainability as a key founding principle of BSC which will remain central to our next strategy. Sustainability has three elements: of our investments, of the social impact investment market, and of BSC as an organisation.

Generating growth

At a time of fiscal constraint, the new government has indicated much more openness to working with social impact investors and we are well-positioned to help with this. We see opportunities to promote an increased use of social impact investment through our work with central government departments and other public bodies to access more capital to be managed for impact. At the same time, we believe there is potential for guarantees and other innovative mechanisms to encourage investment into the sector.

Covering costs

BSC benchmarks its investment costs against other non-profit/public sector investment organisations and is currently below the comparators. We will keep market building costs under review and aim to manage any increase so that it is consistent with our long-term sustainability. As the Review notes, although we cover our costs through our returns, cost recovery is not the driver of our investment decisions.

There are always more opportunities for market building work than we can fund from our own resources. Some of these require grant funding that we are prohibited from providing. Therefore, we will aim to increasingly partner with others and deliver additional sources of funding to support this work where appropriate.

Our approach

- We will ensure that all three aspects of sustainability – investments, wider market and BSC itself - form a key part of the consideration of our next strategy. When published we will share our approach and objectives around sustainability. [By end of 2025]
- We will seek opportunities to replicate the model we have piloted with the Ministry of Housing, Communities and Local Government (MHCLG) which invests capital for impact on behalf of public bodies. [Initial phase by Oct 2025 and then ongoing]
- We will explore, alongside government, ways in which grants can be blended with investment for increased impact, including with regional and combined authorities. [Ongoing]
- We will ensure that BSC's costs continue to remain proportionate and will continue to benchmark our salaries against the public and non-profit sectors and our investment costs with comparable organisations. [Reviewed annually by BSC Board]

Issue 3. Engagement – How should BSC influence stakeholders for its strategy?

We agree that our role in influencing and informing stakeholders across the entire social impact investment market is an essential component of our impact and of our additionality.

Government

The Review noted our contribution to informing policy and influencing government which we seek to do with our partners, such as the Impact Investment Institute, Access and Future Economy Alliance. We have worked hard to establish good relationships across government, and we are dedicated to building these and remaining a trusted partner.

We have dedicated resources to engaging with government on a wide range of policy changes to develop a broader range of investment partnerships. We have started to see the impact of this engagement, with the new Government's commitment to creating the right environment for impact investment and the development of a new social impact investment vehicle.

Devolution

The Review correctly highlights that engagement with combined authorities and regional mayors should become a greater focus for us over the coming period. We have already built good relationships with some of these stakeholders, but as we look to the future, we agree with the suggestion that our role needs to shift to actively helping combined authorities to harness social investment to reach their goals. One of our key opportunities will be working more closely with Local Government Pension Schemes (LGPS) and we are committed to exploring this further.

Investors and Investees

As BSC's capital now forms less than 5% of the total social impact investment market, influencing other investors will become an even more significant part of our next strategy. The Review highlights the growing interest in impact investment amongst trusts, foundations, family offices and even large institutional investors like pension schemes. We are responding by reorienting our investor engagement from informing investors about impact to actively helping them invest in it, with a particular focus on LGPS. We agree there is also a key role for BSC to play as a thought leader, alongside our partners, to encourage investors ranging from trusts and foundations, to emerging sectors like family offices.

Our approach

- We will evolve our engagement with government to focus on how it can partner with social investors, building on the new government's interest with the goal of unlocking more capital, grants and guarantees. [End 2025]
- We will develop a new offer to combined authorities and Mayors, providing practical advice and support to unlock social investment, working with regionally based fund managers. [End 2025]
- We will work intensively to develop an offering for LGPS building on this year's Mansion House changes announced by the Chancellor. [End 2025]
- We recognise the need to develop better ways to inform and support other investors interested in impact and will reassess our approach to investor communications to better share experience and expertise. [End 2025 and ongoing]

Issue 4. Organisational challenges – How should BSC organise and behave to deliver its strategy?

We are pleased that the Review recognised our success in building a strong organisation with talented colleagues from a wide range of backgrounds and maintaining a unified mission-driven culture, in what is a challenging operating environment.

However, we are disappointed that we have not been able to reflect this positive working culture in parallel developments, with some of our external partners and stakeholders. We are acutely aware that this is something we need to address as a matter of urgency.

Feedback

We appreciate the honest feedback provided to us from our valued stakeholders. We have found it extremely valuable, and we intend to develop plans to gather candid feedback more regularly. We recognise there is an inevitable power imbalance between BSC and some stakeholders that can make it hard for them to be completely open with us. We are committed to reducing the effects of the imbalance as much as possible.

Board access to a range of views

Our Board have been actively seeking a diversity of views in recent years and are keen to build upon this. The Board has several channels for receiving different points of view, via external members of the Investment Committee, external advisers and direct relationships with the boards of partner organisations. Internally, several of the non-execs and the Chair attend staff council meetings and regularly have informal contact to hear from a range of staff members.

EDI

Our recent EDI work is helping to embed an organisation-wide approach to diversity and inclusion that aims to break down barriers and bring more voices to the fore. We have made progress introducing meaningful EDI metrics internally and into our investment processes and portfolio management. We recognise, as the Review suggests, that this is an iterative process and that we need to make further progress.

Process & Decision-making

One of the areas where the report suggests we could improve our processes and behaviours is in providing more opportunities for feedback and challenge from our partners and stakeholders. We agree that this is an area where we can and must do better. We have taken steps to encourage a learning culture across the organisation, for example by explicitly reflecting past learnings in our investment process. When we develop our new communications strategy, we will ensure we also share back how we respond and change as a result.

While we appreciate the recognition of our professionalism and high quality of our processes, we are disappointed that some stakeholders have experienced slow decision making and rigid processes. Sometimes these can go together and, as the Review notes, the relative rigour of our processes provides comfort for other investors to co-invest. However, we are committed to improving how we operate and the experience of our stakeholders throughout the investment process. We will, therefore, develop plans to gather feedback from our investees to assist us in addressing these issues.

Our approach

- As part of a review of the BSC Board, we will explore how to enhance our feedback channels, so the Board gains a range of perspectives that are representative of our wider stakeholders. [Oct 2025]
- We will establish a mechanism for gathering feedback directly from investees during and after the investment process and from other stakeholders, anonymously, if necessary, to improve our processes. [End 2025]
- We will share our learnings, and the changes we make from these processes, with our key stakeholders. [End 2025]
- We will continue to prioritise EDI, including commissioning external "critical friend" scrutiny of our action plan and governance, and rolling out an EDI learning programme across the organisation. [June 2025]

Conclusion

To deliver on our mission, we need to be constantly adapting to the environment we operate in and improving how we work - building on feedback from partners, colleagues and clients.

We feel we have made progress in some of the areas highlighted already, but we remain committed to continual improvement. Therefore, we are setting out concrete actions noted in this response as part of our ongoing organisational development.

We would like to thank the panel, the Oversight Trust and all participants for taking the time to contribute to this thorough and thoughtful assessment of BSC's impact and performance. We value the feedback and suggestions for further development and are keen to get started on addressing these during the year ahead.

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