



HM Government

# Social investment: a force for social change

## 2016 strategy



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## Foreword from the Minister for Civil Society



Social investment represents a revolution in the way that public services are delivered and a huge opportunity for more people to use their savings and investments to change lives for the better.

There are brilliant charities and social enterprises across the UK who have the knowledge and skills to help vulnerable and hard-to-reach groups in society. This Government is supporting these organisations to attract the funding they need and unlock more opportunities to deliver public services and win public sector contracts.

We have ambitious plans for social investment over this Parliament and it remains a crucial element in the creation of a bigger, stronger society. A vibrant social investment market will support the growth of new businesses, drive the transformation of our public services and help us to build stronger, more cohesive communities.

The UK is widely recognised as the most advanced social investment market in the world. We created the world's first social investment bank, first social investment tax relief and the first-ever social impact bond (SIB). Indeed we continue to be a world leader in this area. This Government has already created 32 SIBs, more than the rest of the world put together, and it is my ambition to have a SIBs market worth more than £1 billion by the end of this Parliament. Our new £80 million Life Chances Fund is an important step on a journey that will show how social investment can transform public services.

Social investment in its different forms already makes a huge difference to the lives of thousands of people throughout the country.

[Aspire Gloucestershire](#), a programme focused on supporting young people who are homeless and out of work, raised investment through a SIB to support 150 young people to improve their lives. [Tapestry](#), a social enterprise working with older people in East London, received a £25,000 grant from the Impact Readiness Fund and unlocked an additional £46,000 to take on board the social investment needed to scale up the services it provides to the local community. [Golden Lane Housing](#) was able to use a Retail Charity Bond to raise £11 million to buy and adapt housing for people with learning disabilities while providing investors with an annual return of over 4%.

We have helped attract new investors to the social investment market, including from overseas, from institutions and from local communities. Since we introduced the social investment tax relief in 2015, over £500,000 has been invested into businesses like [Fareshare Southwest](#), [FC United of Manchester](#) and [Freedom Bakery](#). I want to continue to grow the social economy and see more investors taking advantage of opportunities to invest in organisations that make a difference.

Social investment can accelerate the growth of new businesses, transforming the impact of our public services, and support stronger communities to tackle the social challenges that they face. It has the power to transform lives and I am more committed than ever to helping social investment achieve its full potential.

**Rob Wilson MP, Minister for Civil Society**

A handwritten signature in black ink, appearing to read 'Rob Wilson'.

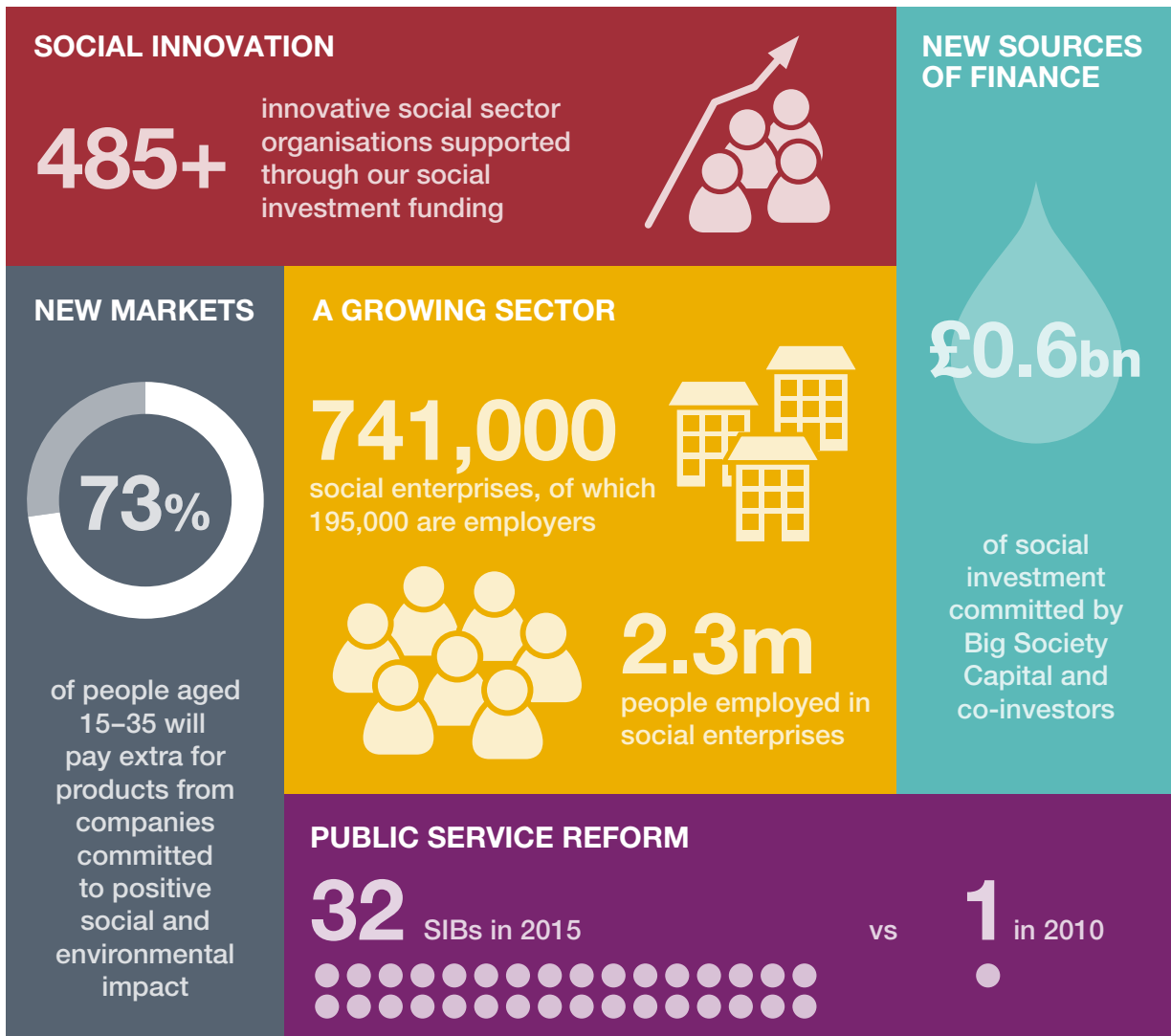
# THE SOCIAL INVESTMENT MARKET: AT A GLANCE



## Over the last five years we:

- » Stimulated demand for social investment
- » Increased the supply of social investment
- » Created an enabling environment for connecting demand with supply

## This has supported:



## Over the next five years we will:

- » Use social investment to transform public services
- » Grow the social economy
- » Strengthen the social investment market place

# Chapter 1: Why Government supports social investment

- 1.1 Social investment is a tool to help organisations increase their social impact. It helps many social sector organisations do more by providing the capital that they need to deliver their services, grow or become more sustainable.
- 1.2 Governments around the world are increasingly recognising the potential of social investment. It is supporting economic growth, driving the innovation needed to deliver public services in the 21st century and, ultimately, tackling some of the most difficult social challenges that we face.

## Supporting economic growth

[Rapanui](#), a sustainable clothing company on the Isle of Wight, has developed several youth [employment schemes](#) which will help almost 700 young people by the end of 2016. A £200,000 angel investment and a further £100,000 from [Big Venture Challenge](#) supported Rapanui in developing the schemes.

## Transforming public services

[Shared Lives Plus](#) brings host families together with vulnerable adults to provide community-based care, and can also generate savings for the local authority. To support the growth of Shared Lives Plus across the UK, the [Shared Lives Incubator](#) was created in 2013, which combined social expertise with social investment to support development of the scheme in a sustainable way.

## Tackling social problems

In 2012, [St Mungo's Broadway](#) and [Thames Reach](#) partnered with the [Greater London Authority](#) to establish a £5 million SIB to provide dedicated support to 830 of the most entrenched rough sleepers in London. Results to date have been strong, with targets of the number of people moving to stable accommodation and entering full-time work being exceeded.

- 1.3 This itself is part of a wider trend. Consumers, employers and investors are increasingly focusing on the social and environmental impact of their spending decisions, places of work and investments. Evidence suggests a new generation for whom doing good and doing well are not seen as being incompatible. Given the leading role that the UK has played in driving this field, we are in a unique position to be a world leader as it reaches the mainstream.
- 1.4 As a government, we have an interest in both helping the social investment market grow, and in partnering with this market to deliver better services to the public. Social investment does not relieve governments of their responsibilities. But it can help to fulfil them more effectively. By financing innovative approaches, social investment also has the potential to help deliver public services more efficiently and, in some cases, tackle the underlying causes of growing demand for services instead of just trying to cope with their consequences.
- 1.5 In 2011, we set out our ambition for a bigger, sustainable social investment market in [Growing the Social Investment Market: A Vision and Strategy](#). Our ambition focused on three clear areas:
- Increasing the supply of social investment
  - Increasing demand for social investment
  - Creating an environment that allows the market to thrive

Since then, we have made significant progress on all three targets.

## Increasing the supply of social investment

- 1.6 **Big Society Capital** (2012) – we created the world's first independent wholesale social investment institution. Big Society Capital acts as a market champion for the sector and provides funding to intermediaries. It will receive up to £400 million from dormant bank accounts and £200 million from the UK's four biggest high street banks. By the end of 2015, Big Society Capital had invested £261 million, matched by £322 million from co-investors.

### What this means in practice: helping intermediaries to support the social sector

Big Society Capital made an £8 million investment into the **Nesta Impact Investments** fund, which invests in innovative ventures addressing a number of social issues. Nesta made a £200,000 equity investment into **Oomph!**, a social enterprise that trains care home staff to deliver activity classes for older adults. The investment has allowed Oomph! to grow and become the UK's largest provider of exercise therapy for older people.

- 1.7 The **Social Investment Tax Relief** (2014) – we stimulated the social investment market through development of the world's first Social Investment Tax Relief (SITR). SITR provides a financial incentive for individual investors to provide social investment capital and is set to unlock **£480m** worth of investment over the next five years. Fifty-five applications from enterprises for SITR eligibility had been received as of December 2015.
- 1.8 The **Dementia Discovery Fund** and **Arts Impact Fund** (2015) – we explored innovative methods of using government money to raise capital from the private sector. The result was the launch of the £70 million (\$100 million) Dementia Discovery Fund and £7 million Arts Impact Fund, two structured funds that combine public and private money to create positive social impact.

## Increasing demand for social investment

- 1.9 The Investment Readiness Programme (2012 and 2014) – we developed the £14 million **Investment and Contract Readiness Fund** (ICRF) in 2012 to allow social sector organisations to purchase tailored capacity-building support. This helped them to secure social investment and win public service contracts. For every £1 of support from the fund, £18 has been generated in contracts and private investment. We also focused on earlier-stage ventures through the **Social Incubator Fund**. This £10 million fund was matched by over £10 million from private investors, and backed 10 social incubators to provide capacity-building support to over 235 social start-ups. And in 2014, we launched the **Impact Readiness Fund**, a £1.5 million grant-making fund that will support social sector organisations to measure their impact.

### What this means in practice: supporting contract readiness

**Pure Innovations** provides care support and employment support to people with learning disabilities. When the Royal Borough of Kingston put its learning disability service out to tender in 2014, Pure Innovations knew they needed bid-writing support to compete for the contract. After receiving £52,250 from ICRF, Pure Innovations secured support from ICRF provider **Stepping Out**, and went on to win the five-year contract worth £11.7 million.



- 1.10 [Access – the Foundation for Social Investment](#) (2015) – we created Access, a new £100 million charitable foundation, in partnership with the [Big Lottery Fund](#) and [Big Society Capital](#). Building on the success of the Investment Readiness Programme, Access will provide capacity-building support over the next decade. We also set up Access as a market development champion, helping to grow effective support for organisations getting ready to take on social investment. As a wholesale provider, Access works with existing market players to deliver its programmes. Access also takes a [Total Impact approach](#), seeking to achieve maximum positive impact across its spending and investments.

## Creating an environment that allows the market to thrive

- 1.11 The [Centre for Social Impact Bonds](#) (2012) – we created the centre to act as a market champion for SIBs. It provides expertise and a range of [tools](#), including a unit cost database and template contract, to support new SIB development. In 2013, we established a £20 million [Social Outcomes Fund](#), catalysing the development of 18 locally and centrally commissioned SIBs through top-up funding. It is addressing a range of social issues, from youth unemployment and children in care to long-term health conditions and social isolation.

### What this means in practice: addressing long-term illness

Fifteen million people in the UK suffer from long-term health conditions which require regular access to health and social care services. To manage the demand on the NHS, Newcastle West Clinical Commissioning Group sought to establish a SIB to improve patient wellbeing for 8,000 local people and reduce reliance on secondary care, including hospitals, over a two-year period. The Social Outcomes Fund contributed £1 million to an £8 million SIB, which, if successful, could save the taxpayer up to £15 million.

- 1.12 The [G8 Social Impact Investment Taskforce](#) (2013) – the Prime Minister placed social investment on the G8 agenda in 2013 and established the G8 Social Impact Investment Taskforce. This has led to an acceleration of social investment around the world. The taskforce published its [report](#) in September 2014 and has expanded to include countries outside the G7.
- 1.13 The [GREAT Britain campaign](#) (2015) – we incorporated social investment into the Government's international GREAT Britain campaign, to promote the UK as the global hub for social economy and increase social investment into the UK. Trade missions have been held across the USA, Asia and Europe.
- 1.14 Underpinning everything we have done has been a drive to make it as easy as possible for anyone to be a social investor, for any social business to access the investment they need, and for everyone to feel the benefit of smarter public services.

There are many ways of achieving social impact and many ways that people organise themselves to do so.

In this strategy, we refer to a range of organisation types that have a firm commitment to achieving and measuring their social impact. These include organisations which have an external body that oversees that commitment (such as charities, community interest companies and community benefit societies) as well as businesses that make that commitment in other forms, such as through their governance, business model or external certification (such as many public service mutuals or B Corps). Collectively, we refer to all these organisations as *social sector organisations*.

Social sector organisations are part of the wider social economy, alongside the parties that buy from them, which include government, businesses and consumers, the social investors that invest in them, and the professional services firms that support them.

**Organisations with a commitment to social impact that use a trading model**

**Asset locked organisations**  
(generally through regulatory limitations on distribution of assets and/or profits)

**No express asset lock**

**Charities that trade**

These include trusts, companies and charitable incorporated organisations that are regulated by the Charity Commission and engage in trading activities.



**Social enterprises**

These can include a range of legal forms that have external regulators such as community interest companies (regulated by the Office of the Regulator of Community Interest Companies) and community benefit societies (registered with the Financial Conduct Authority).



**Mission-led businesses**

These include certain private profit-making businesses that use their business models to achieve social impact. This commitment is typically codified in the articles of the organisation or supported by its governance structure and operating model.



## Chapter 2: Government's progress on its commitments

2.1 In our [2014 report](#), we outlined our key targets to grow the market. These were to make it easier to be an investor; help communities access social investment; promote the UK's offer; build capacity among social sector organisations; and open up markets.

### Making it easier to be an investor

*By increasing the accessibility of social investment*

2.2 **Making the [Social Investment Tax Relief](#) work as effectively as possible.**

- We are developing an accreditation system to enable SIBs to be eligible for SITR. To date, two SIBs have been accredited and have successfully raised investment using SITR. We have also made it easier for spot purchase SIBs to use SITR.
- We designed the [Social Venture Capital Trust scheme](#), which aims to encourage investment in companies that invest in social organisations by offering 30% tax relief on investments.
- We applied for state aid clearance from the European Commission to increase the maximum SITR investment for organisations. Discussions with the European Commission are ongoing and remain a governmental priority.

#### What this means in practice: tax relief for homelessness SIBs

The [Ambition East Midlands](#) and [Aspire Gloucestershire](#) SIBs were set up to address the needs of young homeless people. The SIBs will provide almost £1 million to four local charities to support up to 490 young people into stable accommodation and employment or training. In 2015, these were the first two SIBs to be accredited for SITR, meaning that individual investors were able to offset 30% of their upfront investment against their income tax liability and ultimately back SIBs that directly impact their communities.

- 2.3 **Assessing the suitability of existing financial promotion rules.** The Financial Conduct Authority (FCA) has opened up a [Call for Input](#) on regulatory barriers to social investments, including how the financial promotion rules work for social enterprises and social investors. We will continue to work with the FCA on this priority, including exploring how the regulatory framework might better reflect the mixed motivations of investors.
- 2.4 **Exploring how to make it easier for investors to engage in social investment.** We have introduced legislation through the Charities (Protection and Social Investment) Bill. This will make it easier for charities to make social investments and is the first time social investment has been defined in law. We have worked across government on investment regulations and guidance that relate to social investments by institutional investors. We also released [research](#) into ways in which foundation investors were considering impact throughout their investment strategies.
- 2.5 **Supporting crowdfunded social investment.** We provided £2 million to pilot the [Peer to Peer guarantee fund](#). The fund is currently under development and we are working with a number of potential partners to get the fund up and running.

### Helping communities access social investment

*By building the platforms needed to connect social investors with organisations seeking investment*

- 2.6 **Developing long-term support for community lenders.** To support this, we published the [Scaling Community Lenders report](#), which examined how social investment could help community lenders to grow. We supported the development of the Affordable Lending Portal, which is based on a partnership between private and social sector organisations, and aims to make it easier for consumers to access affordable loans from credit unions and community development finance institutions.
- 2.7 **Launching the £70 million (\$100 million) Dementia Discovery Fund.** This is a global collaboration between government, charity and industry, to provide much-needed investment in innovative dementia research. In addition, we launched the [Arts Impact Fund](#), a £7 million initiative set up to demonstrate the potential for social investment in the arts.

#### What this means in practice: social, artistic and financial return

Arts organisations touch people's lives and help tackle complex social problems, as well as create jobs and income for the economy. To encourage social investment in the arts and enable arts organisations to grow, we launched the Arts Impact Fund in 2015, a collaboration between [Arts Council England](#), [Bank of America Merrill Lynch](#), [Nesta](#) and [Esmée Fairbairn Foundation](#), with additional funding from [Calouste Gulbenkian Foundation](#). The fund provides different returns to each investor depending on their risk appetite and is the first of its kind to focus on social, artistic and financial return.

## Promoting the UK's offer on social investment

*By helping organisations to export overseas as well as attracting business and investment to the UK*

- 2.8 **Exporting commercial deals and the UK's capacity-building expertise.** Working across government, and with the British Council, the [GREAT Britain campaign](#) promoted the UK as a place to socially invest or set up a socially focused business.
- 2.9 **Contributing to the eight key recommendations of the Social Impact Investment Taskforce and those of the UK National Advisory Board.** We published an [update](#) on the progress that the UK Government has made against each recommendation.

## Building capacity among social sector organisations

*And making it easier for them to access the investment needed to grow*

- 2.10 **Setting up Access – The Foundation for Social Investment.** This organisation supports social sector organisations getting ready to take on social investment. Access will also act as a market development champion to grow understanding of this part of the social investment market.
- 2.11 **Understanding the needs of social sector organisations seeking investment.** We worked with the [Design Council](#) to test and prototype [ideas](#) to make it easier for organisations to navigate their way around the the social investment market and the avenues of support available to them. We are now working with the sector to design solutions that improve the social investment field for social sector organisations.
- 2.12 **Promoting angel investment.** The first event of the Social Angel Movement took place at Downing Street in [January 2015](#). This new group brings together social investment and mainstream angel organisations, with the aim of raising awareness and increasing the number of social angel investors in the UK.

## Opening up markets

*By helping social impact organisations to access commercial, corporate and public markets*

- 2.13 **Running dedicated campaigns promoting social enterprise to everyday consumers.** In partnership with [Social Enterprise UK](#), we promoted and supported 'Social Saturday', an annual celebration of social enterprises in the UK through events and activities which took place across the country.
- 2.14 **Increasing access to corporate markets.** Working with Social Enterprise UK, we supported the development of a network of leading corporates who are seeking to considerably expand the amount that they procure from social enterprises. We also improved the quality of the data on the [Buy Social Directory](#) by linking it to Companies House records.

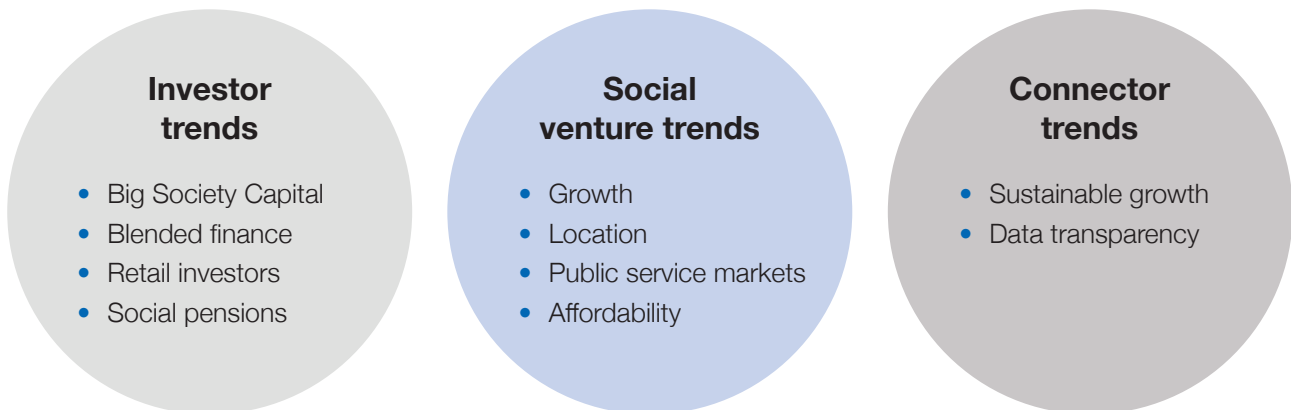
- 2.15 **Increasing public sector awareness and use of social investment as a policy tool.** We developed an [online platform](#) of resources for public sector professionals and created a network of senior champions across central government, working to increase the use of social investment models.
- 2.16 **Continuing our efforts to promote SIBs within government.** We developed SIB rate cards, which set the maximum price government would pay for specific outcomes, for the [Youth Engagement Fund](#) and [Fair Chance Fund](#). We also worked closely with central government departments to deliver manifesto commitments to scale SIBs for mental health, youth employment and homelessness.

#### **What this means in practice: supporting commissioners to help young people**

Supporting some of the most vulnerable young people requires collaboration across sectors and government. The Innovation Fund, launched in 2011 to address youth unemployment through SIBs, allowed us to develop rate cards. Commissioners across government used these to jointly develop two [programmes](#) totalling £30 million, aimed at improving the employment prospects of up to 10,000 disadvantaged young people.

- 2.17 **Supporting locally commissioned SIBs.** We supported the development of seven locally commissioned SIBs through the Social Outcomes Fund, with £5 million in central government outcome payments unlocking £62 million in outcome payments from local commissioners.
- 2.18 **Building the data required for SIBs to reach scale.** In partnership with the Early Intervention Foundation and the Centre for Wellbeing, we investigated approaches about how best to utilise the evidence base for future SIB development.

## Chapter 3: Current trends in the market



3.1 **The global social investment market continues to grow.** Based on the annual Global Impact Investing Network (GIIN) survey of impact investors, there was approximately £30 billion of impact investments managed globally in 2014.<sup>1</sup> This has risen to over £40 billion in 2015.<sup>2</sup> This is still a small proportion of the projected £66 trillion of total assets that will be under management by 2020, but demonstrates substantial growth in an emerging field.

### Trends in investors

3.2 **Big Society Capital (BSC) is investing at a faster rate.** By the end of 2015, over £224 million had been drawn down from BSC and its co-investors to support charities and social enterprises. This has been driven by two important trends. First, there has been a significant acceleration during 2015 (the equivalent draw-down figure for 2014 was £104 million). Second, co-investors working alongside BSC are continuing to provide significant amounts of investment. Of the £224 million, £156 million is from co-investors and £68 million from BSC's own resources.

1 JP Morgan and GIIN (2014), *Spotlight on the Market: The Impact Investor Survey*.

2 JP Morgan and GIIN (2015), *Eyes on the Horizon: The Impact Investor Survey*.

- 3.3 **Blended finance has the potential to open up new sources of capital to the market.** By carefully layering investment risk, money from the public sector and trusts and foundations is able to draw in additional capital from the private sector. This is capital that would not otherwise be available for social purpose. The Arts Impact Fund and Dementia Discovery Fund have pioneered this approach in the UK. There are an estimated 74 pooled public and private funds globally, which account for a total of £16 billion in committed assets.<sup>3</sup>
- 3.4 **Ordinary retail investors are exploring a range of social investment options.** A recent survey found that 73% of people with net wealth of between £50,000 and £100,000 expressed an interest in social investment.<sup>4</sup> There are a range of products to meet the demands of different investors, including at the retail end where community shares have an average investment of £368 per person. Investment in community shares, charity bonds, company bonds and equities grew by 31% in 2014.<sup>5</sup>
- 3.5 **But there are still challenges to social investment becoming mainstream.** A UK-wide survey revealed that while 58% of people were aware of alternative models such as peer-to-peer lending, crowdfunding and community shares, only 14% have used them.<sup>6</sup> The choice of positive savings and investments open to the general public also remains limited,<sup>7</sup> including from institutional sources.<sup>8</sup>

### Market trends: the role of Millennials in shaping the social economy

Millennials are defined as those born between 1982 and 2004. They have an estimated £200 billion in annual purchasing power. This generation reports that business should focus on purpose, not just profits, with 73% of global Millennials stating that they are willing to pay more for sustainable brands (up from 50% in 2014).<sup>9</sup>

3 World Economic Forum (2015), *Blended Finance Vol. 1: A Primer for Development Finance and Philanthropic Funders*.

4 Triodos Bank (2014), *Impact Investing for Everyone*.

5 Ethex (2015), *The Ethex Positive Investing Report 2015*.

6 Nesta & University of Cambridge (2014), *Understanding Alternative Finance – the UK Alternative Finance Industry Report 2014*.

7 Ethex (2015), *The Ethex Positive Investing Report 2015*.

8 Big Society Capital & Social Market Foundation (2015), *Introducing Social Pension Funds to the UK*.

9 Deloitte (2015), *The Deloitte Millennial Survey 2015 – Mind the Gap*.



## Trends in social sector organisations

- 3.6 **Social enterprises are growing in number.** Since 2012, we estimate that the number of social enterprises in the UK has grown by 58,000 to 741,000. These businesses employ close to 2.3 million people.<sup>10</sup> Over this period, a higher proportion also reported being profitable (75% compared with 64% previously) with an increase in both employment and turnover over the year to 2014.
- 3.7 **They have a wide geographic range.** Social enterprises are significantly more likely than SMEs overall to operate in the most deprived areas of the UK (21% compared with 16%). They operate in a wide range of sectors, though the sectors most likely to contain social enterprises are food and accommodation, retail and health. 11% are operating globally exporting goods and services outside the UK. While 28% operate on a neighbourhood level, the majority are operating across several regions. Some 14% are operating globally, either exporting goods and services (or licensing their product) to countries across Europe, Asia-Pacific and North America.<sup>11</sup>
- 3.8 **More can be done to boost trading with the public sector.** Some 93% of social enterprises reported that 75% to 100% of their income is earned through trade, over grants and donations.<sup>12</sup> The most common customer for social enterprises is the general public, although 28% also report having done work for the public sector in the past year. Awareness of the Social Value Act is strong among social enterprises, although nearly half report they are yet to see the impact at commissioner level.

### Market trends: social sector organisations are diverse and inclusive employers

An estimated 2.3 million people were employed by social enterprises in 2014, which represents an increase of around 400,000 since 2012. Within this:<sup>14</sup>

- 59% employ at least one disadvantaged person
- 5% employ 100% disadvantaged workforce
- 40% are led by women
- 12% are led by a member of the Black and Minority Ethnic (BAME) community
- 40% have a director with a disability

10 Cabinet Office (2015), *Social Enterprise Market Trends*.

11 Social Enterprise UK (2015), *State of Social Enterprise Survey 2015*

12 Department for Business, Innovation and Skills (2015), *Small Business Survey 2014 – SME Employers*.

13 Cabinet Office (2015), *Social Enterprise Market Trends*.

14 Social Enterprise UK (2015), *State of Social Enterprise Survey 2015*

- 3.9 **Social investment is being sought but affordability remains key.** An estimated 44% of social enterprises sought finance in the last 12 months.<sup>15</sup> There is an increased use of alternative finance models – with the community shares market seeing an average growth rate of 95% between 2012 and 2014. Many social enterprises, trusts and foundations see repayable finance as supplementary to grant-giving, rather than a replacement, and many report that affordability of social investment means they will continue to seek a mixture of the two.<sup>16</sup>

## Trends in connectors

- 3.10 **Fund managers are delivering sustainable market growth.** A study of the investment portfolios held by three of the major fund management intermediaries in the UK<sup>17</sup> indicated that they achieved capital preservation of approximately 90% (including interest payments and charges). Many of these funds were aimed at the riskier end of the investment market, and write-off rates were comparable with other markets where investors are encouraged to take risk.<sup>18</sup>
- 3.11 **There is more transaction-level data available on social investment.** Developments include the [EngagedX](#) project creating the first financial index for impact investing and Big Society Capital publishing substantial datasets<sup>19</sup> about the transactions that have been enabled by its investments. While the research has yielded a number of key insights, it only covers a segment of a far larger market. Increased transparency will allow for more informed decisions about when repayable capital is affordable and appropriate.<sup>20</sup>

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15 Social Enterprise UK (2015), *State of Social Enterprise Survey 2015*

16 Nesta & University of Cambridge (2014), *Understanding Alternative Finance – the UK Alternative Finance Industry Report 2014*.

17 CAF Venturesome, Key Fund and Social Investment Business.

18 Social Investment Research Council (2015), *The Social Investment Market Through a Data Lens*.

19 Big Society Capital (2015), *Transparency – Deal Level Data*.

20 Social Investment Research Council (2015), *The Social Investment Market Through a Data Lens*.

## Chapter 4: Supporting market growth in 2016/17

- 4.1 We know that social investment can be a great force for social change. The challenge for the next five years is about realising the potential of this market to revolutionise the way that we all think about doing business, buying goods and delivering public services.
- 4.2 Government has a crucial role to play in achieving this ambition. As a service commissioner, we can foster the innovative approaches needed to tackle the most difficult social challenges. This would unlock far more resource and expertise than government alone can bring. As a market builder, we can seek to grow an ecosystem that provides a broader and more sustainable range of funding options. This would make progress towards every social sector organisation having the opportunity to access the social investment they need. As a market steward, we can look to remove legal and other barriers to social impact investing. This would make the UK the easiest place in the world to buy and invest socially.
- 4.3 And this is what forms the basis for our underlying objectives over the next year:
- Using social investment to transform public services
  - Growing the social economy
  - Strengthening the social investment market place
- 4.4 Government alone cannot deliver these priorities. That is why we will look to work in smart and strategic ways – using the unique platform of government to build partnerships, promote new ideas and influence key decision-makers across sectors.

### Using investment to transform public services

*We will use social investment to transform public services. This means making it easier for public sector commissioners to buy socially, accelerating the growth of the SIB market and supporting the use of new and innovative financing models.*

- 4.5 **Making it easier for public sector commissioners to buy social outcomes.** We will partner with a leading UK university to establish a centre of research and technical excellence on outcomes based commissioning. This centre will also provide early-stage support to local commissioners looking to explore the use of models such as SIBs. We will also be supporting a programme of work to consider how we can harness the talent and energy of charities and social enterprises to achieve better public service outcomes.

- 4.6 **Accelerating growth of the SIB market.** We will catalyse the take-up of SIBs across the country by establishing an £80 million Life Chances Fund that will help to pay for interventions that tackle some of the most difficult and costly social challenges. In addition, £25 million will be committed to supporting SIBs focused on tackling homelessness, mental health and employment.
- 4.7 **Building capacity within government to use social investment.** Over the next 12 months, we aim for at least two-thirds of central government departments to develop new models using social investment. We will create an open database of information, tools and resources for policy makers, setting out where and how social investment models can support policy issues.
- 4.8 **Supporting the growth of innovative investment models.** Building on the successful launch of the Arts Impact Fund and the Dementia Discovery Fund, we will promote the use of innovative finance models so that the public, private and social sectors can work together to create social impact in key areas such as education, housing, health and public service mutuals.

We will measure our success against:

- The overall number of people being supported with the help of social investment-backed government programmes
- The amount of social investment being made into public services
- The number of central and local government organisations that are actively using social investment models

## Growing the social economy

*We will grow the social economy by developing a better understanding of how it works, taking steps to make it as easy as possible to be a social investor and ensuring that the UK remains a global leader in social investment.*

- 4.9 **Understanding what mission-led businesses need.** Looking ahead, we need to have a better understanding of the full range of organisations that make up the social economy. As part of this, we will work with industry to explore how mission-led businesses take steps to ‘lock in’ their social mission without using a regulated social legal form. This will focus on the tools that industry and government could use to better identify, support and promote mission-led businesses. We will also work across Whitehall to understand barriers that prevent mutuals from delivering better public services.

- 4.10 **Addressing legal and regulatory barriers to growth and maximising the effectiveness of the Social Investment Tax Relief (SITR).** We will investigate how the regulatory framework could be disadvantaging socially motivated investors, placing a disproportionate burden on social sector organisations or otherwise restricting the growth of the social investment market. We will look particularly at the rules affecting smaller direct investments, such as the financial promotion rules. We also will continue work on enlarging SITR and ensuring that it is responsive to the needs of social enterprises. In the long term, we want the UK to become the international-standard setters in developing and implementing a simple and consistent regulatory landscape for social investments.
- 4.11 **Making it easier for institutional investors to enter the market.** Institutional investors need greater clarity about how and when they can make social investments. We will work across government and regulatory bodies to clarify how social investment fits with fiduciary duty and, where appropriate, work with fund managers to provide social investment options that can be accessed by both institutions and individuals.
- 4.12 **Making it easier for trusts and foundations to engage in social investment.** We are making it easier for trusts and foundations to make social investments through a statutory power of social investment for charity trustees. Legislation has passed through Parliament and is now awaiting Royal Assent. This will be the first time social investment is defined in law. We will work with the Charity Commission to revise its guidance to reflect this legislation.
- 4.13 **Moving towards mass participation in social investment.** We will commission research to better understand the potential for mass participation in social investment and savings. The research will inform work with both mainstream institutions and newer innovators to support the development and scaling of new financial products. We will also work to support access to information on social investment for financial advisers.
- 4.14 **Maintaining our position as a global leader.** During the last Parliament, we established the UK as a global leader in the field of social investment. We will continue to work across the Cabinet Office, UK Trade and Investment, the Foreign and Commonwealth Office, the British Council and the Department for International Development to maintain our position as the best place in the world to run a social business or be a social investor. As part of this, we have developed a new [cross-government strategy](#) for promoting the UK social economy.

We will measure our success against:

- The overall number of social sector organisations in the UK economy
- The value of institutional and retail investment invested for social impact
- The number of enterprises and individual investors that benefit from SITR
- The number of foreign investments into, and overseas ventures entering, the UK social economy, and the number of successful exports of our social economy

## Strengthening the social investment market

*We will ensure that social investment is working effectively to support frontline social sector organisations by improving existing market infrastructure and creating new infrastructure where necessary.*

### 4.15 **Ensuring market infrastructure works for social sector organisations.**

Over the past five years, we have established significant pieces of market infrastructure to help social sector organisations to take on investment and increase their social impact. These have included Big Society Capital, the Social Investment Tax Relief, and Access Foundation. The market is now at a stage where we can start to evaluate whether the existing infrastructure is working effectively and what additional support would increase the flow of capital to social sector organisations. As part of this learning process, we will continue to evaluate funds such as the £10 million Social Incubator Fund. We will share our learning to ensure that future programmes make it as easy as possible for social sector organisations to access the appropriate investment.

### 4.16 **Actively intervening to strengthen the market.** We will assess whether there are any gaps in the current market infrastructure and seek to fill these where appropriate. This will include the development of a digital offer that makes it easier for social sector organisations to understand repayable finance, assess the benefits of social investment and find opportunities that suit their needs. We will also seek to strengthen the chain through which investment reaches social sector organisations, by assessing the needs of intermediary organisations.

We will measure our success against:

- The number and value of direct investments made into and contracts won by social sector organisations
- The sustainability and growth of organisations that provide intermediary support to social sector organisations



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