Charity Finance Group Consultation Response

Mission-led business review

July 2016

About CFG

Charity Finance Group (CFG) was founded in 1987. It is the charity that works to improve the financial leadership of charities, promote best practice, inspire change and help organisations to make the most out of their money so they can deliver the biggest possible impact for beneficiaries.

CFG has nearly 1400 members and our members manage nearly £21 billion in charitable income. Our members work at the heart of the strategic development of their organisations, and are at the forefront of delivering a sustainable and efficient charity sector.

Scope of mission-led business review

CFG shares the concerns of Social Enterprise UK, Locality, and others, that this review risks watering down the definition of what it means to be a social business and the risks of public funds being used to be support, essentially, private businesses.

We would strongly urge the review to consider that charities and social enterprises as part of the mission-led business environment. Many of our members have trading operations or business activities which are mission-led with the added discipline of charitable status, Community Interest Company status or Charitable Incorporated Organisation status. They undertake these activities either to achieve their purposes directly or to fund their work in fulfilling their objectives. We would strongly argue that these are mission-led businesses.

In specifically excluded charities and social enterprises from this review, there is a risk that this review ignores vast swathes of the mission-led spectrum and makes recommendations that disadvantage other mission-led organisations.

Supporting mission-led businesses

We strongly disagree with the principle of public funding or support being given to mission-led businesses which are essentially private businesses – under the definition put forward in the call for evidence.

At a time when stronger mission-locked organisations such as charities and social enterprises are dealing with significant financial and regulatory change, it would not be appropriate for support to be given to organisations which exist to generate private benefit.

We support the view articulated by Locality that without an effective mechanism to protect the long term commitment to social impact and public benefit, public sector support or funding could be used to generate private returns.

Given the significant cuts in public funding, particularly grant funding, that charities have seen over previous years – over £3bn between 2003/04 and 2013/14 according to the NCVO Civil Society Almanac 2016 – additional funding for private businesses would not be appropriate.

A more effective method for the government to support social impact would be to work with charities and social enterprises to support their work and open up new opportunities in commissioning and private markets. We endorse the recommendation of Social Enterprise UK, that the Cabinet Office and the Department for Business, Innovation and Skills with the support of the Treasury should review these policies and evaluate the extent to which they have supported these enterprises and how they might be improved.

We would urge the government to focus limited public resources (both financial and time) in supporting the stronger end of the social sector, specifically charities and social enterprises, which are working in some of toughest environments, in areas where markets have traditionally failed.

Furthermore, we are deeply concerned that this review will be used as a vehicle to open up funds earmarked for social investment to support social sector organisations, such as charities and social enterprises, to private businesses.

We understand that progress on growing the social investment market has been slow, but this does not mean that the number of organisations eligible for support should be widened in order to give the appearance of success. Social investment's goal should be to find ways to unlock private capital to support social impact in those parts of the marketplace where it is hardest to access capital.

The mission-led businesses in this review, as they have no limits on profit distribution, are no more disadvantaged than the mainstream from access private finance. As a consequence, it is not appropriate to open up the funds of institutions such as Big Society Capital or Access Foundation to support mission-led businesses. Priority should be given to support charities and social enterprises to access social investment and address the key barriers.

Arguably the most challenging barrier the lack of financial capability in the sector, an issue highlighted in our *Managing in the New Normal 2016* report which found 85% of respondents lacked the skills they needed to attract social investment.