

## Mission-led Business Review

### Response from Locality



#### About Locality:

Locality is the national network of ambitious and enterprising community-led organisations, working together to help neighbourhoods thrive. Our network is a strong, collective voice inspiring community action to create a fair and diverse society where local people determine their future together. We also run [My Community](#) providing resources, inspiration and advice on Community Rights, Neighbourhood Planning and Our Place, enabling communities to have influence and control over local assets, services and development.

Our members operate in communities right across England, undertaking a wide variety of different activities, reflecting the communities they serve. What unites our members is a sense of ambition for their local neighbourhood, an enterprising approach to finding local solutions to local problems, and a clear sense that this activity should be community-led and based on self-determination. They act as “anchors” within their community, providing stability, flexibility and a responsiveness to local need. Key to sustaining our members in the long-term are community ownership of assets, community enterprise and service delivery, and our network contains a huge reservoir of inspiring evidence for successful change.

#### Summary:

Whilst we welcome steps being taken by government to consider its role in encouraging businesses to have a greater social impact, we are very concerned that the premise and scope of this review will result in watering down the definition of what it means to be a social business. This has significant implications for organisations across the VCSE sector which use enterprise to further their mission and social impact.

In our response, we have addressed some of the questions which have been posed in the consultation paper. However our concerns are across two key areas which sit beyond the scope of these questions and we have therefore presented them separately. These concerns are:

- The explicit exclusion of charities and social and community enterprises from the definition of ‘mission-led businesses’;
- The implications of opening up the social investment market to include ‘mission-led businesses’.

In responding to this review we have consulted with our members who are community enterprises and use enterprising activities to support their charitable mission and deliver social impact in their communities. The points raised in this response are derived in part from their concerns and feedback.

We also note that we share many of the concerns which have been raised by Social Enterprise UK, relating to the above points.

### ***The definition of 'mission-led' businesses:***

The review defines 'mission-led businesses' as distinct from 'social sector organisations,' including VCSE organisations. The review paper outlines that: "Most mission-led businesses are distinct from most social enterprises because they do not have legal restrictions on how they use or distribute the majority of their assets or profits". This distinction is long established for good reason in that they have profound implications both in the short term and more importantly in the long run. While some element of profit distribution is permissible in some forms of social sector organisations this is limited and confined to attracting finance, usually to attract equity or quasi equity as an alternative to debt finance in start-up phase. However the "asset lock" that applies to all social enterprise forms means that assets developed and surplus retained are locked into the social impact mission.

Whilst we accept that all forms of business have the potential to create social impact, we believe that without limitations on the distribution of profit and more crucially around the disposal of assets there is no effective mechanism to protect the long term commitment to social impact in businesses which are thus open to market forces (for example, take-overs and mergers). Mission led businesses already have good access to the conventional financial markets with the huge growth in interest in "impact investing". Social sector organisations rely on their "protected status" to leverage resources from the general public in the form of donations and investments, such as community shares, and from public sector organisations seeking to transfer assets.

Furthermore we believe that any definition of "mission led businesses" which is not underpinned by these crucial distinctions of form will be nigh impossible to draw. The risk therefore is that there is a dilution of the brand value, the loss of targeted market development resources from the emerging social investment institutions and from the general public.

### ***Implications for social investment and other funding:***

In seeking to open up opportunities for the mission-led business sector, we are concerned about the impact this will have on the availability of resources and funding for the VCSE sector.

In particular we are concerned that one of the outcomes of this review may be to pave the way for using social investment to support mission-led businesses. The review specifies an ambition to support opportunities for businesses which have a social impact, including through the social investment market. We are concerned that this means broadening the purpose of social investment to include investing in for-profit mission-led businesses.

Whilst we acknowledge that the social investment sector is taking time to evolve as a well understood source of finance for social sector organisations, this is partly failure of product-design rather than a fault with the sector. Locality members who have accessed debt finance through pilot programmes such as Community Builders and Future Builders have found themselves heavily indebted. Lessons have been learned about the levels of sustainable gearing and the sustainable level of finance charges for social impact organisations. There is a welcome renewed focus on more modest size investment which is more appropriate to most social sector organisations. The Access Foundation, for example, have a promising model; however, we would argue that the focus needs to be on blended grant/finance to the end user as well as to social finance intermediaries.

The challenge of making social investment capital benefit the VCSE sector is one that requires addressing these issues, and acknowledging some of the flaws with existing models, rather than redirecting these funds elsewhere. We would strongly oppose an outcome of this review which saw capital from social investment directed towards the private, for-profit sector.

We would suggest that a more granular definition of ‘social impact’ and ‘mission-led’ is required if investing social investment capital in private business. For example, we are aware of some funders who have developed their own social clause for these cases to ensure they lock in social mission into their funding. All the companies in the Key Fund social impact tech incubator, for example, are for profit organisations, but their social clause specifies that these organisations must: have a *primary purpose* of providing social benefits; a clearly articulated balance between commercial and social purpose; profit generation is allowed but not primarily focused on the creation of personal wealth.

### **Part 1: Profile, drivers and potential of mission-led businesses**

#### **Question 1: What do you know about the number and profile of mission-led businesses operating in the UK?**

We would argue that the unworkable definition of mission-led businesses, as described above, means addressing the number, scope and profile of these organisations is impossible. The lack of a coherent picture of what makes up the mission-led business market, and the exclusion of VCSE organisations from this definition, will have significant implications for policies which have been designed to support the growth of organisations which have a social impact.

We would argue, as above, that a core consideration for the Cabinet Office definition of mission-led businesses needs to be how profits and assets are distributed.

#### **Question 2: What do you know about the impact of being a mission-led business on business performance and social impact?**

There are significant difficulties with quantifying the social impact which is delivered by mission-led businesses. We would argue that the impact of being a mission-led business on social impact needs to go beyond a narrow definition of one ‘positive social impact.’ Whilst organisations might have a self-stated intention to deliver a social impact, this by no means means that the net impact of their organisational activities achieves a social impact. A range of other factors including the impact which their activities have, for example, on the environment, and the communities which they operate within, need to be taken into account.

#### **Question 5: How do you see mission-led businesses developing over the next decade?**

Whilst we support the government’s ambition to support businesses to achieve a much greater social impact, we would argue that efforts to develop the social impact of businesses should instead come from the Department of Business Innovation and Skills, and cover a far broader range of policies which restrain business from “anti-social” behaviours.

We are concerned that if this agenda continues to be championed by the Cabinet Office, this generates continued uncertainties and confusion around definition (as described above) which would adversely impact VCSE sector organisations. There is a significant resource implication here, particularly if the Office for Civil Society’s resources from their

spending review settlement (such as those distributed via Big Society Capital and the Big Lottery Fund) are siphoned to support a broader range of organisations including ‘mission-led’ businesses, as defined by this review.

## **Part 2: Challenges faced by mission-led businesses**

**Question 16: what do existing mission-led businesses need in terms of support and what do you think could be done to incentivise the creation of more mission-led businesses over the next decade? Who is best placed to do this?**

We would reiterate our concern that the social investment market should not be opened up wholesale to mission-led businesses, as currently defined by this review. We would also be concerned if other policies and tools designed to support the VCSE sector and the social outcomes it achieves are expanded to benefit for-profit organisations. For example, we would be concerned that extending the Social Investment Tax Relief eligibility would skew the market in favour of for-profit, B-corps organisations and dilute the general public’s growing confidence in the real development of social investment propositions

Other resources which have specifically been designed and developed to support the growth of enterprising activities in the VCSE sector should not be weakened by expanding these resources to cover for-profit, mission-led organisations.

