

Ethical Property Company

Submission to the Cabinet Office review on Mission-led Businesses

Ethical Property is a social business which has been providing flexible, fairly priced office space to the charities and social and community groups in England, Scotland and Wales since 1998. It is one of the country's largest social businesses. This paper summaries some issues which we think the review should address.

1. Pension funds

We have always thought pension Funds would be a good source of funding for social businesses. There are two ways these could be encouraged.

Firstly, could pension funds be required to invest a proportion of their funds into values driven organisations. This is similar to a system I understand operates in France and would increase the funds available to the sector.

I've discussed this with the MD of our French sister company, who made the comment below on the structure in France. In France companies that have a strong ethical ethos are labelled as such, and some of the statutory institutional investors benefit from the favourable tax treatment relief, and are obliged to invest 10% of their fund into such organisations.

"...it's a tremendous help to the social business sector. It means having a "label" to identify the businesses and then these labeled (sic) businesses can receive capital from agencies. It does not mean they WILL get investors, it just means there are part of a niche market in which investors MUST invest 10% of the employee saving scheme they manage."

What an impact it would be if pension funds had to invest 10% of their fund into mission related businesses?

A second option, would be to facilitate the creation of structures (collective agencies for example) that create scale and make it possible for pension funds to invest in mission-led businesses. One issue that recurs for us when we approach bigger funds, is that the amount they can invest in us is too small for it to be worth the due diligence they would need to do.

Would be possible to explore this option?

2. Fiscal Changes

A change in tax relief on capital gains for organisations who would otherwise use the funds to re-invest into the mission-led business would be very welcome.

For example, at Ethical Property we have just sold our most valuable asset, a 30,000 sq ft office building in Old Street, London. We will re-invest all the proceeds into a replacement building in

Bethnal Green, which will provide about double the affordable work space. We will make about £25m profit from the sale, however £5m of that will be paid over in tax.

We would not have paid an extra-ordinary dividend with these funds, but would have used the funds to buy further buildings for the voluntary sector in London and in the rest of the country.

Recognition of this desire to re-invest profits, in the form of some form of targeted relief would be advantageous to our growth.

The second issue relating to fiscal issue, is the tax relief for investors. As the company is a property company, although we are a social business, our investors get no tax relief on their investment. This detracts from the attractiveness of the company to investors. If this could be changed that would make a significant impact as our investment would look much more financially attractive on top of the environmental and social returns.

3. Categories of mission related businesses

Following on from point 1, it would be helpful to have some clear definition of mission driven businesses – which could go much further than that prescribed if you are a B Corp.

To be a B Corp you have to make a social commitment in your articles, but there is not the insistence of a specific statement of social mission, it is only inclusion of section 172 of the Companies Act, which requires recognition of all stakeholders in the business not just shareholders.

There also needs to be a statement that the purpose of the company should be *"to have a material positive impact on society and the environment"*. This constitutes a general commitment for a company to benefit society and the environment, without a specific statement of how to do so.

B Corps logic is that unlike social enterprises most companies cannot claim a single social purpose, unlike organisations such as Ethical Property, where the social purpose is at its core.

There could then be (at least) 3 kinds of companies. Those with a stated social mission in their articles, ie mission-led businesses; those with the B Corps general commitment; and those with neither of these.

Once you have these clear definitions, perhaps certain reliefs could be targeted.

4. Business Growth Funds

We have had some discussions with BGF about investing in us, but we are struggling to get this off the ground. Either more flexibility by BGF to consider social businesses, or a similar fund, focusing on equity that would invest in social businesses would be a great help.

Again this could be similar to the French system whereby the French government, the European Social Fund and Caisse des Depots have created a fund which will provide equity and quasi-equity to social businesses.

5. Transferrable shares

At present coops and community benefit societies can issue shares via FCA registered share offers. But as a private limited company it's near on impossible for us to do the same - even though our structure and values are actually close to those businesses.

Allowing businesses such as ourselves to issue transferrable shares - say up to €5m in the same way as Westmill Wind, for example - would allow us to connect with our tenants, supporters and investors and potentially raise more capital.

I hope these proposals are useful, I'm very happy to discuss further if helpful.

