

THE BIG SOCIETY TRUST

Released: 30 July 2020

THE BIG SOCIETY TRUST RESPONSE TO QUADRENNIAL REVIEW OF BIG SOCIETY CAPITAL

Overview

The Big Society Trust (BST) commissions Quadrennial Reviews as part of its oversight of Big Society Capital (BSC), by appointing an independent Review Panel to assess BSC's effectiveness in delivering against its objects. This statement sets out BST's response to the Report of an Independent Review of BSC. In summary, the key points are:

- BST welcomes the report from the Review Panel ("the Panel") and would like to thank all those involved in its production.
- BST agrees with the Panel's conclusion that BSC has had a catalytic impact on social investment in the UK.
- BST welcomes the response from BSC and its Action Plan to address the issues raised by the Review around Mission, Culture and Investment Process and will use this as a framework for its future oversight of BSC.
- BST agrees with BSC that it needs to work with all the contributors to the Review to ensure the development of its Action Plan in a way that meets their concerns.
- In particular, given BST's responsibility in relation to BSC's mission, BST is committed to working with BSC as it continues to build on its activities to support the more risky and innovative end of the spectrum of social investment and understanding how BSC can best work with alternative sources of capital and Government initiatives to support this market.

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1. Introduction

BST's role is to oversee the operators that receive funding under the English allocation of monies under the Dormant Bank and Building Society Accounts Act 2008 (Dormant Accounts Act) with the aim of ensuring that those four operators remain true to their objects. These operators are BSC, Access – the Foundation for Social Investment, Fair4All Finance and Youth Futures Foundation. This includes commissioning a quadrennial independent review of the effectiveness of each organisation in delivering against its objects. Spring 2020 saw the first such review, which was of BSC.

The Terms of Reference for the BSC Quadrennial Review were to carry out interviews with stakeholders and BSC staff, issue a call for evidence and review background information in order to produce a brief, high level report highlighting achievements in relation to BSC's object and raising issues for further consideration. The Terms of Reference did not include the production of recommendations in relation to addressing those issues.

BST is very grateful to the many stakeholders, from charities and social enterprises and intermediary investees to co-investors, shareholders and policy makers, who gave generously of their time and thoughts at a difficult time, and to the BSC team for their support for and engagement in the process. It was decided to proceed with the review despite the COVID 19 pandemic and, in the event, the Panel undertook twice as many interviews as planned. This reflects the substantial level of interest from stakeholders, which is also an indicator of BSC's importance and the level of scrutiny it enjoys.

BST would also like to thank the Panel members for their flexibility in responding to the breadth of the consultation required, and their insights into the complex and evolving social investment sector, in which BSC is a significant player.

2. The Quadrennial Review

It would not be appropriate for BST to reprise the content of the Review, and a Summary is included in the Report (pages 1-2). Instead we encourage all interested parties to read this, as it both includes more detail and examples than could be referred to here and will also be of wider interest in contributing to the debate on how capital can be applied most effectively for social benefit.

It is, however, worth reiterating that BSC's objectives are, in summary, to act as an investment wholesaler and generally to promote and develop the social investment marketplace in the UK and to seek to achieve and sustain its own financial self-sufficiency.

BST is pleased to see the positive findings of the Panel on the catalytic impact of BSC's activity and capital through its investments. By the end of 2018, BSC estimates that the social investment market in the UK was worth £3.5 billion, representing £1.1 billion in annual transactions compared to a Cabinet Office estimate of £165 million of annual transactions in England in 2010/11. Alongside other investors, BSC has made over £1.9 billion available to charities and social enterprises. The Review says that having an entity dedicated to social investment has been "truly game changing".

Importantly, the Review identifies the diverse and potentially conflicting expectations inherent in BSC's role of both building the social investment market while also being a self-sustaining wholesaler delivering returns to shareholders. It highlights the continuing challenge for those who fund at some remove from those organisations and people who are delivering social benefits on the ground in

understanding (and taking credit for) how a social impact is attributable to their financial contribution.

The Review raises a number of specific issues which BSC has responded to under the three broad headings of Mission, Culture and Investment Process (the Action Plan). Of these areas, Mission and Culture are core to BST's governance role. We set out our general views on BSC's Action Plan below and comment on specific aspects of the issues raised around Mission. BST recognises the issues raised by the Review around Culture - in addition to the specific actions contained in the Action Plan relating to Culture, BST believes the new CEO of BSC will play a key role in this regard more generally.

3. BSC's response to the issues raised by the Review

The Review highlights seven broad issues for further consideration by BSC, which were raised in the interviews across a diverse range of stakeholders. The Panel comments on the opportunity these present for BSC to take advantage of future debates around the Review's findings. BST sees the Review as the beginning of a conversation with BSC on the development and implementation of BSC's Action Plan.

(a) BSC's Action Plan and accountability to BST

BST welcomes BSC's commitment to this Action Plan and will use it in its ongoing oversight role (particularly around Mission and Culture) to ensure that the actions are implemented and appear likely to address the issues raised in the Review.

BST will use its annual in-depth update meeting with BSC, scheduled for its September 2020 Board meeting, to ensure that BST and BSC are aligned in the scope of the Action Plan.

The Action Plan will then form the framework for BST's future oversight of BSC, including being an important part of the subsequent in-depth meeting scheduled for the BST Board in 2021.

(b) Development of BSC's Action Plan

BSC have recognised that the plan is a "starting point" and have committed to consult widely and "further develop" its plans and actions.

BST welcomes this commitment because the Review identified a number of areas where BSC's position is not fully aligned with stakeholder understanding and expectations. The Report provides an opportunity for BSC to follow through on this by engaging with all the stakeholders who contributed to the Review, with the appointment of a new Chief Executive being a valuable opportunity to renew this dialogue.

(c) BSC's Mission

To reprise BSC's objectives, they are, in summary, to act as an investment wholesaler and generally to promote and develop the social investment marketplace in the UK and to seek to achieve and sustain financial self-sufficiency. The Review raised some issues around the nature of this market and BSC's role in it.

Disparate nature of social investment market

The Report highlights the benefits of having a single organisation with a mission to develop the social investment market.

However, it also makes it clear that this not a single market but a diverse market of different sectors each with its own motivations and approach to risk and return. This diversity offers a spectrum of investment opportunities, with a variety of investors but, as the Panel comments, remains small relative to the mainstream and impact investment markets.

Does BSC address the full breadth of this market?

The Review found concerns from some that, given its purpose in being a wholesaler of investment capital, the bulk of social enterprises and charities will not benefit from BSC's funding. And, while social investment is not intended to replace grants, there is a concern that BSC should broaden its focus onto more risky, innovative social investment.

The Review also suggests that BSC should champion the view that the exceptional social impact achieved from such investment is, in part, compensatory for the greater risk.

The Review recognises that greater focus in risky areas may not be possible due to the constraints imposed on BSC by its objective to achieve and sustain financial self-sufficiency.

BSC's response on its Mission

BSC's response states that it takes a portfolio approach to its investments, including a willingness to accept losses to develop different parts of the social investment market. Its Action Plan in this area includes commitments:

- to explain this portfolio approach to stakeholders by communicating how it prices capital in different parts of the portfolio;
- to review with its shareholders its overall required rate of return, subject to its need to demonstrate sustainability;
- to support the creation of blended finance options, innovation of products and other market-building activities with Access and other partners in order to address the higher risk end of the market; and
- to review overall strategy, including its investment focus areas, under a new CEO.

BST's position on issues raised by the Review on BSC's Mission

BST believes that it is essential that BSC addresses concerns amongst the contributors to the Review that it should consider the breadth of its investment focus, and continue its interest in the more risky, high impact end of the market.

BST considers that it is key for BSC's future success that it convinces stakeholders that its Action Plan will satisfy these concerns.

BST notes the tensions inherent in BSC's aim to both create social impact and be self-sustaining, and how this has been reflected in its own investment portfolio and its support for the development of blended capital; this also relates to the Government's strategy and policies to support social enterprises and the current "levelling-up" agenda. BST will work with BSC and Government to look at ways of supporting the social investment market and, if necessary, be open to proposed changes in BSC's object, strategy or required rate of return (if the new CEO, with the approval of the BSC board, considers this appropriate to meet stakeholders' expectations while achieving its mission).

(d) Evolution of the social investment market

Social investment, while becoming increasingly established, remains a relatively young form of finance which is still evolving and being understood. As BSC is the most substantial player in the UK by some margin, BST agrees with the Panel that BSC is well placed to support and encourage a wider discussion of the nature and range of this market and its potential, and debate the challenges identified in this report.

BST believes such a step aligns with BSC’s core value of Transparency, and would benefit the market and wider sector.

(e) Commitment to diversity

BST is pleased to note BSC’s plans to review its culture, processes and governance to ensure that they meet the highest standards of diversity practice, including but not limited to BAME representation.

BST also commends the initiative to work with the Social Investment Diversity Forum in relation to the improvement of gathering of data around access to finance for BAME and women-led organisations and widening access and encouraging diversity at all levels of the social investment process.

(f) Board

The Review does not raise any major concerns around BSC’s Board governance. BST was satisfied with its last review of BSC’s governance processes in May, whilst suggesting the potential for a greater focus on impact in the Board’s agenda. The Panel does suggest revisiting some practical aspects of BSC’s governance, for example in relation to the composition and representation of different interests on BSC’s board. BST will take the Review’s comments into account in its ongoing oversight of BSC’s governance arrangements.

4. BST learnings from the BSC Review

As the first independent review carried out on BST’s behalf, this has been a new process for all involved. We will take stock of the experience to improve and enhance future annual reviews so that the experience from this first Quadrennial Review will also inform future ones.



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Sir Stuart Etherington
Chair, The Big Society Trust