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Sir Stuart Etherington
Chair of The Big Society Trust
New Fetter Place
8-10 New Fetter Lane
London
EC4A 1AZ

Dear Sir Stuart,

Re: Big Society Capital Quadrennial Review Response

We welcome the review carried out on behalf of The Big Society Trust. The report acknowledges the substantial progress Big Society Capital has made towards our objectives, while recognising that we still have plenty to do and more to learn in this rapidly developing area. Although we report regularly on our progress, this is the first such overarching review of our work and we wish to thank the panel for their hard work as well as the individuals and organisations who contributed. The report highlights some of the challenges and strategic issues, many of which are inherent in our mandate, that we will grapple with as we chart the next phase of our journey. In this response I will set out how we intend to better understand and address these issues over the months ahead.

Overall, we are delighted that the review panel has concluded that we have delivered “substantial social impact” through our investments over the last eight years, while at the same time tracking towards a rate of return across our portfolio that will allow us to sustain our impact for the long term.

In addition, the report recognises the extent to which Big Society Capital has significantly grown the size and breadth of the wider social investment market, both by creating new ways for investment to flow in and by crowding in other investors. Examples listed include the growth of social property funds from zero to up to £2 billion in 2018 and the ten-fold growth of the UK charity bond market to £369 million in recent years. We are encouraged to read that stakeholders felt that our role in these and other significant developments in the social investment market had been “truly game-changing” and that they would not have happened at the same scale or even at all otherwise.

We are also pleased that the report recognises the other ways we have sought to help develop the social investment market infrastructure, for instance by originating and helping launch Access - The Foundation for Social Investment to broaden the reach of

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social investment. In addition, the report highlights Big Society Capital's contribution in providing information and support to social enterprises and charities through our collaboration with sector partners to create Good Finance and subsequently managing the platform.

The review was carried out during the Covid pandemic, at a time of considerable pressure on the charity and social enterprise sectors, so we appreciate the positive feedback about Big Society Capital's response, moving quickly to support investees in our portfolio and creating funds to provide emergency loans and longer-term recovery. We have done everything we can alongside partners to support charities and social enterprises through this crisis and this issue will remain a major focus for us.

We are grateful to the review panel for acknowledging the challenges we face in helping to build an entirely new kind of market for investment in social impact and for highlighting some of the strategic issues and tensions we contend with. The review – as per its terms of reference – does not make concrete recommendations or suggest specific actions. Therefore, I have set out a route map of how we intend to fill in those gaps, working with the relevant key stakeholders to further develop our plans and actions in three key areas. Many of these plans were already underway or in development before the review, but we welcome the opportunity to set them out and build on them. In line with our governance arrangements, the Big Society Capital Executive team under a new CEO will be accountable to the Big Society Capital board for delivering this route map, which we expect to become part of the organisation's work over the next year.

1. **Mission** – while the review concluded Big Society Capital is successfully delivering against its mission, there was a range of feedback which suggested that aspects of that mission were either not well understood or could be in tension. In particular, the panel noted that some stakeholders felt our capital was priced too cheaply while others felt it was too expensive. In fact, Big Society Capital's approach is to price our capital to investees at a rate that balances what the business model can support with the ability to attract co-investors at that level of return. We then overlay our portfolio allocation (how much is invested in what) as the way to address our shareholders' target return objective. As a result, the price of capital is different in different areas, sometimes to attract co-investors, while in others to preserve capital or expect partial loss to develop a part of the market. We are taking a range of measures to address these issues or understand what action is needed.
 - a. We will consult with our advisory board and wider stakeholders including Access and others on how to improve how we communicate the pricing of

capital and improve the wider understanding of investment costs and risks

- b. We will review our own overall rate of return in discussion with our shareholders including The Big Society Trust, while taking account of the effect of the Covid crisis on our investments and the need within our mandate to be sustainable
- c. We will be working together with Access, with fund managers and others to encourage the development of innovative products and approaches to meet sector needs such as quasi-equity and different types of blended funding, using the £30m in grant funding recently allocated to Access from dormant accounts. This will aim to bring in additional capital as well as extend the reach of social investment
- d. We will actively support the creation of blended finance products with other partners, as we have already done with the Arts and Culture Fund
- e. We will be reviewing our investment focus areas as part of a refresh of our strategy to be completed by our new CEO. We will consider the review's suggestion that they are broadened, while balancing this with risks around losing deeper partnerships and learning from a tighter focus. We will also ensure a diversity of voices feed into the process including through a strengthened advisory board system
- f. We will consult with our strengthened advisory board system and other relevant stakeholders to explore ways to develop and deliver market building activities. Initiatives like The Impact Investing Institute, Good Finance and Access have been highly collaborative, and we hope we can continue to help start social investment initiatives like these which others lead
- g. We will continue to work with other organisations to amplify the voice of social investment and social enterprise in Government. In particular, we have begun playing an active role with a group of partner organisations on raising awareness for the potential for contributing to the levelling up agenda and the policy levers to do so
- h. We believe we have a positive relationship with Government, for example as demonstrated by agreeing the expedited release of £45m of dormant accounts funding to support our response to Covid-19. However, we will continue to strengthen our relationships across Government including but not limited to DCMS, MHCLG, No 10 and the Treasury and extend our existing collaborations with Metro Mayors and council leaders – for instance currently over a fund for housing street homeless
- i. We are developing new communications and engagement strategies to build and strengthen our relationships with investors and investees –

including the most effective messaging to encourage social investment – something which the review also suggested could be helpful as we further scale solutions to deliver social impact

- j. We are setting up a publicly listed investment vehicle which seeks to bring considerable additional capital into the social investment market. As the first impact vehicle of its type, we believe it will help expand the range of successful investment exits as the review suggests and would increase our liquidity, releasing our capital to seed the next phase of innovative investments.

2. **Culture** - The review highlighted Big Society Capital's strong internal culture, noting that we have a talented staff team with diverse backgrounds both in terms of gender and ethnicity and professional experience, with a high proportion – 38% - joining from the social sector. A key issue in the review is how to maintain and improve our culture of learning and ensure we are actively consulting and listening to a wide diversity of voices and backgrounds, and so we plan a series of measures.

- a. We will review our advisory board system, to ensure wider, more diverse representation and explore setting up a range of advisory groups to feed into the different relevant areas of our work
- b. We will work with the Social Investment Diversity Forum to explore not just how we can improve gathering of data around access to finance for BAME and women-led organisations, but also to explore other ways to widen access and encourage diversity at all levels of the social investment process. As a starting point, we are ensuring that the two funds that constitute our main response to Covid-19, the Resilience and Recovery Loan Fund (RRLF) and the Community Investment Enterprise Facility (CIEF), are collecting and will publish this data
- c. We have started work with a leading expert in organisational diversity to review our culture, processes, and governance across the board to ensure they meet the highest standards of diversity practice, including but not limited to BAME representation. In doing so, we build on existing excellent practice such as using blind recruitment processes
- d. We will explore a structured secondment system for Big Society Capital staff into social sector organisations to gain enterprise level experience complementing the existing secondment schemes we run to bring colleagues from diverse backgrounds, including within the social sector, to work at Big Society Capital

- e. We will continue to look for opportunities to work in partnership with other organisations across our key functions including impact measurement, product research and development, including building on the recent innovation collaboration sessions we have established with other key funders
 - f. We will seek more input from those with lived experience of the social issues we fund, building on the Young Foundation's report on user voice and experience in social investment which we commissioned
 - g. We welcome the review's finding that when compared with similar investment management organisations, Big Society Capital is "very cost-effective" especially considering the complex and risky nature of our investments. However, we recognise that relative to many social sector organisations we are in a fortunate and well-capitalised position and so will keep our staffing and premises under constant review to seek efficiencies and ensure we are achieving cost-effectiveness.
3. **Investment Process** – we are always seeking to improve and optimise our investment process and recently commissioned an expert external review. This concluded our processes follow industry best practice, are in line with our status as a regulated financial services firm and demonstrated an unusually high degree of openness and challenge. However, as the review suggests, there is more we can do to understand and meet the needs of intermediary investees, so we are planning the following additional measures.
- a. Building on surveys we have done in the past, we will establish a regular feedback mechanism for organisations going through our investment process to better understand issues that they face and establish what changes are possible or necessary based on user-feedback
 - b. We will specifically review whether our investment process sufficiently enables funds to provide access to investment for social enterprises and charities serving diverse communities
 - c. We will continue to monitor the performance – and capitalisation - of our intermediary fund managers and provide a range of support both financial and non-financial to enable them to grow. As the report notes, we have made a significant number of direct intermediary investments and will continue to do so as well as collaborating with Access and other grant makers when a blend of capital is required.

In summary, we welcome this review - both for the acknowledgement of progress made and for confirming the broad areas where we agree we can do more and improve

further. We thank the panel for their hard work and all those who took the trouble to feed their views into the report. I have set out the plan for how we believe we can respond as effectively as possible to the issues raised in this report. It is a starting point rather than a final document as we will be consulting widely to consider the best path on some issues. As a board, we will be working with the Executive team to ensure this happens and to ensure that a diverse range of views feeds into our decisions at every level. Big Society Capital – and the social impact market we are helping build – are works in progress so an independent external perspective is enormously valuable to hold us to account, sense check our choices, and help us make course corrections for the future. We look forward to working with you and the rest of the reshaped Big Society Trust board to progress our vital mission to improve the lives of people in the UK through investment with a sustainable return.

Yours sincerely,

A handwritten signature in black ink, appearing to read "Harvey McGrath".

Sir Harvey McGrath
Chair, Big Society Capital