

# Big Society Capital

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**Organisation:** Office for Civil Society, Cabinet Office

**Country:** United Kingdom

**Level of government:** Central government

**Sector:** General public services, Social protection

**Type:** Financial Resources, Partnerships

**Launched in:** 2012

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# Description

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Big Society Capital (BSC) is an independent financial institution with a social mission to develop and shape a sustainable social investment market in the UK. In doing so, it gives organisations that are tackling major social issues access to new sources of finance to help them thrive and grow.

BSC became operational in April 2012. The organisation will receive up to GBP 400 million from dormant accounts and up to GBP 200 million investment from leading high street banks between 2011-16. It will use its capital to increase the flow of finance to social ventures by investing in social investment finance intermediaries (SIFIs): organisations that provide appropriate and affordable finance and support to social ventures. BSC will also support intermediaries to develop new financial products and mechanisms to leverage more finance into the market.

By supporting SIFIs to grow and become more sustainable, they will be able to bring millions more in investment into the social sector than BSC could bring alone which means that, over the long term, the social sector will have access to reliable sources of appropriate and affordable finance.

BSC is an independent organisation. A government representative sits on the board of the Big Society Trust, which has the sole objective of protecting the social mission of BSC. BST does not have any role in BSC investment decisions.

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## Why the innovation was developed

Building the Big Society is a key pillar of the Coalition Government's programme for government. It is about devolving power and responsibility to individuals and communities and, in particular: empowering communities to take decisions and shape their local area; reforming and opening up public services by enabling social sector organisations to compete to provide those services; and encouraging and enabling people to play a more active part in society. Social ventures are crucial in building the Big Society and driving positive social and environmental change. Social ventures often bring a unique perspective to local issues, pioneer new approaches to intractable problems and reach people that the public sector cannot. Consequently the UK Government is committed to supporting the growth and development of the social sector. Despite the expansion of the social sector over the last couple of decades and the emergence of a nascent social investment market, evidence suggests that social ventures have been consistently constrained by a lack of investment. Thus, developing and growing a sustainable market for social investment in the UK will provide social ventures with access to new and sustainable sources of appropriate and affordable finance, enabling them to grow and increase their social impact.

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## Objectives

Improve effectiveness, Improve efficiency, Improve service quality, Improve social equity, Improve user satisfaction

Meeting political / policy priorities to grow the social investment market and increase social ventures access to appropriate and affordable finance, enabling them to grow and increase their impact on society.

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## Main beneficiaries

Businesses, Civil Society, General population, Government bodies, Government staff, High-risk populations, Low-income groups

- Social sector organisations that: exist primarily to deliver social impact; that reinvest the majority of surpluses to further their social mission; and that are independent of government. These include charities, social enterprises, voluntary and community organisations, cooperatives and mutuals.
- Investors who can more easily provide capital in the expectation of social as well as financial returns.

# Results

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## Effectiveness

- Up to GBP 400 million from dormant accounts and up to GBP 200 million investment from leading high street banks. It will use its capital to increase the flow of finance to social ventures through intermediaries and to support intermediaries to develop new financial products and mechanisms to leverage more finance into the market.
  - In 2012, BSC had committed GBP 56 million worth of investment into 20 SIFIs who are lending to social sector organisations and/or providing new products through which investors can support social organisations.
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## Service quality

### Accessibility:

BSC has provided the foundation for a social investment market now worth over GBP 200 million; providing a new source of finance for social sector organisations.

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## Other improvements

Big Society Capital's Annual Report and Financial Accounts 2012 sets out information about BSC's first year of working and its impact so far.

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## Results not available yet

Growing the social investment market and increasing the amount of affordable finance available to social ventures is a long term undertaking (10yrs +) and given that BSC only launched in April 2012, it is not yet possible to assess impact in any further detail.

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## Evaluation

The first annual report and accounts have been independently audited. BSC will be publishing an annual report and accounts every year, to track progress against their organisational mission.

[http:// http://www.bigsocietycapital.com/sites/default/files/pdf/BSC\\_AR\\_2012.pdf](http://www.bigsocietycapital.com/sites/default/files/pdf/BSC_AR_2012.pdf)

# Development

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## Design

The development of a 'Big Society Bank' started from clear, unequivocal place: public commitment in the Coalition Programme for Government to establish a BSB using dormant accounts to provide finance for social ventures. This meant there was senior ministerial buy-in for the policy at the highest level. In advance of this, the Big Society Investment Fund was set up in May 2011 by the Big Lottery Fund (a non-departmental public body and the largest distributor of funds from the National Lottery). Its purpose was to make initial investments using dormant accounts money before Big Society Capital was fully established, ensuring that dormant accounts money was used as soon as it became available. The Big Society Investment Fund made its first 'in-principle' investment in July 2011 and a further six in-principle investments over the following 8 months. These investments have all now been transferred to Big Society Capital.

Design time: 18 months

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## Testing

As the project was a new and untested concept, initial approaches to investment were piloted through the Big Society Investment Fund to test out how BSC might invest and how the market might respond. This helped inform BSC's business plan and investment strategy as well as the state aid case. It also served to prime the market ready for BSC's launch in April by helping the market understand how BSC would function and how they could engage with it. The Big Society Investment Fund also ensure that Ministerial commitments to have some functions of a BSB in place in April 11 were met.

Testing time: 6 months

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## Implementation

### Tools used:

Collaboration:

To ensure that BSB was independent and set up in the private sector, officials worked in partnership with experts and leaders from both social investment and mainstream finance worlds who set up BSC. Strong relationships were built from Ministerial level to official working level based on a clear and shared understanding of goals. This was strengthened by: regular meetings between senior officials and the two independent advisers; the two independent advisers sat on the ministerial advisory board; and working level collaboration (officials and BSC staff regularly worked out of each other's offices and split the work load according to skills and expertise).

Virtual Team:

Given the scale and complexity of BSB, it was clear that the project would need skills and expertise from across government: a small policy team was created in the Cabinet Office to lead the project supplemented by a broad, multi-disciplinary 'virtual' team from across govt. This included Economists, legal advisers, State Aid Advisers, Corporate Finance experts, Classification experts, Procurement specialist, Propriety and Ethics advisers, investment advisers.

A light touch project governance and management structure was established to drive progress.

### Resources used:

- External due diligence advice - GBP 75 000 + VAT.
- External legal advice - GBP 55 000 + VAT.
- Project team: 6FTE for 21 months + 1 day pcm Executive Director.
- Ad hoc advice from other government departments.
- Resources from non-for-profit: Independent External Advisers time (Sir Ronald Cohen and Nick O'Donohoe) 1.25 FTE Feb 11 – April 2012.
- Pro bono office space for small BSC team, including computers/phones etc May – Nov 2011.
- 1 year rent free office space for BSC from Nov 11.
- BSC is now an independent organisation and in May 2012 published its first annual report. Here it indicated it had received GBP 119.4 million in its first year of operation from the Reclaim Fund and Merlin banks.

Implementation time: up and running since 18 months

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## Challenges and solutions

Key delivery challenges

- Independence: BSC must be set up independently of Government and Government could have no formal control over its establishment or over its operations once established.
- Innovative: BSC is the first institution of its kind in the world so it wasn't possible to tender for an organisation to set up and run it as there was no 'market' with anyone with specific experience of running Big Society Capital.
- Timescales: timescales were very tight to deliver a new and complex project, particularly given the need to secure FSA authorisation and EU state aid approval.
- High profile: BSC was a priority project for the Prime Minister, with considerable expectation in the sector in the UK and around the world.

These challenges shaped the approach to setting up a Big Society Bank which focussed on:

- Close collaboration between government and the private sector.
- Creating a multi-disciplinary team focussing solely on BSB.
- Setting up clear but light-touch project governance and project management framework.
- Piloting ideas to refine and develop the policy.

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## Partnerships

### Public sector

Other Public Sector

- HM Treasury.
- Corporate finance: (development phase).
- Classification team: ad hoc advice (development phase).
- Membership of project board.
- Department for Business Innovation and Skills.
- Shareholder Executive: ad hoc advice on Government investments and state aid strategy & membership of project board (development and implementation phase).
- State Aid Team: state aid advice (development and implementation phase).
- UK Representation to the European Commission (Foreign and Commonwealth Office).
- state aid advice (development and implementation phase).
- Treasury Solicitors' Office.
- Legal advice on governing documents of BSC and Government representation (Development and implementation phase).

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### Private sector

Private sector

- Social investment advisory firm: financial modelling and business planning (development).
- External advisers: due diligence advice to Cabinet Office Accounting Officer (development).
- External legal advisers (development).
- 4 leading UK High Street Banks - GBP 200 million long-term equity investment in BSC over the next 5 years & representative on the Board of BSC (development and implementation).

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### Key figures

Civil Society

Key figures from the social sector and social investment sector (non-executive board members of both BST and BSC).

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### independent advisors

Other

Independent expert advisers, including Sir Ronald Cohen (chair of Social Investment Taskforce and Commission on Unclaimed Assets) and Nick O'Donohoe (ex Head of Global Research and Impact Investing Group at JPMorgan - development and implementation).

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# Lessons Learned

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## Lessons Learned

- Social Investment is way to collaborate on cross-sector issues, with financial and social impact.
  - Policy-makers have to think about where to intervene in order to enable, not stifle/distort – it's tricky.
  - An independent wholesale intermediary was seen as the best way to support market sustainability, proof of concept for the market and balanced growth.
  - Needed to consider supply, regulatory and governance issues.
  - There is evidence that BSC has acted as a catalyst in the market (where there was previously market failure) – but recognise it is one necessary, not sole, requirement.
  - Setting up a delivery body also provides market intelligence about remaining issues – without implementing first step difficult to know what to do next in growing a new market.
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## Conditions for success

- Resource: up to GBP 600 million was committed in start-up capital for the organisation from dormant bank and building society accounts and from 4 large commercial banks.
  - Appropriate legislation: BSC relied on legislation allowing dormant account money to be passed to it, and on a State Aid exemption approval from the EU Commission
  - Governance structures to maintain focus on social mission: BSC is governed by Big Society Trust (see below).
  - Cross-sector input throughout development and set up: BSC required strong policy and financial services expertise to get up and running. It has an independent Trust overseeing its social mission – made up of Government, financial services and social sector representatives.
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## Other information

### Background steps to creating BSC

- 2000: Social Investment Task Force – need for “specialist wholesale intermediary”.
- 2005: Commission on Unclaimed Assets set up – how best to use unclaimed money for social good?
- 2007: Commission's first report – recommended Social Investment Bank.
- 2008: Dormant bank and Building Society Accounts Act.
- 2009: Cabinet Office consultation on ‘Social Investment Wholesale Bank’.
- 2010 (March): Budget announced up to GBP 75 million from dormant accounts to SI bank.
- 2010 (July): All English dormant bank account money pledged towards ‘Big Society Bank’.
- 2011: Merlin agreement with UK high Street banks.
- 2011: Outline proposal for social investment bank submitted by Sir Ronald Cohen and Nick O'Donohoe.
- 2011: Growing the Social Investment Market: A Vision and Strategy.
- 2011: State Aid exception given by EU Commission.
- 2012: FSA approval.