UNLEASHING THE POTENTIAL OF PHILANTHROPY AND SOCIAL INVESTMENT

APPG ON PHILANTHROPY AND SOCIAL INVESTMENT

NOVEMBER 2022

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FOREWORD

The UK has a long history of philanthropy and social investment and it is a better place for it. From Carnegie to Rowntree, philanthropy has provided significant benefits to society in partnership with charities, socially conscious business and government.

Philanthropy and social investment have a unique and important role to play in securing and developing both local communities and people globally, particularly as we recover from the Covid-19 pandemic and address other urgent issues on the national agenda such as the cost of living crisis and the climate crisis.

Modern philanthropy including social investment, at its best, can work in partnership with both the public sector and private sector, to deliver transformational outcomes. Charities, working with philanthropists and social investors in close touch with grassroots communities, can operate in an entrepreneurial and nimble fashion that is not always possible for state-funded programmes. We need a public policy framework, that encourages philanthropy, and strengthens charities and social enterprises.

The British public comes together to support one another in many different ways. We saw this during the Covid-19 pandemic. It is imperative that we tap into this sentiment and deliver a policy environment that is conducive to high levels of philanthropic giving and social investment, designing a framework to support meaningful change. This report is a good place to start the discussion and provides some areas worthy of further exploration by the Government.

Finally, we thank all organisations who submitted evidence to be included in this report. The submissions have helped tremendously towards our work and the compilation of this report, which we hope will influence policymakers.

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UNLEASHING THE POTENTIAL OF THE UK'S £100 BILLION PHILANTHROPY AND SOCIAL INVESTMENT SECTOR

Each year the UK public, trusts and foundations, and private and family philanthropists give around £22 billion to help make possible the work of tens of thousands of charities, employing hundreds of thousands of people and providing services, opportunities and stronger communities for millions across the country.

This generosity has long been part of British culture, and it has never been more evident than during the pandemic and the Ukraine crisis.

Including all funds ring-fenced for philanthropic purposes, the UK has a domestic philanthropy and social investment sector worth over £100 billion but its potential is not being unlocked by current policies.

In 2011, the Government set out an ambitious set of targets for the UK social investment market, including launching Big Society Capital (BSC). Since then, BSC has invested over £425 million of dormant financial assets, turning it into more than £2.5 billion of new capital available to charities, social enterprises, and social purpose organisations.

Politicians and civil servants need to understand how the philanthropy and social investment sector can work alongside public funding to strengthen our communities, meet the needs of the most marginalised and innovate for the benefit of wider society and our planet.

Coming out of a pandemic, facing a cost-of-living crisis, an unequal distribution of wealth and opportunity across the UK and a global climate emergency, why wouldn't we want to consider policies that unlock giving as a force that can help meet the needs of our communities? Why wouldn't we want to support the development of an economic model that is kinder to people and the planet?

KEY FIGURES

- The top 300 charitable foundations have assets of **£72 billion** and gave **£3.5 billion** in the financial year ending 2020[2].
- All UK private giving is estimated at **£22.3 billion**[3].
- Social investment has grown nearly eight-fold from **£833 million** in 2011 to **£6.4 billion** in 2020 and is expected to double by 2025[4].
- However, currently just one-third of one civil servant's full time equivalent is devoted to developing policies to support this sector[5].

[1] Growing the Social Investment Market: A vision and strategy, 2022
[2] ACF179-Foundation-Giving-Trends-2021_Design_DigitalVersion_v3.pdf (pearsfoundation.org.uk)
[3] Ibid
[4] Big Society Capital 2021 - 2025 Strategy
[5] Philanthropy and social investment part of the civil society portfolio within government. In 2021, the Office for Civil Society was renamed the Civil Society and Youth Directorate. This Directorate now fits within the same ministerial portfolio as sport, heritage, tourism and the Commonwealth Games.

WHAT IS PHILANTHROPY?

Philanthropy is the voluntary contribution of money, time and other resources for the public benefit. Philanthropists are engaged donors who do more than simply give small or regular donations to charities; they support them to increase their impact and help more people in their local communities.

The philanthropy sector seeks to enable philanthropy from trusts, foundations, family philanthropists, corporations and private individuals who go the extra mile to support civil society.

WHAT IS SOCIAL INVESTMENT?

Social investment is the use of repayable finance to help an organisation achieve a social purpose, usually directed towards charities or social enterprises. Like businesses, they need capital to grow so they can have more impact, such as helping people into employment, alleviating the pressures associated with the cost of living, supporting social mobility and helping those with long-term health conditions. The money invested is repaid and recycled, enabling funds to be used again and again to grow future support.

These organisations often struggle to access finance from mainstream lenders like banks. While there is a clear need, there is little current national funding or plan by government to support the growth of impact-led community level organisations.

Policymaking for philanthropy and social investment is challenging:

1. PART OF A MUCH WIDER CIVIL SOCIETY

Philanthropy and social investment are part of wider civil society comprising 184,000 voluntary sector organisations[6]. There is inevitably more focus on the charities and social enterprises working in our communities than on the donors and social investors who support them.

But the needs of donors and social investors are different from wider civil society. If we want to unleash the full potential of giving and social investment to give even greater resilience and growth to our charity and social enterprise sectors, then we need targeted policies that will enable and incentivise givers and social investors.

2. CUTTING ACROSS ALL GOVERNMENT DEPARTMENTS

Philanthropy and social investment cut across multiple government departments. Once broken down by ministerial portfolio, the amounts given are quickly dwarfed by government expenditure, which topped £1 trillion in 2021[7].

Philanthropy and social investment are not rounding errors compared to government spending, they offer a form of capital that can do things that government spending usually does not do.

Government in partnership with philanthropists and social investors can implement government priorities, with donors and social investors:

- innovating by using their private capital to seek new solutions to old problems or to address emerging social issues; for example, reaching out to people who are marginalised and excluded.
- providing skills, hands-on support and networks that will help charities and social investment grow and develop services to meet the needs in local communities.

This is exactly what philanthropy and social investment does in our communities.

3. IMPORTANT FOR A WELL-FUNCTIONING DEMOCRACY

The role of philanthropy and social investment in civil society and wider society are not always well understood.

Many simply say, wouldn't it be easier to raise taxes if we want to access more private capital for public good?

Even if taxes are raised, many people who have financial resources will continue to give to the charities they care about. Tax, philanthropy and social investment are not mutually exclusive. In fact, most governments around the world recognise that encouraging generosity is not just desirable, it is important for democracy.

The ability of civil society organisations to raise funding from private sources and to achieve financial independence is not just desirable for their own resilience and sustainability, it is a pre-requisite to a well-functioning democracy, as philanthropy supports campaigning organisations who may challenge government policy. Two-thirds of countries around the world offer some form of tax relief on giving for precisely this reason.

[6] UK Civil Society Almanac 2021 | Home | NCVO
[7] Public spending statistics: November 2021 - GOV.UK (www.gov.uk)

HOW DOES THE UK COMPARE TO OTHER COUNTRIES? ARE WE A GENEROUS NATION AND WHAT IS STOPPING US FROM GIVING MORE?

The UK is a relatively generous nation, ranking fourth in the world in 2016, but we are slipping back. Research shows the UK donor pool is narrowing and charities are increasingly relying on a "civic core" for regular donations.

The UK also misses out on the potential for higher giving and social investment from wealth holders due to a lack of capacity within civil society organisations and in the professional services sector to engage these donors.

Reversing these trends will take targeted policies and a sustained effort from government and the philanthropy and social investment sectors to support new donors and social investors to grow their giving and social investment.

KEY FIGURES

- In 2016, private giving as a percentage of GDP was **0.54%**, placing the UK 4th behind the US (**1.44%**), New Zealand (**0.79%**) and Canada (**0.77%**)[8]. If the UK were to achieve the same level of generosity as Canada or New Zealand, it would generate an additional **£5 billion** for civil society organisations[9].

- But, in DCMS's Community Life Survey 2020-21, **63%** of people reported they had given in the last four weeks, down from **82%** in 2013-14[10].

- CAF's annual UK Giving report shows a similar downward trend. In 2021, **57%** reported having given through a donation or sponsorship in the previous 12 months, down from **67%** in 2017[11].

- Declining participation in the wider population means charities are increasingly reliant on a "civic core" of givers in the population.

- Giving by high-income donors has been increasing in recent years, according to HMRC data, but their giving levels as a percentage of their income are much lower than low-income donors. Those with income >£250,000 typically gave **£80 per month**, compared to £25 per month among those earning <£50,000[12]. In percentage terms, the median ratio of donations to gross income is **0.2%** for those earning >£250,000 and **1.2%** for those earning <£50,000.

[8] gross-domestic-philanthropy-feb-2016.pdf (cafonline.org)
[9] Download.ashx (probonoeconomics.com)
[10] Ibid
[11] uk_giving_2022.pdf (cafonline.org)
[12] UK charity tax relief statistics - GOV.UK (www.gov.uk)

Reversing these trends could generate an additional £3 billion each year in gifts for civil society organisations[13].

Approximately half of this will come from the wider population, and half from high-income earners and wealth holders.

Or, we could raise our sights higher and target an additional £5 billion of giving, in line with New Zealand and Canada[14].

These growth targets are ambitious in the current economic climate.

However, we can make it easier for people to give and give generously by tackling the systemic barriers that are holding back UK philanthropy and social investment, particularly among wealth holders.

Systemic barriers exist in the following areas:

1. FUNDRAISING – BUILDING CAPACITY

Fundraising in the UK is heavily oriented to campaigns and appeals. This creates a culture of regular low-level giving.

Supporting donors on their journey from responding to appeals or giving small regular donations toward making bigger gifts or investing in a charity's social investments requires a different set of fundraising tools, skills and capabilities.

Until we invest in those capabilities, participation will decline in the wider population and high-income individuals will not be sufficiently well engaged to increase their giving in line with their higher levels of wealth.

Government could help the fundraising community to build these capabilities by consistently offering support to build capacity through current and future schemes.

2. PROFESSIONAL PRIVATE CLIENT WEALTH ADVISERS

Professional wealth advisers, such as lawyers, accountants and financial advisers, who could also support donors on their giving journey, operate in a regulated environment – particularly financial advisers and wealth managers, for whom both products and advice are regulated.

Neither philanthropy nor social investment have targeted regulatory regimes in the UK. In the absence of clear regulation and guidance, and with only a limited number of product options, such as Gift Aid, SITR linked to the

Q: HOW CAN GOVERNMENT EFFECTIVELY SUPPORT NEW GIVING AND FUNDRAISERS?

A: BY OFFERING MATCH FUNDING WITH AN ELEMENT OF CAPACITY BUILDING TO ENSURE LONG-TERM BENEFIT

EXAMPLE: Matched Funding into Higher Education 2008 – 2011

The Government made funding of £200 million available to universities in England to incentivise giving to universities and professionalism in the university fundraising sector.

The scheme offered three tiers to encourage major gifts from thousands to millions of pounds. Unclear what "three tiers" means. Is the entire £200m for match payments and at different levels according to how much is given?

In addition, the scheme offered training to fundraisers within the university sector. There was also a public information programme, "Give the Gift of Knowledge" to provide contextual support on the impact of giving to the higher education sector.

The English scheme incentivised £580 million of giving through match payments of £143 million. In other words, the leverage ratio was 4:1.

The university sector still benefits from the legacy of fundraiser training, which has enabled it to build longstanding relationships with high-value donors.

[13] Download.ashx (probonoeconomics.com)

[14] ibid

current tax regime, most financial advisers do not see philanthropy and social investment falling within their remit.

Lawyers and accountants typically limit their advice to setting up and managing giving structures, and tax reporting on giving and social investment.

They therefore do not support donors along their giving journey from regular low-levels of giving to bigger gifts or social investments.

Government could look closely at the regulatory regimes for philanthropy and social investment to provide clearer guidance, targeted regulation and new tax efficient products for giving to stimulate more professional advice.

3. TARGETED REGULATION FOR ENDOWMENTS TO INVEST FOR GOOD

Lack of targeted regulation and clear guidance hold back family foundations from using their endowments for social investment.

Recently, two family foundations went directly to the High Court to seek clarity on mission-aligned investment because guidance from the Charity Commission and Financial Conduct Authority has been ambiguous on the prioritisation of financial returns over social impact.

Government could engage both the Charity Commission and Financial Conduct Authority to develop targeted guidance in key areas.

4. MEDIA COVERAGE

Coverage of philanthropy in the UK reflects the media's twin responsibilities to inform and to hold power to account, but is rarely balanced. Celebrity philanthropy and significant acts of public fundraising receive the strongest positive coverage initially, but are often followed by later scrutiny. Marcus Rashford's fundraising efforts during the Covid-19 pandemic are a good example of this.

Major gifts from business leaders are often treated with suspicion in the media which typically focus on the source of funds or the motives of the donor.

There are also academic critiques of philanthropy that are rehearsed in the media, questioning the democratic accountability of philanthropy either in the context of the tax reliefs available to the individual or the power and status of the donor. These critiques are valid and important, but examples are usually drawn from America which operates in a very different regulatory environment.

Q: HOW CAN GOVERNMENT SET THE RIGHT REGULATORY TONE?

A: ENGAGE THE CHARITY COMMISSION AND FCA ON DEVELOPING TARGETED GUIDANCE FOR PHILANTHROPIC FUNDERS

Example of weaknesses in the regulatory process for philanthropy – Butler Sloss vs. Charity Commission 2022

In April 2022, two UK family foundations took the Charity Commission to the High Court to seek an updated ruling to confirm their trustees were not overstepping their legal responsibilities by investing their endowments in alignment with the goals of the 2016 Paris Climate Agreement.

The family foundations, The Ashden Trust (of which Butler-Sloss is a trustee) and the Mark Leonard Trust, won the case. Case law now states that trustees may exercise discretion where investments potentially conflict with their charitable purposes.

Earlier case law stated that maximising financial return should be the starting point for charity trustees when making investment decisions and the circumstances for making decisions that might be financially disadvantageous would be extremely limited.

Charity Commission guidance will be updated to reflect the new ruling. This will open the field further for trust and foundation endowments to be invested in social investments.

However, the case highlights the highly reactive nature of regulation for the philanthropy and social investment sector. Social investment by endowed foundations falls between the regulation of the Charity Commission and the Financial Conduct Authority (FCA). The Charity Commission has a wide-ranging remit across the whole charity sector, of which family foundations are only a part. Meanwhile, the remit of the FCA covers financial services providers that offer social investments for financial gain.

The lack of targeted focus means that the regulatory opportunities to support the social impact that could be derived from more philanthropy and social investment are missed. A proactive stance would be more beneficial for growth.

The ambivalent public discourse on philanthropy means many philanthropists opt to operate under the radar, thus reducing transparency and accountability, and thereby perpetuating negative stereotypes.

Research shows that levels of giving are highly correlated to externalities – put simply donors respond to a call to action. The media therefore has a vital role to play in developing our culture of giving.

Social investment faces a different media challenge. The shift towards ESG and impact investing across investment markets is a much larger trend and receives the lion's share of media coverage, even though such strategies are focused on mitigating risk to investee companies on environmental, social and governance issues, and not always focused on contributing to social and environmental solutions.

As consequence, it is harder for social investment providers to communicate the opportunities that exist to invest explicitly with the intention to achieve social impact so that investors understand where those opportunities sit in relation to ESG and impact investing.

There is also a tendency for the media to focus on social investments that failed without due analysis of the challenging issues these enterprises were setting out to tackle. This creates a perception of risk that is not fully justified. We need a clear national discourse on the role of philanthropy and social investment in our civil society, with the tone set by government policy.

Government could appoint a Philanthropy and Social Investment Champion as a senior post within the civil service to take responsibility for driving forward the UK's approach to philanthropy and social investment.

This role could co-ordinate cross-government action on regulation, taxation, measurement and opportunity. Signalling the important social and economic contribution of philanthropy and social investment, and providing clarity on their role within our democracy, would be a first step toward greater clarity and a more consistent media narrative.

KEY DIFFERENCES BETWEEN AMERICAN AND BRITISH PHILANTHROPY

In 2021, Americans gave US$450 billion to charitable organisations. The size and scale of the non-profit sector, and the support provided for social infrastructure by philanthropy makes all aspects of non-profit activity politically significant at state and federal level. As a major force in the economy, American philanthropy receives high levels of support from Government. It is also governed by high levels of regulation and rightly receives public scrutiny.

Therefore, when considering the US experience, it is important to note that there are fundamental differences in the way philanthropy is regulated in the US that makes direct comparison with the UK difficult.

The US offers generous tax incentives for giving, using a system of tax deductions and tax credits with the benefit accruing principally in favour of the individual. Cash gifts to public charities qualify for a tax deduction of up to 60%. Tax credits may be up to 100% of the taxable amount. In return for these high levels of public subsidy, charities in the US are subject to significant restrictions on their activities at both federal and state level to ensure their public benefit.

The UK takes a philosophically different approach. In order to qualify for tax reliefs, UK charities (including grant giving trusts and foundations) have to demonstrate that their purpose is for the public benefit — the public benefit test.

Putting the test for public benefit at the heart of the regulatory regime ensures a high level of democratic accountability in the UK system, because in order to receive reliefs from the public purse charities and donors who give through a trust or foundation have to demonstrate to an independent regulator that their actions provide an identifiable public good.

Moreover, the UK's principal tax incentive for giving, Gift Aid, operates on the basis that the benefit principally accrues in favour of the charity. High-income donors may personally claim back the difference between the basic rate and the higher-rate tax amount – a maximum of 25% on their gross donation.

There are many other differences between the two regimes. However, one area where the UK can learn directly from the US experience is the benefit of proactive partnership. 'Public-Philanthropic Partnerships' are increasing in the US at state and federal levels. The US Government has over 40 Federal Liaisons responsible for engaging with the philanthropic sector. There are also numerous Offices of Strategic Partnership in states and cities performing the same function at local level. These units have been highly effective at engaging private philanthropic capital in both state and federal initiatives.

5. GUIDANCE ON FIDUCIARY DUTY

Pension funds increasingly recognise their fiduciary responsibility to invest their capital in a way that contributes to solutions to some of the most pressing issues of today whilst providing financial security for their members in retirement. However, allocation to environmental impact investment still dwarfs social impact investment.

Government has already introduced a new target for Local Government Pension Funds in England to spend at least 5% of their £337 billion of combined assets in local areas. This could potentially unlock £17 billion of spending on housing and other infrastructure. This target provides a clear route for local government pension funds to follow, and create real impact with their investments.

However, Government should update guidance governing fiduciary duties for Local Government Pension Schemes (LGPS)[15] to state explicitly that pension scheme administering authorities, in selecting scheme investments, must consider the impact of those investments on society and the environment.

COULD WE ENABLE AND INCENTIVISE MORE AND BETTER GIVING IN THE UK?

The UK has a track record of bold policy action to support philanthropy and social investment, and has created a world-class regime for giving and philanthropy.

- Gift Aid to enable tax effective giving by individuals, and added benefit to charities
- Independent Charity Commission in England & Wales, and equivalent charity regulators in Scotland and Northern Ireland
- 2010 Finance Act enabling European Union charitable organisations to enjoy the same tax advantages as UK domestic charities
- 2011 Charities Act creating a single body of rules
- 2022 Charities Act clarifying technical issues
- Flexible legal structures for charitable entities and donor advised funds

To embed the benefits of this regime the philanthropy requires ongoing support from government. This is because of the limited commercial opportunities available to the philanthropy sector to invest in growth.

If we want a philanthropy and social investment sectors that can grow and embed them as part of our response to national and international need, then government will need to develop targeted policies to support that goal.

There is significant opportunity to secure both greater giving from UK donors and international donors who could use the UK as a well-regulated base for their giving activity, but this will require ongoing partnership with government and strategic investment in key areas.

GIFT AID

Gift Aid is a tax incentive where the benefit accrues principally in favour of the recipient organisation. Where other countries use tax deductions or tax credits which favour the individual, Gift Aid puts public benefit at its core.

Gift Aid rarely prompts individuals to start giving, but often encourages them to giver more knowing their gift will stretch further for the charity.

Use of Gift Aid has been growing steadily. Since 2013, the average annual growth rate in the amount donated by using Gift Aid individuals has been 3.1%, from **£5.25 billion** to **£6.72 billion**[1].

[15] Local government pension scheme: guidance on preparing and maintaining an investment strategy statement (July 2017)

Key long-term proposals that have been made by the philanthropy sector to increase the use of Gift Aid by donors are:

- Introduce a Universal Gift Aid Declaration Database allowing donors to fill in one online Gift Aid declaration to cover all donations. The database could then be checked by charities and HMRC.
- Public education campaign to highlight the ways in which Gift Aid can be used to increase donations to charity, including targeted information for professional advisers.

There is also work currently underway, led by the Charity Tax Group, to offer recommendations to ensure Gift Aid achieves its potential.

Our independent Charity Commission ensures confidence that the charity sector and philanthropy work for public benefit. Principles-based regulation offers a high-degree of flexibility for regulated entities, providing they can evidence they operate in line with the principles and tests.

The Autumn budget statement in 2021 announced increased funding of £29.8 million for the Charity Commission of England & Wales in this fiscal year. The Charity Commission for England & Wales currently regulates 184,000 charities.

Royal Assent was given for the 2022 Charities Act in February, which will require updates to existing guidance and new guidance.

The priorities of the Charity Commission for this year are to improve its data gathering and usage, to increase direct engagement with trustees and to invest in its staff to achieve these goals.

The potential benefits to philanthropy from these activities are likely to be:

- Better more accessible information about charities to support donor choices
- Modernised guidance for trustees,
- including trusts and foundations
- Enhanced capacity to handle queries

Historically the Charity Commission has not offered targeted guidance for trusts and foundations. This results in time and advice costs, high levels of documentation and risk aversion among trustees of trusts and foundations.

For comparison, the Financial Conduct Authority (FCA) received £658 million of income in 2021-2022 and regulates 50,000 entities. The FCA receives most of its income from fees and is not reliant on government funding.

This funding model is not a viable option for the charity sector because of the non-profit nature of civil society organisations.

- A closer partnership between the Charity Commission, Government and the philanthropy and social investment sectors are essential to identify regulatory priorities in the field of philanthropy.

Donor-Advised Funds have been available since the 1970s in the UK and have grown in popularity since the early 2000s.

The total amount of assets given to donor-advised funds for charitable purposes at £1.9 billion in 2020.

Donor-advised funds have enjoyed average annual growth of 15% since in 2016. Giving from these vehicles has grown at the same rate, reaching £477 million in 2020[1].

In addition to the Charities Aid Foundation and UK Community Foundations, there are now a further 10 providers including wealth advisory firms and independent donor advised fund providers.

The success of this sector shows the potential for philanthropy to grow when it is well supported and incentivised. Government tax reliefs, effective regulation, a dedicated structure, professional advice, and support from the charity sector have combined to achieve one of philanthropy's leading growth stories.

The philanthropy sector has proposed other tax efficient structures that could provide vehicles to enable growth in philanthropy, most notably:

- Charitable remainder trusts that would offer a structure for "Living Legacies"
- An extension of the cultural giving scheme
- Charitable ISAs

These proposals have not been taken forward by government.

International giving has a solid regulatory framework in the UK enabling charities to enjoy income and corporate tax reliefs on international giving providing they can evidence the use of those funds for charitable purposes.

The 2010 Finance Act also extended UK tax benefits to the European Union and certain other jurisdictions, enabling charitable organisations in those jurisdictions to enjoy the same tax advantages as UK domestic charities.

These regulations enable cross-border giving but more could be done to streamline the regime, particularly if the UK wishes to attract more international donors to give from a base in the UK.

EXAMPLE OF THE UK'S GLOBAL LEADERSHIP IN PHILANTHROPY

Charities Aid Foundation – Global Alliance

The Charities Aid Foundation has pioneered international giving through its Global Alliance of partner organisations in eight international jurisdictions. This network of partners facilitates local due diligence and reporting.

Working on the principle that network members are all tax-exempt, non-profit entities in their home jurisdictions, they can accept payments from donors in the home country and transfer those donations across the network on the donor's instructions. Thus, a donor in one country can support charities in another country while benefiting from the tax benefits of charitable giving in their home jurisdiction.

COULD WE ENABLE AND INCENTIVISE MORE AND BETTER SOCIAL INVESTMENT IN THE UK?

The UK has pioneered innovation in the field of social investment. The sector has grown eight-fold in the last decade and there remains huge untapped potential for further growth.

Future growth will require policies that develop the whole marketplace: enabling capital to flow from a wide pool of investors to start-up, growth and mature social enterprises.

KEY FIGURES

- Social property funds account for the largest portion (**45%**) of the social impact investment market and has seen eight-fold growth since 2016[16].
- Social lending accounts for **43%** of the market, seeing three-fold growth since 2011.
- The UK has **100,000** social enterprises employing **2 million** people.
- This sector contributes **£60 billion** to the UK economy delivering public services, health provision and community cohesion.

[16] Big Society Capital, Sizing the Market, 2021

1. A START-UP AND GROWTH SOCIAL INVESTMENT CULTURE IS ESSENTIAL TO DRIVE INNOVATION

The UK has a growing impact focused venture capital culture for start-ups that have a core mission to deliver a specific social or environmental outcome – and continue to deliver that outcome over time.

In addition to having created a major wholesaler for social investment intermediaries there are now over 30 venture capital funds investing for impact in the UK, and many more that invest in impactful companies as part of broader mandates.

For example, high-impact technology businesses play a critical role in tackling some of the most pressing social issues of today, ranging from financial inclusion to growing levels of mental ill-health. Once such example is Wagestream.

Wagestream was set up to eradicate pay-day lenders and improve financial wellbeing for lower income workers by allowing them to live stream their earnings between pay cycles reducing their reliance on predatory forms of credit. Social investment enabled Wagestream to reach over 100 companies with 350,000 employees, supporting 65% of users to cover an unexpected bill with their own wages.

The use of Recovery Loan Schemes for lending during the pandemic by social investment organisations, such as Big Society Capital, enabled much of the third sector to continue to help those most in need. The Community Investment Enterprise Facility (CBILS) delivered through Community Development Finance Institutions (CDFIs) and Resilience and Recovery Loan Fund (CBILS) and a follow-on Recovery Loan Fund (Recovery Loan Scheme) delivered through social lenders.

The Resilience and Recovery Loan Fund, for example, deployed £24 million to nearly 80 social enterprises and charities during the pandemic.

The UK is positioned as a leader on the topic, with investors in other jurisdictions looking towards the UK for best practice. There is a huge opportunity for the UK to unlock billions of pounds of investment for impact venture and cement its role as an international leader on the topic. However, there are several barriers which are holding the market back.

Opening new pools of capital for impact venture – e.g. make it easier for defined contribution pension schemes to invest in illiquid assets. E.g. improve the operation and effectiveness of the current tax incentives e.g. SITR in the venture capital market.

There remains a funding gap for impact-focused emerging managers across the venture system, at both early and later stages. We recommend developing an "impact target" for British Business Bank funding programmes, or setting up a dedicated impact funds programme to sit alongside the Enterprise Capital Funds programme.

2. SUPPORT THE DEVELOPMENT OF BLENDED FINANCE OPTIONS

The term **blended finance** is used to describe funding for social enterprises and charities from different kinds of investors to ensure their financial needs are met; often a blend of loan and grant to make repayable finance affordable for smaller enterprises.

Social enterprises and charities need access to deep markets offering a range of capital investment options in order to access streams of long-term investment that are appropriate to their business model and growth plans. In the traditional investment markets, many forms of capital are available to meet this need from different providers.

This is not the case for social investments. Unlike other types of businesses, social enterprises and charities struggle to access traditional investment because of the tight profit margins that come with prioritising both social and financial value, or because investors are not familiar with their business models and treat them as high risk.

The need for long-term capital is particularly acute right now because the economic headwinds affecting business are also impacting social enterprises.

Social enterprises urgently need access to repayable finance from funders who understand their operating model.

Financing may be delivered through a mixture of grant funding, repayable loans and equity investment – ie. blended finance. This blending ensures the financial objectives of all investors are met.

Government should actively support the development of blended finance models to overcome a persistent market failure and support sustained market development. Blended finance attracts a wider pool of both grant funders and traditional market investors. Government should continue to use dormant assets and guarantees to support social investment and innovation, it should consider reforming investment tax incentives to enable the continued reduction in the cost for capital available to social investment funds and social enterprises and government could engage the Financial Conduct Authority to consider the issues of professional competency and market confidence that would be required to equip wealth advisers to offer advice on start-up investment into social enterprises to their clients.

3. COMMISSION PUBLIC SERVICE CONTRACTS THAT PARTNER SOCIAL INVESTMENT

Social outcomes contract is a form of public service commissioning where the government commissions a social enterprise to deliver specified outcomes for a specified group of individuals. Government funding is only released if the successful outcomes are actually achieved.

There are many social enterprises already working in fields that the government might wish to reduce costs and improve value for money of the public services it delivers, such as employment for young ex-offenders; mental health and employment; and training opportunities for people disconnected from the labour market. The social enterprises and charities delivering these services nearly always emerge out of the communities themselves. Local people take enormous pride in these projects.

Big Society Capital recently launched a report 'Outcomes for All' which found that every £1 that government has spent, a further £10 has been created in social, economic and fiscal value, including £3 in direct savings to, or costs avoided by, government.

The UK is already the global leader of this innovative model, with the US second and many other countries looking to emulate it. To maintain its lead, the UK needs to revive its central government outcomes fund and work with local government and local organisations to deliver more services on an outcomes basis.

THERE ARE MANY OPPORTUNITIES TO EXPAND SOCIAL INVESTMENT. HERE ARE SOME EXAMPLES:

GRANTS

Making grants to social enterprises that generate an income can provide a source of financial leverage. If grants are offered on the condition that they are matched or blended with investment (social or traditional), the social enterprise can increase the level of return they offer to these investors.

The objectives of grant funder are met, because the impact of the grant is leveraged to achieve greater scale or reach. The financial objectives of traditional investors are also met because the investment can now offer traditional market rates of return.

SUPPORT THE GROWTH OF COMMUNITY ENTERPRISES

The Social Investment sector has produced the Community Enterprise Growth Plan – the plan looks to leverage both private and philanthropic capital alongside Dormant Assets - doubling the amount available to communities and ensuring the finite resources available are used to maximum effect.

It builds on a strong track record of utilising Dormant Assets over 10 years to invest in social enterprises, community businesses and trading charities, and complements other proposed uses of dormant assets.

The Community Enterprise Growth Plan will deliver long-lasting tangible economic and social benefits to local communities, creating jobs and growth in communities affected by economic decline. The plan represents one use of new Dormant Assets funding, which DCMS are currently consulting on. It is different but complementary to other uses of this funding, such as a Community Wealth Fund.

GUARANTEES

In this arrangement the guarantor agrees to repay the lender if the borrower defaults on a loan. This de-risks transactions for traditional lenders who may be concerned that social enterprises have unfamiliar business models, which are automatically assessed as high-risk according to their credit scoring systems.

The government acted in this role as guarantor for the Resilience and Recovery Loan Fund during the pandemic. Through this mechanism, Big Society Capital and the Social Investment Bank were able to deploy £24 million to 80 social enterprises and charities using a guarantee facility from the Coronavirus Business Interruption Loan Scheme (CBILS).

The Recovery Loan Scheme is the successor to the CBILS scheme, backed by government guarantee and open to all trading businesses including social enterprises. It has been recently extended by government and could be developed further to leverage more blended finance funding into the social enterprise sector. In particular, a forward-looking commitment of at least 5 years would unlock greater capacity from traditional lenders.

INCENTIVISE FURTHER INVESTMENT WITH TAX RELIEFS

Social Investment Tax Relief (SITR) launched in 2014, incentivises individuals to invest in social purpose organisations by offering a reduction of 30% of the investment in that year's income tax. Investors can invest up to £1 million per year, directly into enterprises or indirectly via investment platforms, and must retain the investment for at least three years. The scheme was introduced because charities and social enterprises are often ineligible to partake in other tax relief schemes, for example, charities cannot issue shares, and because of the prevalent perception that a focus on impact could hinder profitability.

HM Treasury estimated that total SITR deal flow would be £83.3 million in the first 3 years, but it only achieved £5.1 million. Key factors that have led to this underachievement is a lack of awareness of the tax relief, widespread belief that SITR was too similar to other incentives and not targeting the specific needs of the social investment sector and there is unclear or insufficient guidance on its use with complex eligibility restrictions. While the UK tax schemes are not delivering on these objectives for the benefit of social investment and the impact venture market, if designed appropriately they have the potential to do so.

Q: COULD BLENDED FINANCE SUPPORT THE TRANSITION TO NET ZERO? A: YES

For example, blended finance could be used to scale up the availability of financially-attractive retrofit services for households

The average cost of retrofitting a house in the UK to a good standard of energy efficiency is £8,000 with a payback period of more than 27 years. This long period of payback is unattractive to householders.

Instead of offering tax reliefs to individuals to encourage the adoption of low-carbon technologies, government could offer grants and subsidised lending to social enterprises that are set up to provide retrofit services to householders.

By providing grants and subsidising long-term loans secured on the value of the house, government would enable the retrofit providers to offer a much more attractive financial package to householders, thus encouraging more householders to undertake carbon efficient renovations.

EXAMPLE OF EFFECTIVE PARTNERSHIP BETWEEN GOVERNMENT AND THE SOCIAL INVESTMENT SECTOR

Dormant Assets and Big Society Capital

The early 2000s saw a number of important developments in the social impact investment ecosystem driven by the Government. The potential of the capital available from 'dormant' bank accounts began to attract interest from government and the social sector and a so-called 'social investment bank' would deliver activities such as developing intermediaries, connecting social entrepreneurs to capital markets so they can access growth capital, supporting financial innovation and developing the investor market through creating vehicles that support high growth ventures, as well as smaller local organisations.

Parliament passed the Dormant Bank and Building Society Accounts Act 2008, which set the definition for a dormant account, and established what funds from dormant accounts could be used for in England: the provision of services for young people; financial inclusion; and a social investment wholesaler to give financial or other support to third sector organisations.

This in turn led to the creation of Big Society Capital which over the last decade, has invested over £425 million of dormant asset money into more than 2,000 social enterprises and charities leveraging over £2 billion of private capital. 65% of those investments are in the most deprived parts of the country. This includes much investing in the homelessness space, acquiring street properties and making them available to vulnerable groups together with high quality charities.

A 10-POINT PLAN TO UNLEASH THE POTENTIAL OF PHILANTHROPY AND SOCIAL INVESTMENT IN THE UK

To grow philanthropy and social investment in the UK, this sector needs an ongoing partnership with government to identify the key areas where working together will stimulate growth.

Government has an important role to play in enabling, incentivising and supporting philanthropy and social investment to achieve their potential.

In addition to the recommendations contained in the body of this paper we have outlined a 10-point plan as a route map for support, one step at a time.

The philanthropy and social investment sector would welcome a dialogue with government to agree how strategic investment could create a step change in our giving and social investment culture.

ENABLEMENT

1. APPOINT A PHILANTHROPY AND SOCIAL INVESTMENT CHAMPION AS A SENIOR POST WITHIN THE CIVIL SERVICE

The appointment of a senior civil servant with responsibility for driving forwards the UK's approach to philanthropy is essential. That civil servant needs to be visible to both the philanthropy sector and to the rest of Whitehall, in order to act as a gateway for both sides – to receive insights from philanthropy on the barriers to investment and to communicate to philanthropy the strongest opportunities the rest of government identifies.

This individual also needs to have the resources and authority required to coordinate cross-government action on measurement, regulation and taxation of philanthropy in order to unlock its potential.

Were the Government to appoint a Philanthropy and Social Investment Champion or equivalent, the philanthropy sector would respond constructively and actively to coordinate and provide opportunities for input and both sides should listen to and work with each other.

2. BUILD CIVIL SERVICE KNOWLEDGE OF PHILANTHROPY, MATCH FUNDING AND SOCIAL INVESTMENT BLENDED FINANCE

Philanthropy sector organisations and government should work in partnership to accelerate knowledge of philanthropy and social investment within the civil service, with a focus on how policymakers can leverage the expertise and resources of the philanthropy and social investment sector to deliver innovative financing models, such as match-funding, to drive social impact.

The Cabinet Office Learning and Development team and Grants Management Unit could be engaged to disseminate best practice across Whitehall to increase understanding of the opportunities presented by philanthropy and social investment to support policy goals. Guidance and training on this topic should be embedded within civil service development as standard, and a bank of best practice examples grown over time and shared.

The philanthropy and social investment sectors should actively support Government in pursuing this, providing opportunities to convene and collaborate on joint principles for partnership.

3. KEEP REGULATIONS ON VALUES-BASED INVESTMENT UNDER REVIEW

Financial regulations in the European Union require financial advisers to collect information from their clients on their sustainability preferences. This information is used to determine the suitability of investments to meet their financial needs in alignment with their social values. The new Financial Conduct Authority (FCA) Consumer Duty regulations are a positive step in this direction.

The FCA has not implemented suitability related to sustainability requirements as a mandatory requirement in the UK, but has initiated a consultation with the financial services sector this year.

Financial advisers have an important role to play in supporting their clients on their philanthropy and social investment journeys. Among wealthier clients, they can play a transformative role for clients who wish to move from regular donors to major giving.

Moreover, the Charity Commission will update its guidance on investments following recent High Court ruling in favour of trustees investing endowments in alignment with their charitable purposes. This will create an additional requirement for financial advisory support from the trustees of endowed foundations.

If UK advisers are not required by regulation to ensure investments are aligned with the social and financial needs of their clients, there is no impetus for them to develop the professional knowledge and skills required for this.

Government should keep under review the outcomes of the FCA consultation and Charity Commission guidance to determine if they will provide sufficient stimulus to ensure financial advisers build their capacity to meet the needs and expectations of their clients for professional support in their philanthropy and social investment.

4. WORK WITH CHARITY COMMISSION AND FCA TO DEVELOP GUIDANCE AND TARGETED REGULATION

Government could go further and consider whether philanthropy and social investment would be better served by a targeted regulatory regime recognising that funders, donors and social investors are distinct groups within civil society.

At present, guidance from the Charity Commission and FCA does not fully address the operating practices of these groups nor provide relevant examples.

This lack of regulatory clarity drives risk aversion among funders, donors, social investors due to the additional governance costs required to operate in a sphere where regulation and guidance is ambiguous.

5. SUPPORT INITIATIVES TO DEVELOP DATA ON THE ECONOMIC AND SOCIAL CONTRIBUTION OF PHILANTHROPY AND SOCIAL INVESTMENT

Philanthropy and social investment cut across all departments of Government and yet there are no consistent sources of data, within Government or externally, to track the economic contribution of these activities.

Work by the Charity Commission to widen the data that it holds on charities and, particularly, to improve the classification of charitable activities will provide a stronger basis upon which to build understanding of this contribution.

It will also benefit from resource within Government to work with the sector to determine measures by which the economic and social contribution of philanthropy and social investment can be measured.

INCENTIVISATION

6. EXTEND DCMS GROWING PLACE-BASED GIVING PROGRAMME

The Civil Society Strategy 2018 saw Government commit to developing place-based giving schemes across the UK. Place-based giving schemes are partnerships between communities, local authorities, civil society organisations, local businesses, national donors and philanthropists to build on the existing community assets to enhance communities in a defined place.

Between 2019 and 2020, DCMS undertook a pilot programme, Growing Place-Based Giving, in six locations with support from Charities Aid Foundation.

The programme was impacted by Covid-19 and the timescale was too short for these initiatives to become embedded. However, one key learning was that local donors benefit from feeling connected to causes rooted in their community, especially if the initiatives were adding to what is achieved through public funding.

These schemes can galvanise local philanthropy, civic engagement and community spirit.

Government should make a long-term commitment to build on the work to grow place-based giving schemes, in line with the Levelling Up agenda:

- Priorities need to be set locally
- Committed core cost funding is required
- Building coalitions among multiple stakeholders takes time
- All parties need to be clear how a place-based giving scheme creates benefits that are additional to public funding and the contribution already made by civils society organisations in the local community[17].

[17] growing-place-based-giving-end-of-programme-report.pdf (cafonline.org)

7. DEVELOP MATCH FUNDS ON PRIORITY THEMES

Match funding offers a powerful incentive to engage new donors to give by offering the opportunity to double, or even triple, their contribution. Match funding schemes can be developed in line with policy objectives, thus providing democratic accountability to philanthropic activity, and offering the basis for effective partnerships between communities, Government and donors on shared concerns such as climate change, "Levelling Up" and regeneration of the arts and culture sector post-Covid.

If match funding were coupled with support for civils society organisations to grow their capacity for developing donor relationships, it would enable long-term transformative change in our giving culture, as evidenced by the match scheme offered via the Higher Education Funding Council (England) from 2008-2011[18].

Through this programme, match payments of £143 million triggered by £580 million of giving, a leverage ratio of 4:1. The fundraising capacity-building offered through this programme continues to benefit the higher education sector to this day.

Future schemes might also incorporate "blended" social investment options, where Government match funding is made accessible to income-generating social enterprises as well as non-profit organisations, thus building financial sustainability, leverage and reach into the design of the match funding programmes.

8. REVIEW INCENTIVE FOR SOCIAL INVESTMENT LEARNING LESSONS FROM SITR

Social Investment Tax Relief (SITR) was launched in 2014 to incentivise individuals to invest in charities and social enterprises offering income tax relief of 30% of the investment. SITR appears unlikely to continue past 2023.

SITR was £15.8 million through to 2021[19], much less than the £83 million that was anticipated[20]. The social investment sector has identified the various reasons for this.

SITR is one of four enterprise incentives. The others are:

- Enterprise Investment Scheme (EIS)
- Seed Enterprise Investment Scheme (SEIS)
- Community Investment Tax Relief (CITR)

SITR is regarded as being unhelpfully similar to EIS and has therefore failed to gain traction with investors.

At the same time, it suffers from tight eligibility criteria with respect to legal form and the exclusion of certain investment activities. This makes it unsuitable for impact-led organisations that may take a variety of legal forms and need access to diverse forms of financial funding.

Consequently, there is confusion among impact-led enterprises, investors and professional advisers about the applicability of SITR and the benefits from this incentive, when compared to other schemes.

SITR has also suffered from a lack of awareness, slow administrative processes and unclear or insufficient guidance on its use.

Yet, the opportunity remains to scale up the levels of social impact that can be generated through private investment by incentivising social investment into a wide range of civil society organisations.

Government should extend SITR for sufficient time for HM Treasury to consult with representative organisations within the social investment sector to determine how this relief may be restructured to meet its original goals.

9. OFFER LONG-TERM COMMITMENT TO GOVERNMENT GUARANTEE SCHEME FOR SOCIAL LENDING

The Government should signal a long-term commitment beyond 2 years to act as the guarantor agreeing to repay the lender if the borrower defaults on a loan.

Extending the scheme beyond 2 years would enable capital allocators, lenders, SMEs, social enterprises, and charities to plan in the medium- to long-term. The loan guarantee scheme helps a growing, sustainable market of purpose-driven investors and enterprises alike which need such an intervention in the long-term.

In the short term, it should also ensure the charities continue to access the scheme after December 2022.

10. OPEN DIALOGUE WITH HM TREASURY ON PROVIDING SUPPORT FOR STRUCTURES FOR GIVING THAT USE EXISTING RELIEFS

The advice and support that professional advisers can offer

[18] Review of Philanthropy in UK Higher Education: 2012 status report and challenges for the next decade (ioe.ac.uk)
[19] https://www.gov.uk/government/statistics/enterprise-investment-scheme-seed-enterprise-investment-scheme-and-social-investment-tax-relief-may-2021/enterprise-investment-scheme-seed-enterprise-investment-scheme-and-social-investment-tax-relief-commentary-2021
[20] Social Investment Business: What A Relief – A Review of Social Investment Tax Relief for Charities and Social Enterprises, 2019

to their clients on philanthropy investment is limited by the availability of products and structures that can meet the needs that emerge from the advisory conversation.

The UK offers a number of tax reliefs for giving that can form part of financial and estate planning conversations:

- Gift Aid
- Inheritance tax relief
- Capital gains tax relief on land, property or investments
- Stamp duty land tax relief

There are also two structures that can be used for the purpose of tax efficient charitable giving:

- Charitable trust
- Donor-advised fund

Advisory conversations on giving therefore happen within the context of these available reliefs and structures.

There are opportunities to extend the range of structures based on existing tax reliefs, with approval from HM Treasury.

The philanthropy sector has proposed a number of valid structures, notably:

- Charitable remainder gifts (equivalent to "Living Legacies", an established structure in the US)
- An extension of the cultural giving scheme
- Charitable ISAs

A wider range of structures would enable professional advisers to support regular, lifetime giving across the UK.

The high-growth rate of giving through donor advised funds, which saw charitable assets surpass £1.9 billion in 2020, shows the potential for increasing giving when donors are supported by advisers with appropriate structures.

HM Treasury should consult with representative organisations within the philanthropy sector to extend the range of charitable structures available in the UK.

EXAMPLES OF PHILANTHROPY AND SOCIAL INVESTMENT AND THEIR CONTRIBUTION TO NATIONAL PRIORITIES

Philanthropy and social investment cannot replace government spending but it can align with national priorities because, like public spending, philanthropic funding is always made for public benefit.

In this section, we have included a small selection from thousands of examples showing how philanthropy and social investment are responding to some of the biggest challenges of recent times.

COVID-19

COORDINATED RESPONSE TO COVID-19 FROM PHILANTHROPIC FUNDERS

In March 2020, London Funders brought together 67 funders to form a ground-breaking funder collaboration — the London Community Response — to support the communities hit hardest by the pandemic.

This collaboration included institutional foundations, corporate foundations and private foundations. They provided an easy access point for charities working on the frontline and in imminent danger of running out of funding during the pandemic. To date, LCR has distributed emergency and recovery funding to 3,400 organisations totalling £58 million.

RAPID AND PUBLIC RESPONSE TO THE ENCOURAGE OTHERS TO GIVE TO THE COVID-19 CRISIS

On 18 March 2020, the same day that schools closed in the UK, Fran and Will Perrin of the Indigo Trust announced grants of £2.5 million – a sum large enough to grab national media attention.

Their funding of £1 million to the National Emergencies Trust Coronavirus Appeal, £1 million to Trussell Trust food banks, and £500,000 for their local Community Foundation, signposted for others how to support the emergency response nationally and locally.

SUPPORTING MINORITY GROUPS TO ACCESS FINANCE

The Social Investment Business (SIB), Access – The Foundation for Social investment, The Ubele Initiative and Create Equity launched £2.5m worth of grant and support funding to be made available for use alongside the Recovery Loan Fund to support Black and minoritised ethnicity-led charities and social enterprises based in and delivering impact in England.

This was primarily a loan fund, and grants were awarded to organisations that were Black and minoritised ethnicity-led . The £2m of grants and support was matched with £2m of loan money from the Recovery Loan Fund. The grants and support were used to widen accessibility of the fund to groups that have traditionally found it more difficult to secure investment.

SEEDCORN FUNDING FOR COVID-19 MEDICAL RESEARCH

Richard Ross CBE chairs Rosetrees Trust, the UK's pioneering funder of medical and scientific research, and they have funded more than 2,000 out-of-the-box scientific ideas over more than 30 years.

Through the Covid crisis, the team — well-known in the medical research community — were the first port of call for scientists who needed fast access to finance to translate lab-based research into real-world medical devices for testing, vaccination, ventilation and protective equipment.

SUPPORTING ARTISTS AND CREATIVE FREELANCERS THROUGH THE CRISIS

In October 2020, John Studzinski CBE launched a £1 million Kickstart fund to support freelancers from the creative industries through the pandemic.

LEVELLING UP

GENERATING GROWTH IN DEPRIVED AREAS

The Access Growth Fund was launched in 2015 to offer unsecured loans and grants of up to £150,000 to social purpose organisations. The Growth Fund was originated and launched by Big Society Capital and The National Lottery Community Fund in 2015, with Big Society Capital providing £22.5 million of repayable capital and The National Lottery providing grant funding of £22.5 million, made possible thanks to National Lottery players. The programme was managed and delivered by Access, through a range of social investors.

Investment through the Growth Fund is reaching deprived areas of the UK. 26% of all investments, by number, were to social purpose organisations operating in the 10% most deprived areas in the UK. Over 50% of deals were to organisations in the 30% most deprived areas of the UK.

ENGAGING THE ALUMNI OF A CITY IN ITS REGENERATION PLANS

In Stoke on Trent philanthropists, including Carol Shanahan and Matthew Bowcock CBE, are working to connect alumni of the city in a programme of community-led regeneration.

150 individual wealth holders from the city have already plugged into the **Made in Stoke** network.

It has also attracted national and international philanthropists to bring their expertise to the city, including Grant Gordon OBE, who has launched his Thrive at Five programme, and Peter Samuelson, who is bringing his First Star Academy from the US to universities in the UK, including Staffordshire University, to support looked-after children into higher education.

SUPPORTING SMALL BUSINESSES

Small businesses play an important role in society by creating and sustaining jobs for local people and supporting local economic activity. This is especially true in left-behind communities, which have been the hardest hit by the COVID pandemic. Yet many sustainable small businesses in these communities cannot access mainstream finance and remain underserved. Community Development Finance Institutions (CDFIs) are one solution to this problem and have a social mission to serve these groups.

The Community Investment Enterprise Facility (CIEF) provides capital to four CDFIs. The success of this has been through the partnership of private investors and the governments guarantee scheme which leveraged a £30million loan from bank lenders into these CDFIs. During the COVID pandemic, these CDFIs have stepped up to deliver loans backed by the government guarantee scheme and support these small businesses.

the four CDFIs made 524 loans to 481 small businesses, totalling £35.65 million from January 2019 until December 2020. This also attracted co-investment of £12.3 million from other investors. Overall, these small businesses in receipt of CIEF loans employed 4,070 people and more than 50% of loans were made in the bottom 40% of most deprived areas in the UK and close to a third were made in the bottom 20%.

INVESTING FOR IMPACT

Schroders and Big Society Capital have teamed up to create the first impact trust which allows for further diversification of investors within the social investment market – financing 160 organisations, benefitting 160,000 people with £55.6m in near term value as savings and benefits for households and government. The Trust seeks to deliver a positive social outcome together with a financial return, including but not limited to Investments in:

- **High Impact Housing** – Housing funds that benefit more vulnerable groups (formerly homeless or survivors of domestic abuse) and affordable housing for lower income groups.
- **Social Lending for Social Enterprise** – Social lending solutions for charities and social enterprises targeting high social impact interventions for more disadvantaged groups including charity bonds and co-investments in portfolios of secured loans.
- **Social Outcomes Contracts** – Providing capital for expert charities and social enterprises to deliver outcomes-based government contracts (across homelessness support, health, education, family therapy and children's services) to achieve better impact for vulnerable people and better value for money for public funds.

LOOKING AFTER OUR MENTAL HEALTH

The Mental Health and Employment Social Outcomes Contract helps people with severe mental health issues back into work. It was set up in 2015 to drive a large-scale expansion of high-quality supported employment programmes for people with mental health issues and other groups with health conditions and disabilities. MHEP operates using the principles of Individual Placement and Support ("IPS") whereby work is used as a fundamental part of a person's treatment, rather than the traditional model of treatment and stabilisation followed by employment.

To date, MHEP has supported more than 1,700 people into employment, with that number expected to rise as many more are supported through the programme.
The MHEP vehicle allows for different commissioners to work with it in contracting with providers on an individual basis. This has allowed, for examples, the structures for Staffordshire and Tower Hamlets to be different from each other whilst commissioning the same IPS service from respective providers. It has also made it much easier to expand the model - first to Camden, Barnet, and Enfield, and 8 boroughs of West London, with potential for further expansion.

CULTURALLY-DRIVEN REGENERATION IN SUNDERLAND

In Sunderland, Paul Callaghan CBE, forged a partnership between MAC Trust, the City Council and the university to create Sunderland Culture – the lead operator for the city's cultural transformation.

MAC Trust led the redevelopment of a number of historic buildings, which now form the city's Cultural Quarter, making the city a cultural destination and boosting the day-time and night-time economy.

Funding for the ambitious transformation came from MAC Trust, other trusts and foundation, philanthropists, the City Council and Lottery.

NET ZERO AND THE CLIMATE EMERGENCY

LEADING THE WORLD ON CLIMATE ACTION

Lisbet Rausing, Peter Baldwin, Frederick Mulder, Sophie and Nick Marple, the Johansson family, Louisa Mann, and Niklas and Catherine Zennström are the individual philanthropists who joined with other funders to launch the UK Funder Commitment on Climate Change, which has led the world's funding community into climate action.

So far, 80 UK philanthropic foundations have signed the commitment representing more than £5 billion of assets. The initiative also spurred the International Philanthropy Commitment on Climate Change, which has 453 signatories to date.

CLIMATE INNOVATION AWARDS

Sarah Butler-Sloss of the Ashden Trust (UK) has been an initial funder of Carbon Tracker, Divest:Invest (Europe) and the Ashden Awards for global sustainability.

Among last year's shortlist for climate innovation in the UK are initiatives to feed renewable energy to the rail network (national), install ground source heating for social housing (Lancashire and Yorkshire), refurbish wind turbine components to reduce waste (Argyll), and build a library of "things" to reduce waste within a neighbourhood (London).

CONSERVATION FOR 30% OF THE PLANET

Lisbet Rausing and Peter Baldwin of the Arcadia Fund (UK) are among nine global philanthropists who have pledged $5 billion to projects that will protect 30% of the planet by 2030.

Called the 30x30 Challenge, the funded projects will create, expand, manage, monitor and protect areas of conserved land, water and sea in ways that are equitable, carbon neutral and nature positive.

GLOBAL PHASE DOWN OF HFCS

Sir Chris Hohn of CIFF (UK) has invested $30 million since 2009 to support a global phase down in the use of HFC coolants in air conditioning and refrigerants.

This work led directly to the 2019 Kigali Amendment on the Montreal Protocol that could see HFCs reduced by more than 80% in the next 30 years.

SUPPORTING MANAGEMENT OF ENERGY PRICES

Social investment has enabled both AgilityEco, which has supported nearly 40,000 UK households living in fuel poverty with help on utility bills, energy efficiency, and household finances and Switchee, the UK's first smart thermostat and asset management platform for large social landlords to grow and reach thousands of people struggling with the rise of energy bills.

SKILLS AND TALENT

CREATING BETTER LIFE CHANCES FOR YOUNG PEOPLE

Social investment supported West London Zone to improve the life chances for the 20% of children most at risk of poor outcomes by enabling local community organisations to work with local schools.

On top of outcomes-based commissioning from local and central Government, the project has also brought in funding from philanthropists and the schools themselves.

Their first of outcomes project supported 732 children and has been so successful that they are now delivering a second, estimating total savings to Government of £43,000 per child supported.

EXPANDING FACILITIES AND SERVICES FOR YOUNG PEOPLE ACROSS THE UK

Bill Holroyd CBE has driven the creation of 19 Onside Youth Zones across the UK. Onside Youth Zones provide facilities and services designed by young people, for young people. Onside Youth Zones are a partnership between local philanthropists, local authorities, local businesses and the local community.

IMPROVING EDUCATIONAL OUTCOMES FOR YOUNG PEOPLE

In 2020, following the murder of George Floyd in the US and the actions of the Black Lives Matter movement, Ric Lewis's Black Heart Foundation launched its Each Day, Every Day campaign to double the number of scholarships it could offer to children from under-resourced and under-represented communities from 100 to 200.

The campaign received a £500,000 boost from Stormzy's #MerkyFoundation taking the campaign total to £1.45 million.

To date, the Black Heart Foundation has funded 500 students around the world with scholarships totalling £1.45 million.

SUPPORTING VULNERABLE YOUNG PEOPLE

Across the West of England and South East London, the social outcomes approach is being delivered to help care leavers live independently, and secure education and employment.

The projects have been commissioned by the Department for Education and seven local authorities and are being delivered by Depaul UK in London and 1625 Independent People across West England, charities that have significant experience of combating youth at risk of, or experiencing, homelessness.

To date, these projects have supported over 500 care leavers, with entry into employment and education rates of up to 61%.

INNOVATING EDUCATION

The New School

The New School is a registered private school but is non fee paying and non-selective. They are fully funded by philanthropy, which enables them to focus on the children enabling them to develop the skills they need for mental, physical and emotional wellbeing.

Their approach to give every student a powerful sense of agency - the will and the ability to positively influence their own lives and the world around them.

To expand the impact they create, Social Outcomes Contracts would enable them to scale their operation to new areas with new schools. This is just one example of the innovation created by philanthropy and social investment with a sustainable method to grow and scale.