HOUSE OF LORDS

Select Committee on Charities

Corrected oral evidence: Charities

Tuesday 25 October 2016

4.40 pm

Watch the meeting

Members present: Baroness Pitkeathley; Lord Bichard; Lord Chadlington; Lord Foulkes of Cumnock; Baroness Gale; Lord Harries of Pentregarth; Baroness Jenkin of Kennington; Lord Lupton; Lord Rooker; Baroness Scott of Needham Market; Baroness Stedman-Scott

Evidence Session No. 7 Heard in Public Questions 71 - 80

Witnesses

I: Geoff Burnand, Chief Executive, Investing for Good, Peter Holbrook CBE, Chief Executive, Social Enterprise UK and Jane Wilson, Lead Practitioner for Learning and Development, City Healthcare Partnership.

Examination of witnesses

Geoff Burnand, Peter Holbrook, and Jane Wilson.

Q71 **The Chairman:** Good afternoon and welcome. We are delighted to see you here. I must remind you of various things. The session is open to the public. A webcast of the session goes out live and is subsequently accessible via the parliamentary website. A verbatim transcript will be taken of your evidence and that will also be put on the parliamentary website. A few days after the evidence session you will be sent a copy of the transcript to check for accuracy, and we would be grateful if you could advise us of any corrections as quickly as possible. After the session, if you wish to amplify any points you have made or feel you have not quite said what you wanted to say, or if you have any additional points to make, you are very welcome to submit supplementary written evidence to us.

We are under quite a lot of time pressure today and, because of various parliamentary procedures, we have had to slightly shorten the session, so I would ask you to give as succinct answers as you possibly can, to remember that it is not necessary for all of you to answer every question—you might not have anything particular to say on something, so please do not feel you all have to answer every question. I will be keeping an eye on the time and I hope not to have to hurry us on.

Perhaps you would like to introduce yourselves for the record and we will begin with questions.

Jane Wilson: Good afternoon. My name is Jane Wilson. I am the lead practitioner for learning and development for City Healthcare Partnership, a community interest company in Hull, in the north, and I am here on behalf of the chief exec.

Peter Holbrook: My name is Peter Holbrook and I am chief executive of Social Enterprise UK.

Geoff Burnand: Hello, I am Geoff Burnand, I am chief executive of Investing for Good. We are a social finance intermediary and we raise finance for socially motivated purposes.

Q72 **The Chairman:** Welcome. I am Jill Pitkeathley. I chair the Committee. My colleagues have their names in front of them. Before I begin with the first question, I remind you that my colleagues, if they have any declared interests, will declare them at the start of their questioning. I must declare mine because I chair the Big Society Trust and Peter Holbrook and I serve on that together.

May I put the first question to you? What are the main benefits of social enterprise and what distinguishes social enterprise organisations from other organisations?

Peter Holbrook: I am probably well placed to kick off. Social enterprises are businesses. They are businesses that have a primary social purpose, as articulated in their governing documents. Traditionally in the UK that would be in their memorandum and articles of association. They operate in such a way that a majority of profits are either reinvested in the business or used to further the social purpose of that business, and they operate on principles of public benefit, transparency and accountability.

Jane Wilson: From a very personal perspective, I have worked in the NHS for some 40 years, 36 of those in large NHS organisations, the other six in a social enterprise, and my working life has never been as stimulating, or my working conditions as good, as they have been with the social enterprise. It is definitely the model that works. We are a co-owned company, so staff are shareholders for a pound, and I have absolutely seen the difference that makes: staff feel they have a say in the business and a stake in the business; they see things happening as a result of that model. It absolutely works.

Geoff Burnand: I cannot improve on that.

Q73 **Lord Harries of Pentregarth:** Could you tell us how social enterprises balance the need to secure a reasonable return on their investment with achieving their social objectives? If I can move on to a supplementary, on the challenges they face in demonstrating the impact of their work, perhaps you could give us an example of how it might be easy to demonstrate the impact and one where it has been very difficult and problematic—where they have tried and perhaps not been successful.

Geoff Burnand: I will give it a go. As Peter said, the primary activity of the social enterprise is what drives the model, so I think that should also drive the motivation of the investor. Most investors can find their way towards social purpose, and they have pre-adjusted their portfolios and their investment approach for doing that. Although it is an investment and it has to be repaid, broadly, big pools of investors are tolerant around when and how that money comes to back to them, and what they are interested in, or should be interested in, is the social impact created by those funds. That tension between the two is often overplayed. There are lots of ways of getting money to social enterprises without putting the social impact as a secondary criterion.

On case studies, clearly the social enterprise investments that have stronger outputs, more definable outputs about educational standards or healthcare, homelessness, et cetera, have stronger metrics that investors can link to, and the more that includes outcomes, the harder it is for impact to be measured. There are lots of studies around how the social frameworks are delivered—there is consensus around that, but it is broadly keeping it simple. Investors are relatively simple in what they require, and therefore the intermediary sector should not be overly fussed, frankly, about measuring at this stage.

Peter Holbrook: I would argue that in the best cases the balance between the need to secure a return on investment and the need to deliver social objectives are mutually compatible, if not reinforcing. The example that is on all of our tables would be a social enterprise such as Belu Water, which donates 100% of its profits to clean water projects overseas. If it were to take investment to build its own plant, it would be able to see the long-term additional profits that would ultimately arrive to its beneficiaries’ front doors while acquiring its own asset base; both could be achieved. There are some examples where I think organisations potentially struggle with the need to deliver a return on an investment that is taken and their needs and commitments to their social objectives, but in the best examples we see that they can be exactly mutually compatible.

Jane Wilson: Very similar. We have to remain profitable as a business; we have to reinvest; we have to grow the business to have a social return.

Baroness Scott of Needham Market: I am interested in this question of challenges of measuring outcomes when you may be dealing with a project over several years when other things are moving as well. I am intrigued as to how you can be sure that it is your intervention that has made a difference. Sometimes you might not get as far as you might otherwise have done because something else has happened. I am intrigued as to how you manage that set of challenges.

Jane Wilson: We have a social investment strategy, and social accounts, and we have an independent organisation, which uses a recognised tool to measure the social value by talking to the people who are receiving and benefiting from that social value from the people who are delivering it. We are audited on our social value on an annual basis.

Peter Holbrook: I would add to that that, ultimately, social impact is a subjective matter, and therefore it can never be as binary as financial reporting, for example. If we know that, and accept that it is subjective, it is about choosing the right comparables, and being quite open and transparent about the methodology you use to conduct your social impact so that people can peer review it and identify flaws, or indeed areas for improvement. I think the science of measuring social impact is advancing quite rapidly. It took 200 years for the world to agree on international accounting standards, and we are making significant progress in building a variety of methodologies that will ultimately lead us to be able to draw direct comparisons between one set of social outcomes within one area of activity and another.

Q74 **Lord Chadlington:** I am not 100% sure that they have yet agreed on international accounting standards.

The area I would like to concentrate on is whether and how social enterprises can deliver public service and what the problems are in doing so. Often when we have these conversations it feels that a social enterprise is at a disadvantage compared to an organisation which is a profit maximiser, particularly where it has access to large amounts of capital, and particularly where it has supportive, very long-term shareholders. That whole area seems very interesting.

Peter Holbrook: It is an accurate observation, I think. Small businesses—and many social enterprises tend to be small—find public service markets in particular very difficult to compete within. Traditionally, scale, size and balance sheet are all factors that advantage businesses in public service fields, and that is partly because commissioners and people given the responsibility to procure have a sensitivity towards risk, and small organisations tend to carry certain risks that large organisations do not, particularly regarding things such as insolvency, so you can understand why there is an issue.

It is how we tackle the issue, because your observation is correct that ultimately social enterprises are well placed to deliver significant aspects of public service.

The advancement of social investment and the creation of Big Society Capital as a wholesale social investor has created a more benign environment for charities and social businesses to attract working capital, and to take a longer view of their business pipeline and futures, but it remains an issue, and for a very significant number of years we have been actively campaigning to ensure that the playing field is more equally balanced in favour of small businesses and social businesses, and that the social contribution that these organisations make is recognised in the procurement and commissioning processes and frameworks.

The Public Services (Social Value) Act, a piece of legislation from 2012, has helped somewhat in achieving that greater balance of social and environmental considerations alongside cost and quality, but the adoption of social value principles is far from universal right now.

Lord Bichard: You say you have worked hard, and obviously you have. Have we made much progress, however, particularly around the commissioning process, the tendering process? However good the social investment is, if that process is unfriendly towards social enterprises, the investment will be to naught, is it not? Do you think the commissioning and tendering process has improved at all?

Peter Holbrook: It varies from geography to geography. There are some localities, some clinical commissioning groups, some departments within government and some local authorities that have embraced the concept of social value.

Lord Bichard: Can you give some good-practice examples in government? Which department would you point to as being a good practice example?

Peter Holbrook: I would argue that the Department of Health has been particularly embracing of social value as a concept. Interestingly, so has the Ministry of Defence. Two years ago the Ministry of Defence let a new contract for the maintenance and facilities management of its estate, which represents 1% of the land mass of England, and the premise of that was all around social value and creating opportunities for veterans to take jobs in the maintenance of the Ministry of Defence estate. I think that is common sense; it is profoundly efficient. You may ask yourselves why it has never been done before, but the social value Act has enabled those sorts of social objectives with those sorts of financial expectations to become much more mutually reinforcing.

Q75 **Lord Chadlington:** It is many of the things you say but there is something else, is there not, which is the nature of the contract that is established between the contracting body and yourselves, and the way procurement works? For example, open book accounting, so that we can take long-term views about losses and profits on contracts, would enable small companies to continue to innovate, which is where you would get the big steps forward, and where they are losing money, they could have a frank conversation with Government to make changes to the contract. That seems to me to be the central issue. Have you any experience of that particular activity?

Peter Holbrook: Yes, and it is a recommendation that we have made to other Select Committees in the other House, and very publicly, and it is indeed a recommendation that we have made to the Government's chief procurement officer, which he has endorsed. I accept the premise of your point and endorse it entirely.

Jane Wilson: We have very tangible experience of winning contracts outside our own area of Hull. We now have several public health services in the north-west of England, which is a competitive process, and that was purely on reputation and demonstrating that we deliver very high-quality health and public health services.

Lord Bichard: You are both telling us, are you, that there are no reasons to change the procurement process?

Peter Holbrook: For clarification, I am certainly not saying that. As I say, the social value Act is an enabling piece of legislation and originally was a Private Member's Bill. As part of the negotiation to get it adopted or supported across parties there were some compromises made to the original Bill. We would like to see the social value Act underwritten with statutory guidance so that commissioners and procurers have very clear guidance, which would help them to ensure they get the best value for money from taxpayer spend. That is really what has motivated the social value Act. It is not really giving an advantage to social enterprises; it is trying to create an environment where businesses, whether they be private sector or of a social nature, are incentivised and encouraged to maximise the whole value they create through the delivery of a contract, and not just to deliver quickly and cheaply.

Q76 **Baroness Gale:** Could you say how social finance compares with other forms of charity finance such as grants or bank loans? If I can ask my supplementary question at the same time, what skills are necessary to effectively manage social finance, and how can social enterprises best be supported in obtaining these?

Geoff Burnand: Social finance is just another tool in the box for financing social purpose. It sits alongside grants and loans. The point around the social investment market is that the pools of capital are so much larger than the grant pools or the loan pools that are probably asset-backed, so the opportunity of getting those funds into the market is pretty significant, if you can do it. It can also represent less challenging capital, it can be more patient; it can be potentially cheaper, on better terms. It has its place. To come back to the original point, it is still capital; it needs to be repaid, and clearly grants do not, so there is a complete difference there in the way the money flows.

Your other question was about challenges around investment?

Baroness Gale: Skills, yes.

Geoff Burnand: I think there is a huge amount of support out there in the market for deals to be nurtured and brought to market. I would be surprised if any social enterprise that has a reasonable proposition struggles to find routes to some kind of finance. There is a lot of support there. What I would prefer to see is more support, more investment in the intermediary structure in the market that brings these deals to market. I think sometimes, because it is relatively poorly capitalised, those deals do not come through as fast as they could, which is frustrating for the end borrower, but generally the environment for investment readiness is massively improved compared to what it was quite recently.

Peter Holbrook: Social finance is a new and welcome part of the jigsaw puzzle that charities and social businesses are required to find for themselves so that they can deliver the work they do. We have seen a significant reduction in grants coming from central government and from local authorities as austerity has taken effect. Increasingly, charities themselves and social enterprises need to change their business models and adapt them to meet these challenging times, and social finance is one route to allow them the head space to invest and innovate, or evolve their business models, so as to be able to continue to deliver beneficiary outcomes but by reducing their dependency on traditional forms of grant funding.

Many parts of the social sector will always be dependent on grants, and should always be dependent on grants. There are some pieces of social activity that will never be able to achieve repayable forms of finance or create business models that are ultimately entirely sustainable. Women's refuges would be such an example. They will always require philanthropy and non-repayable forms of finance because of the very nature of the service that they provide. That is not to say that social finance is not complementing what is already out there, and social finance should be seen as something to complement the existing funding mix rather than to replace any of the funding that is already out there.

Q77 **Lord Lupton:** What challenges do you think social enterprises face in negotiating the deals? Is it becoming simpler or more difficult to negotiate these deals as the model develops and matures?

Geoff Burnand: It does not seem to be getting any easier. I suppose that is one way of trying to answer the question. The cost of capital is a serious issue. The cost of financing that comes through the wholesale lenders can be expensive—too expensive.

Lord Lupton: What about the documentation?

Geoff Burnand: I do not think so, but then I am in the business of raising finance for these kinds of organisations, so we try to make it as simple, clean and template-able as possible.

Lord Lupton: Do you have an industry standard?

Geoff Burnand: We have an industry standard around a comingled fund initiative that I was going to mention in answer to a question I am anticipating in a minute, and we rely a lot on pro bono support from legal firms that supply the market with fantastic quality, professional-standard, well-structured deals, so I would say from an investor perspective the documentation is extremely recognisable. It may be less recognisable to new borrowers.

Peter Holbrook: One of the challenges is market instability at the moment, particularly within public services. Social enterprises that are invested in delivery of public services currently may have contract links that expire in 12 months or two years, and without any certainty that those contracts will be retendered. That makes it a very risky proposition for an investor and therefore, if we can bring about greater market stability and market certainty, I think you will find that social enterprises and investors will more readily take investment. The length of contracts, with so much shift and change in the way contracts are commissioned in recent years, particularly, for example, in the health sector, has created some instability, which tends to drive away would-be investors.

The Chairman: Did you want to add anything, Jane?

Jane Wilson: No.

The Chairman: Lady Stedman-Scott wanted to come in.

Baroness Stedman-Scott: A quick point on social enterprises delivering public services, et cetera. For them to get investment, do you believe there are enough bankable savings to pay the return on the investment?

Peter Holbrook: We have recently seen an example in children's services, with 4Children, which unfortunately ceased to exist, having taken on substantial social investment. In some markets the margin is so tight now that whether an enterprise, be it private sector or social sector, can deliver a big enough return for its investors is now being questioned. I think that was an outlier. I do not think we have seen a significant trend of enterprises taking those forms of investment and then failing to return them, but everyone is increasingly looking at just how big a margin there might be in the delivery of a contract, and whether that allows for them to take the investment required to deliver it. There are a couple of areas, for example, mental health, youth and children's services, and parts of the broader health sector, where people are questioning whether a market exists at all.

Lord Chadlington: Mr Burnand, you mentioned the rate of interest and the cost of money and so on. Can you talk about that for a moment? It is difficult to deal with Mr Holbrook's points unless we understand the cost of money, what it is going out at, what return you are looking for and so on.

Geoff Burnand: I was particularly referring to the cost of capital out of Big Society Capital, which was set up to fund this market. That is a significant drain, if that is the right word, on the way this market could develop. Our investors are not Big Society Capital. They are institutional investors foundations, high net worth individuals and advisors, and the like, that probably are easier to access and easier to engage around the social mission. We specialise in the application of a corporate bond model—it is not a social impact bond but a simple model to move finance—and the yield on that is comparable to much higher-quality credits than they would otherwise see because of the social impact that is created. We arranged a bond for a disability charity called Scope a few years ago. That was placed with investors at a 2% yield when inflation was running at 3%, et cetera. That is a significant saving in interest rate terms.

Lord Chadlington: If you were doing that today, where would you be?

Geoff Burnand: Much lower, because gilts, money market yields are very low.

Lord Chadlington: I take the drift. I am trying to deal with the question which is concerning me about what you can do with money at that level compared with the private sector, and the cost of money to them. I am trying to get my head around that because that seemed to me quite an important part of the answer to the question we have just been discussing. I do not quite have that clear in my head yet.

Peter Holbrook: There are a number of environmental conditions which lead to higher rates of return being sought from social enterprises currently than from private enterprises. That is concerning. That is partly because the profile of a social enterprise tends to be that of a small business. The average rate of borrowing that most of my members seek is around £70,000 to £80,000. The transaction costs of putting a deal together for £70,000 to £80,000 are no different from putting a deal together that might be worth half a million or a million, and therefore immediately, when those transaction costs are borne out in the cost of capital, you can see why social enterprises are potentially paying a higher rate than a large multinational or even a large UK-based business. That is partly something to do with the profile of small businesses and the transaction costs associated with sorting out these deals, and what the Government, what the sector and what the intermediaries are trying to do is to simplify those processes to create templates which mean that products can almost be taken directly off the shelf rather than every transaction being created from a bespoke perspective. That should take some of the costs out of putting together deals for social enterprises and charities, and therefore the cost of capital should come down.

Ultimately what we have to recognise is that this is still at an early stage—it is a developing market—and, as it matures, as different initiatives take place, we should start to see evidence of a maturing market, greater plurality, more intermediaries, more creativity in the sorts of products that are made available to charities and social enterprises, and smart and savvy ways in which the price of capital can be brought down. There is some hope, and a lot of the dialogue that is being shared with you today is based on the experience of accessing institutional investors. There are good signs of progress being driven from crowdfunding and from community shares, where, rather than looking at institutional funds, we are simply developing a retail offer to individual consumers who are willing to take lower rates of return or higher rates of risk to keep the cost of capital low.

Lord Lupton: You have covered most of my question but is what you are really saying that, until this market matures a little more, the costs of it probably mean that social finance is more applicable to the larger projects, and the larger charities, and your challenge is to get the costs down so that it can trickle further down? I can well understand a £50,000 project which costs £5,000 in legal fees is not going to work, and you rely on a grant rather than a complicated loan.

The Chairman: We will go on to hear a bit more about bonds now from Baroness Stedman-Scott.

Q78 **Baroness Stedman-Scott:** In your view, what are the strengths and weaknesses are of the Government's social investment policies, including initiatives such as social impact bonds? Can or should the Government do more to encourage new forms of social investment or returns based on achievement of key targets and outcomes?

Geoff Burnand: I think the Government have made some commendable advances. Sometimes we are lauded as world leaders in this, and I am not sure that is entirely true, but the Government have been responsible for some fantastically supportive initiatives. On the social impact bond market, it is a mystery to me why you would look to develop a new market with a very complicated product. I do not come across anybody who tells me that it is an easy product to bring to market. It is incomprehensible to mainstream investors and broadly irrelevant to many front-line, smaller organisations. I am slightly frustrated by this. I can see that maybe from a policy perspective and an intellectual perspective why it is interesting, but from the sheer practicalities of moving funds it is not just a place that is recognisable to us.

Peter Holbrook: I think the Government, again, have done some good, ground-breaking work over the last six or seven years: Big Society Capital, access, the social impact bond, stimulus and market development, capacity building programmes such as the Investment and Contract Readiness Fund, and more recently specifically around the creation of trustee powers to make social investments from their balance sheets and their assets is very welcome.

The challenge has been the hyperbole around social impact bonds in particular, which have received a disproportionate amount of government attention, government resources, and investment focus. It is a single tool, which has served certain markets very well: in adoption, fostering, dementia and rehabilitation, social impact bonds have demonstrated great utility and have worked well.

However, not all social investment roads lead to the social impact bond, and there are many other forms of innovative and creative finance which can be as effective, in many respects cheaper and simpler to create, but the Government have become a hostage to their own fortune in some respects. They have developed this totem, the social impact bond, and are now committed to achieving success with it. I wish the same level of investment and government time was spent on developing retail products, because I recognise a significant consumer demand, whether it be through pensions or ISAs, to invest in local communities, to invest in the maintenance of the local community pub, swimming pool, football pitch, village hall, scout hut, whatever it may be. I recognise how much dynamism and activity is taking place in that sphere of social investment as opposed to social impact bonds. Social impact bonds have achieved a great deal and I welcome them and support them, but not at the expense of the other innovations that are emerging in the realm of social finance.

The Chairman: Can you just tease out for us a bit more why social impact bonds have had such a share of the air time?

Peter Holbrook: Everyone is looking at me.

The Chairman: Is it because it was easier to understand than other forms of finance? Is it because they were some of the early examples and therefore you could send the media there? What was the reason?

Geoff Burnand: For the emphasis on social impact bonds? I do not think it was delivered by market practitioners, frankly. I think it was designed at a policy level. I am trying to find the right words to summarise correctly. As Peter said, they have their place, I am sure, but it is a relatively narrow place if you are looking to grow a market for social investment. Be it retail, be it institutional, it is not a particularly practical way to grow a market.

Peter Holbrook: We all tend to like new, shiny things, particularly if they are not very well understood. I think it became a totem of the sort of ambition that the Government had about bringing private finance to support social change, and that was to be welcomed, and simply became totemic, was used to describe all manner of social investment tools and mechanisms and started to lose its true meaning as well. It is in the nature of innovation that when something new emerges, we all tend to coalesce around it and be excited by it. Even though some great practice has been developed that has had great utility and impact over decades, and more relevance to charities and social enterprises, it does not have that innovative aspect to it.

Baroness Jenkin of Kennington: Could I just ask about, for example, the Peterborough rehabilitation project—would that have been better funded in some other way? It did not reach the targets, for example, did it?

Peter Holbrook: That was challenged by shifts in the Secretary of State at the time. One Secretary of State was very supportive and the following Secretary of State quickly decided to drop the pilot. Sometimes it is purely circumstantial and driven by particular individual political interests.

Baroness Jenkin of Kennington: That particular investment would never have paid back, would not have reached the level of—

Peter Holbrook: There were certainly challenges with the Peterborough bond. I am not particularly an expert, and I think you are seeing Ben Jupp from Social Finance, who worked extensively on the Peterborough bond. Ben is probably better placed and I would not want to say anything that was in any way inaccurate.

The Chairman: We will mark it down for Ben. Thank you.

Q79 **Lord Bichard:** You have almost answered the question I was going to ask, but I will rephrase it and preface it by saying you have been a bit harsh on social impact bonds. Some of the evidence we have received has been saying the whole of the social investment movement is hyperbole, and we are overstating the case, and that is not a good place to be, and that in particular—this I where I come up with the question you have probably already answered—the majority of charities in this country are small; the majority, whether small or large, want smaller loans, less than £150,000, but hitherto the investment has been much larger. You began to talk about ways in which you were tailoring the market for smaller charities, and maybe I could give you all a chance to talk a bit more about that. Is this hyperbole? Are you tailoring to the smaller charities now effectively?

Peter Holbrook: The vast majority of smaller charities in this country do not employ any staff and exist on an entirely voluntary basis. It is worth remembering that. Those organisations are not the ones that are going to seek investment unless they are acquiring a community asset such as a community hall, or a pub or a post office. For the vast majority of charities social investment is meaningless. It is something they will never explore because they have no need to explore it. For social enterprises—

Lord Bichard: Can I just stop you there? Although you say that, for many of the communities that they work with and in, the acquisition of that asset may be absolutely crucial, but you seem to be dismissing it as one of those things that does not matter very much.

Peter Holbrook: No, but if you were to acquire an asset within a community such as a pub, a post office or a village hall, you would not necessarily use a social impact bond to do that.

Lord Bichard: I am not talking about social impact bonds; I am talking about social investment generally.

Peter Holbrook: If you look at the vast majority of mainstream lending into the sector—forget that it is social investment or social finance; it is traditional, commercially based lending—it goes for asset-backed investments, so the purchase or acquisition of a community asset has value with it, which means it is potentially a low-risk proposition to a lender because it is asset-backed. Therefore mainstream bank finance in many cases would be appropriate because it is not a high-risk transaction. For most of those organisations you have referenced, either a route such as crowdfunding, community shares, or a high street loan or a mortgage from a bank would be totally sufficient. Social investment is meant to complement the parts of the market that the mainstream will not reach and therefore it should be exploring those opportunities that have a higher risk profile and that perhaps do not have the benefit of developing collateral in the process.

Geoff Burnand: I think you are absolutely right. There is far too much capital out there that cannot find a home for social investment, and it is a bit frustrating. I think one of the likely consequences of that is that the definition of a social investment and a social enterprise will skew towards buzzwords now around mission-driven companies and profit-with-purpose companies and the like. That is not necessarily a bad thing, because there is an opportunity for those companies to be held to account about the social value they are delivering and it is not a wash-type process. I think that is probably a likely consequence of this blockage in the pipework around those kinds of deals.

I wanted to mention a structure initiated by the Cabinet Office around comingling grant and debt, which comes back to the template-able question that was asked earlier. This was an initiative to fund social investment in the arts, a world first apparently, but because it combined grants from the Arts Council, some foundation investment and some private investment from a bank, it meant that the risk on that money can go much further towards the front line, so can get through to much smaller organisations, which would not otherwise have the credit clout to borrow on those investments. Those types of comingled-type models I think are very interesting, and if they can be kept simple in their structure and the documentation is relatively easy to manage, that is an outlet for some of this kind of financing.

Peter Holbrook: I do not mean to downplay the role that social impact bonds or social finance can have. I am trying to take a balanced view and recognise perhaps that they are not the panacea that at times some of the rhetoric has led others to believe they may be.

The Chairman: We have a lot of evidence to that effect. May I ask

Lady Scott to ask one last question of you all?

Q80 **Baroness Scott of Needham Market:** Finally, if you fast-forward a few months and we have produced our report, can you each give me one thing which would please you to see contained in it, one recommendation you would describe as spot on?

Peter Holbrook: A review of state aid would be really helpful, particularly once we have triggered Article 50. There are artificial barriers such as state aid that are limiting the amount of social investment that can flow. Currently on social investment tax relief there is a limit of £250,000 whereas the Government have applied to have a state aid exemption to raise that limit from £250,000 to £5 million. A review of state aid and its unintended consequences for social investment would be very helpful, along with, if I may beg your patience, a review of public sector commissioning for small organisations, which ultimately means that the market cannot support investment flow because of the uncertainty that commissioning and procurement creates.

The Chairman: That was two really but we will let you off.

Jane Wilson: In our experience—I do not know if we are a typical social enterprise or an atypical social enterprise—we have found that investment is often pitched at small or start-up organisations, that often you can only have one bite at the cherry, or one opportunity, and our recommendation would be that social investment is equivalent and equitable to borrowing on the high street, at the bank.

Geoff Burnand: A significant proportion of the policy and infrastructure is delivered through one organisation, Big Society Capital. Its cost of finance is unrealistic for this market. We talk about a single blockage of why the market is not growing. If it is turning out their money at 4% or 5% and has no regulatory cost of capital itself, and it is investing only through intermediaries that also have to make a living, then the cost to the front-line borrowers is a minimum of 7%, 8%, 9%, 10% and that is why the market is not growing. It is quite straightforward. It might have been in the planning papers for Big Society Capital but I do not think it is in its constitution to change the price of their money.

The Chairman: Thank you very much. May I on behalf of the Committee thank you very much indeed for coming to see us this afternoon. I remind you that if there is anything more you want to add when you see the transcript, we will be happy to hear it. In the meantime, thank you very much.