HOUSE OF LORDS

Select Committee on Charities

Corrected oral evidence: Charities

Tuesday 29 November 2016

5.25 pm

Watch the meeting

Members present: Lord Bichard (Chairman); Baroness Barker; 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. 19 | Heard in Public | Questions 179 - 187

Witnesses

I: Tim Jones, Chief Executive and Secretary, Allia; Sir Harvey McGrath, Chair, Big Society Capital; Cliff Prior, CEO, Big Society Capital.

Examination of witnesses

Tim Jones, Sir Harvey McGrath and Cliff Prior.

Q179 **The Chairman:** Thank you very much for joining us. At least two of our witnesses know that the Chairman of the Select Committee, Baroness Pitkeathley, has excused herself from this session because of connections with Big Society Capital, which is why you find me in the Chair. There are some things that, rather like the police caution, we need to read out to you in advance. The session is open to the public and it is being broadcast on the parliamentary website. A transcript will be taken of your evidence. You will be sent that transcript and asked to check it for accuracy. If, after the session, you want to clarify or amplify any points made during your evidence, or if you have additional points you want to make, you are very welcome to submit supplementary evidence. Thank you very much for joining us. Can I ask you to introduce yourselves before we begin with the questions?

Cliff Prior: I am Cliff Prior. I am the chief executive of Big Society Capital.

Sir Harvey McGrath: I am Harvey McGrath. I am the chair of Big Society Capital.

Tim Jones: I am Tim Jones. I am chief executive of Allia.

The Chairman: We have quite a lot to get through in a very short time. As there are three of you, if you do not feel the need to speak on each question, you do not have to. We will not hold it against you—on the contrary.

Let me begin the questioning by asking you what you think the potential of the social investment market is and how your organisations are helping this to be realised. I would suffix that or add to it by saying that some people have suggested to us that too many claims have been made of social investment and that this case has been overstated. What do you think the potential is and how are you going about realising it?

Sir Harvey McGrath: Perhaps I might go first on that, Lord Chairman. I think your last comment is right. Expectations have been overstated in the past about the potential for social investment as a funding stream for social sector organisations. That said, there is good potential for this to continue to grow as part of the funding mix for social sector organisations.

To put it in context, work that we published earlier this year, as Big Society Capital, found, at the end of the last calendar year—at the end of 2015—that the social investment market was worth about £1.5 billion and had grown at around 20% to 25% per annum. You will be aware, in terms of the overall funding mix on an annual basis, that grant income of about £16 billion flows into the charitable sector. So, it is £1.5 billion in total, with flows of £300 million or £400 million per annum, compared with £16 billion. It is not a dominant part of the funding mix, but I would submit that it is an important and growing part.

One of the reasons why it will remain a minority part of the funding mix was identified earlier in the previous session, and that is very simply that the business models of many charities simply do not support repayable funding. In straightforward terms, there are only two reasons why you would borrow money as a charity. They would be either to bridge a working capital timing difference—for example, where you are delivering a service against a contract for which you will not be paid until that contract has been performed six or 12 months out, you may, because of the margin in the contract, borrow to bridge that timing difference—or, secondly, you are borrowing to invest in an asset that is revenue generating. Most commonly, that would be property for charities, but there are other ways in which you may be investing in productive assets that will yield a revenue stream that has a sufficient margin both to service the debt and to fund the core operations of the charity. Many charities do not have those characteristics and they are not therefore capable of or suitable for taking on repayable funding.

There are many examples—and I will give you one—of social sector organisations that have exactly those characteristics. The one that I would like to highlight is South Bristol Sports Centre, which raised £1 million-worth of investment from a group of social investors to fund the purchase of five new five-a-side football pitches, which it rents out for revenue to commercial third-party users. It uses the revenue thus generated to fund its core activities, which are working with a group of teenagers from a particularly deprived area in Bristol and successfully changing their lives. That model is a classic example of the use of social investment to create a sustainable ability to deliver something that has real and positive social impact, which does not rely on that organisation every year or two years having to go back to its grant funders to say, "Will you help me do this for another year or two years?"

The market is there and it is growing. It is part of the toolkit. It is not a panacea. That attribute of sustainability is something that is so important to so many of these interventions that we should all be concerned about trying to build it.

What have we been doing as Big Society Capital to help develop this market? As you will know, we have two roles by construction. The first is to be a wholesaler of capital into the social investment market. That means we do not directly fund front-line organisations such as the one I have just described, but we provide funding to intermediaries that do. Indeed, in the case that I have described, that is exactly what happened. Our second role is to do a whole range of other things around education, promotion and research to help demystify the social investment proposition, to make it better known both to social sector organisations and to those who would like to fund those organisations on this kind of basis.

Finally, by the time of this meeting, Big Society Capital had committed to this market cumulatively, since we were formed four years ago, just under £800 million-worth of funding. Of that, just under £300 million was our own capital, but because we required there to be a match of at least 1:1 from third-party sources of the capital that we put in, there was a balance that took it up to that £800 million level.

As you will know, we have £600 million-worth of capital that I would expect in the coming years we will continue to deploy in the way that we have to date. So, that £600 million, with the matched funding on that geared basis, means that there will be £1.5 billion-ish or thereabouts-worth of incremental funding into this market. Most importantly, by acting as this wholesaler and by providing the opportunity and requirement for people to invest alongside us, we are educating the wider market. At some point we will be redundant, and should be redundant, because we will have kick-started and built a marketplace that functions in its own right.

As a market champion, which is the other part of our remit, we have done a range of things, including helping to create the Access Foundation, which is a provider of blended grant and loan finance into the marketplace. I have no doubt that we will come back to that as a means of unlocking credit to smaller organisations in smaller quantities. We have worked with the Government to put in place social investment tax relief in order to mirror the advantages that investors have in the commercial market by way of a tax subsidy. We are running a Get Informed campaign for trustees and boards of social sector organisations, which is all about that education and understanding agenda. We have developed a web resource called Good Finance, which encapsulates a lot of that understanding and makes it accessible, and a range of other outreach work at the level of specific policy areas where we know that charities are doing great work and need to find ways of making that work sustainable.

The Chairman: Thank you very much. Mr Jones, do you want to add to that?

Tim Jones: Yes; thank you, my Lord Chairman. I would mirror everything that Harvey just said, particularly about market awareness. In terms of the question of the potential of the market, I look at the market from the other side of the fence, in so far as a market has three parts, probably. There is an intermediary where people come together, but on either side of the intermediary there is the person who wishes to make the investment and the person who wishes to make the borrowing. Those two constitute, when they come together, the market.

In Allia's case, we have been at our business for about 17 years. We are a charitable organisation for the benefit of the community. Our mission is to catalyse social impact. We see that as being particularly important in terms of getting ordinary investors to take part in investing in societal well-being. The premise is that, if we can persuade investors of the benefit of making a social investment, that engages people in the issues of the day and democratises the social landscape. As a charitable organisation, that is something that our trustees wish us to do.

Therefore, our focus has been on trying to market to the investor a proposition that might have appeal. And to do that we have found that the issues are to do with liquidity—in other words, there has to be a marketplace where you can sell the investment if you bought it but you do not now want it or it has served its purpose. There needs to be price visibility, so people know what it is that they have bought. There needs to be some tax efficiency, so you can hold your investment in your ISA, for example, or in your SIPP. It needs to be very simple. It can be as simple as trading your stock in Tesco, Barclays or whatever it might be that you might wish to trade on online.

In our view, it needs to be done through a platform where there is an established behaviour, where there is a commentator, a listing authority and a great deal of publicity already in place. For example, there is the London Stock Exchange—a well-known exchange, a very well-regarded and regulated entry. By listing instruments for social purpose on that exchange, we have found that the price that the investor is prepared to pay for our issuance so far has been the lowest coupon of any issues on the exchange on the retail bond market. That rather says to us that if you invite the market to take part in the issue there is appetite, and there is appetite to pay a price that is significantly lower than the price of a commercial bond issuance for a similar risk profile, because that is, essentially, what markets do.

To answer Harvey’s point about the reasons why the sector borrows, either for liquidity for working capital or to finance an asset, our focus, at the moment, is on financing a capital asset—in other words, we are seeking to raise the capital for the sort of charities that deliver care homes, affordable houses, nursing homes, air ambulances and hospices, which require finance. If we can persuade investors that those are creditworthy propositions and worthy of their investment, at a coupon that makes sense to the investor, we see there being substantial potential to grow that market. Once we have that market built, then will be the occasion to bring in the other sorts of asset, such as a contract for outcomes or payment-by-results contracts. Those sorts of issuances commonly often referred to as social impact bonds - which are an extremely good way in our view of commissioning our services - will have a marketplace in which they can be sold, because there will be a behaviour and an asset base to which one can offer a derivative product compared with the sorts of things we are offering now.

The Chairman: Thank you very much. I did not come to you, Mr Prior, because I thought that Sir Harvey might have covered most of the ground. Is there anything you want to add?

Cliff Prior: Chairman, I would like to add an example of how social investment can work with other sources of money to achieve a goal. The example I would give is something that we are working on at the moment to try to tackle the poverty premium, where people who are living on low incomes end up paying higher prices for pretty much everything, from household goods through to energy and telephony. That was initially a partnership between ourselves and the Joseph Rowntree Foundation, who had done the research, asking us if we could create a fund to invest in solutions to tackle the poverty premium. Looking at it, we thought, "There are other things that are needed here". There would need to be some start-up grants for new innovations, and there might need to be some activity for lobbying to change corporate behaviour or, possibly, to persuade the Government to change regulation on predatory credit.

What has happened by planting a flag on a social issue that people can grasp pretty easily—whether you are from the left wing and social need or from the right wing and see it as a market failure; it is both of those things—is that it has attracted a large gathering, including many foundations, all of whom wish to contribute to tackling that social problem. In a way, it is social venturing. For the future, we would see social investment more and more closely integrated with a range of different financing and other tools that are needed to address social challenges.

The Chairman: Thank you very much. Lady Jenkin.

Q180 **Baroness Jenkin of Kennington:** This is just an extension of what you have been discussing. Which areas of the social investment market do you think are less well developed? Is there scope for more smaller-scale finance for smaller organisations through the models you were discussing, such as blended finance?

Cliff Prior: Perhaps I could speak to that. There are a number of gaps, but the biggest gap is for smaller amounts of social investment going into smaller and younger charities, but there are a number of problems. The transaction cost may be just as high as a much bigger investment, so it becomes somewhat unviable. Newer organisations are inherently more risky, so the price goes up. What is really needed is blended grant and social investment together. That is where the Access Foundation, which has already been mentioned, comes in.

The Access Foundation is a creation jointly of the Cabinet Office, the Big Lottery Fund and ourselves. We are putting in the investment side, with the Big Lottery Fund and the Cabinet Office putting in grant. Some of that grant is to blend into the deal to the charity. Some of it is to go to the intermediaries so that they can cover some of those transaction costs on the small investments. Access has £45 million as a growth fund in total. It has just made its first three investments, and we think that is going to be a really major change.

There are some other blended funds around. I guess the Arts Impact Fund is an interesting outlier. Again, that is a mix of grant and social investment. We would very much like to see more thematic issue-based funds of that kind.

The only other way that we can see of tackling the extra costs of doing small investments is to come back to social investment tax relief, which Tim was mentioning. A tax relief giving investors a 30% return—a 30% tax break—means that a deal that would be too expensive because of the transaction costs can come right down. It is affordable to the charity. It is also giving a reasonable return to the investor. That is starting to take off on a significant level.

Blended funds are always going to be a very important part of the future. If you look around the world, yes, there is pure social investment and, yes, there is pure philanthropy, but in most countries there is a substantial area of venture philanthropy, which is a mix of the two.

Lord Lupton: This is probably a statement rather than a question. We have had quite a lot of written evidence showing that there is lots of demand for social investment finance below £150,000. The supply is, by and large, over £250,000. So there is a gap. You have partly answered that. Do you agree with that?

Cliff Prior: Absolutely. It is well evidenced. I come from nine years at UnLtd, an organisation that supported early-stage social entrepreneurs. We very much argued that that was the problem. Access is designed to offer £150,000 and smaller loans. That is one piece. It has to be said that, outside the charity world in social enterprise, a significant number of commercial angel investors are starting to do social investments at that very early stage. A good example of that would be the network at ClearlySo—Clearly Social Angels—which offers new opportunities for young organisations.

Lord Lupton: There are template legal documents that you can just pull off the shelf, are there, so you do not need to spend a fortune on lawyers?

Cliff Prior: You do not need to, but it is surprising how many charities and social enterprises want it very specific to them.

Lord Lupton: That is a barrier, is it not?

Cliff Prior: It then gets complicated. I have to say that there is a good amount at that early stage on small deals of pro bono legal support. That is wonderful to see.

The Chairman: Thank you very much. Lord Harries.

Q181 **Lord Harries of Pentregarth:** Is social investment too expensive for its recipients in the charity sector? Do investors have unrealistic expectations? For instance, a Bank of England survey from 2014 indicated that the average interest rate for SMEs at the time was 4% to 5% but that social investors were seeking interest rates of 9% to 15%. What you have just said, Mr Jones, seems to contradict that, but we have received evidence along those lines—that it is too expensive. If it is too expensive, how can this situation be addressed?

Tim Jones: As to the market pricing to which I was referring, at the moment we are probably the only organisation that has got as far as getting London Stock Exchange listing of social assets of this kind, and they are very specific to charities which wish to finance an asset and which have a very clear credit risk. The process of market sounding—in other words, going to the intermediaries in the marketplace and asking them what price they would pay for this risk or this outcome—is quite a lengthy process beforehand. But by doing that, one ends up at a price. In other words, the market sets the price.

That[1] market, because it is individuals, is different from perhaps the market of other providers of finance and capital to the sector. For example, if the capital is coming from an institution which—I am not specifically talking about Big Society Capital—is wholesaling capital, you have to deal with the costs of the intermediary, their overheads, their governance structure, what their requirements might be, and make sure that the pricing covers that. You have to deal with the price of your capital and the regulatory regime within which you operate. If you are a bank, you have the costs and governance of that regime, and the requirements of the owner of the capital that has been subscribed to your bank. So there will be a third party. There will be an array of parties with the margins they need and the governance structure that they need to apply. By the time you have got that down to the chap saying, “I would like £150,000, please”, it can be the case—I think it is true—that the effective rate of interest can be rather more than they were hoping for because of the structure of the supply that is coming to them. Hence, the job for people like my charity is to change the way in which the market can access the supply and try to bridge that gap.

Lord Harries of Pentregarth: I note that Lord Lupton is not here, but he would be a better person to follow this up, because I feel there is still some more probing of this question to be done by people who are more qualified than I am. The most obvious question would be: if it is more expensive, why do charities not seek different sources on a more commercial basis?

Tim Jones: If I step back, there are two reasons that I can think of, one of which is that, for our particular proposition of offering bonds that are listed on the Stock Exchange, there is a minimum issuance level, which is currently £10 million. That is an HMRC securitisation limit, which is, frankly, very high. If the gateway to that securitisation routine were to be changed—in other words, if you are a charity you could choose to use a securitisation vehicle at any level you like—market pricing will decide whether that is worthwhile. In other words, the charity will not want to go through the gateway and issue a securitisation instrument if the cost of doing so would be prohibitive.

Going back to the earlier point, we have adopted a boilerplate approach to the EU Prospectus Regulation to have an off-the-shelf document; so, in

[1] Note by witness: By ‘that market’ I meant the Order Book for Retail Bonds on London Stock Exchange

other words, in square brackets, you delete "CAF" and insert "Mencap" or delete "Mencap" and insert "Hightown Housing", and so on. You reduce a lot of the costs to the entity of using the platform. The Stock Exchange waive all fees for our issuance, so that listing is entirely no cost. So you can get costs out[2], but we are currently hamstrung by this limit of having £10 million as the smallest issuance we can do. If we could get that down to £1 million, it would open up the floodgates again.

The Chairman: At the end of this session when we ask you what is the one recommendation that we can make to help, that may be it from you.

Tim Jones: That would be it.

The Chairman: I leave that one to you. Do you want to add to this, Sir Harvey?

Sir Harvey McGrath: If I might, my Lord Chairman. The answer to my Lord's question is that, in practice, many charities do borrow from commercial lenders, particularly in the mortgage market because banks are set up to provide mortgages, frankly, much more cheaply than many social lenders could or would. In addition to the £1.5 billion that I referenced earlier, NVCO, in its almanac, would report that there is £3 billion-worth of mortgages—in other words, loans secured on property—where the borrowers are social sector organisations. That is the case because they are very competitive in that kind of lending.

The second point I would make, and it is building on what Tim has said, is that it depends on what kind of credit is being sought. If it is a small amount of credit for a start-up, high-risk venture, the market will tend to price that quite expensively. Indeed, the commercial banks will not do it at all. For a given kind of funding, there will be a market price at which it will clear.

There are some social investors who are very focused on the social impact of the organisation that they are funding, who are prepared to say, "I do not want a market return. I am prepared to take a sub-market return as I believe in what you are doing and the lives that you are changing because of the interventions that you run". There is a segment of this market that will do that. Interestingly, some grant-making trusts and foundations are in that place because their mission is to change lives, not to make as much as they can out of so doing. There are some people who will lend below market rates. Obviously, there is a huge swathe of the mainstream market that will not. As this market evolves, we are working with a clearing mechanism that will bring together those various elements and, over time, will bring down some of those costs that, for some organisations today, do look high in absolute terms.

The Chairman: Before I call Baroness Barker, I should say that one or two Members do have to leave before the end of the session. This is not a

[2] Note by witness: To clarify, I mean the costs of issuing social investments can be reduced

reflection on the quality of your evidence but the commitments that they already have.

Q182 **Baroness Barker:** Following on from that, what impact have Government initiatives such as social investment tax relief and social impact bonds had on the market? A number of people, including Lord Hodgson and Baroness Kramer, have, during the course of other discussions, talked about ways in which the market for both of those could be developed. Social impact bonds have also had a bit of a bad press as well. What would you like to say could be done to develop those markets?

Sir Harvey McGrath: Cliff, do you want to take social investment?

Cliff Prior: I will take the tax relief, which is the easier one. I will ask my chair to do the harder one. I have mentioned social investment tax relief already. It is a 30% tax break for individual investors into certain kinds of social organisations. It is about two-and-a-half years old now. In the first couple of years there were £3.5 million of SITR deals—relatively small numbers. Just in the last six months, the number of charities and social enterprises seeking advance assurance—you have to go to HMRC for this assurance first—has doubled, so in the last six months there have been twice as many as in the first two years. The number of investors seeking their approval has trebled. This is looking like it is starting to take off.

The Government, in the Autumn Statement, indicated some further changes to SITR, including a higher level—a £1.5 million cap—for newer organisations under seven years old and with less than 250 staff. While we would love it to go further—a higher cap—so that we could do more SITR through funds, it is still a very welcome step. An organisation that has taken this up is the Freedom Bakery in Glasgow, which trains people in bread-making in prisons. It is an offender rehabilitation scheme, skilling people up. They raised £48,000 to develop their enterprise on a DIY basis. They did not use a social investor. They just went straight to friends and family, if you like, and managed to raise that £48,000. They publish the book on how to do DIY SITR as well.

Sir Harvey McGrath: On the social impact bond, what is it? It is a variant on the working capital finance we have just talked about, which is where a charity is providing a service, an intervention, and getting paid for the performance of that, except that there are two fundamentally different characteristics. One is that the performance is against specified targets—it is a payment-by-results contract—and there are penalties if there is non-performance. The second difference is that the risk of that non-performance is not carried by the charity in a social impact bond but by the social investors who put up the funds to enable the intervention to be delivered in the first place.

This is potentially a very interesting proposition, both from the point of view of the Government because it shifts risk on performance and, secondly, for many service delivery charities who simply could not undertake these kinds of contract and take on that risk. It is a young market and one that is finding its way because these structures, as you can imagine, in terms of agreeing those contract terms, are difficult to negotiate; they are difficult to monitor. In my view, the concept is one that is potentially very significant.

There are many examples of this now in the UK. There are more than 30. They tend to be relatively small. For example, in Liverpool there is one called Career Connect, which works with teenagers who are quite likely to become NEET when they leave school. Rather than waiting until they are NEET with all the costs and social damage that follows, by identifying them when they are younger—and the schools know who they are likely to be—and putting them through a series of programmes tailored to the degree of their dysfunction, you find that you see significant improvements in attendance, classroom behaviour, attainment and significantly reduced levels of them becoming NEET when they do leave school.

Career Connect, which ran for three years to April 2015, aimed to help 3,900 of these young people. In fact, it reached 4,300. Not only did it change their lives but, on the way through, on that one programme, it saved around £5 million for the Government.

There is something very powerful here that is still quite small. Regarding the number that I talked about earlier, of £1.5 billion in the social investment market, probably less than £15 million is in social impact bonds. The idea is one that you will hear more about going forward because it is potentially something that is of great use to government and to the social sector.

Tim Jones: On social investment tax relief, it is too soon to say. It is very welcome. The developments that need to happen are akin to those that have happened already with seed enterprise investment schemes—SEIS and EIS initiatives—so that people will begin to aggregate money for social investment, rather like residents have done in Bristol, and begin to pull funds together, where you can aggregate a number of smaller investors, who, in collective, have sufficient weight to make a meaningful investment.

The outcome of commissioning the social impact bonds is probably the most beneficial thing, in my view, to have come from the whole piece.

The Chairman: We will come to that in a moment.

Tim Jones: Okay. For us, there is a challenge in the naming. They are not bonds. They are, essentially, risk instruments. You put some money in and you may or may not get it back. If there is performance of the contract, you might well get it back as long as there is not a political change of will. There is an array of risks to which your money is exposed, and there is not, necessarily, a market in which you can transact and get rid of it if you do not want it. There is a lot of work to do, but it is work still very much worth doing.

The Chairman: Thank you. Baroness Stedman-Scott.

Q183 **Baroness Stedman-Scott:** I must declare an interest in that I serve with Sir Harvey on another board, the NPC, and I am doing some work right now with Tim on a social impact bond, however you want to term it, in Suffolk.

How can charities best be supported in capacity building to make the most of social investment opportunities where appropriate?

Cliff Prior: Perhaps I could take that point. It is fair to say that most charities coming to social investment do so for the first time, so it is an unknown, and capacity building is needed. I would identify four steps, the first of which is just basic awareness and understanding. Our team and many other organisations have had people out at conferences and events talking about this, giving examples, and now there is a big collaboration on this goodfinance.org website for that basic information. Many sector networks have helped a lot as well. Homeless Link and the Richmond Group of health charities are providing that information. Peer-to-peer support has grown and 3,500 charities and social enterprises have now used social investment, so it is starting to get to the point where you know somebody who has done it.

With regard to basic awareness, once you think you are seriously interested, you need to get investment ready, identifying your business modelling, understanding what will be expected of you from a social investor and what you should expect of those people in return.

As regards investment readiness, government and the Big Lottery Fund often work through Social Investment Business, which I think has come to you earlier. There have been a large number of schemes over many years. In the last 10 years, over half a billion pounds has been put into this kind of investment-readiness work. It has helped hugely. The concern is that most of those programmes are ending. With over half a billion in the last 10 years, the only thing we can identify in the next few years is £25 million. So there is a risk there.

We come to the third step. You are investment ready. You have to find the right investor. That has been quite difficult for charities and social enterprises. It has been quite opaque. We have been doing a transparency exercise by putting out deal-level information so that people can see, "This is somebody like me and this funder funded them. Maybe I can talk to them. Maybe I can hear how it was". It is a matter of just getting transparency and liquidity of information.

Finally, it is getting the deal over the line. We have talked about legals. I suppose the other point I would put on the final step is trustees. It is very commonly observed that trustees are the ones who are wary. Sometimes that will be an absolutely correct decision. It is not the right thing for them. Sometimes it is simply that they really do not understand and are uncertain because of that lack of understanding. We have just been launching a scheme called Get Informed, which is identifying people who have had personal experience of social investment and asking them to be mentors and advisers to trustees in other charities and social enterprises. Peer-to-peer usually works better than anything else.

Baroness Scott of Needham Market: We have had written evidence and had before us representatives from quite a lot of what I would call infrastructure organisations for the sector of a different kind. Do you get a sense that they are comfortable with this in terms of offering advice, or do you think that there is a general lack of knowledge and wariness so that it is coming down now, as you say, to having a critical mass of people who have been through the process?

Cliff Prior: In the early days there was some poor investment readiness, but it has developed over the years, and the schemes in the last few years have been much better and of a much higher quality. It is really good to see these social sector organisations providing the advice, because it is much more relevant and tailored. Homeless Link knows how homeless charities work and can advise appropriately. The peer-to-peer approach is very strong, too. For example, we have been running a series of blog pieces on our website called Gritty Reality, which is about people telling it like it is. It is anonymised but it is the real ins and outs. We believe that that is helpful. Just to say, "This is some wonderful glossy thing. Please take it" is not helpful. We have to be careful all the way through. None of this is to promote social investment. It is trying to build understanding as to whether social investment is right for you.

Sir Harvey McGrath: If I might add one thing, the money is important for capacity building, but, in my view, equally important is that knowledge and experience that other people who have done it can bring to the process of helping the organisation become investment ready. Cliff used the phrase earlier of "venture philanthropy", which is a bit of a mouthful and not a great description, but the idea that, rather than just providing money, you also provide expertise and experience, and you create a means of bringing that to bear on helping organisations realise these ambitions, is the other key part of the process.

Q184 **The Chairman:** One of the Allia directors recently in an article said that "we need to shift our focus from building investment structures to supporting the public sector to create better outcomes-focused contracts", which is the point you mentioned earlier. We are hearing quite a lot about the problems of commissioning. What do you think we can do to help the public sector to improve the commissioning practice?

Tim Jones: That is not a simple question.

The Chairman: We do not have a lot of time left, so I ask you to be fairly brief.

Tim Jones: In my view, the simplest thing to bring to the party would be to procure for impact rather than only for financial outcome. If the emphasis of procurement is on what is the lowest cost to deliver a service, that will get somebody delivering not necessarily the best value for that service. If it does not work, the risk, which has been passed to somebody else in the third sector, goes straight back to government because it failed.

The Chairman: But that is what often happens at the moment. So how are you going to change that?

Tim Jones: Exactly; that is my point, Lord Chairman. By focusing on procurement on the impact that is desired, that would change the lens through which the commissioner looks at the issue. Secondly, we must ask: who is doing the commissioning? Should it be simply government or should it be some of the foundations that are richly endowed and have a programme that concerns a particular social outcome? Could they commission outcomes and pay for results in the same way? At the moment, there may be a bit of a monopoly of only one person doing commissioning. That may be disadvantageous, I suspect, to a free market.

Just to go back to the earlier point, the other thing is to ensure that those organisations that wish to apply for the contract are equipped with the entrepreneurial and business skills, and have the mentoring to enable them to scale from where they are to where they need to go. Otherwise, my fear is that we will end up with only the larger private sector contractors with a balance sheet and a resource big enough to take a risk, who know full well that in year nine it might make some money or they can hand the contract back, and the impacts may not have been those that we wanted.

Sir Harvey McGrath: I have two points. One is that we should call for the findings of Lord Young's review of the Social Value Act to be followed through on, because he was sensible and incisive in the work that he did. That will not be a panacea, but it is a very important part of the framework within which this issue can be addressed. Secondly, from the point of view of central government, there should be recognition that, if they want social sector participation in these activities, then they have to address the way in which their procurement process has worked, which simply excludes so many organisations in the social sector who cannot meet the minimum requirements of filling in the pre-qualification questionnaire, let alone getting to the point where they finally seem to qualify and they are asked for a parent company guarantee because they are competing against Serco.

There is some movement on this. From our side of the table, we would love to see the creation of what I will call a "social prime", which would be an umbrella organisation under which a variety of smaller providers could sit. We have a project that is exploring the possibility of that, working with Interserve and Catch22. At the moment, large swathes of the sector simply are not able to participate in these large procurement exercises.

The Chairman: I do not know whether we have evidence on social prime. It would be quite interesting to have a bit more if we have not. Perhaps you could follow that up afterwards.

Sir Harvey McGrath: I would be very happy to do that.

Cliff Prior: This analysis—*The Work and Health Programme: levelling the playing field*—of the latest national commissioning schemes, which we did with Reform, has a number of useful recommendations. I will leave it with you.

The Chairman: Please do. Thank you very much. Baroness Barker.

Q185 **Baroness Barker:** I would like to follow up on some of Mr Jones's comments about business and entrepreneurial skills that charities need to demonstrate the impact of their work. We keep coming back to the demonstration of impact. Given your experience, what do you think charities need to do to bring themselves up to speed on this?

Sir Harvey McGrath: Any organisation, whether it is in the social sector or not, needs to understand whether it is being effective at delivering against its objectives, and it is no different for charities. Trustees have an obligation in a real sense to make sure that the organisation is best serving its beneficiaries and most effectively serving its beneficiaries. My starting point is a simple one, and it is that organisations need to do this and need to do it well, but in many cases they do not. There is a requirement and a need for them to up their game. That is not a third party imposing a requirement because they are getting a grant or borrowing. It is just good business sense.

Secondly, however, there is no question that there is a growing awareness on the part of all sorts of funders, be they grant funders or debt funders, that they want to understand what that impact is and they want to have a sense as to its effectiveness. There is an increased obligation on charities to be able to talk about that in a way that can be communicated and is meaningful. Our mantra would be that the way they should do that is to develop an appropriate means of assessing their own performance which they can share as opposed to something being delivered down to them—in the same way, when I chair a board, that I do not want reports made up for the board meeting that are different from the reports used to run the business. I want to see it through the lens of the people who are running the business.

Thirdly, there are a lot of common attributes to the way in which effectiveness can be evaluated, measured and tracked. There is something to be said for having a collective and common approach to measuring impact. There are a number of initiatives in that area, both here and in other countries. Here, the Access Foundation, which we have referenced earlier, is working with a group of other infrastructure organisations, and, for the declaration of conflict of interest purposes, co-ordinated by New Philanthropy Capital, to pull together a common framework so that everyone is not reinventing the wheel every time someone asks for an evaluation to be done. That is work that is in progress and under way, and, hopefully, it will help to address this issue.

Baroness Barker: Last week we met the small charities. Something you may have come across is the fact that they are absolutely confident that their work is good, high quality, and they work with hard-working people, but, almost from a sense of honesty, they said, "I cannot tell you whether it was my intervention that stopped somebody going back into prison". It is not a resistance to try to prove what they do, but it is a terrible honesty that they are afflicted with. Have you come across that? Have you had that type of conversation and how did you deal with it?

Cliff Prior: Attribution is very tricky to identify. Contribution is a bit easier. "You did this and this happened. You did not do it and that happened". That is an easier piece.

Baroness Barker: That is helpful; thank you.

Tim Jones: That is right. In the case of my own charity, we, for example, bus investors to a charity so that they can see for themselves the outcomes that are being delivered. For me, the focus is less on the outcome that the charity is delivering and more on the organisation itself, and that it is worthy of one's investment. By doing that, we shift the lens a little from, "Are the impacts being delivered in exactly the right way that we thought at the outset?", because that is terribly difficult, as you said.

The Chairman: Baroness Stedman-Scott.

Q186 **Baroness Stedman-Scott:** How can social investment be more effectively communicated to the public to promote greater participation in the market?

Cliff Prior: There is huge interest among the public. One in four new companies being formed in the UK has a social or environmental mission. It is extraordinary. That is 150,000 companies a year. Many of them do not get beyond sole trader, but it is still a very high proportion. People are interested in social enterprise, working for a socially minded business and investing in social funds. What we need to do is not so much to raise awareness as unlock the friction between what people want to do and their ability to do it. In social investment, that has been really tricky. There have not been brand-name funds that you could easily go to.

Now, by opening up crowdfunding for social investment, charity bonds and, possibly, saving schemes as in France, 1 million people have, on a voluntary basis, gone into what are called these 90:10 social funds, where 10% of your investment goes into social enterprise. There is a whole range of different kinds of entry points into social investment. There are locality-based schemes, one being Bristol & Bath Regional Capital, where civic leaders from all parts of society are coming together to say, "We will collectively solve the social problems of our cities". It is place-based work. Of course, charity bonds play a really important part of that piece. It is the opportunities to act. The interest is already there.

Tim Jones: I would reflect all of that. We, of course, are focused on only one defined strand of the social investment marketplace. For us, it is about getting the retail market—in other words, markets that we would all take part in, because we would otherwise have our money in a fixed-term bank account, an ISA, National Savings or whatever it might be. There is about a billion pounds of liquidity in those personal savings institutions. That is a very well-documented space. The financial press every Sunday talks about it. There is a great amount of web and printed material in that space. For me, if we can utilise that commentary, that resource, which can be accessed by tapping into the same markets as the London Stock Exchange and the like, then we will begin to get coverage in the popular media. That will begin to get awareness. The sort of thing that Cliff was talking about in France has happened because there is awareness and people talk and write about it. That is what we have to get through.

My view is that, by using the retail bond listed on the Stock Exchange, that is one route where we can offer a very simple proposition that folk can understand. It is liquid and will get commentary. By doing that, we can use that platform of investment to bring in the other sorts of rather more derivative or esoteric products, which may have a different risk, but would easily fit into someone's portfolio, if they put 5% or so of their assets into it — because it would not be a huge risk if it goes wrong. It is that measured approach, building step by step up to a marketplace of behaviour into which we can introduce social investment products of a different kind.

The Chairman: Thank you very much. We come to our last but most exciting question. Baroness Jenkin.

Q187 **Baroness Jenkin of Kennington:** It is the same question that we ask everybody. What one recommendation should the Committee make with regard to the charity sector? Which one would each of you want to make?

Sir Harvey McGrath: There is a huge interest out there from the public and the mainstream marketplace to invest in organisations that are having a positive social impact. Today, in my view, we have more interest than we have investable opportunity. My ask of the Committee would be to recommend strongly that government and other bodies continue to make available that investment-readiness grant funding that we have talked about, so that we can create the space for social entrepreneurs, who have great ideas about how to tackle some of these big issues, to develop and grow those into vehicles that we can then fund and scale.

Tim Jones: Because I can only have one—normally, I would have a list—it would be to change the gateway to those organisations that can make use of the securitisation rule. To put it simply, if you have somebody paying you interest and you are paying it on to someone else, if you use a securitisation vehicle, you do not have to pay tax on the interest that you receive before you pay it on to the borrower. In other words, you might charge interest to a borrower, you might then pay that interest on to the lender and, if you have to take tax off the bit coming in but you cannot claim it back, the thing does not work. You simply load the price of the loan by the tax. A charity ought not, in any case, to be bothered by that issue because it is a charity.

Therefore, we should not ask the Revenue to change its rules, which would be far too complex, but simply to give an exemption to charities that wish to make use of that regime, whether or not they are borrowing less than £10 million. That, for me, is a very quick and simple system. For example, 4,500 charities have a turnover where they can borrow less than £10 million, but only 500 charities are able to borrow more, in round figures, and that is out of 160,000 charities in the UK. We are talking about a relatively large group compared with those that are eligible otherwise.

The Chairman: Thank you. No promises but that was very interesting. Finally, Mr Prior.

Cliff Prior: Charities are incredibly diverse, from the tiniest organisations to the largest, from every theme of social activity that you can imagine and some that are still a surprise even after your imagination is exhausted. For social investment to work for the charity sector, it needs to be just as diverse. It is wonderful to have institutional capital and charity bonds for organisations that can do that, but it is also wonderful to have crowdfunding, angel investment, the 90:10 schemes that we were talking about earlier and the SITR tax breaks. My one wish would be to unlock all those opportunities and for social investment to be just as diverse as charity is, and then there will be the match.

The Chairman: You can be assured that we found that really helpful evidence. Thank you very much for being so clear and helpful to us. We are very grateful to you for having given up the time.