Saïd Business School Case

Big Society Capital

The World’s First Social Investment Wholesale Bank

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Introduction

Big Society Capital (BSC) is a financial institution set up for the purpose of building the market for social investment in the UK. BSC defines social investment as ‘the use of repayable finance to achieve a social as well as a financial return’. Its ultimate aim is to help ‘capitalise’ and support third sector organisations, described by them as ‘social sector organisations’ (SSOs). BSC does this, primarily, by developing and promoting the social investment marketplace in the United Kingdom. It acts as a wholesale institution, making capital investment into social investment finance intermediaries (SIFIs) that then go on to invest in frontline SSOs. After a significant period of planning, BSC began operations in April 2012. Since then, BSC has played a key role in developing the UK social investment market, both as market participant and market champion. Despite owing its existence to significant government policy support, BSC is an independent financial institution operating separate from the UK government. BSC represents the first wholesale social investment bank in the world and has created a model that a number of other countries are looking to follow. This case study tells this story of the development and design of BSC.

BSC came into being as the consequence of over a decade of work by a group of individuals on both the inside and outside of government. This work was undertaken by a committed and persistent group of individuals through a variety of initiatives. Many of these individuals were well established in their own fields, were powerful and well connected and, in some cases, had influence at the highest levels of British politics. It is important to emphasise from the outset the importance of this group in the success of founding a social investment wholesale bank was pursued successfully, despite considerable obstacles along the way.

This case study examines the various initiatives, policies and strategies that were relevant to BSC’s creation, as well as the rationales behind them. It describes the process of setting BSC up and the challenges faced in getting things up and running. It is hoped that this analysis will be useful reading for practitioners, policymakers and students interested in understanding BSC and for the wider social investment market internationally in terms of offering insights into an innovative model of a wholesale banking institution.

The case study is based on interviews with 14 senior figures involved in the creation and setting up of BSC and participant observation of several BSC board meetings, supplemented by a thorough analysis of numerous internal documents and secondary data. Throughout, where no source is stated, quotations in italics are taken from the key informant interviews, which have been treated as anonymous.

Social Investment

As well as the story of BSC as an institution, this case study is the story of the growth of social investment as a new capital market model that has gained traction over the past 10-15 years. The broader concept of social investment has been a feature of the UK policy context since at least 2000. The early incarnations of the idea were concerned with the need to build the capacity of SSOs in the UK to take on more contract-based delivery of public services. However, at this stage, the idea of a financial institution set up explicitly for the needs of the social sector had not been put
forward. In wider social policy discourses, ‘social investment’ was understood to mean investing in welfare interventions early to have greater long-term effects. Aligned to this, social investment also became associated with models of investing that aimed to build capacity among what, at the time, was called the ‘third sector’.

One of the flagship initiatives developing this strand of work was the Social Investment Task Force (SITF), which was established in 2000. The SITF was an initiative chaired by Sir Ronald Cohen, the Chairman of Apax Partners and de facto founding father of the Venture Capital industry in the UK as well as a notable philanthropist. The SITF was formed in response to a call from the then Labour Chancellor of the Exchequer Gordon Brown for a re-assessment of the role of finance and economics in community development. Specifically, SITF was set up to undertake:

An urgent but considered assessment of the ways in which the UK can achieve a radical improvement in its capacity to create wealth, economic growth, employment and an improved social fabric in its most under-invested, that is to say its poorest, communities.¹

At this point, the focus of activity was on creating ‘community development finance institutions’ (CDFIs), a group of organisations licensed by central government to try to ‘inject’ capital into poor neighbourhoods. The emphasis was on boosting entrepreneurialism and introducing loans to grow local economic activity and jobs.

The SITF ran from 2000 to 2010. The original membership comprised seven individuals from the private and social sectors: by the end of the commission in 2010 a further eight individuals had also taken part (see Appendix 1). The objectives of the SITF were set out in its first report in 2000, these included:

- A Community Investment Tax Credit to encourage private investment in community development to be invested in both profit-seeking and not-for-profit enterprises in under-invested communities
- Community Development Venture Funds (CDFVs) structured as matched funding partnerships between government and the venture capital industry, entrepreneurs, institutional investors and banks
- Disclosure of individual bank lending activities in under-invested communities, possibly via new legislation
- Greater latitude and encouragement for charitable trusts and foundations to invest in community development initiatives, even where these include a significant for-profit element
- Creation of effective trade association to support Community Development Financial Institutions, including Community Development Banks, Community Loan Funds, Micro-Loan Funds and Community Development Venture Funds

¹ Social Investment Taskforce (2000), Enterprising Communities: Wealth Beyond Welfare, SITF, p.2
According to subsequent reports from SITF, two the most successful areas of activity were as follows:

- The first CDVF, Bridges Ventures, was set up in 2002 with £20m of matched investment from the Government. Bridges went on to attract tens of millions of pounds of further investment from the private sector.
- The Charity Commission issued guidance in 2001 and 2002 lending its support to social investment and clarifying the situations in which charities are able to make social investments.
- In 2002 a trade association for CDFIs was established, the Community Development Finance Association (CDFA), which came to represent the majority of CDFIs.

In contrast:

- While Community Investment Tax Relief (CITR) became operational in 2003, by March 2009 it had attracted only £58m against a target of £200m. The shortfall was attributed to ‘the restrictive nature of the criteria imposed by the Government on use of the facility’ (SITF 2010, p10).
- It proved very difficult to persuade banks to publish data on how lending varied across different regions of the UK. Only incremental improvements were made in this area.
- Take-up of social investment from charitable foundations was low over this period.

Overall, however, the work of the SITF laid important groundwork for the establishment of the social investment market in the UK.

Alongside the work of the SITF, multiple initiatives were also taking place to expand and test the idea of social investment in the UK (see Table 1). Of these initiatives, the Futurebuilders Fund was particularly important in the story of the development of BSC. Futurebuilders was a government initiative designed to provide repayable loans to SSOs, with additional support for the skills and knowledge needed to take on this kind of finance. The objective was to make SSOs better able to take public sector contracts going forward, as part of a wider set of policy objectives around growing the social enterprise sector.

Table 1: Notable UK Social Investment Policy (2000-2010)

<table>
<thead>
<tr>
<th>Initiative</th>
<th>Date</th>
<th>Investment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Adventure Capital Fund and Community Asset Transfer Fund</td>
<td>2002</td>
<td>£42m</td>
</tr>
<tr>
<td>Phoenix Fund</td>
<td>2004</td>
<td>£42m</td>
</tr>
<tr>
<td>Financial Inclusion Task Force</td>
<td>2004</td>
<td>n/a</td>
</tr>
<tr>
<td>Futurebuilders</td>
<td>2004</td>
<td>£215m</td>
</tr>
<tr>
<td>Social Enterprise Investment Fund</td>
<td>2007</td>
<td>£100m</td>
</tr>
<tr>
<td>Community Builders Fund</td>
<td>2009</td>
<td>£70m</td>
</tr>
<tr>
<td>The first Social Impact Bond</td>
<td>2010</td>
<td>£7m</td>
</tr>
<tr>
<td>Transition Fund</td>
<td>2010</td>
<td>£100m</td>
</tr>
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</table>

In December 2003 the government awarded the contract to run the fund to a consortium made up of Charity Bank, Unity Trust Bank, the National Council for Voluntary Organizations and the Northern Rock Foundation. This consortium struggled from the outset to find enough organisations that were in a position to take on loan finance and failed to meet targets for distribution of such funds, in many cases offering grants instead of debt. As a result, in 2007, the second phase of the contract was awarded to a different fund manager - The Adventure Capital Fund (later the Social Investment Business). However, despite a clearer focus on debt investment, the new fund manager responded to political pressure to ensure that the money was distributed promptly by relaxing many of the terms of the lending arrangements. As a result, the money was distributed in much higher volumes, but many commentators felt that the relaxed terms undermined the core purpose of Futurebuilders, which was to build the capacity of the social sector to take on repayable finance.

As one interviewee commented:

_The organisation that ran Futurebuilders in the beginning lost that tender and what is now the Social Investment Business won it. And the rules had changed so that the extent to which money was repaid ceased to be a key performance indicator, so weakening the whole principle of Futurebuilders, which was that it was a loan fund. ... If you remove that as a key performance indicator, then people won’t see it as anything other than a source of grants. So Futurebuilders was a great frustration to some of us._

Despite these shortcomings, Futurebuilders, together with the wider work of the SITF, ensured that a culture of repayable finance became familiar to at least some portion of

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4 In practice, Futurebuilders had a fairly low default rate and it was Communitybuilders that lost most money. The same criticisms were raised against a subsequent government capitalized fund run by the Social Investment Business – the £100m Social Enterprise Investment Fund that ran from 2008-2012 (see See Alcock, P., Hall, K., Millar, R., Nicholls, A., Lyon, F., and Gabriel, M. (2010), Start-up and Growth: National Evaluation of the Social Enterprise Fund, TSCR.)
the social sector, and that policymakers had some awareness of what is and is not effective in encouraging such culture change. This project also highlighted the need for market discipline in managing social investment funds if they were to prove both sustainable and to contribute to a broader market building agenda.

**A Social Investment Bank**

Over the same period the idea of a financial institution set up explicitly to further social investment began to take shape. Such a so-called ‘social investment bank’ would act as a source of finance to capitalise the social sector.

In the early 2000s, the potential of the capital available from ‘dormant’ bank accounts began to attract interest from leaders in the UK’s social sector. Following the precedent set in other countries, including Ireland, interest began to grow in the idea that money that had been left dormant in bank accounts for 15 years or more could be extracted from the UK’s high street banks and directed towards other, more socially beneficial, purposes. Early estimates indicated that there was potentially a large amount of money in such accounts, amounting to hundreds of millions of pounds. These discussions prompted a group of individuals to set up an independent Commission on Unclaimed Assets.

**The Commission on Unclaimed Assets and the Dormant Bank Accounts Act**

In 2005, the Commission on Unclaimed Assets (CUA), which was also chaired by Sir Ronald Cohen, brought together a group of experts from the banking, finance, consumer protection and social sectors to work in partnership with the Treasury, the Department of Communities and Local Government, and the Home Office to address three main issues: reuniting customers with their money and consumer protection; the transfer of unclaimed assets to a new entity; and the best use of such unclaimed assets (the main focus of their work). The CUA ran until 2007.

The Commissioners were largely chosen as individuals who were already supportive of social investment, as one Commissioner noted:

*I mean, bluntly, the Commission chose people who shared our values and our perspective, who absolutely understood the potential of social investment*

Five of the nine members of the CUA had also been members of the SITF (see Appendix 2).

At this stage, the Labour Government had already stated that the unclaimed assets money should be directed towards ‘engaging young people, financial education and inclusion and community regeneration’. The CUA was set up separately from government to build the case for directing this money towards social investment as the preferred approach to addressing social issues.

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Research commissioned by the CUA demonstrated the severity of need in deprived communities in the UK, and the state of undercapitalisation of the social sector, as a Commission member noted:

*Although the Commission’s report had some data which is probably a bit flaky, it was strong enough to show fairly clearly that you were looking at a sector which was never going to have, in the present scheme of things, enough capital to pay for scaling up or professional development or investment in growth*

The CUA made the argument that the social sector needed investment in its capacity and infrastructure and that making it more financially sustainable would put it in a stronger position to achieve the desired social change. The report echoed many of the sentiments and recommendations of the SITF work.

In addition, the CUA put forward a more detailed set of ideas than had previously been published for a *wholesale* financial institution set up to serve the social sector – a ‘social investment bank’. The wholesale model would mean that the new institution would avoid being in competition with existing providers of social investment capital. It would, instead, make co-investments into these intermediary bodies, building the variety and capacity of intermediaries and, ultimately, increasing the supply of capital to the social sector overall.6

Following the publication of this report, the focus of activity shifted to the passing of an Act of Parliament that would release dormant accounts from the high street banks for public benefit. The CUA was successful in its lobbying and in 2008, the government passed the *Dormant Bank and Building Society Accounts Act 2008*. The Act is a critical part of the story of the creation of BSC. The majority of the Act set out the definition of a ‘dormant account’ and the conditions under which individuals might reclaim any funds owed to them after the 15-year dormant period had passed. The Act also set out the legitimate uses for such capital, as follows:

*A distribution of dormant account money for meeting English expenditure must be –*

(a) *Made for meeting expenditure on or connected with the provision of services, facilities or opportunities to meet the needs of young people*
(b) *Made for meeting expenditure on or connected with—*
   (i) *The development of individuals’ ability to manage their finances, or*
   (ii) *The improvement of access to personal financial services, or*
(c) *Made to a social investment wholesaler*7 ... ‘Social investment wholesaler’ means a body that exists to assist or enable other bodies to give financial or other support to third sector organisations: ‘third sector organisation’ means an organisation that exists wholly or mainly to provide benefits for society or the environment

It is notable that the use of funds to support the social investment bank was listed as only one of *three* potential uses for the dormant bank account funds. The Secretary of State for Children, Schools and Families was ultimately responsible for the

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7 *Dormant Bank and Building Society Accounts Act 2008*, p. 10
legislation. As a consequence, at this stage, the proportion of unclaimed assets that might ultimately be directed towards a new social investment institution was unclear. Nevertheless, with the Act in place, the main legal barrier to establishing a social investment bank in the UK had been removed.

In July 2009, the Cabinet Office within the UK government published a consultation on the functions and design of a Social Investment Wholesale Bank. Following the consultation, the December 2009 Pre-Budget Report reported that:

*By Budget 2010, Government will finalise the model for the Bank .... To fund its initial capitalisation, the Government announces its intention to commit £75 million of the funds expected to be released through the Dormant Accounts Scheme in England...the Co-operative Financial Services (CFS) has agreed to support the Government and industry efforts...by preparing a plan for the establishment of the Reclaim Fund. The CFS intend...to establish and administrate the Reclaim Fund*

**From Labour to Coalition Government**

The last years of the Labour Government were a crucial period for the leading social investment advocates in the UK. Many of the individuals involved had traditionally been affiliated with the Labour Party – in particular, Sir Ronald Cohen (though a former Liberal Party Parliamentary candidate in the 1970s) was famous as a high profile donor to Labour. However, by early 2010, it was looking increasingly likely that Labour would lose power in the forthcoming election. As a result, the focus shifted to lobbying discussions with the then Opposition Conservative Party. Contact was made at the highest level of the Party, as one interviewee commented:

> I had a conversation with David Cameron... I also had a long conversation with Steve Hilton, who was a chief advisor. And [we] had a meeting with George Osborne. We also had a meeting with George Osborne’s advisory team. So we invested quite a bit of time getting the Conservative Party on board

Contact was also made with the ministers who were likely to be responsible for the future social investment bank. Nick Hurd was a key figure in this respect, as he was set to assume the position of Minister for Civil Society, along with Francis Maude, as prospective Minister for the Cabinet Office, and Oliver Letwin another shadow minister.

An important marker of progress was getting a commitment to use the unclaimed assets for a social investment bank into the Conservative’s 2010 election Manifesto:

*We will strengthen and support social enterprises to help deliver our public service reforms by creating a Big Society bank, funded from unclaimed bank*

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9 HM Treasury (2009), *Pre-Budget Report*, paras 5.63-5.64.
assets, to provide new finance for neighbourhood groups, charities, social enterprises and other non-governmental bodies.\textsuperscript{10}

The inclusion of this statement provided important political leverage over the coming months. As one commentator mentioned:

\textit{One of the civil servants said to me, which I think is very true, is if you want to get something done in government, make sure it is in a manifesto. Because when it’s in the manifesto, they have to answer to it.}

The Manifesto statement also revealed that the Conservative Government’s ‘Big Society’ agenda had already, even at this early stage, attached itself to the idea of the social investment bank. From this point on the social investment bank became known as the ‘Big Society Bank’.

\textbf{Post 2010 Election}

Predictions of a Labour defeat turned out to be correct and the Conservative Party came to power in May 2010 as part of a Coalition Government with the Liberal Democrats. The new government proved to be even more enthusiastic about social investment than had been anticipated. An interviewee observed:

\textit{What we couldn’t know was how the Coalition would pick up the idea of the social investment bank. I got a call from Francis Maude’s office to go to a meeting, and they said ‘Look we opened the drawer of the social investment bank, because we think this is interesting concept and we like to support it but there’s nothing there’.}

The idea of a social investment bank was immediately popular with Conservative politicians. Several of the key ministers had backgrounds in investment and banking, and, so, were familiar with both the mechanisms of finance and the mechanisms of government: they were well placed to see the potential inherent in the idea of a social investment wholesale bank. Furthermore, it was an idea that was compatible with the new policy emphasis on ‘austerity’; as one interviewee remarked:

\textit{So, basically [the Conservatives] knew they were going to come in, and have no money, but one thing that they could do is launch something funded with someone else’s money ... what they said to me is ‘this couldn’t be a more Conservative idea’}

Moreover, the period immediately after an election was seen as well suited to a project of this kind:

\textit{It’s easy there [just after an election] to talk about radically new ideas because you don’t get the question of ‘well, if this is so great why didn’t you think of it ten years ago?’... The other thing you don’t get is that you don’t have to prove whether it is working or not because it is new. So I think there was a lot more willingness to see whether things like payment by results, social investments, etc, would work}

\textsuperscript{10} Conservative Party (2010), \textit{An Invitation to Join the Government of Britain}, p.37.
A productive relationship was quickly established between the new government and key social investment advocates. It was at this stage, towards the end of 2010, that the new government invited Sir Ronald Cohen and Nick O’Donohoe to design a strategy further to develop the UK social investment market. O’Donohoe was the former head of global research for JP Morgan investment bank who had become interested in social investment after working on a key piece of research on impact investing for the bank in collaboration with the Rockefeller Foundation and the Global Impact Investing Network (GIIN).

**Formalising The Big Society Bank**

Following the publication of the strategy document, the next step was for the Big Society Bank development process to be formalised. The government was required to promote an open tendering process by which any group or organisation would be able to submit a proposal to run the Big Society Bank. It was clear, however, that the ministers and civil servants in control of this process wanted the team they had already been working with to be awarded the contract – namely Cohen and O’Donohoe. If they received multiple proposals the process would become much more complicated. The government, therefore, minimised the chances of any other groups becoming aware of the opportunity to submit a proposal by ensuring the tender was not widely promoted or advertised, as one interviewee said:

> The government had sort of realised that was a risk, ... once they had said that we [the existing group] were going to write in this blueprint, anybody could have stood up and said I’m going to write a blueprint too. ... and then had somebody else done that they would have to have had a consultation and all the rest of it, which would slow down the project a lot. So they were sitting there, desperately hoping...and I remember every time I met with them, they’d say sort of, are there any sort of whispers out there that somebody else might be thinking of it?

During the first few months of 2011, Cohen, O’Donohoe and a number of others collaborated on a high-level proposal for the Big Society Bank. At this stage the focus was on providing a document that would convince the government that the group was capable of taking responsibility for the creation and operation of the bank. By this stage O’Donohoe had left his post at JP Morgan and, so, was able to devote the time required to drive the planning forward. He was helped by a team of people who were already close to the main group of social investment advocates, several of whom were seconded from Social Finance, an organisation that had been set up by Cohen in 2007. The duo still had no formal agreement with government and had to use their own resources to pay for the time spent developing the proposal.

The Cabinet Office published a strategy to grow the social investment market in February 2011 and in March Nick Hurd made a Written Ministerial Statement

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highlighting the opportunity for others to feed in comments on the development of the proposal and the Government’s approach.\textsuperscript{13}

In May 2011, O’Donohoe and Cohen submitted a 13-page outline proposal to government, setting out the future operating principles, objectives, roles and structure of the Big Society Bank. The Cabinet Office accepted the proposal. The Big Society Bank project could now move towards realization.

**Founding The Big Society Bank**

At just thirteen pages, the proposal accepted by the Cabinet Office lacked some detail. As a consequence, significant amounts of work were needed to translate the proposal into operational reality. O’Donohoe and Cohen worked intensively on the project from May 2011 until the official launch of BSC in April 2012. In particular, there was a range of bureaucratic hurdles that had to be overcome before BSC could be launched. Furthermore, during this period the name of the institution was changed once more to its eventual form, ‘Big Society Capital’, because the institution did not meet the regulatory requirements that must be met when calling an institution a ‘bank’.\textsuperscript{14}

It was also at this stage that O’Donohoe and Cohen appointed themselves as CEO and Chairman of BSC respectively. They made their first appointments too, including Caroline Mason as Chief Operating Officer, so that a small core team of staff could begin to put everything in place. Figure 1 gives the proposed management structure from this document.

\textsuperscript{13}http://www.publications.parliament.uk/pa/cm201011/cmhansrd/cm110321/wmstext/110321m0001.htm.
\textsuperscript{14}One interviewee also noted that all banks were generally seen as toxic in 2011 following the 2008-10 banking crisis, so being seen to found a new bank was politically difficult. This was, perhaps, a surprising comment in light of the subsequent establishment of the Green Investment Bank.
Once funding became available, the core team would be recruited to establish a Company Limited By Shares (CLS) and a recruitment process would be set in place to grow the team over time. The aim was to use existing intermediaries, where possible, as a cost-effective alternative to employment plus attract talented individuals on secondment from institutions in the social, government, financial and business sectors as a way of retaining flexibility, reducing costs and spreading understanding of the social sector and social issues. The initial core team comprised about ten, largely senior, executives. Overtime, the plan was to grow BSC to 20-25 people.

At this time there was significant political pressure to make visible progress. Indeed, some investments were agreed even before BSC was formally constituted, as one interviewee noted:

*The Reclaim Fund [see further below] would start releasing dormant accounts in about June of 2011. So [the Government] wanted to immediately start making investments. And so they set up an interim committee under the auspices of Big Lottery Fund. And they invited proposals...they were desperate to be able to announce that by the end of June they had approved a couple of investments... So money was committed before the organisation formally existed.*

By attaching the ‘Big Society’ label to the social investment bank the project had become associated with the success of Prime Minister David Cameron’s wider

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15 The Big Lottery Fund (BLF) was established in 2004 as a non-governmental organization responsible for distributing funds raised by the National Lottery to ‘good causes’. Over 80 per cent of its grants go to voluntary and community organizations, but it also makes grants to statutory bodies, local authorities and social enterprises. BLF funding focuses on projects working in health, education and the environment and the charitable sector. BLF supports projects that align with policy objectives set by government, but it does not fund services for which government has a statutory responsibility.
political agenda. This provided the project with additional visibility and political support, but also created significant pressure for it to succeed as well as some risk for those not aligned with its agenda.

Three areas of negotiation were particularly salient at this time: securing a European State Aid exemption as a bespoke social sector investor; deciding on a formal governance structure to determine the future relationship with the government; discussing the terms of an equity investment into the new institution from high street banks as a part of the wider Merlin Bank Agreement.  

**Securing European State Aid Exemption**

At this time, members of the European Union were subject to ‘State Aid’ rules that restricted the support that national governments could provide to private companies. The rules were designed to prevent anti-competitive behaviour, such as public money being used to support a company so that it could undercut its competitors in other countries. The money directed to BSC through the Dormant Bank Accounts Act meant that BSC had to secure an exemption to these rules. Securing State Aid clearance was one of the most pressing hurdles to overcome before BSC could be developed further. Similar exemptions had been sought in the past by the UK government for the money allocated to other social investment initiatives, such as Bridges Community Ventures, so there was some precedent to follow. But BSC was due to be capitalized with a much larger amount of money and for a much more unusual type of organization than previous institutions. Even for straightforward exemption applications, the process could take more than a year, so there was a risk that an unusual application of this kind could be delayed even further. This was a particular cause for concern in the context of the policy pressure to make rapid progress in establishing BSC.

However, these concerns proved to be unfounded and EU approval came through quickly, within eight months. As it happened, at the time, senior bureaucrats within the European Union were also pursuing a social business agenda that complemented the drive to develop social investment in the UK. A senior member of the team at BSC suggested that this focus helped the application move through:

> I was at a meeting in Brussels where I met with the senior official in the department who had to approve it [the State Aid exemption] and he said to me ‘look, we get 2,000 applications for state aid exemptions every year. We are not here to get in the way of your application’...and Barnier was launching a social business initiative at that time, and it was clear that the EU saw this as an innovative policy in development and they wanted to support it. It was all—even though they’d never say it was fast tracked, it was fast-tracked

By the Spring of 2012, State Aid Exemption for BSC had been agreed.

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16 ‘Project Merlin’, as it was called, was intended to reform aspects of banking activity such as lending, pay and bonuses to improve how banks supported the wider economy [in particular lending to SMEs]. This led to a formal agreement between government and the banks: the Merlin Agreement. This Agreement covered a variety of topics and had much wider significance beyond its role in the creation of BSC.

17 European Commissioner for Internal Market and Services.
**BSC’s Governance Structure**

Another crucial set of decisions in creating BSC was around the structure it would adopt and its relationship with the government. From the outset, the creators of BSC were very clear that it should be as independent from government as was possible. This desire for independence was primarily rooted in a dislike of political short-termism and changes of political will. It was hoped that BSC would be able to pursue its mission of building the market for social investment without having to cater to the interests of whichever Minister or political party was in power. It was also important in the negotiations with the High Street Banks as part of the Merlin Agreement (see below) who were keen to see that BSC would be immune from political influence.

There are at two main routes by which government may exert formal control over an organisation: by controlling its funds, and by acting as a regulator. BSC wanted to ensure that it was independent on both of these counts.

**Financial Independence**

The *Dormant Bank Accounts Act* and the investment from the Merlin Banks meant that BSC received no direct funding from the government. The dormant bank accounts money acted as a supply of capital that would be continually replenished as new accounts cross the 15 year threshold set by the terms of the Act to count as ‘dormant’. Moreover, this capital was, effectively, at zero cost to BSC since it would not have to repay any of it and no interest would be charged to use it.

In practice, the high street banks were required to transfer their dormant accounts money to an intermediary special purpose vehicle called the Reclaim Fund established by BSC. The Reclaim Fund would then periodically transfer money to the Big Lottery Fund for distribution, with the English portion of the money sent to BSC’s principal shareholder - the Big Society Trust - to invest in shares in BSC. Before BSC was authorised, an Interim Investment Committee was established under the auspices of the Big Lottery Fund to make investments on its behalf with the understanding that the investments would be transferred to BSC when it became operational.

It is, however, crucial to note that this arrangement remains subject to change. *The Dormant Bank Accounts Act* stated three possible destinations for the funds assigned to England and Wales - only one of which was the social investment wholesale bank. The Coalition Government decided to make all of the dormant bank accounts money (up to £400 million) available for this purpose, but there is nothing to prevent a future government from deciding to direct the funds to one of the other two authorised purposes. It would be quite straightforward to ‘turn off the tap’ of future capital, as one of the interviewees put it, should a future government desire so to do. The long-term financial independence of BSC remains, therefore, somewhat more precarious than it first appears.

**Independence From Regulation**

In accordance with UK banking law, the plans for BSC were submitted for scrutiny to the Financial Services (now Conduct) Authority to ensure that all financial regulations were being appropriately observed. But it was also deemed necessary to ensure that BSC was held to account on its stated social mission objectives as well as financial...
structure. The government wanted assurance that there would be mechanisms in place for ensuring that BSC would, indeed, make only ‘social’ investments.

One of the most obvious options would be for BSC to be set up as an asset-locked Community Interest Company (CIC), a new legal form created in 2005 that was designed for hybrid social enterprise organizations. There already existed a CIC Regulator, which could have taken on the role of overseeing BSC. However, this option was dismissed because it was felt that BSC’s size would make it a distorting presence in the CIC sector. The option that was settled on was the creation of a self-regulating two-tier structure.

BSC would be an operating company overseen by a separate majority equity holding entity called the Big Society Trust. The Board of BSC would be accountable to the Board of the Trust, which would be tasked with ensuring that BSC remained committed to its social mission. The Board of the Trust, therefore, would have oversight of BSC’s activities and could challenge the senior management on the decisions they made or withhold consent should they disagree with a proposed strategy or investment. As an interviewee explained:

The two main entities are an operating company - with a board - that is limited by shares and it is owned one third by the banks, in proportion to the equity stake in the company, and two thirds by a trust company. [currently the banks own 40% and 60% is owned by the trust] The trust company is limited by guarantee. The only corporate mission of the trust company is to make sure the company stays on mission.18 So, the trust company’s primary purpose is to make sure Big Society Capital Limited is working to build a sustainable social investment market. It has certain powers over the operating company, including a veto on any change to its mission.... Both shareholders have power over the investment policy, in particular what the target rate of return is

This structure had, in fact, already been set out in the original proposal document written by O’Donohoe and Cohen (see Figure 2), so the remaining task was to hammer out the detail and to create the formal structures, an interviewee noted:

And there was quite a lot of thought went into...what does this trust board need to look like, so we get two representatives from business and two to represent the social sector and so on...and what’s the protocol that needs to exist between the trust and the operating company. So it was quite...that is one of the more unique and innovative parts of this thing

This governance structure was highly innovative – no exact equivalent was known in the UK at the time – and the team of people involved in creating BSC’s structure was aware that they were doing so without clear precedent. Furthermore, the governance structure created an unusual relationship with government. BSC had been incubated by government and bore the stamp of the Conservative Party’s political agenda in its

18 It also has responsibility for the (subsequently established) Access Foundation for Social Investment as its sole Trustee.
name, yet its governance structure separated it formerly from the control of policy makers.\textsuperscript{19}

\textbf{Figure 2:} BSC Proposed Governance Structure

\textit{Negotiations With The High Street Banks}

The final issue to be resolved concerned the negotiations around agreeing an equity stake in BSC from the UK high street banks.

The so-called ‘Merlin Banks’ played an important role in the creation of BSC. Since coming to power in May 2010, the new Coalition Government had been in negotiations with the four leading UK high street banks to improve commercial lending following their retrenchment after the banking crisis of 2008-10.\textsuperscript{20} ‘Project Merlin’, as it was called, was intended to reform aspects of banking activity such as lending, pay and bonuses to improve how banks supported the wider economy, in particular in terms of lending to SMEs. This led to a formal statement of intent between government and the banks: the Merlin Agreement.

This Agreement covered a variety of topics and had much wider significance beyond its role in the creation of BSC. Nevertheless, as part of these wide-ranging discussions, the government required the four Merlin Banks to invest £50m each in equity each into the nascent BSC. Interestingly, this agreement was made without any involvement from the core team at BSC – they were simply told that the agreement had already been made and that they would assume responsibility for finalising the terms of the subsequent equity deal.\textsuperscript{21}

\textsuperscript{19} The government – via one Cabinet Office representative – is a member of the Board of Trustees of the Big Society Trust but is not represented on the main Board.

\textsuperscript{20} Specifically HSBC, Lloyds, RBS and Barclays.

\textsuperscript{21} It was estimated that BSC would have access to at least £600m of total investable capital, made up of £200m in equity from the Merlin Banks and £400m from the dormant bank accounts. However, this latter figure would continue to grow at an estimated rate of £75m per year as new accounts passed the dormant definitional test. As a consequence, the total available pool of capital in the Reclaim Fund was estimated to be nearer to £1b by 2016 – though, of this sum, BSC was not guaranteed access to more than its original £400m.
Significantly, the banks imposed their own requirement on the overall terms of the agreement, an interviewee observed:

*The truth is...in the early hours of the morning, when we putting the final ink to this thing, somebody said from the bank... ‘we’ll do this Big Society Bank thing if you put in the word ‘commercial’. So, Treasury put it in, and nobody stopped to say ‘well let’s talk about what that actually means...’”*

This last-minute addition of the word ‘commercial’ to the terms of the agreement between the banks and the government laid the groundwork for an extremely challenging set of negotiations. O’Donohoe and Mason were now faced with trying to reconcile two quite different sets of motivations and incentives.

From the Merlin Banks’ perspective, the investment was being made on commercial grounds, like any other investment in their portfolio. They wanted assurance that the investment would make a return, and that the team at BSC would adopt sound financial management. In particular, they were worried that BSC would operate like the previous government-backed funds aiming to capitalise the social sector that had ended up prioritising fund distribution above making sufficient returns to be sustainable over time.

From BSC’s perspective, the organisation was intended to address the needs of social sector organisations rather than those of banks, using an approach that had never been tested before. It was not possible to say what kinds of rates they would be able to charge, the success rates of their investments, or the volumes of deals they would be able to find. To make a binding commitment to generate a positive return on the banks’ investments could risk undermining the entire project.

In other words, the banks were treating the deal as if they were investing in an established firm from which they could expect positive returns. In contrast, from the perspective of BSC, the banks’ investment was an equity play in a high-risk, start-up, financial institution. In hindsight this difference is clear, and there might have been scope for BSC to push back on the banks’ demands and bring the government into the negotiations. At the time, however, the focus was on reaching an agreement quickly so the discussion revolved more around the intricate technicalities of agreed projected returns and the avenues of redress for the banks should BSC fail to meet its targets than around the larger issue of aiming for ‘commercial’ returns.

After ‘tortuous’ negotiations, as one interviewee described them, agreement was finally reached with the Merlin Banks. BSC would set a target IRR of low to mid single digits and the banks would have the right to reject any business plan that projected a return of less than that specified return percentage. This agreement would have significant implications for the types of deals that BSC could do going forward (see further below).

In practice, BSC decided to set its returns after a consideration of several issues including its market development role, a deal’s social impact and its financial sustainability. Importantly, BSC aimed to be sustainable across its portfolio of investments as a whole with the result that individual investments could have different levels of expected return.
After a period of nearly 10 years of discussion and development, BSC opened its doors for business in April 2012.

**BSC Operating Principles**

BSC is a distinctive financial institution with both unusual restrictions on its actions and some unique opportunities. This is largely because BSC sits within a nexus of several powerful stakeholder groups. The banks, the government and the Big Society Trust all have influence over its operations, as do the terms of the Dormant Bank Accounts Act. Thus, each investment BSC makes must take account of three objectives simultaneously: making a financial return, making a social return, and building the market for social investment.

Moreover, the model of social investment being advocated by BSC relies on a cohort of social investment finance intermediaries being developed who are suitable to receive social investment, as well as a much larger number of frontline SSOs who are also prepared and able to take on repayable finance. In terms of capital to be deployed, BSC also operates on a scale that far exceeds any previous efforts in the UK. Once BSC began operations, it rapidly became clear that if it was going to function effectively it was going to need to reach SSOs that had never sought - or perhaps even thought about - taking on repayable finance.

Finally, BSC was specifically set up to help provide financial and other support to social sector organisations. Therefore, regardless of the source of its capital, BSC is legally bound to pursue its stated social mission always. This carries with it a set of constraints in terms of building its business model and investment strategy. A number of other restrictions are also imposed on BSC as set out below.

**Investment Restrictions**

A significant restriction on the use of its funds is that BSC is unable to take part in ‘place-based’ investing. Place-based investing takes as its key ‘social’ criterion the degree of deprivation in a given geographical community. The legal form of the investee organisation is, therefore, less important than its location. The social impact thesis of place-based investing rests on the assumption that geographically focussed investment can trigger a positive cycle of job creation and increased economic activity. Place-based investment is often viewed as a component of social investment more generally, but it is precluded by the terms of the Dormant Bank Accounts Act.

By specifying that investment needed to be into SSOs, the Dormant Bank Accounts Act also prohibited investment into individuals. The ability to provide individual loans was a feature of CDFIs that wanted to encourage people in deprived areas to start their own businesses. While CDFIs could potentially take on investment from BSC, they could only do so if the investment money is not used to then make loans to individuals (or if it is invested in by another social finance intermediary).

The Dormant Bank Accounts Act also placed restrictions on BSC’s investment in relation to the devolved administrations of the UK. Wales, Scotland and Northern Ireland all have the right to decide for themselves how their proportion of the unclaimed assets money should be used. The investments made by London-based BSC should, therefore, only be used for investments in England, save for the
proportion of capital represented by the Banks’ investments that does not have that same geographic requirement.22

Interestingly, although the Act imposed restrictions on the type of organisation that could ultimately receive investment using BSC’s capital, no specifications were made regarding the intermediaries via whom investments could flow. Thus, any kind of organisation could act as an intermediary as long as they were making investments in SSOs. In addition, BSC had another mandate to invest into organisations that can provide ‘other support to third sector organisations’, such as infrastructure bodies.

Rates of Return

As described above, the Merlin Banks had agreed a minimum return on their equity investments.23 This meant that the banks could reject any long-term business plan from BSC that projected a rate lower than this expected level. It also meant that if BSC failed to generate the minimum return, the banks would have recourse to a series of interventions, an interviewee noted:

If BSC doesn’t meet the target? It’s set out in the governance agreements between the banks and the Big Society Capital operating company, and it includes things like right to ask for meetings, right to see the management, and then it cascades into more and more serious measures

However, in practice, as of 2016, BSC had not reached the target levels of return set out in the equity agreement with the banks. Indeed, at the time of writing, the organisation had not yet broken even, let alone generated a return on its capital. This situation casts an interesting light on the nature of the equity agreement with the Merlin Banks. On paper, the banks have a range of legal rights that they can exercise if BSC transgresses the terms of their agreement. Yet, the banks have not so far used these rights even though BSC’s performance has not met the agreed targets. The Banks have the right to meet the Senior Management of BSC (including the Chair) to discuss performance.

One explanation for this is that the significance of the deal has declined in the eyes of the banks. Ultimately, £50m is a very small investment for a major high street bank to make, as one interviewee commented:

I also know, based on my experiences with the banks, they agonize over the detail of an investment like this and as soon as they make it before you know where you are you’ve got some junior associate who’s responsible, because it just isn’t that important, and it isn’t that much money

22 Note, however, that no such restriction exists for the money from the Merlin Banks. Since the two sources of capital are pooled the upshot is that BSC does in fact make investments outside of England.
23 However, it was a common misconception, at least at the outset, that BSC had a baseline cost of capital related to the banks’ investment, when in fact each investment was assessed on a case-by-case basis without reference to the any figure. Currently, BSC describes itself as having a target return across its portfolio of 4-6%: see https://www.bigsocietycapital.com/assessment-and-co-development.
Moreover, it is likely that over time the banks developed a better understanding of what BSC was trying to achieve and realized that insisting on a specified level of returns could be seen as undermining the whole endeavour. Yet, BSC is, clearly, not able to ignore the terms imposed by the banks indefinitely, since it is seen as important for the institution to maintain the commercial credibility it has gained in the eyes of the banks (and the wider market) through the Merlin Banks negotiating process.

BSC’s two sources of capital have, therefore, quite different restrictions attached to them. The dormant bank accounts money was restricted as to its destination, while the Merlin Banks’ equity investments were restricted in terms of the return profile of its investments. In the early stages of BSC, the option was on the table of keeping these sources of capital separate, meaning that the restrictions of one kind of capital did not apply to the other. This option was vetoed by the Cabinet Office amid concerns that the banks would be seen as ‘cherry picking’ the higher return options, an interviewee stated:

*When we first started negotiating with the banks, they wanted to have a separate pool of capital. And we were sympathetic to that. We went to the Cabinet Office and they said no way, they'll be seen as cherry picking. These are the bad people who caused the crash, they’re coming in on the same basis as everybody else. It’s got to be one pool of capital*

As a result all of BSC’s capital effectively goes into one ‘pool’ that is used as a single source of funds. This means all investments made by BSC are bound by all restrictions.

Moreover, even without the constraints from the Merlin Banks, it became clear that managers felt it was a key part of BSC’s mission to show that it could be financially self-sustaining over time as a signal to the wider social investment market, where ‘soft’ capital was often the norm. BSC had a clear strategy to protect its capital in real terms, cover its own operating costs, and make provision for losses – that is, the return on successful investments should be sufficient to cover the losses that are incurred when investments do not work out. BSC’s main source of income is the return it makes on its investments.24

In addition to these practical financial realities, BSC is also trying to prove a point, it was noted:

*We are not finance first by any mean, but we have to be sustainable and protect a capital and a small return. If we don’t we are proving that social investment doesn’t work*

Above all, BSC was focussed on trying to demonstrate to investors and investees that the principles of social investment could work in practice to deliver social impact and sustainable financial returns. However, the need for financial discipline attracted widespread criticism in terms of its restriction on making more financially risky investments, even when the potential for significant social impact was clear. BSC

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24 BSC also makes some income from investments in its Treasury Account that contains transfers from the Reclaim Fund linked triggered by commitments but prior to actual investments.
was, therefore, seen by many as being too risk averse and incapable of offering the sort of small-scale, unsecured, lending perceived as being primarily needed by the social sector.

**Social Returns**

Of course, each investment made by BSC is also expected to generate measurable social returns. In general, this was much more unfamiliar territory to the management team working in the early days of BSC. Many of the staff came from a pure finance background and were familiar with the models and analysis used to make an investment on financial grounds, but less familiar with how consideration of social return might be integrated into their decision-making, an interviewee commented:

<My background is investment management, so in terms of the investment side of it, that was very familiar from what I’ve done before .... The difference for me was the social angle – the things we’re investing in is what’s different...I’ve never looked at homelessness or unemployment or any of those issues before>

The issue of social return is inextricably bound up with the issue of social impact measurement. The imperative to find ways consistently to measure and understand social impact, but without creating overly burdensome data requirements, is one of the thorniest issues facing social investment as a field of activity. The issue was particularly difficult for BSC as its investments are two steps removed from the frontline where social impact is being created. BSC has contact with SIFIs, but no direct contact with the organisations in which they go on to invest, as an interviewee noted.

<We’ve done some substantial work here recently on impact and what our role in impact measurement should be. I’d have to say that it is one of the areas that disappoints me, is the lack of progress that has been made. Not just the UK, globally. If I look back to where we were 5 years ago, there’s been an awful lot of resources spent by an awful lot of people ... that is a testament to how horrendously difficult it is>

BSC spent some time considering how best to measure its social impact and concluded by developing a best-practice heuristic model known as the Outcomes Matrix.25 The Matrix captured a range of impact measurement approaches searchable by type of social impact intervention (mental health, employment, housing) and level of impact (individual, family, community). The resource was made publicly available. However, over time it became less clear how BSC themselves used the Outcomes Matrix.

**Building The Market for Social Investment**

On top of considering the financial and social return of each investment, BSC’s mission is also to build the market for social investment. ‘Market building’ is an

explicit consideration in each investment decision it makes. As set out in its 2013 investment strategy,

*Market development means understanding how each prospective BSC investment helps strengthen a component of the social investment market, and how each investment contributes to a larger, more sustainable and diverse market.*

Of course, BSC’s market-building activities extended beyond making individual investments. Staff members would spend significant time travelling around the country making presentations and spreading information about social investment. This was a matter of more and better communication, but it was also about searching out and actively targeting certain kinds of organisation in order to build the market, one staff member observed:

*If we want to do something in health, or we want to do something in Scotland, we want to do something in high risks small ticket size capital, we are going to have to go and – we are slowly beginning to realise that those are examples of where there is no provision of finance at all. So that is our role, right, to build the market. We are going to have to go and find intermediaries to help us develop proposals in that sense*

Pursuing BSC’s mission, thus, translated into a complex set of pressures and requirements, some of which were aligned and some of which were in tension with each other. One interviewee, for example, stated that some people within BSC interpreted their mission to be to preserve the value of their capital, whereas others interpreted it as building a functional marketplace, ‘which is not the same thing’.

**Interactions Between BSC and The Social Sector**

Finally, and importantly, BSC’s strategy was shaped by the needs and the demands of the social sector. The original justification for a social investment bank – to capitalise the social sector – grounded BSC’s mission in the needs of social enterprises and charities struggling to access capital from the mainstream market.

Relations between BSC and the social sector were - at times - tense. Several interviewees commented that problems were exacerbated by the profile of the staff team at BSC: many of them came from a finance background and did not have a deep understanding of how the social sector worked. BSC was sometimes interpreted as hostile and distant from the sector it was supposed to serve by some, it was noted:

*I think the – where we haven’t got it right – I think we talk or we are much closer to the financial than the social sector. So I don’t think we have got – this is partly reflected in the team, the structure of the organisation – on a staff level, not a board level, that actually we are not close enough to the social sector. And the social sector therefore sees us as a bit distant, a bit*

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hostile, a bit not really understanding what their needs are. Now I think there’s work that we need to do to get closer to the social sector, and to get the DNA of the social sector within the bank

Another interviewee pointed out that the strategy they had taken was to create the market from the top down first and that this was not universally popular,

*This is a very ‘build-it and they will come’ approach to the market. One legitimate question is can you build it the other way around, focusing on the investment readiness, focusing on sources, where is the customer, focusing on a much more organic approach? With building a wholesaler model comes some risk. And it is a sort of supply-side first. But what it does is it shakes it up and it gets everyone to notice. Whether logically it is the only way to build the market, I think it is probably not the only way and it is also way too early to say whether it is the right way

Nevertheless, despite this top-down approach, BSC was still reliant on a pipeline of SSOs that were ready and willing to take on social investment. The type and price of capital BSC offered, therefore, needed to be acceptable to at least a baseline number of SSOs. As a result, considerable flexibility was adopted in investment decision-making, one interviewee commented,

> *Basically, the way we price our capital... is three things: one is we have to protect our capital in real terms, we have to cover our operating costs, and we have to have provision for losses. ... The way we actually work, practically, is that we sell to the problem, so that if someone comes to us with a model, we look at it, and we say ‘well, we think it is this, they think it is that’ – we kind of to and fro. But basically we have things in our portfolio which are down at 3% and other at 12% and all the way along - and it always depends whether it is equity, Internal Rate of Return... So there is no standard pricing at all. And it is a complete misconception in the market that we do*

The initial flow of deals was, nevertheless, slower than had been hoped and BSC struggled to source many deals in its first two years of operation – though this improved considerably from 2015 onwards.

To support its pipeline development, BSC successfully advocated for the development of Social Investment Tax Relief, which became law in 2014. This is a new tax relief, agreed by HM Treasury, to incentivise individual investors to invest risk capital into certain smaller regulated SSOs, and receive a 30% tax break as a result. This aimed to create a new supply of social investment capital incentivized to take lower rates of returns compensated by a tax break. After the first two years of operation, 30 SITR deals had been completed amounting to £3.4m of assets under management.27

In a second market building initiative, in 2015, BSC announced a new institution that was designed to help increase deal-flow by means of targeted capacity support and a fund for small-scale loans to SSOs including grants and loans: *Access, the Foundation for Social Investment*. Capitalized with £100m (partly by the loan capital repaid to the Futurebuilders funds), this was positioned as a sister organization to BSC with its

team even located in the same office. The hope was that it would help seed a larger pool of potential investees within the social sector and, in the process, build a robust pipeline of future investments for BSC.

Summary

This case study has mapped out the complex story of how, over nearly a decade, Big Society Capital came into being as the world’s first social investment wholesaler. It has also highlighted it unique features and complex strategic aims. Several issues can be highlighted:

- The resources and persistence of a small group of influential individuals was very important throughout, as were their connections at the highest levels of politics. In the case of BSC, Sir Ronald Cohen played a pivotal role in this regard.
- It took a number of years for the project to develop. The idea for a social investment wholesale bank dovetailed with wider agendas supporting community development finance and social enterprise and the recognition of the potential to access funds from dormant bank accounts. But these ideas needed constant support and proselytizing.
- BSC’s emergence was also a function of patience and careful positioning. For example, key advocates carefully manoeuvred themselves into a position from where they were able to take advantage of a change in government in 2010. There was also a favourable policy context at a European level that ensured no obstructions through the State Aid approval process.
- The development of BSC was not administered in a particularly transparent manner. Beyond the initial consultations, it was driven by a group of individuals who worked closely with the Cabinet Office and did not appear to consider themselves accountable to the social sector more generally. It is up for debate whether they could have been as effective as they were if they had taken a more open and inclusive approach.
- Once founded, BSC needed to be adaptable and responsive to the market – this required it to be more flexible about financial returns than it had originally intended. It also led to the establishment of the Access Foundation as an acknowledgment of the need for capacity building around investment readiness in the social sector.
- As of 2016, BSC had still not broken even. One of the main reasons behind this is that interest rates have remained so low, so they earn very little on the money in their Treasury Account\(^\text{28}\).
- Relations may have improved between BSC and the social sector but scepticism remains as to the true potential of social investment to provide capital in a format that is suitable for most SSOs.
- BSC has played a leading role in developing new social investment initiatives, such as Social Investment Tax Relief, that can benefit SSOs without necessarily involving BSC capital.

\(^{28}\) As of 2016, there was roughly £250m in the Treasury Account. This account provided funds to cover initial operating costs - although the ultimate intention was that investment returns would cover these costs.
• Debates have also opened up regarding where the boundaries of the social sector lie – evidenced, for example, by the introduction of B-Corps (Benefit Corporations) into the UK in 2015. These have also revealed some of the difficulties of matching the demands of social investment with the embedded practices, structures and normative conventions of the social sector. In this context, it seems likely that BSC will be an influential player in arguing for a definition of social investment that includes capital invested in ‘profit-with-purpose’ organizations. Such organizations are not social enterprises or charities but, rather, conventional businesses that have some (as yet unspecified) social mission evidenced in their governance structure. Profit-with-purpose organizations may offer both better returns and larger scale investments to BSC – two things that may be strategically necessary for its long-term survival.

Conclusion

In 2013, Sir Ronald Cohen stood down as Chairman of BSC (but remained on the Board of BSC) and was replaced by Sir Harvey McGrath. McGrath was a distinguished career financier with an interest in the social sector and had formerly been Chairman of both the Prudential PLC and Man Group PLC. This significant change was followed, in 2015, by Nick O’Donohoe stepping down as the first CEO of BSC. He was replaced by Cliff Prior, the former CEO of UnLtd. By the end of 2015 BSC had 44 full-time staff and outgrew its first head office in Fleet Street moving instead to new offices in New Fetter Lane.

Several pressing issues were on the agenda for the new senior management team to address. Definitional issues continued to cause BSC difficulty, notably the issue of what was eligible for investment as a front-line organisation and as an intermediary (especially in terms of SSOs working in financial inclusion). Capital drawdown had been slow. A focus on creating new institutions and new products had meant long design periods before investments could reach the front line. Moreover, closing deals after a commitment had been made had taken far longer than expected. Fundraising for co-investment for its deals had proved harder than expected with more interest than investment in evidence. Moreover, some products wanted by SSOs had proved challenging to provide – mainly small, unsecured loans, which were seen as financially unsustainable.

Despite these issues, the figures for 2015, suggested that BSC has met its objective for a 1:1 match for signed deals as a wholesaler: a total of £195m had been drawn down to fund investments including £68m from BSC itself (see Appendix 6). Moreover, £587m of future investments had also been signed off, of which BSC’s commitment amounted to £261m. By these measures BSC was making good progress in terms of its objectives around market building and match funding. What remained to be seen was how well these investments would perform financially or, perhaps most importantly, what their overall social impact would be.
Appendix 1: Membership of the Social Investment Task Force

Original Members

- Sir Ronald Cohen (Chairman) – Chairman of Bridges Ventures, Chairman of The Portland Trust and Director of Social Finance
- David Carrington – Independent Consultant
- Ian Hargreaves (initial phase) – former Editor of New Statesman and Director of Cardiff University Centre for Journalism Studies
- Philip Hulme – co-founder of Computacenter and founder of the Hadley Trust
- Geraldine Peacock, CBE – former Chair of the Charities Commission
- Joan Shapiro – Chair of SeerAnalytics, LLC and former Executive Vice President of ShoreBank, Chicago
- Tom Singh, OBE (initial phase) – founder of New Look

Subsequent Members

- Dawn Austwick, OBE – Chief Executive of the Esmée Fairbairn Foundation
- Michele Giddens – Executive Director of Bridges Ventures
- Andrew Gowers – former Editor of Financial Times
- Ben Kernighan – Deputy Chief Executive of the National Council for Voluntary Organisations
- Ed Mayo – Secretary General of Co-operatives UK
- David Orr – Chief Executive of the National Housing Federation
- Danny Truell – Chief Investment Officer of the Wellcome Trust
- Stewart Wallis, OBE – Executive Director of the New Economics Foundation
Appendix 2: Membership of the Commission on Unclaimed Assets

- Sir Ronald Cohen (Chair) – Chair, Social Investment Taskforce, Bridges Community Ventures and The Portland Trust, and Honorary President, Community Development Finance Association
- David Carrington – Independent Consultant
- Andrew Gowers – Head of Corporate Communications, Lehman Brothers Europe and former Editor, Financial Times
- Susan Hitch – Chair, Balance Foundation
- Bernard Horn – Former Group Board Member of Nat West Bank
- Ed Mayo – Chief Executive, National Consumer Council
- Baroness Jill Pitkeathly – House of Lords, former Chair of New Opportunities Fund
- Geraldine Peacock – Former Chair, Charity Commission
- Danielle Walker–Palmour – Director, Friends Provident Foundation
Appendix 3: The Big Society Bank (“BSB”) Outline Proposal

May 2011

Introduction

The BSB has a critical role to play in developing and shaping a sustainable market for social investment in the UK, giving social sector organisations access to new sources of finance to help increase their social impact. The BSB will also act as social investment champion with the public, stakeholders and investors.

The policy framework for the BSB is set out in HM Government’s February 2011 document “Growing the Social Investment Market: A vision and strategy” and this proposal is presented in accordance with that document.

We have consulted with leading organisations from the social sector and have also discussed responses that the Cabinet Office received following the Ministerial announcement of 21 March which invited comments on the development of the proposal.

We recommend that the parent company of the Group be named “The Big Society Trust”, with an operating company as its subsidiary and a separate entity capable of receiving charitable donations to support the Group’s mission. The BSB Group is described in this document as the “BSB”.

Section 1 below sets out the proposed Mission, Objectives and Operating Principles of the BSB. Section 2 sets out how it would fulfil its twin objectives of acting as a wholesale investor as well as a driver for development of the sector. Section 3 outlines its proposed legal structure, governance, regulatory framework and accounting policies. Section 4 summarises its proposed management team, organisation structure and the policies and procedures it will adopt. Section 5 summarises its assumptions regarding capital structure, commentary on financial outcomes and proposed interim arrangements prior to State Aid clearance from the EU.

Section 1: Mission, Objectives and Operating Principles

The social sector, through its charitable investors and social organisations, already plays a significant role in tackling social issues. Its capacity to achieve maximum social impact is, however, severely constrained by a number of factors and in particular by its inability to access investment capital and its heavy dependence on donor finance. Removal of these constraints will enhance its capacity to deal effectively with important social issues such as:

- Achieving better attendance at schools;
- Supporting disabled people and other disadvantaged groups into the workplace;

Proposal submitted by Sir Ronald Cohen and Nick O'Donohoe to the Cabinet Office
Reducing homelessness and boosting affordable housing;
Reducing re-offending and promoting better alternatives to custody, particularly for younger people;
Delivering better outcomes for vulnerable children;
Delivering better prospects for chaotic families;
Providing better access to drug and alcohol rehabilitation programmes;
Improving healthcare in the community and reducing the need for hospital admissions;
Boosting preventative action in order to reduce the strain on the health system from chronic diseases;
Improving access to and control over finance for individuals excluded from mainstream banking;
Achieving effective mixed use of community assets, thereby enhancing community cohesion;
and
Encouraging entrepreneurship to stimulate employment in under-invested areas.

The BSB Mission and Objectives

The BSB’s mission will be to boost significantly the ability of the social sector to deal with social issues. It will do this by supporting the development of a social investment market which is more effective in attracting capital to achieve social impact.

The BSB’s objectives will be to help:

- Develop intermediaries to operate effectively between sources of capital and those in need, be they social ventures or individuals, and so to augment the flow of investment and skills to the social sector;
- Connect social entrepreneurs to the capital markets so that they can access growth capital;
- Support financial innovation so that social organisations can be rewarded for their performance in delivering valued social outcomes;
- Develop the investor market through the creation of social investment vehicles that support high growth ventures, as well as smaller local organisations; and
- Support the development of community-led, social enterprise initiatives to improve opportunities for young people.

Through its capacity to invest debt and equity, to co-invest with other investors and occasionally to protect investors against the risk of loss, the BSB will have the ability to accelerate the establishment of diversified social purpose funds, such as venture funds, property funds, community asset funds, microfinance funds and funds that invest in social impact bonds. Such funds will provide social and management expertise as well as investment capital to social ventures capable of expanding to deliver significant social impact as well as a financial return.

The BSB will spur development of the market infrastructure necessary to boost social entrepreneurship and investment by supporting the growth of existing and new intermediaries that can:
• Develop robust investment propositions with clearly articulated social and financial risks and returns;
• Provide reliable independent research on social investment opportunities and organisations; and
• Create effective financial markets to trade and issue securities.

An effective social investment market is crucial for social entrepreneurs whether they seek to scale existing organisations, to create new social ventures or to migrate social activities out of the public sector. Making capital, expertise and management skills available to social entrepreneurs, as they have become available to business entrepreneurs, is crucial to sustaining a powerful wave of social entrepreneurship.

Operating Principles

We support the adoption of the four operating principles for the BSB set out in HM Government’s February 2011 document “Growing the Social Investment Market: A vision and strategy”. These are: Independence from government, Acting as a wholesaler, Transparency and Self-sufficiency.

Independence

We have proposed a legal and governance structure (Section 3) which we believe meets the needs of the BSB. The parent company limited by guarantee (the “CLG”) would be responsible for maintaining over time adherence to the founding mission of the BSB. A private subsidiary company limited by shares (the “CLS”) would be the operating vehicle of the BSB. The CLS would be independent of government but accountable to the CLG Board which would include a government representative.

Transparency

The CLS would be managed according to the principles of corporate governance set out in the Financial Reporting Council Code. The BSB would publish detailed annual accounts including details of the financial and social impact of its investments and would act as a focal point for the sharing of information and expertise across the social investment sector.

Wholesaler

Our proposed investment policy assumes that the CLS would invest across a spectrum of equity, quasi equity and debt in intermediaries. Under the legislation, which will require clarification in due course, it cannot invest directly in individual social service providers. In its capacity building role, the CLS can invest directly if need be in new social organisations that add to the social investment market’s infrastructure, such as impact measurement organisations, securities exchange platforms and investment portals. We propose that the BSB should initially be managed as an unlevered institution which would not seek a banking licence.

Self Sufficiency

The BSB would, in time, cover its operating costs from the return on its investments. Our financial modelling suggests that this self-sufficiency could be achieved after an
initial period of five years or so during which there would be some attrition of the BSB’s capital.

**Section 2: The BSB as wholesale investor and social investment champion**

The BSB will have two key roles, as a wholesale investor and as a social investment champion.

**Wholesale investor**

The success of the BSB in achieving its mission will be driven largely by the deployment of its investment assets. It will provide long-term capital to support the growth of intermediaries and the infrastructure of an effective social investment market. Much of its investment portfolio will comprise assets whose returns are uncertain and whose liquidity is poor. In many respects, the closest parallel is a venture capital fund. The BSB will need to set an appropriate level of investment risk to achieve its social mission, while making sufficient financial returns to cover its operating costs and investment losses.

In estimating the financial returns of the BSB, we have drawn on the experience of the small number of financial intermediaries currently active in the sector. We have also taken into account investment proposals made to NESTA’s Big Society Finance Fund.

The BSB will not be a grant-making organisation. Funds deployed will therefore seek both financial and social returns. It is expected, however, that it will often partner with grant-making institutions such as the Big Lottery Fund (BLF), NESTA and foundations that share the BSB’s objectives.

We are mindful of the need for a wide regional spread of investments across the UK and this will be a factor in decision-making.

In modelling the financial performance of the BSB, we have split the demand for capital into five categories:

1. Co-investment of equity or debt in social-purpose funds managed by intermediaries;
2. Provision of subordinated capital to social investment intermediaries and funds;
3. Investment in existing intermediaries;
4. Investment in infrastructure organisations; and
5. Investment and underwriting for innovative financial products.

**1. Co-investments in funds**

The BSB will help fund-raising by acting, where appropriate, as a cornerstone investor in funds. Returns will vary widely from double digit to low single digit or even negative returns. Some venture capital-oriented funds may take five years or more to start returning capital and some socially-oriented funds may have little chance of third party exit and may achieve a pay-back only over a long time through participating securities entitled to receive a share of revenues or profits.
2. Subordinated capital

As part of the financing support it provides, the BSB will extend affordable loan finance, often in conjunction with equity or quasi-equity investment.

3. Investment in existing intermediaries

The BSB will strengthen the balance sheets of intermediaries and help to accelerate the growth of social organisations. Equity investments are likely to be held for the long term with limited running yield.

4. Investment in infrastructure organisations

It is critical if the BSB is to achieve its mission that it invests in the infrastructure of the sector. This requires the investment of long-term capital. Given the risks and long holding periods associated with such investments, they are likely to be structured as redeemable equity whose returns are dependent on revenues or profits.

5. Investment and underwriting for innovative financial products.

This category includes innovative financing products as well as commitments that the BSB might make by way of guarantees or underwriting.

As social impact bonds and other forms of outcomes-linked finance establish a track record of correlated social and financial returns, these types of investment are likely to enjoy strong growth.

To the extent that the BSB insures against first loss or takes underwriting risk, these exposures will be limited to a small proportion of its assets.

Social investment champion

The BSB will aim to create a market environment in which mainstream investors can find easy access to social investment vehicles and social organisations can attract capital from varied sources. Achieving these objectives will necessitate accelerated product innovation, process standardisation and a common understanding of best practice.

The long term success of the BSB will be measured by its multiplier effect, both financially and in terms of social impact. Financially, this will be measured by the amount of capital it succeeds in attracting to social investment as well as the growth and sustainability of the social investment market. In terms of social impact, it will be measured by the growth of significant intermediaries as well as growth in the number and scale of social organisations. Over the next two decades, its success will be reflected in the establishment of social investment as an accepted asset class.

The BSB will focus its efforts on the following areas:

Information sharing and networking

The BSB will seek to become a hub, connecting social enterprises with capital and support. It will do this by:
Providing web site access to industry data and market research;
Arranging events to promote social investment and best practice;
Connecting, via its web platform, enquiries from front-line organisations seeking capital to a range of intermediaries; and
Providing relevant information to the sector on government incentives and policies.

Research
The BSB will communicate research on such areas as:

- Best practice and replicable models;
- Developments in the social investment marketplace;
- Guides to new products and initiatives;
- Analysis of financial risks and returns across social investments;
- Social impact measurement; and
- Policy initiatives outside the UK and their relevance for the domestic market.

Capacity Building
The BSB will boost market capacity. It will do this by:

- Encouraging the development of robust intermediaries able to promote best practice among front-line organisations;
- Working with grant-makers to support initiatives directed at investment readiness;
- Facilitating access by social ventures to sources of investment capital; and
- Supporting the creation of a secondary market in social investment securities.

Promoting best practice
The BSB’s investment policies will typically require provision of finance to be linked with measurable social impact. It will also seek to ensure that best practice in areas such as governance, finance, risk control, social performance metrics and the use of innovative financial instruments is disseminated across the social sector.

Specifically the BSB will:

- Promote transparency of intermediaries in the utilisation of funds provided by the BSB;
- Publish in its Annual Report details of the social and financial performance of its investments;
- Promote innovative products such as Social Impact Bonds that link investment returns to social outcomes; and
- Promote initiatives that help communities to raise local capital for local provision of services.

Market development
The BSB will provide advice, in partnership with others where appropriate, on the social sector and on incentives to stimulate market development. It will do this
through:

- Advice to government on the needs of the social investment market, on relevant incentives and on opportunities to open public services to social ventures;
- Appropriate support and advice to regulators such as the FSA and Charity Commission on measures to develop the social investment market, reduce the cost of raising finance and increase broader participation by the investment community; and
- Partnership with banks to promote increased commitment to the social investment market in new product development, distribution, research, lending and investment.

Section 3: Legal Structure, Governance, Regulation and Accounting

We propose the structure set out below which, in our view, responds best to the legal and governance requirements pertaining to the BSB.

The BSB’s operating entity would be a private UK company limited by shares (the “CLS”). The principal advantage of a company limited by shares versus a company limited by guarantee is that it permits new equity investment and retains maximum flexibility to respond to possible needs for future capital. The mission and objectives of the CLS would be enshrined in its Memorandum and Articles of Association (“constitutional documents”).

There is no advantage in seeking PLC status as there is no present intention to offer shares in the CLS to the public at large.

The ordinary shares of the CLS would be held by a private company limited by guarantee (the “CLG”).

The BSB’s structure includes a charitable foundation whose purpose would be to receive charitable donations aimed at supporting the BSB’s mission, for example, by way of grants to venture philanthropy organisations whose purpose is to increase the investment readiness of strategic social organisations.

The £200m investment to be made by the Merlin banks (Barclays, HSBC, Lloyds and RBS) remains to be finalised. We commend the principle that the Merlin banks should supply long term permanent capital. We recommend that the Merlin banks’ capital is senior to the unclaimed assets in the event of liquidation.
**CLG Structure**

The CLG structure would comprise a Board of eight Directors including the Chair of the CLS. The CEO of the CLS would have the right of attendance at CLG Board meetings in an observer capacity. The CLS Chair and CEO would be excused from CLG Board discussions where a conflict of interest occurs. The CLG Board’s overall responsibility is to ensure that the CLS remains true to its social mission and it would have specific powers in this regard to remove the CLS Board if it felt this to be necessary.

The CLG Board would have the following composition:

- Two leaders of leading social sector organisations
- Two leaders of leading national organisations
- Two social sector nominees
- One representative selected by Government
- The Chair of the CLS

The CLG Board would select as Chair the most suitable candidate for the position. However, neither the Government representative nor the CLS representative would be eligible.

The CLG would meet once or twice a year. It would have access to CLS Board papers and reports. It would have specific powers:

- To remove the Directors of the CLS if it ceases to be managed in line with its constitutional documents;
- To approve any proposed changes to the CLS’s stated Mission and Objectives or to its constitutional documents; and
- To approve any changes to the stated remuneration policy or appointments policy of the CLS.

The CLS would provide funding as well as secretarial and ancillary support to the CLG. The Directors of the CLG would be unpaid.

**CLS Structure**

*The Board*

The role of the Board would be to support the efforts of the executive team and to hold it accountable for its performance according to the remit set by the constitutional documents of the CLS and CLG.

The Board would comprise a balance of skills and experience. Roughly half of the Board’s members would have financial or business backgrounds and half would bring deep knowledge of the social sector. Several Board members would have overlapping skills in both social issues and finance.

The Board would initially comprise 9 - 10 people of whom 7 - 8 would be non-executive including a Chair with a financial background. The Chair would be elected by the Board. The roles of Chair and CEO would be separate and the CEO and either
the COO or the CFO of the CLS would be members of the Board.

The CLS would have regard to the Main Principles laid down by the FRC Code, and amended from time-to-time, as if the CLS were a public limited company.

The Articles would give the Directors the power to make donations to the BSB’s Foundation. Such donations could become appropriate if regular profits were made by the CLS.

The Board will initially meet monthly. Once the CLS has become fully operational, the Board would probably meet four to six times a year.

Directors would generally serve for terms of three years and would be submitted for re-election on a staggered basis. No non-executive director including the Chair could serve for a period greater than nine years. The CLS would need to inform the CLG before co-opting an individual to its Board if an appointment is contemplated prior to formal nomination.

Candidates for Board membership would be appointed following a formal process led by a Nomination Committee of the Board to which the Board would appoint a combination of internal and external members. Candidates short-listed by the Nomination Committee would be interviewed and the final decision would rest with the Board, with due regard to the 50/50 balance of Board member expertise in social and financial matters and to the expertise required for a sophisticated financial institution operating in the social sector.

The company would arrange appropriate legal indemnity cover for its Directors.

**The Advisory Board**

The object of this group is to bring prominent practitioners from the social, financial and business sectors to advise the CEO and help drive speedier implementation of the BSB’s programme. It would comprise up to 15 people. Members would be appointed by the Board on the recommendation of the CEO to serve for a period of two years at a time on a staggered basis. The Advisory Board would meet twice a year.

**The Investment Committee**

This group would comprise executives of the CLS. Directors of the CLS could serve on the Investment Committee subject to exclusion from decisions where conflicts might arise.

**The Remuneration Committee**

The Remuneration Committee would be composed of non-executive directors of the CLS. It would set remuneration policy for CLS’s senior management team. The committee would receive evidence on internal and external trends in remuneration and benefits, including commissioned reports and surveys where necessary.

The CLS Articles would enshrine the principles of its remuneration policy, with changes subject to the approval of the CLG Board.
The remuneration policy for the senior management of the CLS would be designed to attract talented individuals who are highly motivated by the BSB’s social mission.

The remuneration policy would:

1. Adhere to the principle of benchmarking remuneration by reference to other significant social sector organisations;
2. Provide fair remuneration commensurate with individual responsibility and contribution, including the potential to reward junior and middle ranking staff for outstanding performance during a year; and
3. Have due regard to any relevant legal requirements, the provisions and recommendations in the UK Corporate Governance code and associated guidance.

Details of remuneration levels paid to the Directors and to the highest paid staff would be disclosed in the Annual Report as would any remuneration paid to non-executive directors.

Other committees of the CLS Board would include audit and risk committees.

**Charitable Foundation**

This entity would be incorporated by guarantee with charitable status. Its purpose is to receive donations and put charitable funds to work in direct support of the CLS’s mission to develop powerful intermediaries and a thriving social sector, with a particular focus on investment readiness. It would not provide grants alongside CLS investments.

The foundation would receive philanthropic donations from third parties as well as such monies as the Board of the CLS decided to donate if profits were regularly generated in the CLS.

The Trustees would include some members of the CLS Board as well as external figures with relevant experience who share a strong commitment to the BSB’s mission.

**Regulation and Accounting Policies**

The CLS will be regulated by the FSA. There is no current intention to become a bank or to seek a banking licence though this may become appropriate in the longer term.

The CLS has a choice between adopting UK GAAP and IFRS.

The CLS would produce an Annual Report to the standards of a major listed UK public company incorporating its social and financial performance. Its accounts will be audited by a leading firm of auditors.

**Section 4: Management and Organisation Structure, Policies and Procedures**

**Organisational structure**

Set out below is an organisation chart for the CLS.

**Management**
The senior executive team would comprise the CEO, COO, CFO, Head of Investments, Head of Social Investment Banking Services and Head of Communications. Of this group, the CEO and another executive director would be members of the Board. Other senior executives would include compliance and risk officers.

Once funding is available, the core team would be recruited to establish the CLS and to set in place a recruitment process to enlarge the team.

The CLS will wish to build up expertise within its team but it will use existing intermediaries where possible as a cost-effective alternative to employment. The CLS will also seek to attract talented individuals on secondment from institutions in the social, government, financial and business sectors as a way of retaining flexibility, reducing costs and spreading understanding of the social sector and social issues. Its recruitment policy will conform to best practice standards.

We have assumed an initial team of about 10 largely senior executives and that the team would grow to some 20-25 people reasonably shortly after the launch of the BSB, though with a cautious approach focused on recruiting team members with the appropriate skills.

**Operating Costs**

The CLS will in general use a combination of full time employees, part-time employees, secondees and consultants to maintain a lean management and organisational structure. The principal elements of operating cost will be people and premises, with significant spend likely to be incurred in areas such as product development, market research, communication and championing activities focused on the public, stakeholders and investors.

**Policies and Procedures**

The BSB will adopt standard policies and procedures for risk management.
The Investment Committee will be appointed by the Board on the recommendation of the CEO. The CLS will require regular reporting about the performance of its investments in funds and will share with the public on an annual basis information about the social impact and financial returns achieved.

The Investment Committee will undertake a portfolio review at least on a semi-annual basis and will adjust the values of each investment. The annual independent audit review would require a full discussion of fair value and impairment.

Compliance and risk management policies would include approvals of new investments and conflicts of interest.

Section 5: Capital Structure, Operating Costs, Financial Modelling, Interim Arrangements

Capital Structure

It is our understanding that the Minister for the Cabinet Office will instruct the BLF to transfer unclaimed assets to the CLS for no consideration.

We assume that monies from the Merlin banks will be paid to the CLS in exchange for non-assignable securities.

For purposes of modelling, we have assumed that the CLS would receive over a period of five years all of the English portion of the dormant bank accounts money (which has been estimated at around £400m for the whole of the UK) and that the Merlin banks’ investment of £200m is received in stages over the first two years.

Operating costs

It is expected that the CLS will number about 40 people in total when fully operational. Staff costs are modelled as salaries plus social charges with no allowance for performance-based pay. Consultant costs assume that the CLS would receive advice on a range of issues.

Premises costs assume a location in London’s outer West End.

Financial modelling and possible outcomes

We have modelled a range of allocations to the categories of investment outlined in Section 2 above. There is limited data on which to place reliance. Modelling assumptions are based on a balance between social investments which are likely to yield positive returns and social investments where returns are likely to be uncertain.

In our view, there will be some attrition of the initial capital over the first five years or so due to the gradual inflows of funds from unclaimed assets, the need to cover initial operating costs, the elevated weighted average risk of the portfolio and the time lag before returns are achieved. However, our modelling indicates that on the central assumptions adopted, the BSB will earn a return on its investments sufficient to cover its operating costs within five years or so after its launch.

In the longer term, once the CLS reaches self-sufficiency, it may be appropriate to
leverage the institution moderately in order to increase the capital that can be deployed to increase social impact.

**Interim Arrangements**

It is assumed that an interim committee will be established by the Big Lottery Fund to make investments from dormant bank account monies during the period prior to State Aid approval. It has been assumed that any investments made would be transferred to the CLS at accounting fair value for no consideration once the CLS commences operations.
Appendix 4: Board of Directors (2016)

- Sir Harvey McGrath – Chair, BSC
- Cliff Prior – CEO, BSC
- Sir Ronald Cohen – Non-Executive Director, BSC
- Anne Wade – Director, Heron Foundation
- Dai Powell – CEO, HCT Group
- David Carrington – Independent Consultant
- Danielle Walker-Palmour – Director, Friends Provident Foundation
- Fiona Ellis – Independent Consultant
- Keith Smithson - Managing Director, Treasury at Barclays
- Sarah Smart – Director, SmartCats Consulting
- Susan Rice - Chair of Scottish Water
Appendix 5: Board of Trustees, Big Society Trust (2016)

- Baroness Jill Pitkeathley – Chair, House of Lords, former Chair of New Opportunities Fund
- Sir Stephen Bubb - Ex Officio, CEO ACEVO, rotating with NCVO
- Peter Holbrook - Ex Officio, CEO Social Enterprise UK
- Helen Stephenson - Ex Officio, appointed by the Accounting Officer for the Cabinet Office
- Robin Budenberg - London Chairman of Centerview Partners
- Stephen Howard - CEO of Business in the Community,
- John Kingston - Chair of Access: The Foundation for Social Investment
- Harvey McGrath – Chair, Big Society Capital
- David Robinson – Founder Community Links