COMMUNITY ENTERPRISE GROWTH PLAN

Consultation response guide for supporters of the Community Enterprise Growth Plan

Introduction

The Department for Digital, Culture, Media and Sport is consulting on the English portion of dormant assets funding. The consultation can be found **here**.

The consultation deadline is **23:45 on Sunday 9 October 2022**.

You can respond by completing **the response sheet** and emailing it to dormantassetsconsultation@almaeconomics.com.

If you are unable to submit your response electronically, you can **download this document** and post it to: Dormant Assets Team, DCMS, 4th Floor, 100 Parliament Street, London, SW1A 2BQ.

This guide

This guide provides information which will help supporters of the Community Enterprise Growth Plan (CEGP) to respond to the consultation. It contains:

1. Details of the most **relevant section of the consultation document**
2. **Campaign narrative** and **headline messages** for your submission
3. **Key facts** to help evidence your arguments
4. **Case study examples and resources** to support your submission
5. **Contacts** if you have any questions

Appendix A: provides the **Consultation response from The Community Enterprise Growth Plan Coalition** for your reference.

1. Relevant section of the consultation document

The relevant section of the consultation is Section 3, which asks about social investment. The section provides a relative response option and an open answer (questions 18 and 19 respectively).

When responding to **Question 18**, Supporters of the CEGP should respond that they **"strongly agree" that social investment wholesalers should remain a cause** in the Dormant Asset scheme in England.

18. To what extent do you agree or disagree with the following statement?

"Social investment wholesalers should remain a cause of the Dormant Assets Scheme in England".
(select only one)

- **Strongly agree**
- Agree
- Neither agree nor disagree
- Disagree
- Strongly disagree

19. Please explain the reasons for the answer you have given.

(open answer)

COMMUNITY ENTERPRISE GROWTH PLAN

2. Campaign narrative and headline messages

When responding to **Question 19**, you may wish to use elements of the following text:

- We **strongly support** the inclusion of social investment as a cause of the Dormant Assets Scheme in England.
- Over the last decade, the Dormant Assets Scheme has made a transformative impact to the communities **most in need of levelling up**
  - *A deep-dive analysis by the Social Investment Forum finds that 43% of social investment deals have gone to Levelling Up Priority 1 Areas, totalling £520 million across nearly 2,000 deals.*
  - *One in five social enterprises (23%) are based in the most deprived communities in the country according to the Index of Multiple Deprivation. Social enterprises working in these communities were twice as large as social enterprises working in other parts of the country, showing that businesses can thrive in the toughest of markets.*[1]
- There is now an opportunity to build on these foundations and take this further through a **Community Enterprise Growth Plan**.
- The Plan is a smart way to deploy limited funds and deliver tangible change at pace in places and communities most affected by the global Covid-19 pandemic, most at risk from the cost-of-living crisis and most impacted by long-term economic decline.
- By combining a range of proven interventions, the Plan will build on what has been achieved in growing the social investment market over the last decade and will ensure that this established infrastrcuture can best support the communities which need it the most.
- Having built the foundations of the social investment market over the last decade, we now need dormant assets to support a broader range of tools within the social investment field including:
  - extending the availability of small, unsecured loans through blended finance;
  - introducing match trading and other enterprise grant activities to catalyse early-stage enterprise growth;
  - expanding non-profit community lending to improve access to finance for small enterprises; and
  - providing tailored business support for start-ups and early-stage entrepreneurs.
- The proven model has established routes to market, ensuring that money can begin flowing to communities quickly – **providing investment at pace**.
- Crucially, through social investment the money invested is **repaid and recycled, enabling funds to be used again and again to grow future support**.
- It also brings **additional private capital into social investment deals**, funding solutions to chronic policy problems such as unemployment or housing.

[1] State of Social Enterprise, 2021.

  - *An investment of £500m in the Plan over ten years would unlock at least the same amount of private capital, doubling the amount available to communities, and multiplying its impact*
- This is **not about handing down top-down solutions** to communities that have witnessed decades of failed interventions but instead **supporting and investing in them on the ground** to deliver positive impact in a financially sustainable way.
- This **hand up, not handout** gives local entrepreneurs access to the finance and support they need to grow their business models – often in places where standard forms of investment are hard to secure - it enables them to boost the local economy, get more people into work and help people struggling with the cost of living.
- Without this investment of dormant asset funds, there is a substantial risk to these communities if support for social investment is withdrawn.

3. Key facts

About Social Enterprise

- The UK's 100,000 social enterprises employ **2 million people and contribute £60bn to the UK economy**. These businesses represent **3% of GDP and 5% of UK employment**.[2]
- A 2019 New Economics Foundation cost-benefit analysis found that **£60,000 of investment into social enterprises creating inclusive employment yielded £1.75m** in social value to the economy.[3]
- Despite accounting for only 1.7% of the UK's business population, **social enterprises employ 5% of the UK's workforce**. Moreover, **for every £100,000 of turnover, social enterprises create 3 jobs**. This compares to 0.66 jobs created for every £100,000 of turnover in the private sector.
- Social enterprises create disproportionately more jobs in the poorest communities – **creating and sustaining over 600,000 jobs in the most deprived communities**, around **30% of their total jobs** created.
- Social enterprises invest in the skills of their workforce, with **74% of social enterprises investing in work and training for their staff**.
- **76% of social enterprises pay the independently accredited Living Wage to all employees** and engage staff in the running of the business.
- The **five-year survival rate of the enterprises supported by the School for Social Entrepreneur's largest UK programme is 66%**, outstripping the UK business survival rate of 44%.
- A recent analysis by Aston University indicates there are **around 230,000 existing small businesses each year that are unable to get the bank finance they need.** Further analysis by Responsible Finance has estimated that between **50,000 and 60,000 of these businesses could support debt at a reasonable level of risk if debt were provided affordably and flexibly**.

[2] Capitalism in Crisis; Social Enterprise UK: 2019.
[3] https://www.unltd.org.uk/blog/insights/new-study-reveals-how-cost-effective-social-ventures-can-be/

About Community Enterprise Growth Plan interventions

- Blended finance enables finance to flow to organisations it otherwise could not reach. A recent independent review, commissioned by DCMS and conducted by NPC, has highlighted how blended finance has enabled "organisations in some of the poorest areas to grow and increase their impact—either through reaching more people or through improving their impact."
- One example is the Growth Fund, a partnership between Access – The Foundation for Social Investment, Big Society Capital and The National Lottery Community Fund. A quarter of all investments under the Growth Fund have been made into the most deprived 10% of neighbourhoods (IMD 1): four times that of the wider social investment market. Half of all Growth fund investments have been in the most deprived 30% of neighbourhoods (IMD 1-3).
- Independent evaluation showed that recipient organisations in the Growth Fund increased revenue by 43% in the three years following social investment and staff numbers increased by 50% on average.
- Over 90% of CDFI borrowers have previously been turned down by mainstream lenders.
- 93% of CDFI lending is outside of London and the South East, compared to 68% of all SME loans and overdrafts. On average 50% of CDFI lending is to the 35% most deprived areas – almost double that of traditional lenders.
- Match trading is a form of enterprise grants, pioneered by the School for Social Entrepreneurs. It incentivises social entrepreneurs to acquire customers and grow through trading. Social enterprises receiving Match Trading grants, alongside enterprise learning programmes, typically increase their income from trading by 64% within a year, and this uplift is sustained in subsequent years.

Social Investment achievements over the last ten years

- Following the pioneering investment of dormant asset funds over the last decade and the work of dormant asset spend organisations and others, social investment in the UK has **grown eightfold to more than £6.4 billion** invested into charities and social enterprises, creating a well-established market that is **growing more than twice as fast as mainstream capital markets**.
- This includes **£1.2 billion committed to charities and social enterprises in 2020, representing 1,152 transactions** supporting a wide range of causes from employment, training and education, support for vulnerable families, social and affordable housing and local facilities, financial inclusion, mental health and well-being.
- Since 2012, **Big Society Capital has invested over £425 million of dormant assets money alongside £200 million from their bank shareholders** to grow a range of social investment funds. Big Society Capital has leveraged other capital alongside

dormant assets, turning it into **more than £2.5 billion of new capital** available to organisations with a social or environmental mission. This equates to more than **£3 of matched funding for every £1 invested**.

4. Case studies and resources

Case studies

Fair For You

- Fair for You was established in 2015 to provide an alternative to high-cost lenders.
- Owned by a charity whose mission is to alleviate poverty, Fair for You focuses on providing affordable and flexible credit to its customers.
- For example, an average loan of £350 from Fair for You would cost around £61 compared to £305 from a door-to-door lender or £350 from a payday lender.
- For Fair for You, it is more than just the lower cost of finance; they also pride themselves on delivering a more ethical and customer-centric service, treating their clients with dignity and respect.
- In its first five years, an independent social impact report showed that Fair for You had generated £50.5 million of social value for more than 33,500 customers, including helping 71% of them to move away from high-cost credit.
- Their impact goes well beyond financial loans, with 68% of their customers seeing their health improve, for reasons including reduced anxiety and stress, better diet, or reduction in bad backs and other discomfort caused by sleeping in old or broken beds.
  - ➢ Full case study
  - ➢ Video

Veterans at Ease (via Key Fund)

- Veterans at Ease is a leading Military Mental Health Charity, committed to helping Veterans, Reservists, Serving Military Personnel and their families deal with Post-Traumatic Stress Disorder (PTSD) and other combat stress-related issues.
- The charity provides free therapy and support through a technique called NLP by trained therapists (all of whom have suffered themselves, been through treatment with Veterans at Ease and then gone on to qualify).
- During Covid, the charity experienced a 180% uplift in demand.
- Veterans at Ease now has five charity shops in the North East, two with therapy centres on the premises.
- Turnover will be £400,000 this year, with a projected £1m turnover by the end of 2023. They currently employ 31 full and part-time staff.
  - ➢ Full case study

Citizen Coaching (via Key Fund)

- Citizen Coaching works to help people achieve better lives through accessible and affordable counselling, anger management and skills development.
- It operates two social enterprises that offer apprenticeships, work experience and employability: Citizen Click and Citizen Home.

- For every £1 invested in Citizen Coaching's mental health services there is a return of £7 (reduction in hospital visits, less anti-social behaviour, reduction in homelessness and crisis intervention, better relationships, access to employment and training). The service offers free sessions to those unable to pay; with over 90% of clients reporting a significant increase in their well-being.
  - Full case study

Foodworks Sheffield (via Key Fund)

- Foodworks Sheffield works with volunteers across Sheffield to save food waste.
- It now has two community cafes, a catering service, an educational programme working with 19 primary schools in Sheffield, alongside a warehouse and pay-as-you-feel.
- The cafés serve 60 people a day, each ran by a chef working alongside volunteers. Both chefs, now employees, began as volunteers.
- 200 volunteers are signed up, with 50-100 new volunteer requests a week.
- Working with supermarkets and other food businesses, Foodworks Sheffield saves 500 tonnes of food every year from landfill, making a huge difference for our planet.
  - Full case study

Cost-of-living crisis impact: Open Kitchen

- Open Kitchen operates commercial kitchens across three sites, two of which form part of a café operation.
- Open Kitchen's commercial operations enable it to provide food to vulnerable people in the community.
- As energy bills continue to rise, Open Kitchen's commercial clients increasingly can't afford to pay for food, squeezing margins significantly.
- Furthermore, as the energy bills of Open Kitchen's clients rise, it is likely that commercial clients will cut discretionary spending and customer number will drop.
- Without vital revenues, Open Kitchen will have to cut back its operations supporting vulnerable people.

Resources

- **Pioneers Post**, Anna Paton (24 August 2022): Staying afloat: five social enterprises helping Britons through the cost of living crisis

- **Letter to the Financial Times** (16 August 2022): Time to unlock investment in community enterprises, Nick Hurd Chair, Access — The Foundation for Social Investment, London EC4, UK

  Peter Foster cites evidence to show that England's poorest areas are those least supported by charities (Report, August 8). That's just one of the reasons why the work of social enterprises is so vital. Analysis by the Social Investment Forum finds that 43 per cent of social investment deals have gone to so-called levelling up priority 1 areas, totalling £520mn across nearly 2,000 deals.

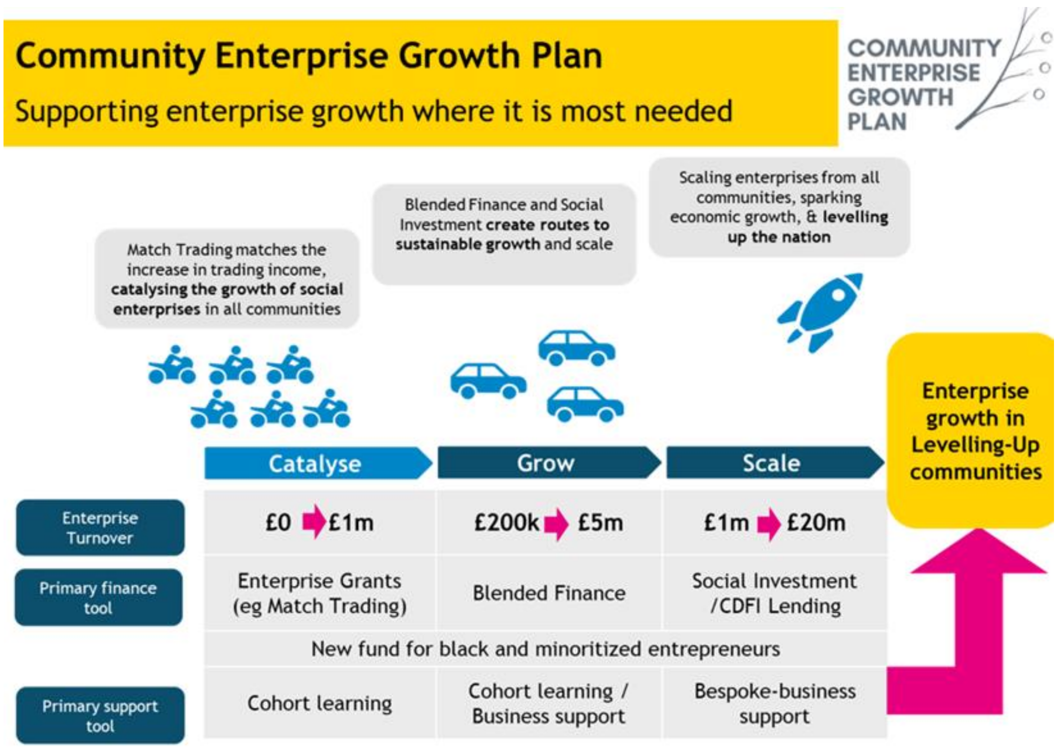
  The government has recently launched a consultation on how best to use the almost £1bn of dormant assets residing in the UK financial system. The scheme has already brought to life over £800mn of investment in positive change across the UK and recipient *organisations are delivering jobs — growing staff numbers by 50 per cent on average within three years — while addressing complex social and economic problems in their communities.*

Alongside investment in a community wealth fund to more aggressively tackle regional inequalities, a new community enterprise growth plan would create further jobs, boost growth and support levelling up by unlocking new investment for community enterprises — the community-based businesses, social enterprises and trading charities taking entrepreneurial approaches to tackling social problems.

A new prime minister will soon be trying to tackle a formidable range of challenges. Putting dormant assets to optimal use through social enterprises would be a smart place to start.

Nick Hurd
Chair, Access — The Foundation for Social Investment, London EC4, UK

5. CEGP infographic



6. Contacts

For further help or support responding to the consultation, contact:

- **Chloe Stables**, Campaign co-ordinator, Access: M: 07855 847 878 / E: chloe.stables@access-si.org.uk

- **Tess Godley**, Senior Policy and Strategy Manager, Big Society Capital: M 07963214825 / E tgodley@bigsocietycapital.com
- **Toby Orr**, Partner, Shearwater: M 07736 175311 / E toby@shearwater.global
- **DCMS Dormant Assets team** (who can answer any technical questions about your submission): dormantassetsconsultation@almaeconomics.com

7. Appendix A: Consultation response from The Community Enterprise Growth Plan Coalition

18. To what extent do you agree or disagree with the following statement?

"Social investment wholesalers should remain a cause of the Dormant Assets Scheme in England". (select only one)

- **Strongly agree**
- Agree
- Neither agree nor disagree
- Disagree
- Strongly disagree

19. Please explain the reasons for the answer you have given.

(open answer)

The Community Enterprise Growth Plan coalition strongly support the inclusion of social investment as a cause of the Dormant Assets Scheme in England. Building on a demonstrable track record over the last decade, our vision for the next phase of dormant assets would see social investment create jobs, boost growth and support levelling up across England.

We know that people and communities right across the country have the talent, motivation and ideas required to build viable enterprises that create good jobs, support their communities and solve local problems - but we need to make sure they can access the finance they need to sustain or grow their organisations.

Social investment being a focus of the Dormant Assets Scheme has made a transformative impact to the communities most in need of levelling up; there is now an opportunity to take this further through a Community Enterprise Growth Plan. The Plan is a smart way to deploy limited funds and deliver tangible change at pace in places and communities most affected by the global Covid-19 pandemic, most at risk from the cost-of-living crisis and most impacted by long-term economic decline. Without this investment of dormant asset funds, there is a substantial risk to these communities if support for social investment was withdrawn.

This requires long-term systemic investment to channel appropriate finance to those places and communities that have not benefited from this type of investment in the past. Having built the foundations of the social investment market over the last decade, we now need dormant assets to support a broader range of tools within the social investment field including:

- extending the availability of small, unsecured loans through blended finance;

- introducing match trading and other enterprise grant activities to catalyse early-stage enterprise growth;
- expanding non-profit community lending to improve access to finance for small enterprises; and
- providing tailored business support for start-ups and early-stage entrepreneurs.

We represent a group of voluntary sector and community representative bodies, enterprises and social investors. Members include:

- Access – the Foundation for Social Investment
- Big Society Capital
- Impact Investing Institute
- Global Steering Group for Impact Investment
- Navca
- Power to Change
- The School for Social Entrepreneurs
- Social Enterprise UK
- Social Investment Business
- Responsible Finance
- UnLtd

Others who wish to express their support for this submission include:

- The National Council for Voluntary Organisations (NCVO)
- Charity Finance Group (CFG)
- Association of Chief Executives of Voluntary Organisations (Acevo)
- Association of Charitable Foundations (ACF)

Social Investment and dormant assets

- Social investment makes finance available to organisations which exist mainly for a social purpose and those who create positive social impacts in communities. Like businesses, they need capital to grow so they can have more impact and help more people in their local communities. These vital organisations often struggle to access finance from mainstream lenders like banks.
- Social investment enables community enterprises and community-led businesses to grow their income or buy assets to better meet local needs. This can mean buying or refurbishing a building, enabling the purchase of new equipment, or providing start-up funding for a new service or support for expanding an existing one.
- Following the pioneering investment of dormant asset funds over the last decade and the work of dormant asset spend organisations and others, social investment in the UK has grown eightfold to more than £6.4 billion invested into charities and social enterprises, creating a well-established market that is growing more than twice as fast as mainstream capital markets.
- This includes £1.2 billion committed to charities and social enterprises in 2020, representing 1,152 transactions supporting a wide range of causes from the arts,

heritage, and sports to citizenship and community, conservation and the environment, employment, training and education, support for vulnerable families, social and affordable housing and local facilities, financial inclusion, mental health and well-being.

Shifting the focus of social investment

- While the last decade has focussed on establishing market infrastructure and growing the overall market, the next ten years of social investment must be about ensuring that communities across the country benefit equally from it.
- This means building on the investment made to date, introducing innovative approaches and targeting the flow of finance to places and communities that may not have benefitted in the past.
- For example, blended finance significantly widens the reach of social investment to communities which can not otherwise benefit. Funds from The National Lottery Community Fund and dormant assets have supported blended finance in the past but these are timelimited interventions and the grant subsidy is expended as risks are realised.
- Long-term support for blended finance would further increase the reach of appropriate investment products to the communities which need them most.

Dormant assets can drive long-term systemic change through investing in community enterprises

- Community enterprises are the social enterprises, trading charities and community-based businesses taking entrepreneurial approaches to tackling social problems.
- The Community Enterprise Growth Plan would create high-quality jobs and growth in communities affected by long-term economic decline.
- It would build on the development of the social investment market over the last decade, and pave the way to use the social investment infrastructure built over the last ten years in new ways, widening and deepening access to tools and support that community enterprises need to sustain or grow their impact.
- It would also support organisations that solve local social and economic problems, help foster renewed civic pride and protect against the impact of the cost-of-living crisis.
- The plan is a route for deploying dormant assets rapidly, delivering Levelling Up and transforming the sense of opportunity in communities across the country within this Parliament.
- This is not about handing down top-down solutions to communities that have witnessed decades of failed interventions but instead investing in them to deliver positive impact in a financially sustainable way.

The Community Enterprise Growth Plan - empowering communities with the tools they need for tomorrow

COMMUNITY ENTERPRISE GROWTH PLAN

- The Community Enterprise Growth Plan is a proposal to improve places, in particular so called 'left behind' places, through creating high-quality jobs, boosting growth and support levelling up by unlocking new investment for community enterprises.
- An investment of £500m over ten years would unlock at least the same amount of private capital, doubling the amount available to communities, and multiplying its impact - as the use of loans to enterprises allows it to be recycled over and over again and go even further.
- The plan – backed by social investors, enterprises and charities - uses existing systems to allow new Dormant Assets to begin flowing quickly and deliver results within this Parliament, building on 10 years of experience of investment in community enterprises.

Improving places through high-quality jobs and growth

- Many of the projects we would finance through the plan are concentrated in post-industrial areas that have experienced significant decline across multiple generations – and which are being most affected by the cost-of-living crisis.
- These community enterprises nearly always emerge out of the communities themselves and create good jobs and provide services that are needed locally.
- The Community Enterprise Growth Plan would channel new investment into communities across England that have struggled to attract it – delivering levelling up without any call on the taxpayer.
- This type of investment would create good jobs, often in places where new employment is rare and for people who many firms would be reticent about employing. In this we build social confidence and drive down anti-social behaviour and low-level crime.
- It would boost entrepreneurship and enterprise by empowering those who want to take new, business-led approaches to solving social problems – whether that is by launching a new innovative project, running community transport, supporting young people to develop new skills, improving arts and leisure facilities or helping those with long-term health conditions find employment.
- It would create new customers and new trading activity – generating more finance in the local economy and freeing up public and philanthropic funds so that they can be focused on the challenges that are less likely to generate income.
- This approach provides a hand up, not a handout. By giving local entrepreneurs access to the finance and support they need to grow their business models – often in places where standard forms of investment are hard to secure - it enables them to boost the local economy, get more people into work and help people struggling with the cost of living.

Supporting social enterprise in all its forms

- The UK's 100,000 social enterprises employ 2 million people and contribute £60bn to the UK economy. These businesses represent 3% of GDP and 5% of UK employment.[4]
- A 2019 New Economics Foundation cost-benefit analysis found that £60,000 of investment into social enterprises creating inclusive employment yielded £1.75m in social value to the economy.[5]
- Despite accounting for only 1.7% of the UK's business population, social enterprises employ 5% of the UK's workforce. Moreover, for every £100,000 of turnover, social enterprises create 3 jobs. This compares to 0.66 jobs created for every £100,000 of turnover in the private sector.
- Social enterprises create disproportionately more jobs in the poorest communities – creating and sustaining over 600,000 jobs in the most deprived communities, around 30% of their total jobs created.
- Social enterprises invest in the skills of their workforce, with 74% of social enterprises investing in work and training for their staff.
- 76% of social enterprises pay the independently accredited Living Wage to all employees and engage staff in the running of the business.
- The five-year survival rate of the enterprises supported by the School for Social Entrepreneur's largest UK programme is 66%, outstripping the UK business survival rate of 44%.

Providing investment at pace

- Our proven model builds on 10 years' strong track record of using Dormant Assets to invest in social enterprises, community businesses and trading charities and supporting community enterprises to rebuild their communities from the bottom up.
- As there are established routes to market, money can begin flowing to communities quickly.
- While these are proven and reliable ways of delivering transformative change, the Community Enterprise Growth Plan is not simply a continuation of what has come before. It would be the first coordinated drive to grow community enterprise by combining proven interventions at scale.
- It will use social investment infrastructure built over the last ten years, coupled with proven institutions that have pioneered new approaches, to grow community enterprise in the places and communities which need them the most, widening and deepening access to tools and support.
- Additionally, the impact will be highly measurable through data including that around job creation, the quality of those jobs (measured against the Taylor Review's 6 high-level indicators) and organisational resilience. In addition, addressing ambitions set out in the Levelling Up White Paper to encourage enterprise and empower local communities.

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[4] Capitalism in Crisis; Social Enterprise UK: 2019.
[5] https://www.unltd.org.uk/blog/insights/new-study-reveals-how-cost-effective-social-ventures-can-be/

Creating viable funding streams and leveraging private capital

- Crucially, through social investment the money invested is repaid and recycled, enabling funds to be used again and again to grow future support for trading charities and social enterprises.
- It also brings additional private capital into social investment deals, funding solutions to chronic policy problems such as unemployment or housing.
- There is a clear track record of this. Since 2012, Big Society Capital has invested over £425 million of dormant assets money alongside £200 million from their bank shareholders to grow a range of social investment funds. Big Society Capital has leveraged other capital alongside dormant assets, turning it into more than £2.5 billion of new capital available to organisations with a social or environmental mission. This equates to more than £3 of matched funding for every £1 invested.
- In particular blended finance structures enable mainstream investors to play a role in supporting enterprises and communities which would not otherwise match their risk and return requirements.

Targeting places affected by economic decline

- Dormant assets funding has not only been successful in leveraging external capital so that more social enterprises and charities can access repayable finance at a much larger scale, it has also targeted support to the most deprived parts of the UK.
- A deep-dive analysis by the Social Investment Forum finds that 43% of social investment deals have gone to Levelling Up Priority 1 Areas, totalling £520 million across nearly 2,000 deals.
- One in five social enterprises (23%) are based in the most deprived communities in the country according to the Index of Multiple Deprivation. Social enterprises working in these communities were twice as large as social enterprises working in other parts of the country, showing that businesses can thrive in the toughest of markets.[6]
- The growth of blended finance - where grants or other subsidies are provided alongside - has accelerated the growth of smaller charities and social enterprises in England, particularly those unlikely to have taken on social investment before. A recent evaluation concluded that the Growth Fund[7] increased financial resilience, and the majority of participants directly attributed this to the support they received.

The Community Enterprise Growth Plan – how would it work?

[6] State of Social Enterprise, 2021.
[7] The Growth Fund is a partnership between The National Lottery Community Fund and Big Society Capital, delivered by Access through a range of social investors., It makes up to £50m available to support charities and social enterprises to grow and create social impact in their communities.

This plan would use new Dormant Assets to deliver three proven interventions that reinforce each other:

1) **Extending the availability of small, flexible affordable loans to smaller community enterprises through blended finance – this is using a mixture of grants and loans which has proved highly effective, particularly for enterprises in the most deprived communities.**

- Since its creation in 2015, Access has expanded the reach of social investment, enabling smaller charities and social enterprises, often based in the most deprived communities in England, to access the finance they need.
- Supporting these organisations often requires a combination of grant and social investment – or "blended" finance. Without some grant in the system, social investment itself can't always support these organisations because of the financial risks and costs involved.
- A recent independent review, commissioned by DCMS and conducted by NPC, has highlighted how blended finance has enabled "organisations in some of the poorest areas to grow and increase their impact—either through reaching more people or through improving their impact."
- The reach of blended finance is reinforced by a number of other reviews, the Adebowale Commission on Social Investment concluded that a lack of subsidy in social investment would 'leave a significant hole in the marketplace, particularly for the smallest social enterprises and those operating in the most deprived communities.'
- This follows similar conclusions of the Oversight Trust in 2021 who found that the ongoing provision of blended capital and enterprise development through Access is 'essential to the charity and social enterprise sector's impact in the most deprived communities.'
- One example of a blended finance programme is the Growth Fund - a partnership between The National Lottery Community Fund and Big Society Capital, delivered by Access through a range of social investors. It makes up to £50m available to support charities and social enterprises to grow and create social impact in their communities. The Growth Fund uses a combination of grant funding, made possible thanks to National Lottery players, and loan finance from Big Society Capital and other co-investors, to address specific gaps in the social investment market.
    - Half of the of Growth Fund invested in the most deprived 30% of neighbourhoods - four times that of the wider social investment market.
    - Independent evaluation showed that recipient organisations in the Growth Fund increased revenue by 43% in the three years following social investment and staff numbers increased by 50% on average.
    - A quarter of all investments under the Growth Fund have been made into the most deprived 10% of neighbourhoods (IMD 1): four times that of the wider social investment market. Half of all Growth fund investments have been in the most deprived 30% of neighbourhoods (IMD 1-3).

  - 26% used the investment to scale up their existing activities such as buying new premises, equipment or employing more staff. 10% used the investment to cover shortfalls in cash.
- Investment from Dormant Assets would be used to provide the grant subsidy that would sit alongside repayable finance. The repayable finance part of the blend is a sustainable source of capital, partly as a result of how Dormant Assets money has been used over the last decade to establish and grow the social investment market.
- By its nature, the grant element of the blend requires an ongoing supply of subsidy. There is a clear role now for Dormant Assets to maintain market infrastructure and ensure impact is not lost over the next decade.
- Investment from Dormant Assets should also support start-up funding for a £50m black-led social investment fund as recommended by the recent Adebowale Commission on Social Investment, supporting enterprises that have been historically under-invested in and therefore less able to deal with external shocks.
- This would help to tackle barriers of access for Black-led social enterprises and others which have been underserved and put power and resources into those communities which have experienced disadvantage.
- This would take the form of a Black-led and focused social investment intermediary, overseen by Black social investors, intermediaries and social enterprises with the express remit of widening the pool of finance to Black-led social enterprises.

2) Improving access to finance for promising community enterprises and small businesses that struggle to access lending from mainstream banking by investing in non-profit community lenders

A recent analysis by Aston University indicates there are around 230,000 existing small businesses each year that are unable to get the bank finance they need to grow, innovate and create new jobs in their local communities. Further analysis by Responsible Finance has estimated that between 50,000 and 60,000 of these businesses could support debt at a reasonable level of risk if debt were provided affordably and flexibly.

These would-be borrowers are often micro-businesses and small community enterprises that play a vital role in a local community's economic and social fabric. Non-profit community lending organisations Community Development Finance Institutions (CDFIs) already play an important role in filling this shortfall:

- **Enterprise lenders focussed on viable businesses with a social impact:** CDFIs are community focused lenders which operate as non-profit social enterprises. Their objective is to support foster enterprise in deprived areas and among disadvantaged groups.
- **Creating additionality:** over 90% of CDFI borrowers have previously been turned down by mainstream lenders. CDFI lending creates high levels of measurable economic additionality.
- **Leveraging in private investment:** lending through the Recovery Loan Scheme enables CDFIs to leverage up to £4 of private investment for each £1 of dormant assets.

Supported by new dormant assets, commercial banks have indicated their interest in providing CDFI lenders with £100mns of private investment.

- **Tackling spatial inequality where finance is harder to access:** being locally based CDFIs are rooted in place; 93% of CDFI lending is outside of London and the South East, compared to 68% of all SME loans and overdrafts. On average 50% of CDFI lending is to the 35% most deprived areas – almost double that of traditional lenders. CDFIs tackle head-on the issue of spatial inequalities in access to finance identified in the Levelling Up White Paper and which is currently a subject of specific review by the Levelling Up Advisory Group.
- **Meeting the needs of disadvantaged groups:** CDFIs lend disproportionately to women and ethnically led businesses, tackling major issues of inequality raised by the Alison Rose Review and research by The Centre for Research in Ethnic Minority Entrepreneurship at Aston. Both of these reviews raised access to finance as a major barrier to entrepreneurship for particular demographics.
- **Improving outcomes through pre and post application support:** CDFIs provide more than 30,000 hours each year of pre- and post-loan support to customers, which improves their investment readiness and chances of succeeding in the long-term. Around 90% of CDFI borrowers successfully repay their loans and go on to grow their businesses.
- **Providing taxpayers with value for money:** CDFI lending supported by loan guarantees and tax reliefs generates a Benefit-cost ratio (BCR) of over £6 for each £1 of taxpayer support. Previous funding programmes have returned a Government cost per job through CDFI lending of £2,500, compared to an overall programme target of £37,0005[8].
- **Recycling dormant assets:** under the current Community Enterprise Investment Facility (CIEF) CDFIs are on track to repay all the dormant asset investments plus 4% interest and deliver outstanding social impact. Investment of dormant assets into CDFIs is creating impact now and will continue to do so long into the future.

Historically enterprise lending CDFIs have attracted a modest level of dormant assets (around £30mn). With a renewed Government focus on the broader role of enterprise in levelling up and supporting communities, this new round of dormant asset distributions presents an opportunity to provide a greater level of support for the CDFI sector.

CDFIs report that the major constraint on their capacity to increase lending is not demand for borrowing, but their ability to raise capital to lend. And they are already lending at close to capacity. The key to unlocking significant additional lending capacity is to use dormant assets as first-loss capital in combination with higher levels of private investment. Mainstream commercial banks are increasingly recognising the value of CDFIs and stand ready to support them with higher levels of match funding.

[8] Wynne, R. (2020) Responsible Finance Regional Growth Fund Final Review.

3) Introducing match trading to enhance the reach of dormant assets in levelling up areas and providing associated business support to catalyse growth

Social investment and blended finance have created routes for many social enterprises to grow and scale. However, for other small or early-stage enterprises working in challenging markets, a third category of social investment is needed: match trading - incentivised grants that encourage trading activity. Unlike traditional grant funding, which can create grant reliance, Match Trading[9], when coupled with enterprise support, catalyses enterprise growth and creates an on-ramp for accessing blended finance and other forms of social investment.

- **Incentivising trading growth:** Match trading, pioneered by the School for Social Entrepreneurs, incentivises social entrepreneurs to acquire customers and grow through trading. Coupled with enterprise learning programmes, match trading grants help leaders to realise their strengths and create financially resilient enterprises that are better placed to drive social and economic change in communities.
- **Improving enterprise resilience:** Match Trading matches actual growth in trading income £ for £ with a grant. For every additional pound an organisation generates through trading activity, they are rewarded with grant funds to match (up to a predetermined cap e.g. £10k).
    - Social enterprises receiving Match Trading grants, alongside enterprise learning programmes, typically increase their income from trading by 64% within a year, and this uplift is sustained in subsequent years.
    - Match Trading grants drive a 9.5% increase in traded income as a proportion of total revenue[10].
- **Reaching levelling up places:** Over one third of social enterprises supported by SSE are based in the 20% most deprived areas of the UK. Social enterprise leaders supported by SSE are 66% women, 16% disabled and 20% racially minoritised people. Over two thirds have lived experience of the issue they are tackling through their enterprise[11].
- **Growing capabilities:** Practical support increases business skills and confidence and enhances investment outcomes. Forms of support include enterprise learning programmes, business advice services for social impact start-ups, support to access investment, mentoring for early-stage entrepreneurs and targeted grant support for social entrepreneurs from disadvantaged backgrounds.

All three interventions are complementary and proven, multiplying their respective impacts while building on existing infrastructure so there are no expensive set-up costs. Additionally, the impact will be highly measurable through data including that around job creation, the quality of those jobs (measured against the Taylor Review's 6 high-level indicators) and organisational

[9] Match Trading has been adopted by 10 UK trusts and foundations who have collectively committed £10m. Match Trading is championed by a Task Force of 21 sector partners.
[10] Trading Up: Match Trading for Community Businesses as a powerful incentive for regeneration post-COVID (online, October 2020).
[11] SSE Annual Report (online, 2020/21).

resilience. In addition, addressing ambitions set out in the Levelling Up White Paper to encourage enterprise and empower local communities.

Removing subsidy from social investment

- Over the last six years since the establishment of Access, blended finance approaches have helped social investment reach much further and deeper into communities. Without further support for the grant in blended finance structures this progress will be lost.
- Without access to suitable capital, charities and social enterprises in deprived places and communities will be unable to sustain or grow their impact. As a result, they will be less financially resilient and self-reliant. This would directly impact their beneficiaries and the communities they support.
- Without support from Dormant Assets, a lack of investment will be felt most keenly in the poorest areas of our country and by underserved groups. In the absence of other funding (such as European Structural Funds), we miss out on a practical and evidence-based approach to delivering against the Levelling Up missions (specifically missions 1 and 9) and the broader aspirations set out in the Levelling Up White Paper to encourage enterprise and empower local communities. Crucially, an opportunity to address the untapped potential for enterprise within communities and amongst protected groups will have been missed.
- By failing to develop and support enterprise, we would also increase pressure on other income streams such as public funds, grant-making and individual giving.
- Evidence from the NPC review of blended finance indicates that a withdrawal of subsidy would lead to a 'collapse' in the blended finance market. Without subsidy from Dormant Assets, this unique, affordable finance simply wouldn't exist. This is partly because the review found that alternative, philanthropic sources which could step in instead of Dormant Assets, e.g. trusts and foundations would be unable to meet the scale required in the short and medium term to maintain this market.
- This review also highlights how withdrawing the subsidy for blended finance would disproportionately impact on the most disadvantaged as enterprises in these areas and communities find it hardest to access mainstream finance.
- In addition without dormant asset support, major constraints to lending will continue with a gradual reduction in the growth of CDFIs (Community Development Finance Institutions) at a time when mainstream banks are becoming more conservative and the need for CDFIs is growing.

Conclusion

- Social investment has been delivering for communities across the country for more than a decade. Further investment of dormant assets will help turbocharge those initiatives and provide demonstrable evidence of levelling up to communities affected by economic decline.

- The Community Enterprise Growth Plan would represent the first coordinated drive to grow community enterprise by combining proven interventions at scale with new, evidence-based approaches, which increase the relevance of Dormant Assets to levelling up priority areas.
- Including this vision of social investment as a recipient cause to the Dormant Assets scheme would enable this important work to continue to evolve benefiting community enterprises across the country, creating high-quality jobs, solving local social and economic problems and helping to foster renewed civic pride and protect against the impact of the cost-of-living crisis.

-Ends-