Consultation on the English portion of dormant assets funding
Response from The Community Enterprise Growth Plan Coalition

Section 3 - Social investment

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".

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

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

The Community Enterprise Growth Plan Coalition

The Community Enterprise Growth Plan Coalition represents an **extensive group of voluntary sector and community representative bodies, enterprises and social investors**. Members include:

1. Access – the Foundation for Social Investment
2. Big Society Capital
3. The Impact Investing Institute
4. The Global Steering Group for Impact Investment
5. Navca
6. Power to Change
7. The School for Social Entrepreneurs
8. Social Enterprise UK
9. Social Investment Business
10. Responsible Finance
11. 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)

__Shifting the focus: Catalysing Community Enterprise__

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, to support for vulnerable families, social and affordable housing and local facilities, financial inclusion, mental health and well-being.

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. 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.

The Community Enterprise Growth Plan would **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**.

__How the social investment model works__

Social investment makes finance available to organisations which exist mainly for a social purpose and those which create positive social impact in their 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.

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.

Example: *Citizen Coaching*

Citizen Coaching helps 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.

A loan from Key Fund of £60k allowed Citizen Coaching to scale up their model, recruiting more counsellors, freeing their time to secure new contracts. The investment saw an increase in counselling sessions to 7,500 per year.

For every £1 invested in Citizen Coaching's mental health services there is a return of £7 through 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.

See Full case study

Social enterprise: the facts

- 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.[1]

- 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.[2]

- 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 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.

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

- 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%.

Example: *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.

Social investment played a key role in growing the organisation's social impact. In November 2017 Fair For You received investment from Big Issue Invest and Social Investment Scotland as part of a larger £3 million round of financing, and prior to that received catalytic loans from a group of charitable foundations.

"Because what we were doing was so new, we wouldn't have had access to commercial investors when we were starting out; the social investment space was where we could really sell the value of what we were doing."

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.

See Full case study and Video

Supporting the most deprived communities

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**.

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.

According to the Index of Multiple Deprivation, **one in five social enterprises (23%) are based in the most deprived communities in the country**. 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.[3]
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 **increased financial resilience**, and the majority of participants directly attributed this to the support they received.[4]

Example: *Veterans at Ease*

Based in Gateshead, 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 neuro-linguistic psychotherapy (NLP) by trained therapists (all of whom have suffered themselves, been through treatment with Veterans at Ease and then gone on to qualify).

Social investor Key Fund gave the initial grant and loan investment to open its first charity shop in Whitley Bay in 2018, supporting the charity to grow and expand its trading income and boost its resilience. This soon grew to five charity shops in the North East, two with therapy centres on the premises.

During Covid, the charity experienced a 180% uplift in demand and in 2021 Key Fund gave a further £100k investment to expand into Norfolk and Tees Valley, where they are on track to open five more shops.
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.

See Full case study

[3] State of Social Enterprise, 2021.
[4] 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.

The Community Enterprise Growth Plan

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**.

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 (incentivised grants that encourage trading activity) 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.

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.

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**.

Providing investment at pace

The 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**.

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.

The Community Enterprise Growth Plan – how would it work?

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 – through 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 – the Foundation for Social Investment 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.[5]

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 which 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. **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

[5] https://access-socialinvestment.org.uk/

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[6].

- **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.

[6] 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[7], 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.[8]

- **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[9].

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

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[7] 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.
[8] Trading Up: Match Trading for Community Businesses as a powerful incentive for regeneration post-COVID (online, October 2020).
[9] SSE Annual Report (online, 2020/21).

The consequences of removing subsidy from social investment

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.

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**.

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 no significant alternative, philanthropic sources which could step in instead of dormant assets. Trusts and foundations, for example, 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.

Example: ***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 people who are currently experiencing food insecurity in Greater Manchester.

Social investment has played an important role in enabling Open Kitchen to grow and, as energy bills continue to rise, Open Kitchen's role in the local community is more important than ever.

We strongly support the inclusion of social investment as a cause of the Dormant Assets Scheme in England

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.

-Ends-