

**Response by the Social Enterprise Coalition to the HM Treasury's  
Consultation on the Unclaimed Assets Distribution Mechanism**

**Contact:** Kieran Larkin

**Telephone:** 020 7793 2325

**Email:** [kieran.larkin@socialenterprise.org.uk](mailto:kieran.larkin@socialenterprise.org.uk)

## **The Social Enterprise Coalition's Response to the HM Treasury's consultation on the unclaimed assets distribution mechanism**

1. The Social Enterprise Coalition was established in 2002 as the national voice of social enterprise. The Coalition represents a wide range of social enterprises, umbrella bodies and networks, with a combined membership reaching over 10,500 social enterprises.
2. Social enterprises are businesses with primarily social or environmental objectives whose surpluses are principally reinvested for that purpose in the business or in the community, rather than being driven by the need to maximise profit for shareholders and owners. Social enterprises in the UK generate more than £27 billion in turnover, and contribute more £8 billion to GDP per year.
3. In preparing this response the Coalition consulted widely with our members. This included hosting a working group, in which leaders from finance providers and social enterprise came together to discuss social investment. A list of participating organisation can be found in Annex A.
4. The Coalition welcomes the consultation on the distribution of unclaimed assets. Whilst we recognise the Government's decision to prioritise the use of the available assets in youth services and financial inclusion, we strongly support the promotion of social investment. We believe that social investment will provide a long term, sustainable finance solution for the third sector. Social enterprises often cite access to finance as a critical barrier in their path to success. These businesses are often generating a profit but lack access to higher-risk finance and equity, or equity like products, particularly in the growth stage.
5. Whilst recognising the need for finance, it is important not to lose site of our objective. The purpose of creating investment of such scale is to unleash the potential of entrepreneurs and enable entrepreneurs to realise social aims.

### **Are the principles underpinning the distribution of the available surplus assets the right ones?**

6. The Coalition supports the principles for distribution, and in particular the focus on youth services and financial inclusion. However, the Coalition would suggest that these principles may be inappropriate for the proposal of social investment.
7. The independent Commission on Unclaimed Assets commission consulted widely in producing its report '*The Social Investment Bank: Its organisation and role in driving development of the third sector*'. The report identified the need to create a new institution to develop the UK's undercapitalised third sector.
8. The House of Commons Treasury Select Committee recently published their report '*Unclaimed assets within the financial system*', indicating strong support for the social investment. The report states "*By choosing youth services and financial capability and inclusion as the primary recipients of funds, the Government will miss an ideal opportunity to improve the financial strength of the third sector. We see a clear need for a Social Investment Bank, the establishment of which relies heavily on it receiving significant funding through unclaimed assets.*" The committee was supportive of the concept of social investment as opposed to traditional grant giving, and stated that it wanted Government to allocate sufficient resources to a Social Investment Bank.<sup>1</sup>

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<sup>1</sup> Unclaimed assets within the financial system: Eleventh Report of Session 2006–07, House of Commons Treasury Committee, July 2007.

9. Support for social investment was reiterated in the recent Third Sector Review which stated "*The Government is strongly attracted to boosting social investment and is keen to find ways to develop this as part of wider third sector policy over the 2007 CSR years. The Government will commit resources to boost social investment.*"<sup>(5.44)</sup><sup>2</sup>
10. The Coalition welcomes the Government's recognition of the importance of social investment, and its vital role both in developing the third sector and in maximising the potential of the social enterprise movement. The Coalition proposes, therefore, that social investment is put on an equal footing with the other priorities identified by the consultation.
11. As recognised by the commission, it is essential that the unclaimed assets are viewed as a unique opportunity, and that these funds work to establish an enduring legacy. It is important that the funds are effectively distributed and are not pressured into being rapidly committed without due consideration. Thought needs to be given to how the money can be used for long term benefit. The Coalition proposes that given the unique opportunity of the unclaimed assets, the legacy of the fund should be considered as an additional cross cutting principle. The principle of delivering practical projects also seems to remain within the confines of traditional grant style funding arrangements. The third sector requires a more innovative approach in the use of funds, particularly with regards to long term sustainability, and the subsequent long term social outputs of these businesses.
12. With this in mind, the Coalition would suggest that social investment has the potential to provide a more sustainable and longer term social benefit than distributing the assets via traditional third sector grants.
13. Efficiency in the management of the fund should therefore not be at the expense of the fund's effectiveness. There could be a temptation to distribute the fund in an efficient manner, committing the money quickly to a wide range of sources, without an understanding of the impact trying to be achieved, or a plan to ensure that the funds are viable in the long term. This strategy could lead to a series of low impact investments. Whilst the Coalition is in full support of a transparent institution that does not have excessive administration costs, these principles should not be at the expense of maximising the social impact achieved.
14. Whilst it is important that a diverse range of communities across the country are eligible for this scheme, we are concerned that such a target could lead to a suboptimal distribution of resources. The Coalition recommends the need to consider flexibility in choosing investments based on merit.
15. The current principles outlined for the distribution of the fund appear to favour traditional grants. Whilst we acknowledge the demand for a greater availability of grants, social enterprises are also looking for new types of financial product. Moreover, it is clear that the nature of the transfer of the unclaimed assets, with a large proportion recouped in the first year followed by further smaller funds, seems unlikely to be sustainable if distributed purely as grants. If the funds are not put out in a recyclable structure, the value for future years is unlikely to be sufficient to deploy with any real impact.
16. The unclaimed assets provide an opportunity to fulfil the demand from social enterprises and the wider third sector, for new forms of finance. It would be a missed opportunity to see the money disappear purely in non-recoupable, unsustainable grant funding.

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<sup>2</sup> The future role of the third sector in social and economic regeneration: final report, HM Treasury and Cabinet Office, July 2007.

**Where is the greatest need for finance and funding for third sector organisations that is not currently being met in the market?**

17. The third sector's greatest need for investment is in growth and sustainability, to provide the opportunity for organisations to operate at a greater scale, and to improve their social impact. These themes are unlikely to be fulfilled by traditional grant funding and the short term solution it provides. Grant funding also cements a short term financial mentality which conflicts with the pursuit of organisational sustainability.
18. There is a significant lack of underlying investment across the whole of the third sector. Whilst there are a number of grant schemes available, these are often fixed to output requirements and do not assist organisations looking to build capacity, achieve sustainability or fund growth and expansion. The government's consultation accepts the restrictions that grants and contracts may place on an organisation (4.6)<sup>3</sup> and the difficulties such grants create in generating a surplus. There is a great need for external finance that can allow an organisation to work to self defined objectives to generate more income in the future, and increase their social benefit.
19. Social investment is a market which requires support to develop. This will require a supply of capital and a provision of skills in developing demand. There is currently a gap in the third sector in regard to the provision of suitable financial products such as equity, or equity like products. There is also a lack of investment knowledge; organisations require assistance to become investment ready.
20. Whilst there are organisations that currently offer loan type finance, the market does not provide a source of high risk finance. The Social Investment Bank (SIB) could make investments that carry a higher level of risk than other institutions are able to make. In order to achieve this, such an institution would need to be sufficient in size to enable it to aggregate a number of different forms of investments, allowing it to price out the risk of offering finance.
21. The Coalition is, however, keen to ensure that a social investment market will work to promote the needs of social enterprise and the wider third sector. It is important that the majority of the investment is not channelled to private business working in areas of deprivation. Although these organisations carry out worthwhile work in areas of exclusion, they will still primarily be driven by the need to maximise shareholder value. Unlike social enterprises, their pursuit of social and environmental objectives will ultimately come second to making a financial return. Social enterprises should be the favoured recipients of an investment bank.
22. The Coalition does not, however, see a problem in capitalisation of smaller Community Development Finance Institutions (CDFI's) that predominantly offer micro-finance loans. These CDFI's are social enterprises themselves, and their lending is a part of their social good. Investment in such CDFI's would constructively add scale to the market.

*"I am involved in a project to provide low cost biomass fuelled energy to local residents. I am in favour of long term finance arrangements and believe they hold the key to the sustainability of such enterprise that is concerned with improving the lives of communities."*

- Mick Jones, All Saints Action Network

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<sup>3</sup> Unclaimed assets distribution mechanism: a consultation, HM Treasury, May 2007.

**Is there a need for a specialist social investment wholesale institution?**

23. The Coalition believes that there is a strong need for a wholesale institution. In order to build the social investment market, the organisation needs to be independent, flexible, risk taking, and capable of being a market shaper. Only a specialist organisation is likely to have the skills and scope necessary to fulfil this role.
24. A specialist wholesaler would also need to be of sufficient scale to leverage significant private sector capital. Allowing the third sector to access private finance would multiply the value of the unclaimed assets and with it the social benefits that the fund would produce. The Commission estimates that investment of £247million in the first five years would attract an additional £738million pounds of private capital<sup>4</sup>.
25. The scale of a specialist wholesaler would also allow it to attract skilled professionals from the private financial sector, and would lead to growth in other forms of social investment, for example the development of an asset class.
26. A specialist wholesale institution would also be well placed to work with the range of existing intermediaries, so as not to displace their function and to supply them with additional support. A wholesaler would be able to identify gaps across the marketplace, and not be forced to oversupply specific areas. For example, filling the individual gaps such as equity with focused funds could be counterproductive for the sector.

**Is this the best means of increasing the investment available to sustainable third sector organisations?**

27. The Coalition believes that a specialist wholesaler would be the best approach to increasing investment available to the third sector. Through its size and balance sheet it would be able to bring in additional private capital. It would be supportive of the current marketplace rather than driven by narrow targets. It would also be in a position to develop new products designed to meet the specific financial needs of the sector.
28. It is important that such an organisation should remain sufficiently flexible to allow its knowledge and approach to inform its ability to react to priorities. The benefit of a specialist wholesaler would be diminished if it were overburdened with targets and constraints. The institution must be able to make informed decisions based on current market conditions and not overcapitalise nascent markets. The institution would need to be able to identify where there is a revenue stream, and then look to react and commit investment.
29. One of the key characteristics of a private investment bank is the ability to be responsive and make decisions quickly. Consequently we believe that any social investment bank must have the ability to replicate these characteristics.

**If so, what kind of activities should the wholesaler focus on?**

30. The wholesaler's activities should aim to develop both the supply and demand of investment within the third sector, particularly to social enterprises. It should make investments, whether equity or equity-like, use its balance sheet as a guarantee to leverage further private finance, help existing intermediaries raise further finance for investment and help develop new forms of financial products.

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<sup>4</sup> The Social Investment Bank: Its organisation and role in driving development of the third sector, The Commission on Unclaimed Assets, March 2007.

31. In order to build demand, the wholesaler should support the growth of social enterprise by providing and encouraging the development of financial advice to help with investment readiness, and work to build a base of quality market knowledge.
32. There is a need to build social enterprises financial skills. A great deal of money has been spent on consultancy, which has been of a mixed standard. Support has also primarily focused on start up organisations, at the expense of organisations in their growth period. This phase requires a different set of support needs.
33. There is also currently a lack of market knowledge, partly because no institution has the mandate to develop financial information for the third sector. This lack of knowledge undermines the third sector's performance. One of the goals of a specialist organisation should be to improve market information.
34. A specialist organisation, in the development of a market, could also assist in the standardising of a model of social accounting that would allow social enterprises to demonstrate the blended return they are able to produce.
35. The Coalition would suggest that any institution should embody the values and goals of the movement, so that it provides an example of financial and social practice. It should be a sustainable, entrepreneurial and non-profit-distributing organisation.

**Is the proposal to use the Big Lottery Fund as the primary UK-wide distribution vehicle for the available surplus assets the right one, based on the principles for distribution outlined in this document?**

36. The Coalition believes that The Big Lottery Fund (BIG) is the correct mechanism to distribute the unclaimed assets for youth services and financial inclusion. BIG could also be an effective path in providing capital to a specialist wholesaler. However, BIG's skills are based in providing grant investment, primarily to front line services, and the management of an investment institution requires significantly different expertise. We believe that BIG's role in the management and distribution of the unclaimed assets fund, in regards to building social investment, should be to transfer the money into another institution that would operate as a specialist wholesaler (as provided for in 6.12)<sup>5</sup>.
37. The wholesaler itself should be an innovative, sustainable institution which has excellent links with, and knowledge of, both the third sector and the third sectors financial needs. It is also important that such an organisation works with current intermediaries so as not to undermine their position, but rather to build their market share.

**What are the different approaches that the Big Lottery Fund could take to the distribution of the available assets to ensure they deliver maximum benefit to communities? How should BIG best work with other intermediaries and delivery partners to ensure the best outcomes?**

38. As previously stated, the Coalition believes that in order to deliver the maximum benefit, recyclable investment rather than traditional grant funding will deliver long-term results. The unclaimed assets should be used in the creation of a social investment bank, and BIG should work with this partner in delivering these funds.

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<sup>5</sup> Unclaimed assets distribution mechanism: a consultation, HM Treasury, May 2007.

39. BIG recognises that its strengths and skills are in grant making, and that it lacks knowledge of financial investment. It has also made admissions that its structure sometimes prevents it from being as responsive as it would like, and that it would be reluctant to mix its brand with the drawing in of private capital. BIG however, does represent an important arbitrator between a specialist wholesaler and government.
40. It is important that if BIG were to operate as the distributor of this fund, it should take a light touch approach that would allow the organisation running the Social Investment Bank sufficient autonomy.

**Do you agree with the proposals for how legislation will work in relation to the distribution of these assets?**

41. We support the proposal that a social investment bank should report to either BIG or Parliament. This would ensure that the fund strategy would not be affected by short term political considerations, that it would remain independent and that it could act in the best interests of the third sector. We understand that this is achievable within the legislation proposed.
42. The Social Investment Bank could be regulated by an existing authority, i.e. the Financial Services Authority, to ensure that its finance investment work adheres to all current relevant legislation and best practice.
43. The Coalition would also like to support the proposal that small, locally based institutions such as some co-operative banks would be able to distribute assets at a local level through an arm's length charitable body.

**Recommendations**

- The government should use a proportion of the unclaimed assets to support social investment. This should be an equal priority along with youth services and financial inclusion.
- To support social investment there is a need to use an independent specialist wholesaler institution.
- The activities of the institution should build both supply and demand by drawing in private sector finance, capitalising existing intermediaries, and building financial awareness and creating market knowledge.
- Social enterprises should initially be the primary benefactor of social investment. It is important that this fund is not dominated by private business in areas of deprivation.

**SEC Policy Team  
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## **Annex A**

On Monday, 23 July the Social Enterprise Coalition held a working group to look at the Unclaimed Assets Distribution consultation, and particularly at the proposal of a social investment bank.

Representative from these organisations were present at the meeting:

- Adventure Capital Fund
- Bates Wells & Braithwaite
- Community Innovations
- The Big Invest
- Futurebuilders
- Big Lottery Fund
- Nesta
- The Commission on Unclaimed Assets
- Unltd
- Shared Interest