Social Enterprise UK

Build Back Britain:
using COVID savings for public good

Foreword

COVID-19 is still with us, but we must start thinking about how we reclaim our lives and recreate a better future.

The Prime Minister is committed to levelling up the country and tackling the regional inequalities which have dogged the country for decades. The legacy of COVID and the response to COVID has made change more important than ever.

We need to unleash the potential of entrepreneurs and businesses across the country to create, innovate and hire as they search for the best way to serve their customers. Businesses will need access to capital to grow and thrive.

The good news, as outlined in this report, is that there is capital out there. Some households have saved tens of billions of pounds during 2020. In many cases, this money is sitting in low-yielding savings accounts: it could be more productively and profitably invested in serving our communities.

Government must help people bring this capital to businesses and overcome the uncertainty COVID has created. This is where the Social Investment Tax Relief comes in. Analysis by Social Enterprise UK indicates that extending and expanding this tax relief could unlock £500m in investment and create 13,500 jobs within the UK's crucial social enterprise sector.

Social enterprises have a wonderful track record of creating jobs and serving our most marginalised communities. The business case in this report is clear.

Let's give social enterprises and businesses the tools they need to succeed. We need them to deliver and enlarge the vibrant and dynamic process of service to one another that is life in society. Social Investment Tax Relief is one such tool and the Chancellor should make the most of it.

Steve Baker MP

Member of Parliament for Wycombe
Member, House of Commons Treasury Committee

Executive summary

COVID-19 has had a huge impact on the economy. Communities will need help to rebuild at a time when there is growing strain on central and local government budgets.

Although some households have seen their financial position worsen, others have seen it improve as they have been unable to spend due to COVID restrictions. Parts of society have seen significant increase in private savings. According to one research report, higher income households will have over £80bn in additional savings

At a time when interest rates are at record lows there is an opportunity to use these savings productively to help communities to build back better.

Social enterprises are an example of businesses which are place based and can help communities to get back on their feet. There are over 100,000 social enterprises across the UK, with one in five working in the most deprived communities. These businesses are experts are helping in helping people back into work, turning around failing businesses and reviving local places.

In 2014, HM Government created the Social Investment Tax Relief which aimed to help social enterprises and community businesses get access to finance. So far over £14m has been generated through this tax relief and with the right level of support this could be significantly expanded.

This tax relief could be expanded and promoted to help create "Build Back Britain" funds – placed based investment funds which support local social enterprises and community businesses to get communities back on their feet. Models have been successfully adopted in the North West, Midlands and Scotland which provide a template of how this could be done.

Assuming that over the next five years, it is possible to tap into the higher savings of households through SITR and raise an additional £500m into communities, we could see an extra 7,500 jobs created and 4,000 social enterprises and community businesses supported. Indirectly, these jobs could sustain another 6,000 jobs within their communities, creating a significant boost to employment at a time of economic uncertainty.

The cost to the taxpayer through SITR would only be £150m through this investment, working out at less than £11,000 per job – significant higher return than other job development schemes.
Tapping into private savings to support communities through the Social Investment Tax Relief is a proposal that the UK Government should be actively considering to help build back better.

Introduction

Coronavirus has had a huge impact on the UK's economy. Hundreds of thousands of businesses have been forced to mothball, close or operate at reduced capacity. The impact on jobs and communities has been significant with the prospect of hundreds of thousands of people being made unemployed through no fault of their own.

The Prime Minister has promised to "build, build, build" out of the crisis and to build back better. To successfully build back better we need businesses across the country to take risks, adapt existing business models, create new products and services and, importantly, take on more staff.

Fortunately, the UK has 100,000 social enterprises – businesses which trade to deliver a social or environmental mission – which are eager to build back better. Collectively, they contribute over £60bn to the UK economy and employ 2m people.

Social enterprises are businesses which have a legally binding social and/or environmental mission which generate their income through trading and reinvest the majority of their profits back into achieving their mission.

Social enterprises have already taken risks, moving beyond conventional business practices and working in some of the toughest markets. But like other forms of business, what they need to get going is access to patient, flexible capital so that they can get to work.

There is a unique opportunity to take the surge in private savings caused by COVID-19, which in many cases will be sitting in bank accounts earning little to no interest whilst being eroded away by inflation, and deploy those for public benefit.

Deploying these savings productively to rebuild our economy will benefit everyone through higher levels of employment, stronger local economies and providing a decent return to savers.

The UK also has the tools at its disposal to leverage those savings into communities. The Social Investment Tax Relief provides a generous relief to individuals who invest in social enterprises, charities and cooperatives. Launched in April 2014, this tax relief was launched as a "game changing" tax relief to support the growth of social enterprises and community businesses.

Although it has not achieved the ambitious targets set for it on its launch, the conditions in 2020 mean that there is a potential for this tax relief to achieve transformational change, if given backing by government, investors and social enterprises.

To bounce back from this crisis, we need to use all the tools in the toolbox.

Unleashing social enterprises through harnessing the power of private savings is an opportunity that we cannot afford to miss.

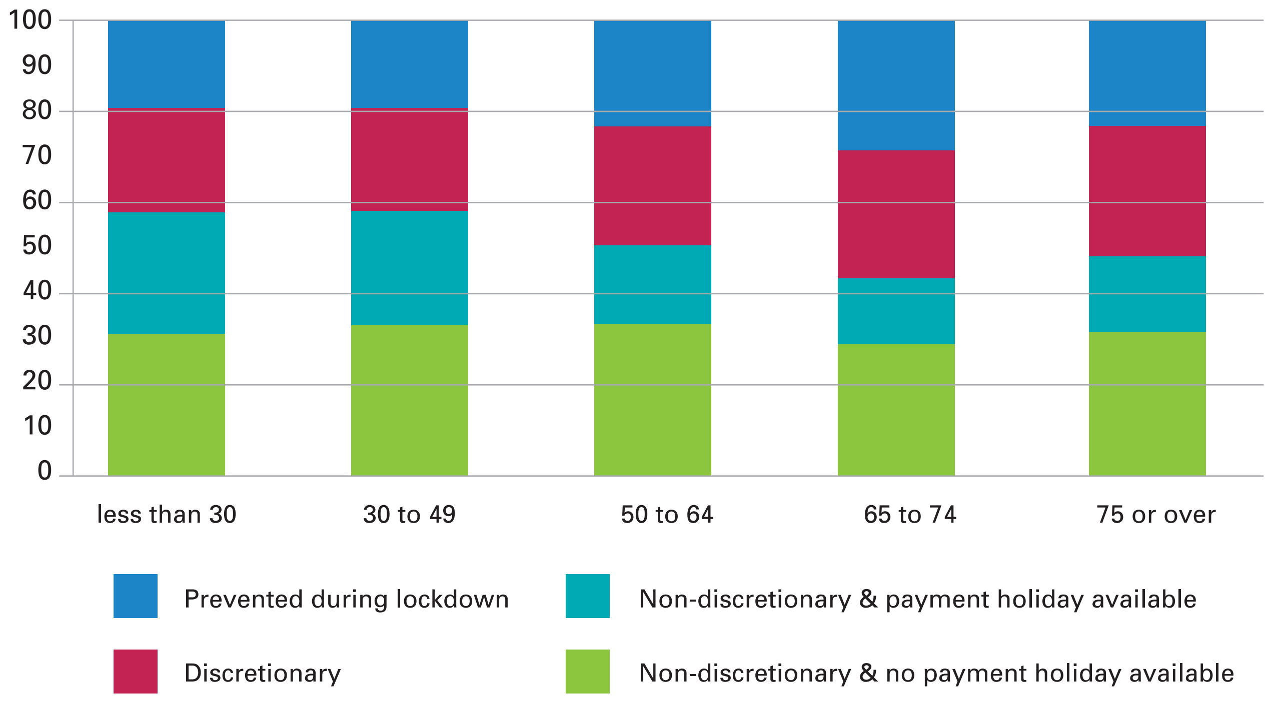
An unprecedented opportunity in private savings

No one should underestimate the impact of Coronavirus on households. The pandemic has negatively impacted many households, with some people seeing their incomes fall, their hours cut, and their livelihoods put at risk. Restrictions and economic uncertainty have put many households into a precarious position. Thanks to unprecedented government support packages the prospect of mass unemployment and business closure has been averted for now, although the economic recovery from COVID could take many years.

This should not blind us to the other economic effects of Coronavirus. Some businesses have seen demand go up. Others have been able to adapt into new markets. The variable impact has also been true for households. Many people have seen their incomes remain constant, but their spending fall dramatically. Discretionary spending on a range of activities has fallen.

Wealthier households and older households have seen the biggest reductions in discretionary spending. For example, according to the ONS, nearly 30% of spending was prevented from 65-74 year old households.[1]

Weekly household expenditure by age of household reference person, UK, financial year ending March 2019

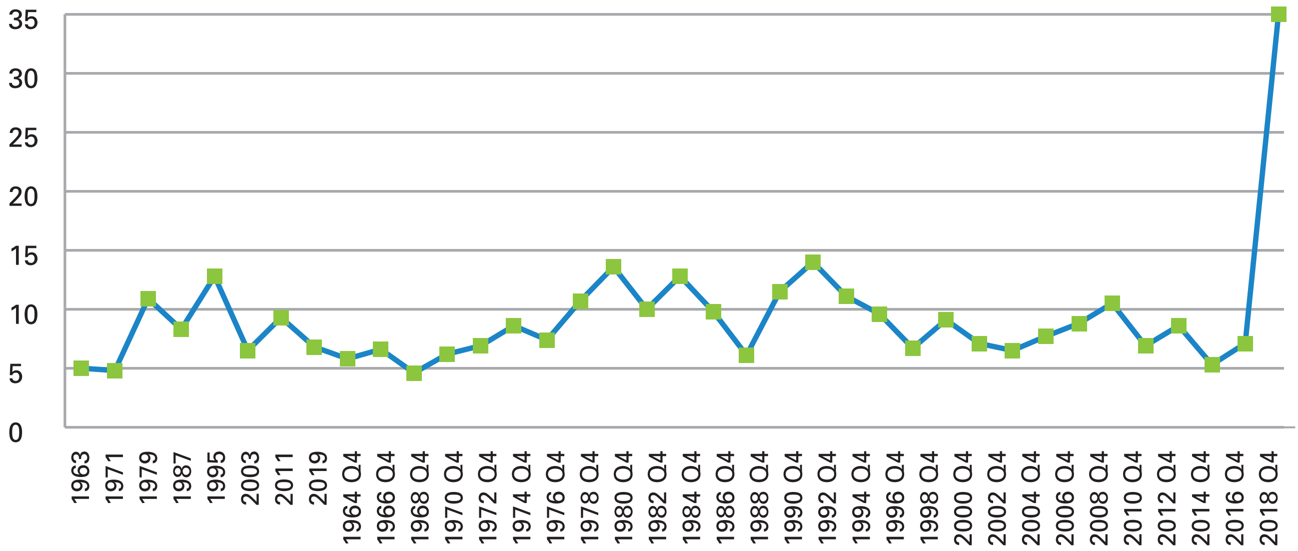


Source: ONS

[1] More than one-fifth of usual household spending has been largely prevented during lockdown, Office for National Statistics, June 2020

[2] Households saving ratio (per cent): current prices, Office for National Statistics, September 2020

Household savings have also dramatically increased. Before the crisis, households were able to save around 7% of their income. During lockdown this has more than quadrupled to 29%.[2] The ONS has calculated the households cut spending by around £80bn during the second quarter of the year. Further restrictions around the country over the winter could lead to further savings being generated by households.



Source: ONS

For some households, their financial position has been improved through paying off existing debt or credit. Total UK credit card debt fell to £59.8bn by the end of May, meaning the nation owes a combined 12.6 per cent less on its credit card statement than it did 12 months earlier. [3] The record payback of debt will save credit card holders a total of £1.9bn per year in interest costs alone. This is just one example of the freeing up of capital that is taking place within some households.

Research by stockbrokers Peel Hunt indicates that upper-middle-class household savings will increase by £82bn this year due to households spending less during this crisis.[4] Unsurprisingly, people are looking to make the most of those savings. The best fixed saving rates hover between 1-1.3% due to the Bank of England's base rate being at record lows.[5] Separate data from National Savings & Investments show that £8bn has been pumped into Premium Bonds in the past five months, with a monthly record of £1.8bn in July 2020. In response the N&I has had to drastically reduce interest rates and cash prizes due to the savings glut.[6] This compares to the 4.8% average interest rate on community share offers, one of the eligible forms of investment under SITR, according to research by Co-operatives UK. [7]

Overall, the Resolution Foundation has estimated that around 2m households were on course to come out of lockdown in a better position than they started.[8]

[3] Your savings in a time of pandemic, Financial Times, 11 September 2020

[4] Half of Britain is broke – and the other half is richer than ever, Daily Telegraph, 29 May 2020

[5] Your savings in a time of pandemic, Financial Times, 11 September 2020

[6] NS&I to slash savings rates and Premium Bonds prizes, The Guardian, 21 September 2020

[7] Understanding a maturing community shares market, Co-operatives UK, October 2020

[8] Return to Spender, Resolution Foundation, June 2020

Rebuilding communities through private capital

There is clear evidence that many households will be sitting on large amounts of private capital. For the economic recovery to kick start individuals and businesses will need to be encouraged to use that capital productively in order to get the economy moving forward.

The national response to Coronavirus does give cause for optimism that the public might put their savings to work to support their communities build back better from this economic shock. The spontaneous development of thousands of Mutual Aid Groups and the tens of millions of pounds raised for NHS charities in the wake of COVID are testament to the willingness of people to respond to the crisis.[9] The ONS has reported on the rising importance of community to the British public as the pandemic has unfolded, with more than half of the UK population reporting that they felt a sense of belonging to their community, and more than two-thirds saying they thought people were "doing more to help others since the coronavirus outbreak".[10]

Many local communities will need help rebuilding after this pandemic. PwC's UK Economic Update has found that economic output will be most badly hit in the North and Midlands.[11] The most deprived areas of the country have been hit hardest. According to data provided by the Social Investment Business, some of the sharpest contractions of economic activity happened in places such as Burnley, Grimsby, Preston, Durham, Doncaster and Scunthorpe where sales contracted by over 40% during the lockdown.[12] Smaller coastal towns also saw a dramatic reduction in economic activity. High streets in these areas will need to be reimagined. New businesses will need to be created to create new jobs. Culture and leisure venues will need to be revived and renewed. Research from the Local Trust has found that rebuilding this social infrastructure is as important to local communities in "left behind areas" as building housing and jobs.[13]

Investment will be needed to get these places back on their feet. With central government's budget under strain due to Coronavirus and with local councils lacking the fiscal firepower to invest in these areas, additional sources of investment will be required. Private savings can be part of the solution.

There is also a long-term trend towards more socially responsible investment. Research by HM Government in 2019 found that 56% of the UK population are interested in making investments now or in the future that consider impact on people and planet alongside financial performance.[14] This rises to 74% for those with investable assets over £25,000. Assets held in ethical funds have more than trebled over the past decade as UK investors pour money into green and socially responsible companies. According to figures from Hargreaves Lansdown, the fund broker, money held in ethical funds has risen from £4.5bn in 2008 to £16.7bn in 2018.[15]

In a post-COVID world the importance of strong communities has been powerfully brought home, leaving the door open to much higher levels of community investment.

Social enterprises are a good target for additional investment because they are already on the ground in the most deprived areas which have seen the biggest hit through COVID-19.

[9] Communities versus Coronavirus Virus: The Rise of Mutual Aid, New Local Government Network July 2020

[10] Coronavirus and the social impacts on Great Britain, Office for National Statistics, April 2020

[11] UK Economic Update, PwC, September 2020

[12] Corona Shock, Social Investment Business & Tortoise, April 2020

[13] 'Left behind' areas missing out on community facilities and places to meet, Local Trust, October 2020

[14] Investing in a Better World, HM Government, September 2019

[15] UK ethical funds surge in popularity, Financial Times, 28 September 2018

One in five social enterprises are operating in the most deprived communities as measured by the Index of Multiple Deprivation.[17] 40% of social enterprises are seeking to bring those furthest from the labour market into employment. They are also more evenly spread across the nations and regions of the United Kingdom compared to mainstream business.

Unsurprisingly, investment by individuals in the sector using social investment tax relief has also been spread across our regions. Analysis from Big Society Capital found that over 20% of SITR deals took place in Scotland, with a further 20% in the South West and 15% in the West Midlands.[18] Encouraging investment in social enterprises in those regions will pump funding directly into those areas which need it most.

Community based social investment has also been shown to help move resources from the richest areas into the most deprived areas. For example research from Co-operatives UK on community shares has found that 54% of investors came from the least deprived areas in measured by the Index of Multiple Deprivation.[19] Whereas 32% of social enterprises that received investment were in the most deprived areas.[20]

Assuming that over the next five years, it is possible to tap into the higher savings of households and raise an additional £500m into communities, we see an extra 7,500 jobs created (1,500 jobs in the poorest communities) through support for 4,000 social enterprises and community businesses. Indirectly, these jobs could sustain another 6,000 jobs within their communities, creating a significant boost to employment at a time of economic uncertainty.

In the longer term, given the regulatory framework for social enterprises, more investment will be put into communities above and beyond the investment. Social Enterprise UK analysis of Buy Social Corporate Challenge data has found that social enterprises invest around 8% of their turnover back into delivering social and environmental impact.[21] There is an opportunity to create a local growth multiplier through the use of targeted investment into communities through social enterprises which will help these areas to recover faster and stronger from COVID.

[16] Capitalism in Crisis? Social Enterprise UK, October 2019
[17] SITR Review, Big Society Capital, July 2019
[18] "least deprived" defined as levels 7+, most deprived defined as levels 4 and below
[19] Understanding a maturing community shares market, Co-operatives UK, October 2020
[20] Understanding a maturing community shares market, Co-operatives UK, October 2020
[21] Buy Social Corporate Challenge Year 3 Report, Social Enterprise UK, April 2019

SITR & "Build Back Britain" Funds

HM Government is currently reviewing the Social Investment Tax Relief and a decision is due to be made in the next Budget about whether to extend the tax relief beyond its original sunset of April 2021. Although the relief has not achieved its full ambition it is the only tax relief which incentivises individuals to invest into social enterprises, community businesses and local cooperatives.[22]

So far £14.5m has been raised through SITR into 88 deals to support social enterprises to flourish. There is potential to do more and eleven financial intermediaries, including major banks have said that there is a potential to scale up SITR to make it even more transformative.

There is a consensus on how to expand and enhance the relief. Proposals put forward by investors and social enterprises to expand the relief include:

- Expanding eligible activities to include the hire of assets on a short-term basis; community energy; and nursing and residential care homes
- Increasing the lifetime limit to £5 million;
- Eliminating the age limit of 7 years;
- Introducing an SEIS equivalent to SITR;

Given COVID-19 there is a chance to do more. Government, working together with social enterprises, social investors and financial intermediaries, has to give the public a tangible and practical way that they can help the country to build back better through the use of Social Investment Tax Relief.

Research has indicated that tax reliefs such as SITR have played a critical role in encouraging community based social investment, particularly for High Net-Worth Individuals. Co-operatives UK analysis of community shares found that tax reliefs had encouraged investors to investment more than they otherwise would have done. With 70% of those that were influenced by the offer of tax relief investing more than £1,000 and 24% investing more than £10,000.

Working with the Prime Minister's commitments "build, build, build" and "build back better", **Government should encourage the public to help "Build Back Britain" through the use of Social Investment Tax Relief.**

[22] Understanding a maturing community shares market, Co-operatives UK, October 2020

Resonance South West SITR Fund

The Resonance South West SITR Fund is currently invested in 13 social enterprises – South Bristol Sports Centre, Bristol 24/7, Somerset Wood Recycling, Bristol Braille Technology, Street Impact Bristol, Community Mentoring and Support CIC, Spike Island, Bristol Music Trust, SoFab Sports, Leading Lights, Raised in Bristol, BF Adventure and National Centre for Integrative Medicine.

Almost £2.5m has been deployed from a total investor commitment of £3.1m, since the Fund was launched in March 2016.

The Fund now covers the full South West region, extending its original remit from Bristol to now include the following counties – Cornwall, Devon, Dorset, Wiltshire, Somerset and Gloucestershire.

Resonance also has a similarly successful regional fund based in the West Midlands, and an extension of SITR relief beyond April 2021, would mean that more regional funds would be launched, including the North West where the planned Resonance fund is currently on hold due to uncertainty.

A number of intermediaries and investors are already well placed to develop funds which the public can invest in such as Resonance and Social Investment Scotland. This demonstrates that there is a workable model if more private finance can be tapped into. These funds could be the model for "Build Back Britain" funds could be developed in areas across the country.

Case Study – Sofab Sports

Sofab Sports is a Community Interest Company, based in Gloucestershire, that builds the skills, confidence and self-esteem of young adults with physical and learning difficulties through developing businesses that create supportive employment opportunities leading to vocational qualifications and experience, providing a platform for further mainstream employment opportunities.

They received a £100,000 investment from the Resonance South West SITR Fund in October 2019

Chris Rawlings, Founder SoFab Sports said *"After four years supported to varying degrees by funding we had developed a social enterprise sustainable by trading alone. Our initial spark had become an eternal flame.*

The cash injection from Resonance's South West SITR Fund was the catalyst for an uninhibited reaction enabling us to access more stock and reach new customers through additional sales channels. As we head for our third year of exponential growth the flame is now an inferno!"

Case Study – BF Adventure

BF Adventure, is an education and activities charity based near Penryn in Cornwall, has been able to develop its tourism and leisure sector income stream by installing a new adventure activity that works alongside other activities on the site. They have installed a Via Ferrata ~~-an~~ 'Iron Stairway'~~—a~~ protected climbing route, built with a steel cable rail fixed to the rock, metal steps, ladders, suspension bridges and a zip wire around and across two of the quarries on the BF Adventure site.

Via Ferrata Cornwall is operating as a social enterprise trading arm of BF Adventure, with a primary focus on generating funding to enable the expansion of its specialist provision for disadvantaged young people.

They received £150,000 investment from the Resonance South West SITR Fund in February 2020

Adrian Richards, BF Adventure's CEO said: "We're excited to have launched Via Ferrata Cornwall. It is the first ever Via Ferrata in the South West! This high adrenaline activity gives people the chance to journey across old granite quarries over twenty metres high, pushing their limits, overcoming fears and focusing their minds on an epic and unforgettable adventure. As a Community Interest Company, all profits go straight towards BF Adventure, a charity supporting local disadvantaged children and young people. Helping them on a journey of change, it uses its beautiful sixty-acre site of heathland, woodland and flooded quarries to enable them to identify their own social, emotional and physical barriers and choose their own challenges to overcome these."

Moreover, given the right encouragement and support, social enterprises could also be encouraged to go direct to their local communities. There are numerous examples of successful community fundraising and share issuance which can be used as templates for local Build Back Britain projects. The public could be coordinated through existing crowdfunding platforms and infrastructure such as GET SITR.

Effective communication with the public to educate them about the risks of any investments should be made at the outset, however, social enterprises have a strong track record of repayment. The Future Builders scheme which gave loans to social enterprises and charities has seen over half of loans repaid so far, returning £98m to the taxpayer which has been invested into the Access Foundation.[23] There is every indication that more capital will be returned in the years ahead, demonstrating that social enterprises can taken on repayable finance at scale. Research by Co-operatives UK into community shares, a form of investment which is eligible for SITR, has found that 92% of social enterprises that have raised capital through community shares are still trading.[24]

Build Back Britain funds would provide an opportunity for HM Government to give the public something tangible that they can to do to fuel the recovery from COVID-19 in the same way that volunteering for the NHS and local communities gave the public a role in the midst of the pandemic. A small investment, in collaboration with social investors and intermediaries, to raise public awareness at this time could leave behind a positive legacy for years to come and help to finance the development of hundreds of worthwhile projects in local communities.

[23] Futurebuilders Learnings, Social Investment Business, August 2020
[24] Understanding a maturing community shares market, Co-operatives UK, October 2020

Social Enterprise UK

Social Enterprise UK
The Fire Station, 139 Tooley Street
London, SE1 2HZ | 020 3589 4950
socialenterprise.org.uk
@SocialEnt_UK | info@socialenterprise.org.uk