

The Funding Commission

Report from the Social Investment Group
(For discussion)

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Introduction

By SI we mean the transfer of wealth more or less permanently, to independent non-profit organisations for public benefit.

We have not restricted this to SI support for existing VCS organisations because we believe the ‘sector’ needs to expand considerably in relation to government and for-profit provision. The scope of the sector is not the concern of this group except in so far as a much bigger one will demand much bigger resources.

We see these bigger resources being provided mainly by a large increase in SI (as opposed to philanthropy etc.)

General Observations

The existing VCS sector as defined in NCVO’s Almanac has an income from philanthropy, fees, interest on investments and other income which is very small in relation to public provision (or increasingly services provided by for-profit companies).

About £10 billion comes from individuals by way of donations and other payments. Given individuals might well be persuaded to invest, say, 10 times what they are prepared to give, then an initial ballpark figure for SI would be of the order of £100 billion p.a. – a very substantial amount; indeed an amount which would transform the ability of citizens to do things for themselves.

The essence of our enquiry is to explore that kind of ballpark figure and then to explore the methods which might deliver it, through what structures and with what inducements?

Obviously government should be involved through the tax system and in other ways. But determining the right form and process of governments involvement is key to long term success or failure. For example what safe guards will be needed to ensure government involvement doesn’t involve loss of independence?

Social Investment (SI) to date

A great deal of work has already been done on the subject not least by The Commission on Unclaimed Assets. Much of it is useful and we neither want or have the time or indeed the funds to do all the work again. At some point we will need to assemble the relevant documents and glossaries. Nor do we think at this stage, we should spend time on definitions although a final report will have to be clear about them. As indeed it must be clear about the scope of the sector we are reporting on. (For example the inclusion or exclusion of mutuals, building societies and the rest of non-state, non-profit activities for public benefit)

There is also much existing activity on the ground, ranging from government initiatives like FutureBuilders, through relatively established independent organisations like Charity Bank and onto new green shoot activities in many cases small, niche and sometimes idiosyncratic.

What is clear is that progress has been slow and in terms of major transfers of wealth into SI for the sector, disappointing. It is therefore our task to find new ways to bring SI into the mainstream. Quite a task.

The Social Investment Bank concept funded maybe in part by unclaimed assets, is by no means dead. It should almost certainly be part of our consideration as a future intermediary, possibly the main one between government and the SI market. (We understand The OTS is reviewing once again this area of activity)

We will need to document comprehensively the several routes through which existing SI flows. And to an extent the different forms of what are called SI (some would include CSR programmes, for example, whilst others think of them as transient, even window dressing).

Outline Proposals

To cut to the chase: the hypothesis on which we propose to work is :

For reasons political and economic, it's highly desirable the sector should be much larger than it is.

Fees and donations will not achieve this. The maths don't add up.

We believe that it would focus minds to estimate the approximate size of our financial ambition for SI (£50 billion, £100 billion or more ?)

Any startling increase in SI can only be achieved quickly with active encouragement by government, over and above existing tax breaks. It is central to our proposal to examine what these encouragements or new structures and relationships should be. And on what conditions of discretion, risk and return.

Anticipating work along these lines we conclude we will need to make recommendations about the kinds of SI products we need to encourage. At this early point we believe we should be examining two broad categories. Capital Products based on a PFI type activity (For example, up front loans to organisations with established income streams). And Innovatory Products whose return to the investor would be based on achieving targets (Investment into activities leading to reductions in prison recidivism.)

We are also thinking about issues surrounding Social Bonds. And in particular a system which mirrors to some extent the Gilt issues supporting present government borrowing. Such products and systems might mainstream SI in one big leap.

Infrastructure: There is clearly a need to review and make recommendations about the relations between bits of the present SI jigsaw and how this should be developed to become a comprehensive activity with the necessary number of attractive independent components. And also how to avoid any new substantial initiative or initiatives doing more harm than good to what has been built up over the last twenty years of so in this field. In fact how to wholesale support for existing and new retailers of SI (Community Foundations for example).

Promotion: Then there are issues of how to promote all this effectively to government of course and the sector, but above all to individual citizens particularly those with sufficient wealth to make a difference. In normal circumstances we believe it would take a decade or more to achieve the decimal points of growth in SI alluded to above. But the recession and other exogenous threats are changing our attitudes very considerably. And whilst people will want less central government (the nanny state) they may also accept the proposition that working with government is nevertheless desirable and that social prestige maybe more rewarding from public service activities than from exhibitions of ostentatious wealth. Our proposals should be designed to influence the speed and direction of change. Time will tell.

Next Steps

To discuss the above with the full Funding Commission.

To take advice from as many of those already in the field on a one to one basis or in small groups as is possible within the time scale. (having regard for the need for new thinking and the likelihood that some will be concerned to protect the *status quo*).

In parallel with this we need to commission some work on the macro- economics of our approach. i.e. Is the figure of say £100 billion remotely reasonable. We are seeking *pro bono* advice from economists on this, with help from New Philanthropy Capital.

Soon we will have to set out a timetable for what might be called these preliminaries in order to be able to set out succinct proposals to be subjected to research analysis by questionnaire and probably in other ways.

Leaving time to draft final recommendations for discussion at the Commission and perhaps with other key influences.