BIG SOCIETY CAPITAL

CONSULTATION RESPONSE ON SOCIAL INVESTMENT TAX RELIEF

Executive Summary

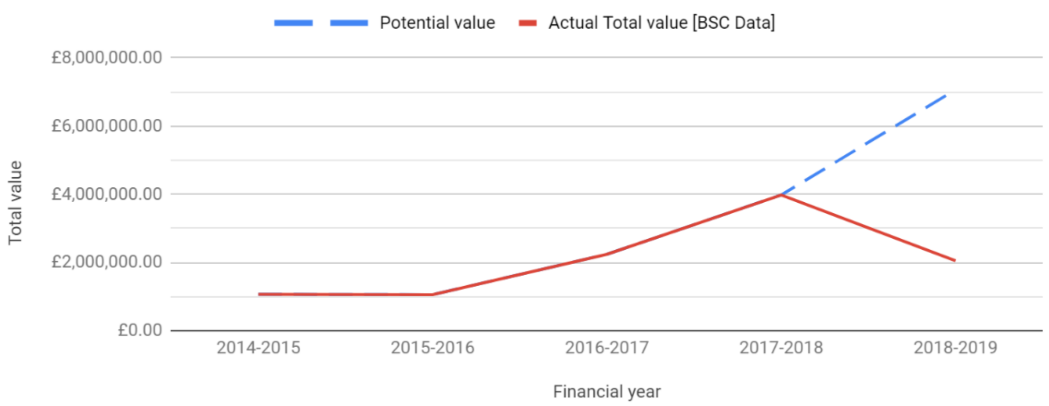
Ranked the 4th best tax relief in Europe, we see great potential for SITR, and we are encouraged to see its growth to over **69 social enterprises and charities** raising more than **£11.6 million** since its launch in April 2014.[1] However, in a DCMS backed study, we estimate that over 30,000 organisations could benefit from SITR, meaning there is vast untapped potential.

We believe SITR is highly important for five key reasons:

1. Social enterprises and charities make a major contribution to society;
2. SITR fills a critical gap in the financing landscape for *small* social enterprises and charities;
3. Without a tax relief for social enterprises and charities, there's a tax distortion due to the availability of EIS and SEIS;
4. SITR enables individual investors to invest in line with their values;
5. Government has an explicit policy of encouraging social impact investment – and has made public commitments at both the G7 and G20.

Like EIS and SEIS, we believe more time is needed to establish the viability of SITR. Moreover, we feel the scheme has been unnecessarily restricted in its early years. The figures below show the different growth trajectories SITR could have taken without the 2017 contraction of the SITR scheme.

Figure 1 – Chart comparing actual trend with predicted trend if no change in SITR eligibility criteria



[1] These figures are lifted from our *live* SITR database on July 17, 2019. The database lists all the organisations we know that have completed SITR deals to date, which we update on an ongoing basis. It is therefore likely that it gives a significant underestimate of the volume and number of SITR deals to date. The database is open-sourced and can be found here: https://docs.google.com/spreadsheets/d/1hy4KHn2636IDLQkBkkn8VaXELioOfiQ5hQ9mxJvg0G0/edit#gid=718645615. Our dataset complements HMRC data, which runs up to 2017-18 and shows that at least 80 social enterprises have raised a total of £6.7 million. HMRC note that their 2017-18 figure is likely to be revised upwards as more returns are received.

We see this consultation as an opportunity to meaningfully expand SITR's effectiveness and reach. We believe restrictions around eligible activities such as asset leasing and community-owned renewables have been the most significant barriers to the uptake of SITR. We estimate that over the next 5 years expanding eligibility to include asset leasing and community-owned renewables alone has the potential to enable an additional £65 million of SITR investment. With changes, SITR can enable even more social enterprises and charities to play a significant role in helping create a positive future.

<u>The structure of the document is as follows:</u>

- Part A – Why SITR is so important; key statistics on SITR; Big Society Capital's involvement in SITR to date
- Part B – Key proposals to significantly extend the effectiveness and reach of SITR
- Part C – Response to specific questions in the consultation.

Part A – Why SITR is so important; key statistics on SITR; Big Society Capital's involvement in SITR to date

Why social investment tax relief is so important

We see great potential for SITR, and we are encouraged to see its growth to over 69 social enterprises and charities raising more than £11.6 million since its launch in April 2014.[2]

Ranked the 4th best tax relief in Europe[3]**, we believe SITR is highly important for five key reasons:**

6. Social enterprises and charities make a major contribution to society;
7. SITR fills a critical gap in the financing landscape for *small* social enterprises and charities;
8. Without a tax relief for social enterprises and charities, there's a tax distortion due to the availability of EIS and SEIS;
9. SITR enables individual investors to invest in line with their values;
10. Government has an explicit policy of encouraging social impact investment – and has made public commitments at both the G7 and G20.

Social enterprises and charities are a key part of the social fabric of the UK. SITR enables activities that either prevent a burden on government or directly deliver public services. According to the UK Civil Society Almanac 2019, the voluntary sector contributed over £17 billion to the UK economy in 2016/17 and employs roughly 870,000 people.[4] More than two-thirds of social enterprises, for example, support individuals from disadvantaged groups, and more than four in ten employ them.[5] As Social Enterprise UK (SEUK) illustrate in their latest market survey, "Against a landscape of considerable uncertainty, and increasing division and inequality, social enterprises have a significant role to play in creating a more positive future".

[2] These figures are lifted from our *live* SITR database on July 17, 2019. The database lists all the organisations we know that have completed SITR deals to date, which we update on an ongoing basis. It is therefore likely that it gives a significant underestimate of the volume and number of SITR deals to date. The database is open-sourced and can be found here: https://docs.google.com/spreadsheets/d/1hy4KHn2636IDLQkBkkn8VaXELioOfiQ5hQ9mxJvg0G0/edit#gid=718645615. Our dataset complements HMRC data, which runs up to 2017-18 and shows that at least 80 social enterprises have raised a total of £6.7 million. Note, HMRC advise that their 2017-18 figure is likely to be revised upwards as more returns are received.

[3] 2017 PwC Report on 'Effectiveness of tax incentives for venture capital and business angles to foster the investment of SMEs and start-up': https://ec.europa.eu/taxation_customs/sites/taxation/files/final_report_2017_taxud_venture-capital_business-angels.pdf

[4] https://data.ncvo.org.uk/impact/

[5] https://www.socialenterprise.org.uk/Handlers/Download.ashx?IDMF=a1051b2c-21a4-461a-896c-aca6701cc441

Glenn Chard, SITR investor in Clifton Community Arts Centre (trading name Wellington Orbit, which featured on BBC Midlands Today in March 2019), told us:

"Wellington as a town has been consumed by Telford and had lost its identity and heart, and I felt that Orbit with its facilities and the philosophy of the board of directors would bring the heart, soul and community spirit back to our special town.

I then heard about the SITR scheme which let me financially support the project whilst also giving me a tax benefit – a win-win for all concerned!"

Claudia Niehoegen, a local vet and SITR investor, told us that by investing she's:

"Doing something to achieve the dream of having an arts centre in Wellington."

SITR helps level the playing field for social enterprises and charities, enabling investments that would not have happened otherwise. EIS and SEIS offer an existing subsidy to non-social sector businesses, while charities can claim tax relief on donations. SITR fills a gap which is left by providing a relief to organisations which are not able to leverage these other schemes. Crucially, SITR investments can be made through either equity or unsecured debt, an important distinction to EIS and SEIS as for all intents and purposes charities cannot issue shares and community interest companies find it onerous to do so[6].

The key difference in SITR is that it's available for *all* qualifying social enterprises and charities because of the intrinsic limitations in the financial strength of non-profits. Social enterprises and charities have difficulty accessing financing which their commercial counterparts can access, despite a far higher percentage of them seeking finance: 34% for social enterprises versus 20% for commercially orientated SMEs[7]. Social enterprises and charities do not offer the returns that private markets expect, due to their social mission and legal structures, which significantly increases the risk profile for investors.[8]

SITR fills an important gap in the financing landscape for small social enterprises and charities, which previously had access to either no investment at all or investment at 12-15% (often secured only)**.** The report 'What a relief!' commissioned by Social Investment Business in 2017 explains this in full.[9]

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[6] **Of the 25 deals that are recorded as equity, all are community benefit societies.** To issue shares, a community interest company must become a public limited company. Public limited companies are required to have a minimum of £50,000 in paid-up share capital and must meet more stringent auditing and public reporting standards.

[7] See question 5 for more detail.

[8] In addition to facing the challenges a commercial business would face, social enterprises and charities face challenges such as: limited market sizes, impact models that increase operational cost and complexity, a lesser ability to attract top talent due to low sector pay and an inability to offer equity compensation, perception of low quality, dependency on volunteers or community engagement etc.

[9] Commissioned by Social Investment Business in Autumn 2017, 'What a Relief!: A review of Social Investment Tax Relief for charities and social enterprises': https://www.sibgroup.org.uk/resources/what-relief-review-social-investment-tax-relief-sitr-charities-and-social-enterprises

In summary, the report outlines that most social enterprises and charities want relatively small amounts of investment; investment that is unsecured; and capital that is flexible.[10] While the social investment market is increasingly meeting the needs of larger organisations with success, it is struggling to meet the needs of smaller organisations due to the high-risk profile of such investments. This is especially important because most charities and social enterprises are small.[11]

The reason for this is, as Nick O'Donohoe former CEO of Big Society Capital explains, is "small loans are expensive. They're expensive to originate, they're expensive to monitor. The default risk is always going to be reasonably high and *there's a point at which the rate of interest is just inconsistent with the social mission of the enterprise*".

SITR can meet the needs of small social enterprises and charities (1) by enabling investors to offer small amounts of capital at a *lower rate of interest* than they would otherwise need to justify their risk; and (2) by providing investors with an incentive to make an investment *at all.*

According to Big Society Capital's open-source database, the median SITR deal is £125,000, and the Social Enterprise UK (SEUK) biennial survey consistently tells us that the median amount of finance social enterprises seek is around £80,000. Resonance SITR funds and Social Investment Scotland, for example, offer interest rates for investees of 6%.[12]

Clifton Community Arts Centre (trading name Wellington Orbit) told us:

"We benefit from getting finance that is more cost effective than conventional lending, whilst the people investing get a 30% tax break that makes it financially beneficial for them."

Jericho Foundation explained:

"This is our second experience of SITR investment and both times it has given us access to vital funding that can be paid back at a much smaller rate of interest than we have been able to access previously."

The Jericho Foundation supports people with multiple, complex barriers to employment in the most deprived areas of Birmingham.

Holbrook Community Centre (trading name The Spotted Cow) said:

"They [investors] told us they would have invested less. It was knowing they could claim back 30% of their investment that made them put more in."

The Spotted Cow is a community hub in Derbyshire, which raised £277,000 of SITR investment when a local pub announced its closure. It offers a bar restaurant, Post Office and B&B under one roof.

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[10] See page 4 of 'What a Relief!'.

[11] Charity Commission figures show that 93% of charities have a turnover of under £500,000 and SEUK research reports that the median turnover for social enterprises is £125,000 with 86% having a turnover of £1 million or less.

[12] https://www.sibgroup.org.uk/sites/default/files/files/What%20A%20Relief%20-%20SITR%20research%20report.pdf

In conversation with Julius Ibrahim, founder of Second Shot Coffee in Bethnal Green, Julius tells us:

"What SITR offered for us is obviously the access to funding and the access to investors. But it also meant that – in the way that it's structured – we could get the capital to get off the ground."

Second Shot in Bethnal Green raised £75,000 of start-up SITR investment and now employs people affected by homelessness, trains them up and transitions them to long term employment elsewhere. Second Shot also has a 'pay it forward' system, which means customers can pre-pay for drinks or food that a rough sleeper can get a free coffee or meal at a later point.

Notably, social enterprises and charities can access investment using Community Investment Tax Relief (CITR) through a Community Development Finance Institution (CDFI). However, CDFI investment can be less attractive for investors as they must recoup the tax relief on an annual basis rather than all upfront. SITR has the added benefit of engaging investors more proactively through direct DIY or crowdfunded deals

SITR plays a vital role in bringing individual investors into the social investment market by matching their needs with the needs of social enterprises and charities. Members of the public can either invest through crowdfunding platforms such as Ethex, Crowdfunder and Community Chest (minimum investment sizes are typically nominal) or Resonance and Social Investment Scotland SITR funds (minimum investment sizes are £20,000[13] and £15,000[14] respectively) or directly through DIY deals. The similarities between SITR and SEIS/EIS make SITR more familiar and therefore appealing to investors. Importantly, SITR enables individual investors to support their local communities and/or social issues that are particularly meaningful to them; investors are thus more likely to contribute their time and expertise to support an individual investment, alongside finance.

Freedom Bakery, who raised £48,000 through SITR, told us:

"One of the things I really like about the situation I'm in with the SITR is that it brings businesspeople much closer to us as a social enterprise and in fact, some of them take on an advisory role."

As the Good Finance video illustrates, Freedom Bakery trains prisoners at a maximum-security prison, HMP Low Moss near Glasgow, to make artisan bread. The bakery teaches skills and qualifications, as well as recreating the structure of a working day, with the aim of enhancing the employability of prisoners and reduce re-offending.

[13] https://resonance.ltd.uk/for-investors/investment-opportunities/enterprise-growth-funds/resonance-west-midlands-sitr-fund

[14] https://www.ethex.org.uk/SISVenturesImpactFirstFund

FC United of Manchester, who raised £270,000 in SITR investment through community shares explained:

"People invested because they wanted to be part of something that will influence and change lives in North Manchester."

Mike Davies, an individual SITR investor, told us:

"I had heard about social impact investing but didn't know how I could get involved. The introduction of SITR meant I could make a social impact investment through a tax efficient structure. With the help of my financial planners, I was able to deploy capital into this innovative investment product which is addressing a cause that seems to me really worthwhile."

As the Good Finance case study illustrates, FC United of Manchester serves its local community with projects including youth work, school holiday play schemes and adult education. The income, employment, health, crime and education outcomes in this part of Manchester (North) are in the bottom 10% of the country.

Dr Thelma Lovick a professor and research fellow at the University of Bristol also writes about how SITR attracted her to social investment in a blog – see annex B.

SITR ties into the government's stated objective of broadening engagement with impact investing. The UK has long been a pioneer in social investment, which has been admired and sometimes replicated in other parts of the world. Government support, most recently in launching the new Impact Investing Institute, has been vital to the success of the UK social investment market.

On 3 June 2019 John Glen, Economic Secretary to the Treasury, commented:

We know that many savers want to invest their hard-earned money into products that make a positive impact on the world. Today's announcement will support these aims, allowing more people to invest into causes that are meaningful to them, ***including renewable energy, community projects or education****. This is part of our wider work to promote sustainability, including in areas like Green Finance, which is encouraging investment in projects that will protect our natural environment.*

Key statistics on SITR

The *total value* of SITR deals steadily increased from 2014-15 to 2017-18, as highlighted in figure 2. The total value of deals decreased significantly (by over 50%) in 2018-19, which we believe is due to the changes made to SITR in November 2017[15] and fits with HMRC's

[15] SITR was launched in April 2014 at impressive speed and so there were intentions to review the tax relief soon after. The review was anticipated for early 2016, with the market expecting SITR to be updated to include community energy and the lifetime limit extended from £1.5 million to £5 million. Unpredictably, due to Brexit in June 2016 and the general election in June 2017, SITR updates were not announced until November 2017 and were subsequently backdated to April 2017. Our impression, as an active market participant, is that this led to 18-months of uncertainty (early 2016 through to November 2017), with investees and fund managers holding back until changes were announced. Far more SITR deals over 2016-17 would have been possible. Momentum built in 2015 was further lost when certain activities were not made eligible in November 2017 (asset leasing and community energy in particular). An interpretation of the data which fits our experience is that, while

interpretation[16]. The amount of recorded investment in 2018/19 in less than each of 2017-18 and 2016-17.

Figure 2 – Total value of deals by financial year (Big Society Capital SITR database)

Data on total number of deals by financial year shows a similar trend.

Figure 3 – Total number of deals by financial year (Big Society Capital SITR database)

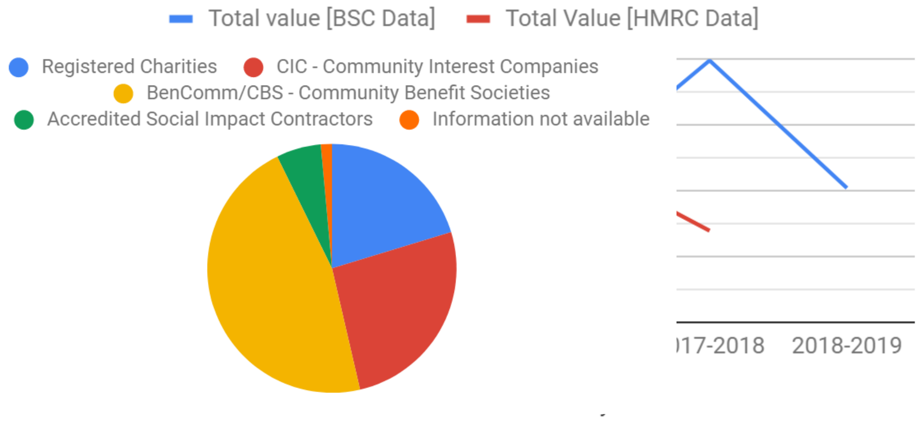
HMRC data depicts a similar trend of an increase followed by a decrease, however the decrease highlighted in HMRC data is not correlated to the 2017 change in eligibility criteria. This is because HMRC estimate £1.4 million was raised in 2017-18, compared to our estimate of £3.9 million.[17]

greater certainty around SITR in November 2017 led to an uplift in deals in 2017-18, dashed expectations in November led to a drop off in 2018-19.

[16] See paragraph 1, page 29 of https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/804455/May_2019_Commentary_EIS_SEIS_SITR_National_Statistics.pdf

[17] HMRC acknowledge that their data is likely to be revised upwards as more returns are received. See page 4: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/804455/May_2019_Commentary_EIS_SEIS_SITR_National_Statistics.pdf.

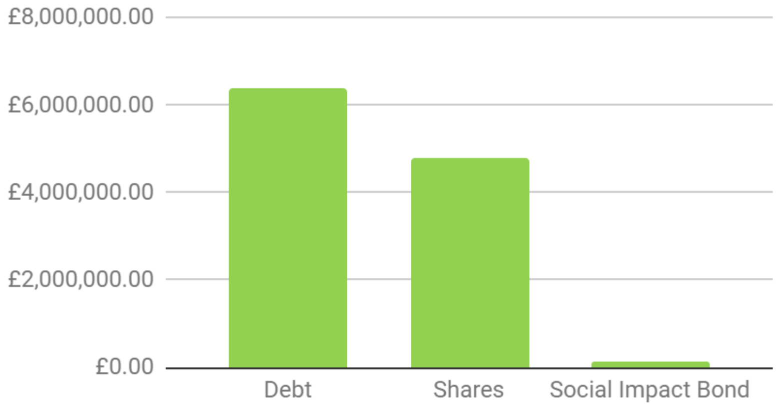
Figure 4 – Total value of deals by financial year (Big Society Capital and HMRC)



According to Big Society Capital's open-source database, SITR deals range from £1,200 to £1.46 million, with the mean being £170,000 and median £125,000. Note, the Social Enterprise UK (SEUK) biennial survey tells us that the median amount of finance social enterprises seek is £80,000.

SITR deals are more often debt than equity (39 deals versus 25).

Figure 5 – SITR investment by type

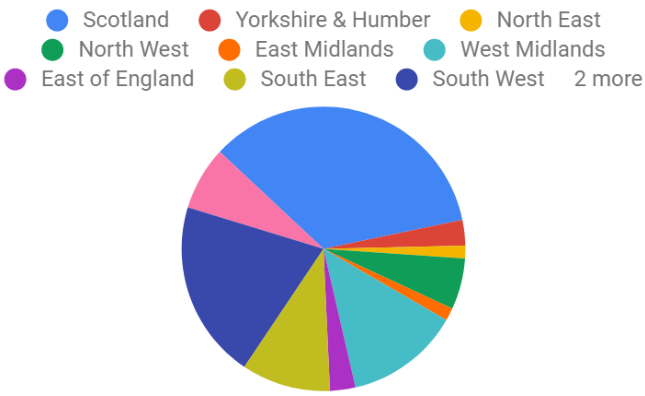


Community benefit societies are the most popular legal structure of current SITR deals, accounting for 68% of deal value versus 13% for community interest companies and charities alike.

Figure 6 – Number of SITR deals by type of organisation

Importantly, SITR deals are spread across the UK, with over a fifth of recorded deals in Scotland, 20% in the South West and almost 15% in the West Midlands. This is likely to be driven by the presence of the Social Investment Scotland, and Resonance SITR funds in these regions.

Figure 7 – SITR investment deals by region



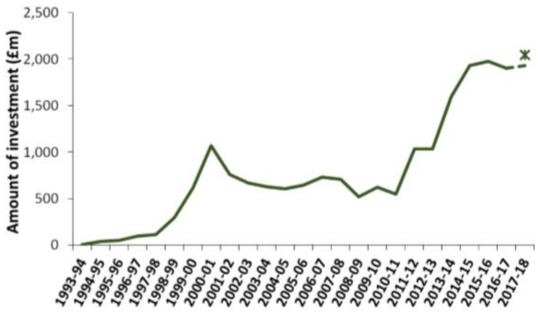
While SITR evidently makes a major contribution to society, **we believe it has much more potential and longer is needed to establish its viability.** In a DCMS backed study, we estimated that over 30,000 organisations could benefit from SITR, meaning there is vast untapped potential.[18] The rule change in November 2017, in our view, led to 18 months of uncertainty and so there has, in effect, been only 3.5 years to consider SITR's viability[19].

To provide a point of comparison, Figure 8 highlights the growth rate of the Enterprise Investment Scheme (EIS), which was relatively flat for the first 6 years, before taking off.

[18] While around 180,000 organisations are technically eligible, our analysis takes into account organisation size and the impact of the restrictions on SITR-eligible organisations to suggest a potential market of 30,000, who could realistically consider making use of the relief: https://www.bigsocietycapital.com/latest/type/blog/sitr-many-not-few. "A potential market does not necessarily equate to a likely market and this figure should be understood in the wider context of the social investment market. Big Society Capital's most recent deal level data published in April 2018 lists 1,777 outstanding investments across the entire market including areas of activity excluded from SITR eligibility.

[19] SITR was launched in April 2014 at impressive speed and so there were intentions to review the tax relief soon after. The review was anticipated for early 2016, with the market expecting SITR to be updated to include community energy and the lifetime limit extended from £1.5 million to £5 million. Unpredictably, due to Brexit in June 2016 and the general election in June 2017, SITR updates were not announced until November 2017 and were subsequently backdated to April 2017. Our impression, as an active market participant, is that this led to 18-months of uncertainty (early 2016 through to November 2017), with investees and fund managers holding back until changes were announced. Far more SITR deals over 2016-17 would have been possible. Momentum built in 2015 was further lost when certain activities were not made eligible in November 2017 (asset leasing and community energy in particular).

Figure 8 – Amount of funds raised through EIS, 1993-4 to 2017-18[20]



*Source: EIS1 forms. Figures for 2017-18 are provisional. * represents estimated value after all returns processed.*

We would expect SITR to take longer to take-off, given social investment is a relatively new field. Social enterprises and charities are adjusting to a shift away from grant funding and toward income generation and have far less experience of accessing repayable finance than their commercial counterparts. Individual investors were also being given, for the first time, the opportunity to invest for impact in line with their values, so longer is needed for this to bed down.

Moreover, SITR is largely an advised product and few financial advisors will take the risk of offering a complicated *and changing* product, with a developing track record, due to the long-term nature of the investment. We would welcome more long-term commitment to SITR, as we have seen with EIS, to provide confidence to financial advisors, investors and fund managers.

For example, in 2017/18, the year SITR was updated, 43% of advance assurance requests received were rejected, compared to 31% and 29% in the previous two years and 10% in 2018/19. More advance assurance requests were rejected than approved, the only year this has happened.

Moreover in 2019 the Association of Accounting Technicians (AAT) surveyed 100 of its 4,250 licensed accountants and strikingly no single respondent was aware of the relief. Encouragingly, all of those who responded said it was something they would consider bringing to the attention of their clients now they knew what it was.

Big Society Capital's involvement in SITR to date

Since our inception in 2012, together with other investors, Big Society Capital has made over £1.7 billion of new capital available to over 1,100 organisations with a social mission, through investments into fund managers and social banks.[21] This includes a recent £2.25 million investment into Resonance to support both their existing regional SITR funds and launch two more. We also matched individual SITR-eligible investments made via three crowdfunding platforms: Community Chest (loans), Ethex (bonds and community share offer) and Crowdfunder (community share offers), and our net commitment is £5.5 million to date.

Big Society Capital seeks to raise awareness of and build confidence in SITR through the GET SITR campaign. GET SITR is a joint initiative led by Big Society Capital in partnership with the CIC Association, Community Interest Companies, The Community Shares Company, Power to Change and Community Shares. With the support of the Department for Digital, Culture,

[20] https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/804455/May_2019_Commentary_EIS_SEIS_SITR_National_Statistics.pdf

[21] For background information on Big Society Capital, see annex A.

Media & Sport, GET SITR offers free 1:1 support, online guides, webinars and podcasts for social enterprises and charities, investors and advisors all seeking to raise SITR investment.[22]

[22] To date, GET SITR has made available: (1) free 1:1 support surgeries for social enterprises and charities with a specialist SITR lawyer (23 delivered to date); (2) bespoke guides, webinars and podcasts on how to use SITR for social enterprises, charities, investors and advisers (**over 30,000 unique page views** of SITR pages on Big Society Capital's website throughout the lifetime of the campaign starting in June 2015), including an editable advance assurance document (138 views to date since its launch at the end of 2018); (3) a monthly SITR newsletter, sent out to nearly 900 people, with all the latest news and updates on SITR; (4) a live SITR deals database, 12 SITR case studies and 14 blogs; (5) social media campaign since June 2015 through which we have tweeted nearly 300 times (creating over 215,000 impressions and engaging over 12,000) and posted on LinkedIn over 130 times (creating over 30,000 impression and engaging over 870).

Part B – Key proposals to significantly extend the effectiveness and reach of SITR

1. **Expand eligible activities to include the hire of assets on a short-term basis** (for example, one month or less)
2. **Include renewable energy projects owned and managed by community organisations as an eligible activity for SITR tax relief, provided the projects are not otherwise benefiting from UK government subsidies (excluding development funding)**
3. **Increase lifetime limit to £5 million**
4. **Introduce SEIS equivalent to SITR (50% income tax relief for investments up to £150,000 for organisations <2 years)** – given social enterprises and charities are likely to be more financially fragile and moreover make major, positive contributions to society, there is good logic to level the playing field
5. **Refinancing** – see the argument given by Resonance in their consultation response, which we fully endorse
6. **Eliminate age limit of 7 years**
7. **Expand eligible activities to include nursing and residential care homes** – same as recommendation 5
8. **Expand eligible activities to include smaller-scale food production where the organisation is not eligible for other farm subsidy (currently farms of less than 5 hectares)** – same as recommendation 5
9. **Ensure that social enterprises with subsidiaries that have been incorporated as companies limited by guarantee can still qualify for SITR**
10. **Eliminate requirement to invest in CIC charity parents, rather than directly into a CIC subsidiary**
11. **Allow investors to qualify for SITR when investing in charities of which they are a trustee**
12. **An exemption is made for loans to social enterprises, so that income tax does not need to be deducted at source –** we endorse the argument given by Resonance and the Social Impact Investment Taskforce in their consultation responses.

We also support **greater transparency around application rejections** and illustrate this with a case study (see below).

1. Expand eligible activities to include the hire of assets on a short-term basis (for example, one month or less)

Redefining asset leasing to exclude short term arrangements would considerably expand the universe of organisations eligible for SITR, **we estimate by at least £38.5 - £43.5 million across the UK over the next 5 years[23].**

A significant number of social enterprises and charities who would otherwise qualify for SITR lease or hire their facilities on a short-term basis (over 20% of enterprise activity) and so are ineligible for SITR. Typical cases involve leasing sports facilities and community spaces on an irregular basis. These activities generate local community benefits and are encouraged by government, in their bid to support social enterprises and charities to become self-sustaining. For example, over 50% of organisations that have received support in GET SITR 1:1 surgeries with a specialist SITR lawyer were ineligible at the time due to asset leasing.

The profile of asset leasing in the social sector is very short term (a matter of hours in most cases), and our experience tells us that social sector models are high-risk, even when asset backed. For example, Charity Commission figures show that 93% of charities have a turnover of under £500,000 and the SEUK research reports that the median turnover for social enterprises is £125,000 with 86% having a turnover of £1 million or less. Income for social enterprises and charities is highly volatile, far from secure, and so leasing assets falls well within the spirit of the SITR regime.

Furthermore, we understand that the restriction on asset leasing is designed to catch instances of genuine abuse of the rules that we believe are concentrated to one product provider. We respect concerns regarding community interest companies (CIC) that overcome asset locks (e.g. by overpaying service providers). However, the CIC legal structure was specifically designed to lock-in benefits for the local community (only regulated social enterprise structures qualify for SITR, by design). Concerns regarding CICs as a legal

23

- Resonance's three SITR funds currently have £5.2 million worth of deals in their pipeline that emerged over the past 2.5 years, which could not proceed due to the SITR asset leasing restriction introduced in November 2017.
- Resonance's pipeline is spread across three regions in England: South West, West Midlands and the North West, which collectively account for 34% of the English population and 27% of the UK population.
- We therefore estimate that, over a period of 2.5 years, updating the asset leasing restriction could lead to **at least £15.6 million of SITR investment in England** (=5.2*3) or **£19.3 million in the UK** (=5.2*(1/0.27)) **over a period of 2.5 years**, and **£31.2 million and £38.5 million in England and the UK respectively over a period of 5 years.**
- Alternatively, the three regions account for 23.9% of total UK GDP (Eurostat, 2018). Therefore, updating asset leasing could lead to **at least £21.75 million of SITR investment in the UK** (=5.2*(100/23.9)) **over a period of 2.5 years** and **£43.5 million over a period of 5 years.**
- This assumes there is no change to the availability of deals over time – either pipeline could be exhausted, or pipeline could grow are replica models spring up.

We appreciate this estimate could be contingent upon SITR funds being active in those additional regions. However, with BSC investment, Resonance have plans to launch 3 more SITR funds in 2019, 2020 and 2021. In addition, Social Investment Scotland Ventures is already active in Scotland.
Moreover, this figure is likely to be a significant underestimate as: (i) many more deals were not progressed by Resonance as it became clear much sooner that they did not qualify for SITR; (ii) it does not include direct SITR deals that would be eligible either through a crowdfunding platform or bespoke; (iii) the North West is significantly underrepresented in Resonance's pipeline as the North West SITR fund launched in April 2019, and the West Midlands fund launched less than a year ago in August 2018.

structure should be addressed with the CIC regulator. Restricting SITR is the wrong policy tool to address potential weaknesses in CIC legal structures.

South Bristol Sports Centre (SBSC), now excluded from SITR

- Deal date: April 5, 2016
- Investment size: £250,000
- Year Established: 2006

Background: SBSC uses the power of sport to engage hard to reach young people in South Bristol, which includes 8 of the 10 most deprived areas in the City – all of which are in the 1% most deprived areas of the country. SBSC uses its 'social inclusion' football sessions to engage young people in something productive, develop their talents, increase confidence and help them turn their passion for sport into a career. Some of the young people have now become qualified referees and coaches through SBSC sessions, with 2 of the young people progressing to be employed as SBSC coaches to support other young people who share their background and aspirations.

The investment: To finance six five-a-side all-weather football pitches. This means SBSC can run interventions all year round and can provide more attractive, up to date space to engage more young people. The pitches also provide a new source of income to ensure SBSC remains self-sustainable (they do not receive any grant income), as the pitches will be hired out to adult football leagues from 7pm onwards.

2. Include renewable energy projects owned and managed by community organisations as an eligible activity for SITR tax relief, provided the projects are not otherwise benefiting from UK government subsidies (excluding development funding).

Democratisation and scale

From our experience of investing in fund managers who make investments into community-owned renewable companies, we agree with the Taskforce that community-owned renewables have unique potential to provide both scale and democratisation of social investment through SITR.

As highlighted above, upon launching the government-backed Impact Investing Institute on 3 June 2019, John Glen Economic Secretary to the Treasury, commented:

"We know that many savers want to invest their hard-earned money into products that make a positive impact on the world. Today's announcement will support these aims, allowing more people to invest into causes that are meaningful to them, including renewable energy, community projects or education. This is part of our wider work to promote sustainability, including in areas like Green Finance, which is encouraging investment in projects that will protect our natural environment."

Moreover, according to the results of a 2019 poll of 2,027 adults conducted by ICM on behalf of Community Energy England, 82% of the UK public think the government should do more to help local communities generate their own energy. Around 69% of the UK public think the government should once again offer tax relief to people who invest in community energy projects.[24]

Updating SITR to include community-owned renewables as an eligible activity offers the opportunity for HM Treasury to support government's aims of "allowing more people to invest into causes that are meaningful to them, including renewable energy, community projects".

We agree with the Taskforce that SITR would support community energy projects that are unable to operate commercially, for two reasons:

1. Community energy projects do not offer the upside for investors that private markets expect, due to their social mission and legal structures, which significantly increases the risk profile for investors. For example, in 2018 many community-owned renewable companies gave back nearly £1 million to their local communities through community benefit funds[25].

2. As the Taskforce reports, even if *commercial* renewable enterprises can operate in the absence of subsidies, the same is not true for community-owned renewables.[26] Formation of community energy groups dropped from a peak of 33 in 2015 to 13 in 2016 and 1 in 2017, due to the loss of subsidy. This coincided with investment of £13.3 million in 2017, a 68% drop from the previous year. If SITR tax relief were able to fully restore the investment levels of 2016, that would represent incremental SITR investment of some £28 million, which would be approximately ten times the total volume of SITR investments in the UK in 2017.

Concern has also been expressed about misuse of tax breaks in renewable energy schemes. However, there are also several features of community energy that make it more socially impactful and less prone to misuse of subsidies.

1. Community energy groups are dominated by mission-led, democratic social enterprises that are far less prone to misuse due to their structure. 47% are community benefit societies, 19% cooperatives, 13% community interest companies and 21% are other (including charities, limited companies, un-constituted organisations).
2. Community energy is, by its nature local meaning that its impact (and therefore the SITR impact) can be tied to a community. It will be possible to track the effect of SITR to local investments and local outcomes.
3. Most community energy investments seek surpluses (beyond the payment of debt and equity at market rates) that go into a community benefit fund with specific goals such as addressing fuel poverty, energy advice or schools-based education programs. The impact of these community benefit funds can be substantial at a local scale with significant multiplier effects. For example, at one community energy group, the investment of £50,000 of community benefit fund in fuel poverty and fuel debt advisory, saved members of the local community £250,000 in one year – that's a five-fold impact. In other cases, schools have benefitted from the use of community benefit funds to

[24] See full article here: https://www.energylivenews.com/2019/06/21/bulk-of-uk-public-say-government-should-offer-tax-relief-for-community-energy/

[25] Page 30: https://communityenergyengland.org/files/document/169/1530262460_CEE_StateoftheSectorReportv.1.51.pdf.

[26] While it is true the cost of many technologies has reduced substantially, scale is still fundamental to the ability of schemes to stand on their own feet. The largest community-owned renewable energy site to date has been 10MW and this is a single site. Most community energy projects range from 30KW to 5MW with many at the small end of the scale.

install solar or energy efficiency measures, meaning monies saved can be ploughed back into the provision of education. The implementation of SITR will allow for these surpluses to be sustained for this purpose. At present, because most projects are uneconomic or marginally economic, these surpluses are having to be foregone.

4. Community energy is a volunteer-dominated sector with only a small portion of organisations able to employ full-time staff.

3. Increase lifetime limit to £5 million.

This is an important step towards levelling the playing field for social enterprises and charities, given £5 million is still significantly below the EIS/SEIS lifetime limit of £12 million.

A 2015 survey by Big Society Capital and Intelligent Partnerships of potential SITR managers indicated that one-third to one-half would wait until the enterprise limit was lifted to £5 million before launching products.[27] This is because investments need to be of a sufficient size for it to be worthwhile for SITR managers to enter the market. When the Autumn 2014 Statement announced that Government would seek EU state aid clearance for the £5 million limit, interest from market providers was high until it became clear that the £5 million limit would not be implemented, and then interest dropped off sharply.

One social impact fund manager, for example, investing in community-owned renewables identified up to 4 community projects in the £1.5 million - £5 million range that would benefit from SITR investment. **This alone could generate between £6 million - £20 million in additional SITR investment if community-owned renewables are also an eligible activity.**

Calleva Energy, not eligible for SITR

- Deal date: Fundraising currently
- Investment size: £2 million in total; £500,000 for first round
- Year established: 2013

Background: Calleva Energy is a community benefit society with 78 members currently providing cheaper, cleaner (solar) energy to 17 small and medium sized businesses in the Calleva Park. Calleva use their proceeds to help their 17 businesses become more energy efficient as well as increasing awareness of energy efficiency in the most impoverished parts of their local community, thus helping to reduce fuel poverty.

The Investment: Calleva Energy are looking for growth capital to enable them to supply cheaper, greener (solar) energy to more local businesses and install the first electric car charging point in the nearby village. The surplus will be spent supporting a highly deprived area close by. Calleva are not currently eligible for SITR so cannot raise their first round of funding using SITR and would be further limited by the £1.5 million cap in the future.

6. Eliminate age limit of 7 years

The 7-year rule has a logic for start-up enterprises, like those covered by EIS and VCT, however this logic does not apply to social enterprises and charities. Imposing an age restriction on SITR is significantly limiting the take-up of SITR. For example, over 10% of

[27] https://intelligent-partnership.com/research-hub/sitr/

organisations that have received support through the GET SITR 1:1 tax surgeries were unable to access SITR investment due to the 7-year rule.

We estimate that by eliminating the age limit of 7 years the universe of investable deals would be expanded by at least £42 – £47 million across the UK over the next 5 years.[28]

Moreover, in their early years EIS and VCT schemes did not have a 7-year rule. As such, they're able to take advantage of the exception to the 7-year rule for so-called "follow-on" investments, whereas SITR wasn't around for social enterprises and charities to utilise when they were less than 7 years old.[29] Eliminating the age limit of 7 years is an important part of levelling the playing field for social enterprises and charities.

Jericho Foundation, further SITR investment not permitted

- Deal date: August 29, 2018
- Investment size: £100,000
- Year Established: 1993

Background: Jericho supports people with multiple and complex barriers to employment, training or social inclusion to become fulfilled, skilled and employed (with a specific focus on some of the poorest and most deprived communities in Birmingham where unemployment is double the city-wide average, and four times the national average). Key groups supported include Survivors of Modern Slavery, Young People not in Education, Employment or Training (NEETS), the Long-term Unemployed, Ex-Offenders, Recovering Substance Misusers, Care-Leavers, as well as individuals with physical disabilities, mild learning difficulties, or mental health problems.

Jericho provides a range of work experience, apprenticeships and individually tailed supported employment programmes through eight income generating social enterprises, including Construction, Landscaping, Recycling, Cleaning, Catering, and Furniture Up-Cycling.

The Investment: To finance the growth of Jericho's retail space by 25%, as well as additional staff capacity. This has enabled an increase in product ranges available and ensured Jericho's stores are working as efficiently as possible – significantly increasing the income generating potential of the business (as well as unlocking additional training and employment opportunities).

Jericho could not raise its full capital needs through SITR due to the investment cap: As Jericho has received other State Aid in the past 3 years, the maximum SITR loan which Resonance could make was £100,000 in order to remain within the €344,000 cap. Jericho required £500,000 to support their full growth plans, which has now meant development has been limited. If the 7-year limit was lifted, Resonance would be looking to invest a further £200,000+ in 2019.

[28] Resonance's three SITR funds currently have £5.65 million worth of deals in their pipeline that emerged over the past 2.5 years that could not proceed due to the age limit of 7 years. See above for follow-on assumptions.
[29] The SITR equivalent is a social enterprise that has been trading for more than 7-years can still raise SITR up to the new, higher lifetime limit of £1.5 million where (1) the social enterprise that is raising SITR finance now received some form of "risk finance state aid" within the 7 years after its first commercial sales and (2) some or all of that earlier funding was employed for the same qualifying trade that will benefit from the new SITR funding. "Risk finance state aid" tends to refer to SITR/EIS/SEIS/VCT investment.

9. Ensure that social enterprises with subsidiaries that have been incorporated as Companies Limited by Guarantee can still qualify for SITR

The SITR rules currently prevent a social enterprise which is part of a group structure containing a company limited by guarantee or charitable incorporated organisation from using the relief. Given that most charities use these two structures, it prevents social enterprises with subsidiary charities from using the relief. Importantly a company limited by guarantee cannot make distributions to members, meaning all surplus is locked into serving the social mission of the organisation.

This has prevented many social enterprises from undertaking SITR projects that are otherwise entirely eligible, or undergoing difficult, expensive and time-consuming restructures so that the subsidiary charities are no longer controlled by the social enterprise. Only subsidiary entities structured as companies limited by shares are contemplated, which is not appropriate for a relief focusing on legal entities which are often not structured as companies limited by shares.

10. Eliminate requirement to invest in a Community Interest Company charity parent, rather than directly into a CIC subsidiary

SITR investment needs to be made into the parent company or charity, which is then on-lent to the subsidiary. This prevents charities from ring fencing the business risk arising from an investment activity, which is arguably important for them to do in certain cases to protect the vital services they deliver for vulnerable groups.

Stone King, a leading law firm whose services include specialist advice to charities, act for a London-based charity which is innovative in the way it raises revenue, often through trading subsidiaries. One of its projects supports the development of local social enterprises by providing a business hub. The charity was established in 2006 so is over 7 years old. The project for which the charity was looking to raise SITR investment was intended to be a subsidiary of the charity (a community interest company raising money to pass back to the charity). The charity wanted to ring-fence the business risk arising from taking on premises and providing the services in order to create the business hub. By containing the new project in a separate legal entity, the other operations of the charity would not have been exposed to the potential financial failure of the business hub.

The aim was to raise as much funding as possible through SITR related loan funding, or £200,000 given the organisation was over 7 years old. The requirement for SITR qualifying funding to be made via the ultimate parent charity meant that this was not possible.

11. Allow investors to qualify for SITR when investing in charities of which they are a trustee

One of the main objectives, and successes, of SITR is to bring new investors into the social investment market. It is the engagement of investors who care about more than just the tax relief and have an affiliation or affinity to the social issue area from whom the money is and will continue to be raised.[30]

[30] Community shares, crowdfunding and DIY direct SITR deals, in particular, raise finance from investors who are motivated by a social issue area which they have a personal connection to, either on a specific topic or in their local community.

Trusteeship is a voluntary role without remuneration (save the cost of expenses). Trustees often care passionately about the issue area their charity works within and of course their organisation. Meanwhile there is a clear duty, as in all investments, for individual investors to have proper, independent and appropriate advice and for charities raising investment to understand their responsibilities with regards to financial promotions compliance.

If investors could invest in charities of which they were a trustee, the following governance and SITR considerations would still hold:

- No single investor could have more than one third of the debt or effectively a controlling interest
- Any investor would need to register their investment as a potential conflict of interest and would be unable to contribute to items that would affect this pecuniary interest.

Beacon Vision Centre for the Blind set up a community interest company trading subsidiary, which was an optician to be based within their centre. They were prepared to ensure that the group structure didn't prohibit the use of SITR and accepted this meant they could not effectively ring fence the risk from the parent charity of taking on the investment. However, this then effectively prohibited the charity trustees from investing in the trading optician business, many of whom were committed to doing so. Eventually, Beacon Vision Centre for the Blind abandoned SITR due to the complexity and barriers. They had wanted to use SITR as they believed it was the most effective route to getting the most affordable and patient capital to finance a new business activity, where all surplus was locked into serving their social mission.

Finally, increase transparency on application rejections

Of the 63 recorded SITR deals on the Big Society Capital SITR database, 24 told us how long advance assurance took, from first submission to final decision, excluding any time taken on account of incomplete information having been provided. The answers ranged from 3 to 16 weeks, with an average of 7.7 and median of 8.

Stone King acted for an investment manager looking to raise £20 million of SITR qualifying funding intended to provide housing and targeted support services to vulnerable adolescents living in local authority care, often with complex needs. The initial project was planned to be carried out in London and then released across the country, working with a range of service providers and supporting adolescents in several geographical areas.

The investment was to be made by means of subordinated loan. 20 community interest companies were established, 14 of which were to be used for these purposes (each to receive the maximum £1.5m investment). HMRC provided clearance for two of these companies but rejected clearance for the rest, without providing a clear response as to how they had differentiated between them.

Stone King report that responses from HMRC were delayed and opaque. The final rejection was clear however it was sent to the investment manager on 3rd April 2018, responding to a letter dated 15th February 2018 and an initial application dated 24th January 2018. It was felt that HMRC had delayed their response to the point where the project could not happen rather than engaging in a proper dialogue early on in order to find an agreed path. The ultimate loss was for the adolescents who would have benefited significantly from the project.

Part C – response to specific questions in the consultation

Question 1

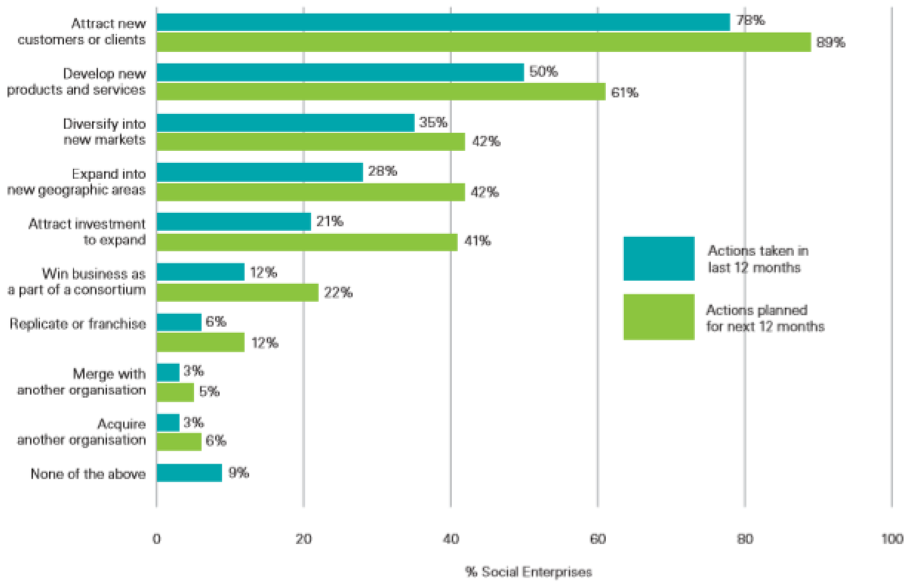
If you are a social enterprise, are you interested in or planning to scale up? How do you intend to achieve this and how much do you hope to raise in investment?

Scaling up:

The SEUK State of Social Enterprise 2017 Report highlights that almost all social enterprises are interested in or scaling up. Almost all 1,581 social enterprises surveyed (91%) had taken specific actions on growth or diversification in the past 12 months, as shown in figure 9[31]. Arguably, social enterprises are more innovative than the private sector; according to SEUK, the number of social enterprises that introduced a new product or service in the last 12 months stands at 50% compared to 33% amongst mainstream SMEs.

Importantly, 41% of social enterprises are seeking to attract investment to expand in the year ahead, and those who did so in the previous year is 21%.

Figure 9 – Social enterprises and growth: actions over the last year / plans for the year ahead

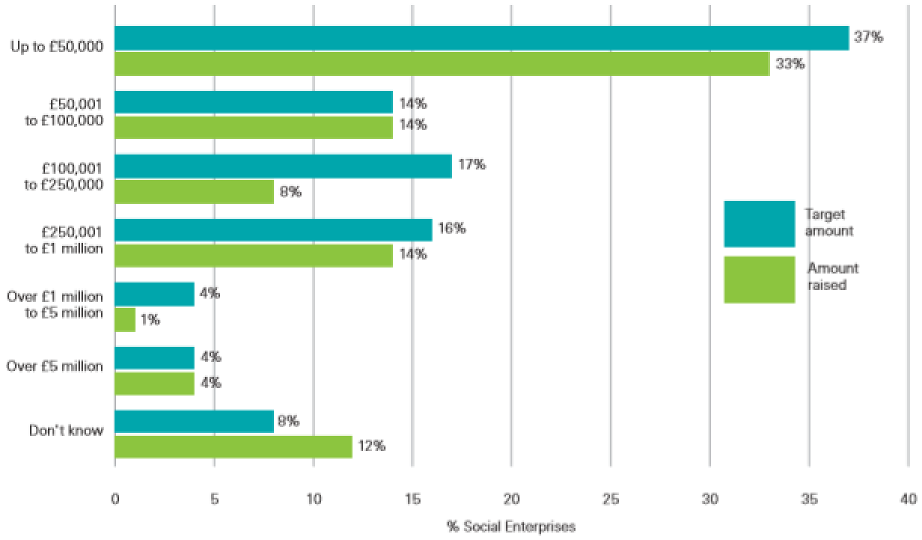


Amount of finance being sought:

The SEUK 2017 Report demonstrates that, most commonly, the amount social enterprises want to raise ranges between £10,000 and £50,000, with an overall median amount sought of £80,000, a slight increase from the median figures in 2015 (£60,000) and 2013 (£58,000).

Figure 10 – Amount of finance wanted to raise versus amount raised

[31] To ensure the sample best reflected the landscape of social enterprises, SEUK only considered organisations to be in scope if they: (i) defined their organisation as a social enterprise; (ii) generated 25% or more of their income from trading activities. Though a small minority of respondents, SEUK include those earning between 25% and 50% to allow for those with a fluctuating business model and, especially, for those starting up and establishing their business model.

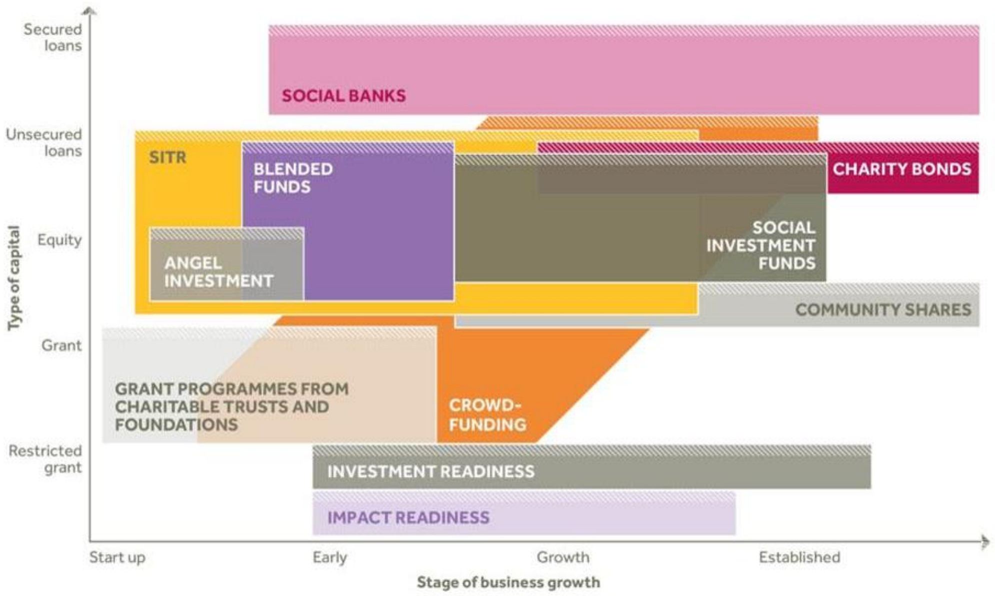


Note this figure refers to capital being raised for a whole range of reasons, not just to grow.

Question 2

Other than individual investors, what sources of finance do trading social enterprises seek and acquire?

The following diagram, created by Big Society Capital, highlights the range of financing options available to social enterprises and charities.



Question 3

How difficult or easy is SITR to access for social enterprises?

While we are encouraged to see the growth of SITR, we believe there are several barriers that make it difficult to access for social enterprises and charities. This consultation is, therefore, a significant opportunity for government to unlock SITR's potential, and so encourage the positive contribution that social enterprises and charities make on society. We summarise the main barriers in part B, and prioritise the ones relating to eligible activities. The total value of

SITR deals decreased significantly (by over 50%) in 2018-19, which is correlated to the additional eligibility restrictions incorporated into SITR in November 2017.

It should also be noted that awareness of SITR is relatively low, as highlighted in David Floyd's report 'What a Relief!', although this can be linked to the restrictions and administrative burdens around SITR.

Big Society Capital has been seeking to promote SITR through the GET SITR campaign. The third iteration of GET SITR will be later this year, once changes to SITR are announced, and we plan to expand outreach to professional advisors, such as accountants, lawyers and independent financial advisors. We would welcome your feedback on GET SITR, which will be helpfully informed by the responses you will gather in this call for evidence.

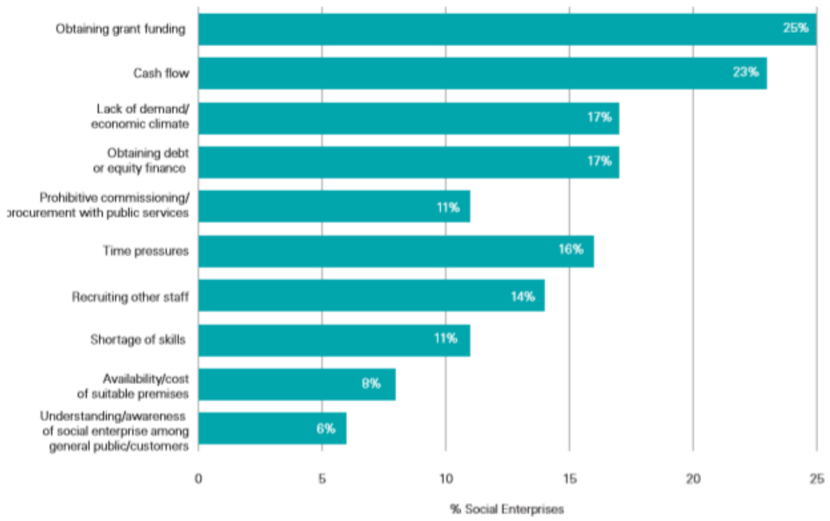
Question 5

Do you think social enterprises need private investment and for what purposes?

Yes – the SEUK 2017 survey asked respondents to list their main three barriers to sustainability and growth and access to finance is still the principal, most significant barrier to sustainability cited by respondents for the fourth biennial survey in a row. If we combine grant funding and obtaining debt or equity finance, it is at 42%.

SITR fills an important gap in the financing landscape for small social enterprises and charities by providing small amounts of flexible, unsecured capital, as covered in Part A.

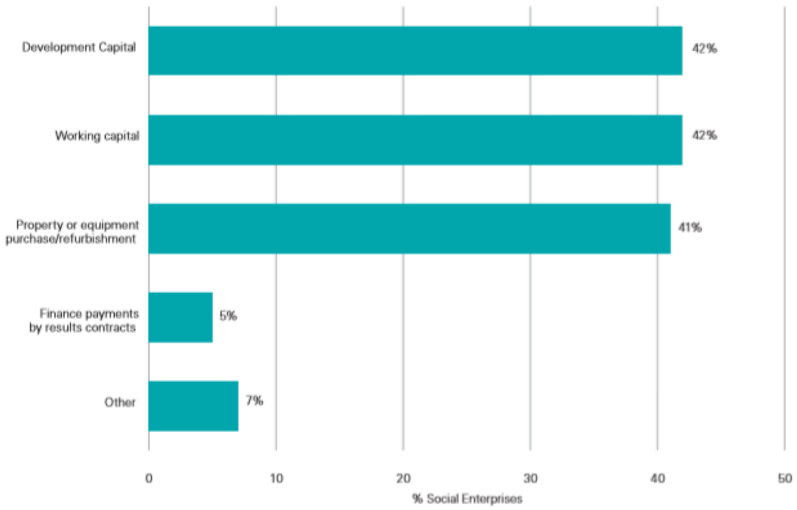
Figure 11 – Top 10 barriers to sustainability



A far higher percentage of social enterprises seeking finance than mainstream SMEs. The SEUK Report tells us that 34% of the social enterprises surveyed had sought new sources of finance or capital over the previous 12 months, which is far higher than mainstream SMEs (around 20% in various surveys).

The figure below gives an indication of what social enterprises seek the finance for.

Figure 12 – Purpose of finance



Social enterprises are seeking investment and new finance to grow (development capital), to operate (working capital) but also to purchase property or equipment; this has risen from 35% in 2015 to 41% in 2017, whilst the other two have remained high. Note for mainstream SMEs working capital is the most common finance requirement.

Question 6

Is tax the most appropriate lever for supporting funding for social enterprises?

Social investment tax relief is an important lever for ensuring social enterprises and charities have access to the finance they need to grow. Others include:

- Grant funding – e.g. for investment readiness programmes; blended finance models;
- Guarantees for investors;
- Match funding for private investment raised by social businesses on crowdfunding platforms.

Importantly, SITR plays a unique role in enabling social enterprises and charities to access small amounts of flexible, unsecured capital at an affordable rate of interest, which we cover in part A.

SITR is not the only lever able to provide such financing; some grant capital is available for blended models. However, grant is a scarce resource and not as suited to social enterprises and charities with venture capital type risks, as David Floyd's SIB report 'What a Relief!' highlights, which have the potential to generate positive social impact on a huge scale.

Question 7

What criteria would be the best measure of success for SITR?

- **Growth in the number of organisations that have used SITR year-on-year, relative to the number of eligible organisations.** This could be compared to EIS and SEIS equivalents, especially in their early years.
- **The cost of capital, which is unsecured and flexible in nature, for small social enterprises and charities.** This could be compared to the 2014 benchmark of 12-15% per annum.
- **The number of SITR funds launched, broken down by geographical availability.** To date, SITR funds have focussed on Bristol, the West Midlands and Scotland, which is reflected in the data. Over a fifth of recorded deals in Scotland, 20% in the South

West and almost 15% in the West Midlands. This tells us that SITR funds are an effective mechanism for enabling more social enterprises and charities to utilise SITR effectively.

- **The number of individual investors and financial advisors using SITR, including those that have made a social investment for the first time.** This supports the government's stated policy objective of encouraging more individuals to invest in line with their values,
- **Awareness of SITR** amongst social enterprises and charities, and financial advisors.

Question 8

Is the SITR limit of £1.5 million appropriate?

We believe the cap should be increased to £5 million, see part B.

Question 9

If you are an investor, have you made an investment that was eligible for SITR? If not, why not?

Big Society Capital, as an institution, is not eligible to claim income tax relief on its investments. However, we have made £2.25 million available to Resonance to support both their existing regional SITR funds and launch two more. We also match individual SITR-eligible investments made via three crowdfunding platforms: Community Chest, Ethex and Crowdfunder, deploying £5.5 million to date.

Question 10

Would you invest in social enterprise without tax relief?

SITR enables investors to support small social enterprises and charities 1) by enabling investors to offer capital at a ***lower rate of interest*** than they would otherwise need to justify their risk; and (2) by providing investors with an incentive to make an investment ***at all****.*

<u>Social Venture Capital Trusts</u>

If more activities become eligible for SITR investment, we recommend allowing Venture Capital Trusts (VCTs) to invest using SITR. We know that funds are one of the most effective mechanisms for deploying SITR investment, and this would become an important part of levelling the playing field for social enterprises and charities and should be carried over from EIS.

The appetite for VCT investment continues to grow with three of the best four years of fundraising coming in the past three years. As VCTs are increasingly considered by retail investors, this trend looks set to grow. The increased liquidity in the market creates greater competition for quality deal flow so opening new markets for investment would be welcomed and well served.

In addition, as one VCT manager told us, they're seeing a clear increase in appetite for socially responsible investments from retail clients. Increasingly this aspect is considered a core part of the investment assessment for retail and institutional investors. Blending the appetite for VCT with the increasing desire for SITR/socially responsible assets would draw investors and asset managers to the market. Moreover, it would allow investors to benefit from diversification. A Social VCT facilitating both debt and equity investments into EIS and SITR eligible organisations provides a level of cross-subsidy and can be more attractive to an impact investor, given they are investing in a fund that doesn't have capped financial return potential.

Question 11

What are your expectations when you invest in social enterprise? For how long do you expect to invest? Would you expect / prefer to invest in equity or debt?

From our discussions with wealth managers and financial advisers, the investment length varies.

Regarding expectations around equity and debt: the challenge with debt products is they do not benefit from loss relief against income tax and only against capital gains in certain circumstances. Nor do you benefit from inheritance tax relief unless it is an equity investment. Whilst these may seem like small matters, they disincentivise financial planners from recommending SITR, which has significant knock-on effect as they are the main source of referrals for SITR funds and direct deals.

Question 12

Have you used, or considered using, the Enterprise Investment Scheme or Seed Enterprise Investment Scheme for impact investing?

As a social investment wholesaler, we have not supported EIS and SEIS schemes due to a misalignment in impact strategies. Most charities and community interest companies are limited by guarantee and so can't access equity capital. See our SITR market sizing estimate of over 30,000 is largely made up of charities.

Figure 13 – SITR market sizing

Entity type	Sector total	Estimated SITR market total
Charities	167,443	31,930
CICs	11,922	2,481
CBSs	465	74
All	179,830	34,485

However, in 2018, Triple Point launched Impact EIS and were looking to raise £10m and deploy over 12-18 months. The target was to exit investors four to seven years after allotment, and the offer is available all year round, for a minimum investment of £25,000.[32] However, the investees of Triple Point Impact EIS do not need to be asset-locked, meaning the social impact does not have the same regulated rigour and protection as Charities, Community Benefit Societies and Community Interest Companies.

Triple Point is targeting social impact through investments into companies that make a significant positive contribution to one of four themes: (1) health, (2) environment, (3) children & young people and (4) inequality – with each investor holding a portfolio of 8 to 12 companies. For example, in August 2018 they announced their first investment of up to £250,000 in MWS Technology, a company that provides software for apprenticeship training providers.[33]

32 The capital should be deployed over 12-18 months and the target is to exit investors four to seven years after allotment. The offer is available all year round, for a minimum investment of GBP25,000.

33 https://www.triplepoint.co.uk/news/triple-point-impact-eis-announces-first-investment-of-up-to-250-000-in-mws-technology/bp103/

Question 13

If you are a social enterprise, would you use SITR? If not, why not?

Attached in annex is a recent blog by the CEO of Action Homeless, who wanted to use SITR but could not.

Question 14

As an investor, enterprise or interested party, do you have a view as to why the take up of SITR has been less than expected?

We are very encouraged to see SITR being used by over 69 social enterprises and charities raising more than £11.6 million in investment since it was introduced. The range of quotes, case studies, videos and blogs referenced in this response illustrate the major contribution such investments have on society.

Like EIS and SEIS, we believe longer is needed to establish the viability of SITR. However, this consultation also provides an opportunity to meaningfully expand SITR's effectiveness and reach. Restrictions around leasing and community-owned renewables have been the most significant barriers to the uptake of SITR. We estimate that, over the next 5 years, this has potential to enable an additional £65 million of SITR investment. The figures below show the different growth trajectories SITR could have taken, without the 2017 contraction of the SITR scheme.

Figure 14 – Chart comparing actual trend with predicted trend if no change in SITR eligibility criteria

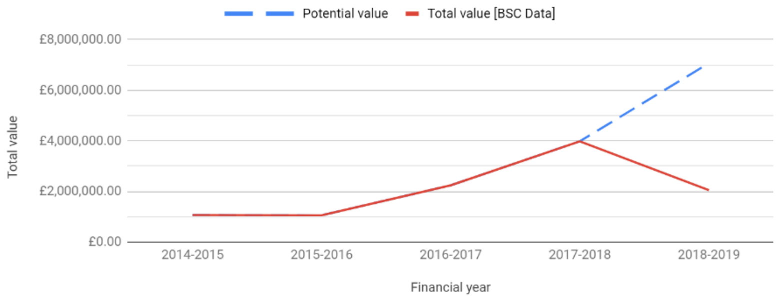
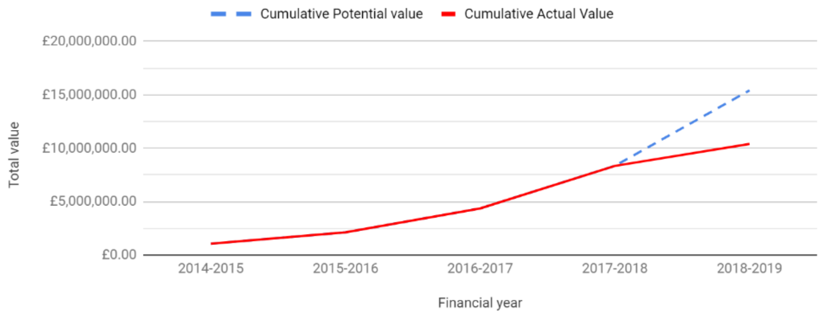


Figure 15 – Chart comparing actual trend with predicted trend, of cumulative investment value, if no change in SITR eligibility criteria



We make pragmatic proposals in Part B, which largely draw on the collective wisdom of the SITR working group, whilst recognising HM Treasury's interest in preventing abuse, avoiding double subsidy, and subsidising risk-free activities.

Question 15

Are you aware of any international examples of similar tax reliefs that have experienced greater take up than SITR?

No, however SITR is often admired in other parts of the world.

SITR is one of the ways in which the UK is seen internationally as a world leader in social impact investing and social enterprise.

Media: See the following articles in Australia: https://probonoaustralia.com.au/news/2019/05/what-social-enterprise-wants-to-be-more-widely-embraced/ and India: https://timesofindia.indiatimes.com/blogs/as-it-is/social-businesses-new-and-strong-partnership-opportunity-between-india-and-uk/.

International speaking opportunities: In June 2019, UK SITR expert Neil Pearson spoke on a panel at **New York University Grunin Center for Law and Social Entrepreneurship's** annual conference**.** The topic was "Legal Issues in Social Entrepreneurship and Impact Investing – in the US and Beyond." The panel explored how national and local governments could support social enterprise through tax credits or otherwise.

International research reports: SITR has also been selected as the 4th Best tax relief in Europe by PwC: https://ec.europa.eu/taxation_customs/sites/taxation/files/final_report_2017_taxud_venture-capital_business-angels.pdf

Question 16

How did you hear about SITR?

As highlighted above, we seek to raise awareness of SITR through GET SITR.

To date, GET SITR has made available: (1) free 1:1 support surgeries for social enterprises and charities with a specialist SITR lawyer (23 delivered to date); (2) bespoke guides, webinars and podcasts on how to use SITR for social enterprises, charities, investors and advisers (**over 30,000 unique page views** of SITR pages on Big Society Capital's website throughout the lifetime of the campaign starting in June 2015), including an editable advance assurance document (138 views to date since its launch at the end of 2018); (3) a monthly SITR newsletter, sent out to nearly 900 people, with all the latest news and updates on SITR; (4) a live SITR deals database, 12 SITR case studies and 14 blogs; (5) social media campaign since June 2015 through which we have tweeted nearly 300 times (creating over 215,000 impressions and engaging over 12,000) and posted on LinkedIn over 130 times (creating over 30,000 impression and engaging over 870).

Annex A

Introduction to Big Society Capital and social investment

Big Society Capital aims to improve the lives of people in the UK by connecting social investment to social enterprises and charities.[34] We strongly believe that social investment can help social enterprises and charities achieve greater levels of social change.

We engage with investors, fund managers, social enterprises and charities making it easier for those on the frontline to use social investment to achieve more social impact.

1. We provide capital to fund managers or specialist banks serving the third sector that in turn provide finance and support to social enterprises and charities.
2. We act as a market builder for the social investment market, increasing awareness of and confidence in social investment.

Since our inception, together with other investors, **we have made over £1.7 billion of new capital available to organisations with a social mission** through investments into fund managers and social banks.

Over 1,141 social enterprises and charities across the UK have accessed repayable finance through Big Society Capital's social fund managers and Charity Bank. **Of the 1,141, 73% are in 50% of the most deprived areas of the UK.** 83% operate either outside London or nationally.

We currently focus on three areas: strengthening places and communities; providing homes for people in need; and early action to prevent problems (such as childhood obesity and ageing).

Social impact investment is growing and diversifying. We estimate the growth of assets in the social investment sector is 17% from 2016 to 2017, and 50% over 2015 levels.[35] In the last few years, mainstream asset managers have launched commercial impact funds. These large-scale funds which offer breadth and scale complement our cornerstone work focusing on depth of impact. We estimate the UK impact investment market has £150 billion assets under management.

Impact investment is defined as investments in the shares or loan capital of companies and enterprises 'who not only measure and report their wider impact on society – but also hold themselves accountable for delivering and increasing positive impact'[36]. The social investment market, which focuses on connecting investment to social enterprises and charities, is a subset of impact investment and sits under 'contribute to solutions' – as shown in figure 16.

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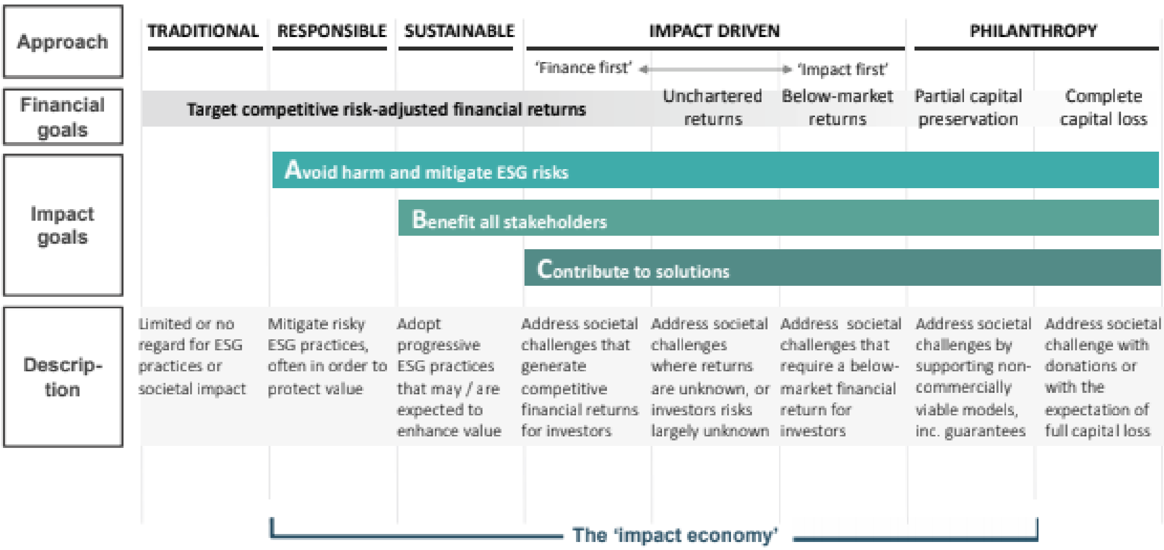
[34] For a full overview of who we are and what we do, see annex A. To see the social impact of our portfolio, see our latest (2018) annual review: https://www.bigsocietycapital.com/sites/default/files/Big%20Society%20Capital%202018%20Annual%20Review.pdf.

[35] For the purposes of this estimate, we define social investment as "repayable finance for social enterprises and charities that targets both financial and social returns": https://www.bigsocietycapital.com/home/about-us/size-social-investment-market.

[36] See Impact Investing Institute brochure: https://drive.google.com/file/d/17Phslj_uOiqDwqUhEDOacy0MUGBJS8j8/view and website: https://www.impact-investinginstitute.org/.

Figure 16 – Spectrum of Capital[37]

Choices and strategies for investors on the 'spectrum of capital'



Source: Bridges Impact+ and the Impact Management Project.

There is a spectrum of capital, ranging from investors motivated mostly by financial return to investors motivated mostly by impact. Impact investors aim not just to avoid harm through screening for environmental, social and governance (ESG) factors, but to use these considerations to invest with the intention to generate positive, measurable social and environmental impact alongside a financial return.

Annex B - Blogs

Mark Grant, Action Homeless

https://www.bigsocietycapital.com/latest/type/blog/sitr-could-be-game-changer-social-enterprises-mine-it-needs-be-simplified

Dr Thelma Lovick, professor and research fellow at University of Bristol

https://www.bigsocietycapital.com/latest/type/blog/social-impact-investing-view-individual-investor

Celebrating SITR as one of the most effective tax breaks in Europe

https://www.bigsocietycapital.com/latest/type/blog/celebrating-sitr-one-most-effective-tax-breaks-europe

[37] See Impact Investing Institute brochure: https://drive.google.com/file/d/17Phslj_uOiqDwqUhEDOacy0MUGBJS8j8/view.