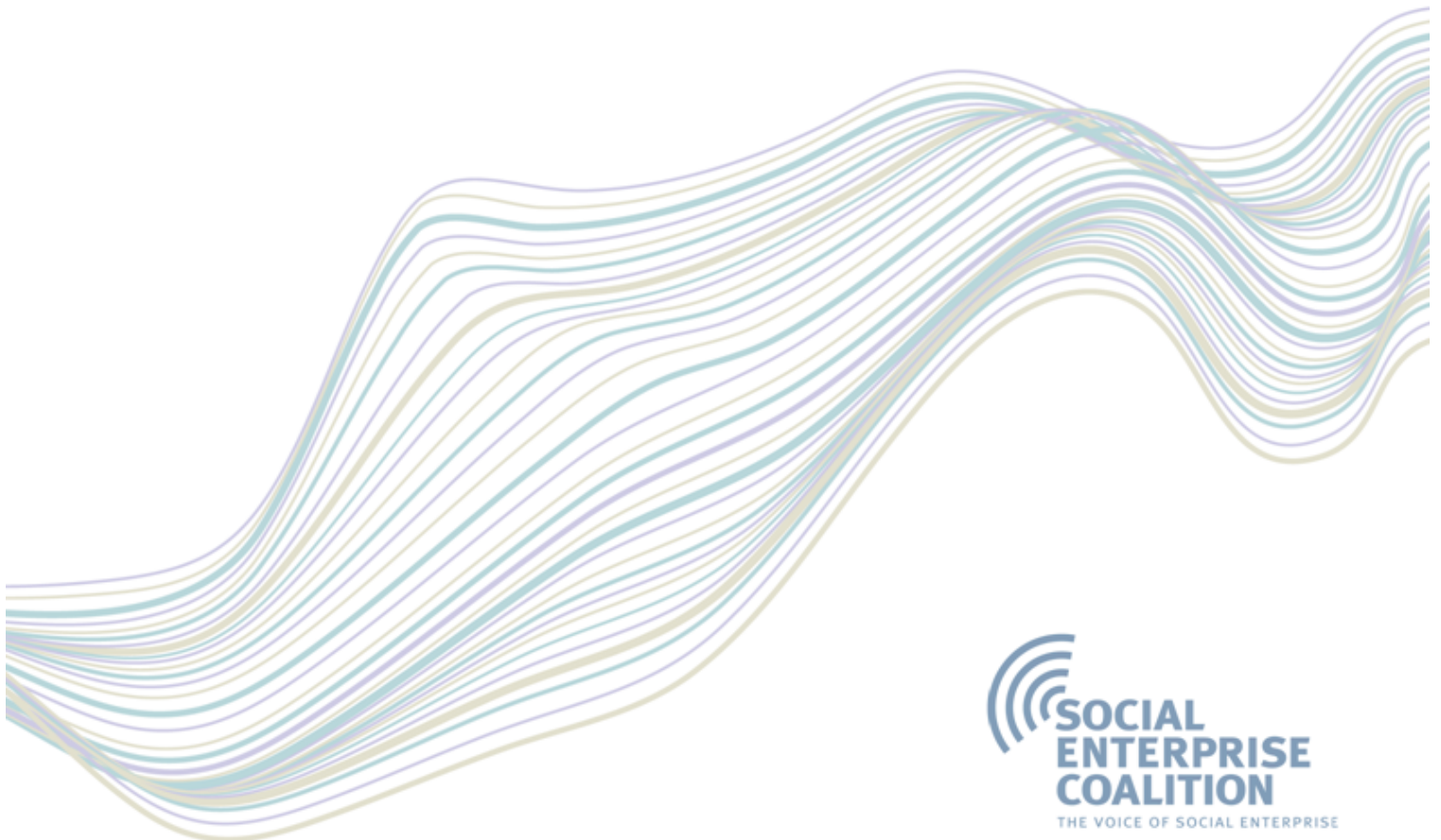


# Response by the Social Enterprise Coalition to the Charity Commission consultation on charities and investment matters

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## Introduction

1. The Social Enterprise Coalition (SEC) welcomes the opportunity to respond to the Charity Commission consultation on charities and investment matters.
2. SEC was established in 2002 as the national voice of social enterprise. We represent a wide range of social enterprises, umbrella bodies and networks, with a combined membership reaching over 10,500 social enterprises. These include co-operatives and mutuals, development trusts, housing associations, leisure and football supporters' trusts and Social Firms. This response was informed by consultation with members of SEC.
3. Social enterprises are businesses with primarily social or environmental objectives whose surpluses are principally reinvested for that purpose in the business or in the community, rather than being driven by the need to maximise profit for shareholders and owners.
4. Many social enterprises, including a number of large more established ones, are also charities. 37% of those surveyed in the Social Enterprise Survey 2009 were registered charities. Operating a social enterprise through a charity offers obvious tax and rate relief advantages.
5. Social enterprises can be both recipients and providers of investment and there are significant opportunities for like-minded organisations to invest in each other and contribute to the further achievement of social and environmental aims in doing so. We welcome measures that encourage third sector organisations to choose to retain investments within organisations that align with their mission. However, we would like to see this done in such a way that is enabling, not overly prescriptive and which inspires trustees rather than leading them to be over-cautious.
6. Money is currently going out of the sector that should be staying within it. Investment, particularly those that are termed mission-related and programme related, should be attracting returns within the sector. With organisations such as Bridges Ventures, Big Issue Invest and CAF Venturesome in the investment arena and one Social Impact Bond in pilot stage, as well as the funds of social investors such as Charity Bank, Triodos and social investment intermediaries, the amount held is likely to be in the billions. It would be put to better use if there was greater empowerment to reinvest within the sector, rather than in sectors that could be antithetical to the aims of organisations.
7. The Social Enterprise Coalition is responding to this consultation because we believe that it is important to get the landscape right for furthering the social enterprise sector and that the views of the social enterprise community are represented. This is especially important as the sector and the associated social investment market mature. There are tremendous opportunities for social enterprise and the charity sector as a whole of getting this right. Our comments in this response are relatively top-level and relate to overarching principles as we are aware that there are other organisations that will be able to comment on the detail of the proposals. We have decided to answer the main questions rather than all of them.
8. Our long-term vision is that decisions on investment matters that consider social and environmental outcomes will not be considered a fringe activity and will be mainstreamed. Our view is that in ten years' time charity investment opportunities will end up being no different to other asset classes.

## General questions

### **1. Are the issues and approaches to investment sufficiently clear, easy to understand and to apply?**

We welcome the move to tackle the issues around decision making about charity investments. Our general impression is that the guidance tries too hard to define categories where reality may not always fit into neat boxes, and that there are not sufficient examples of the nuances that charities will face in applying the guidelines. Rather than categorising ways of investing as done in the consultation it ought to look at 'positive use of money'.

### **2. Is the guidance in a form that is accessible and easily navigable for trustees and those who make decisions on behalf of trustees?**

We would like to see the guidance developed in such a way that is not too restrictive, not too onerous and allows greater flexibility. It would benefit from case studies, practical and experiential advice, including development of peer-to-peer learning. Additionally, in its current form it is somewhat repetitive and could be put in a better order, as currently a lot that trustees need is in the middle.

### **3. Does the tone of the guidance strikes the right balance in facilitating charities in furthering their aims while managing risk?**

Whilst it is right that the guidance should deal with the issue of managing risk, this could be complemented by more of a narrative about the opportunities that the expansion of social investments will bring.

There is an underlying issue around trustees' attitude to risk, where there is often a tendency towards accepting risk aversion. Social enterprises are well versed at taking risks given their enterprise orientation. There is not necessarily a tension between charities achieving their objectives and risk-taking. Certainly, social investment should not be viewed as inherently more or less risky than other forms. Organisations should make investments based on evidence that them being right for the organisation. The greater risk is potentially that social enterprises inadvertently end up investing in the problem not the solution.

We welcome the inclusion of examples that make it clear that charities can invest within the social sector, with particular references to charities giving a loan to a fund financing social enterprises and investing in a social impact bond. This can bring greater opportunities for social enterprises which are not charities, such as community interest companies to benefit from investment, where it aligns with charitable objectives. This aspect of the guidance and others could be further enhanced by the inclusion of real examples that show how such investments contribute to social impact and manage risk effectively at the same time.

#### **4. Is the draft guidance likely to give trustees confidence in making decisions about investments?**

We are not certain that the primary objective of this document is to give confidence to trustees in making decisions about investments, although we would welcome steps to develop this. We do not believe that it is designed to be aspirational. We think that the document itself is more designed to give trustees information about the legal framework. We believe it would benefit from case studies that would bring the issues to life and help trustees to navigate through some of the nuances. We welcome recognition of the role that programme related investments play in funding social enterprises but the responsibilities for trustees are rather vague. Further guidance and clarification could be provided so that trustees are confident about this course of action.

There are cultural issues that need to shift and this is where social enterprises can lead the way. There is a case to be put that the guidance cannot necessarily provide confidence to trustees but it can guide on the legal requirements. It could go further and oblige trustees of charities that do not engage in mission-related investment why this is so. With sound governance, trustees can be more confident and take a broader view of the social mission.

Social enterprises regularly seek slow-burn investment – patient capital. Changing people's lives and the environment doesn't often happen instantly - people's lives and their environment are complex and require long-term approaches. Social enterprises venture into areas where for-profit companies don't see commercial opportunities. Greater encouragement of such investment would help to develop the sector.

We would welcome a greater appreciation of the nuances demonstrated in the way the guidance is interpreted. Given that it is presented in fairly black and white terms we would like to see appropriate platforms developed for trustees and investment managers to get experiential learning of navigating around social investment.

#### **5. Does the guidance meet the needs of all charities, large and small?**

We are not certain that the guidance reflects the needs of smaller enterprises to the same extent as those of larger enterprises. Smaller organisations may have less scope for investment.

We would like to see the guidance simplified and enhanced in such a way that drives charities to be more innovative, allows greater flexibility and leaves open a range of opportunities to them.

**6. Are there additional examples that could be used to illustrate points made or issues covered?**

There are numerous examples of innovative investments by organisations including Big Issue Invest, Bridges Ventures, CAF Venturesome and other organisations that would add value to the guidance.

**7. Are there gaps or omissions where further guidance would be helpful?**

We believe that there could be more in the guidance about how the delivery of private benefit should be treated. We also think that coverage of 'eligible investment' is missing and further guidance would be helpful in this area.

Social Enterprise Coalition  
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