

MANIFESTO FOR 2015

Helping Social Ventures Flourish

The Key to Sustainable Growth
and Social Wellbeing




Allia

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Supporting social ventures in the UK will be the single most cost-effective solution for social wellbeing between 2015 and 2020.

‘Social ventures’ are organisations that exist for the primary purpose of making positive social change. They may be charities, community groups or social enterprises. Some will operate within a defined local area, while others will have national impact.

There are over 160,000 registered charities in the UK, not including a range of exempt charities such as educational charities and community benefit societies. Government data estimates that social enterprises make up 15% of SMEs, contributing £55bn to the UK economy and employing nearly 2 million people.¹

The enabling of social ventures through growth-promoting legislation, access to appropriate finance and effective, sustained political support, will ensure that the solutions they provide to challenges of needs and inequalities in our society will have a positive impact, adding value to the social fabric and economic health of the UK.

Much has been achieved in the UK during the last decade, despite a context of severe cuts to public funding. Yet there is still much progress that must be made if the UK is to remain the centre of excellence for social enterprise and social investment within the G8 group of countries.

Since 1999, Allia has been at the forefront of innovation in supporting social ventures across the UK, developing new social finance products, providing affordable workspace solutions and delivering enterprise support and incubation.

Based on its experience of working with social ventures, Allia seeks policy changes in six areas which require enabling legislation or social venture infrastructure:

- Charity Bonds
- Tax Incentives for investors
- A supportive regulatory environment
- Social enterprise zones
- Government support for social venture hot-housing
- Tax incentives for corporate-social venture skills transfer

¹ *Social Enterprise: Market Trends* (Cabinet Office, June 2013)

ENABLING LEGISLATION

1. Charity Bonds

“Charity bonds have the potential to open up the social investment market, increasing the sources of capital available to charities, and enabling investors to reconcile their (or their own investors’) social preferences with their portfolios. The UK charity bond market is transforming rapidly. The last two years have seen substantial growth, with almost half of the 19 issues launched to-date coming to market.”

- Growing the market for charity bonds,
Big Society Capital, July 2014

Access to debt finance can enable social ventures to make a step change in scaling activities and delivering social outcomes. In recent years, there has been a marked increase in interest from small and medium-sized charities in accessing repayable capital.

This has been supported through the creation of the Investment and Contract Readiness Fund and the launch of Big Potential. The Government has also committed to investing at least £60m in a new foundation to increase access to the social investment market.

CASE STUDY

Golden Lane Housing (GLH) is a charity that provides homes and support for people with a learning disability. At present, only 16% of people with a learning disability have secure tenancies or own their own home; most live in large, often remote institutions, or with parents who in many cases are increasingly unable to cope.

While GLH has previously benefited from public sector grants, there are now very few grants available to it. At the same time, it has found that bank debt has become more expensive, more restrictive and shorter term. Access to appropriate finance is therefore essential to allow GLH to expand and address the substantial unmet need for its services.

Allia’s solution to this was the issuance of the first Retail Charity Bond, raising £11 million at 4.375% through the first such bond to be listed on London Stock Exchange. The money raised will be invested in much-needed housing for people with a learning disability

The GLH example is repeated amongst the many social ventures, often delivering vital public services, who require capital for asset finance, such as hospices, care-home providers and educational establishments.

Historically, the relatively small-scale financing requirements of social ventures have restricted them to issuing unlisted mini-bonds due to the prohibitive costs of listing for amounts of less than £50m. However listing is essential to the majority of mainstream investors and distributors who require the additional regulatory protection that comes with listing, and the ability to trade in a formal secondary market.

In 2014, Allia and Canaccord Genuity launched the Retail Charity Bonds platform to finally make it affordable for charities to raise amounts of less than £50m through bonds listed on London Stock Exchange. The platform also permits mainstream investors to participate in the delivery of social outcomes through a product that is suitable and comparable to more traditional investments.

The special purpose issuing vehicle for the platform relies on the tax treatment under the securitisation regulations in order to pass interest payments by the charity on to bondholders without inefficient tax leakage. However the regulations prevent the issuance of less than £10m per charity.

Allia seeks to widen the opportunity for charities and other social ventures to access capital through the regulated retail bond market. The Government must reduce the capital market arrangement threshold to £1 million from the existing threshold of £10 million, thus enabling more social ventures requiring asset investment to secure funding through fixed income products.

ENABLING LEGISLATION

2. Tax incentives for investors

Allia welcomes the Government's introduction of Social Investment Tax Relief (SITR) as an equivalent of the Enterprise Investment Scheme to encourage high-risk investments into small social ventures.

It is however equally important that finance is encouraged to flow to other social ventures who may not be eligible for SITR but still find it difficult to attract mainstream finance.

The Government has already announced its commitment to include peer-to-peer loans among the investments that individuals are allowed to hold in ISA wrappers, thus improving savers' choices on how to invest. To encourage mass participation in the support of social ventures, the Government now needs to go further in using the established ISA market to encourage greater social investment.

Allia seeks a Government consultation on extending the ISA eligibility rules to include further forms of social investment, such as charity and community benefit bonds, community shares and other instruments issued for social benefit.

Allia also seeks the creation of a new Social ISA with an additional investment allowance of a further £15,000. Cash Social ISAs would be offered by approved providers who would use the proceeds solely for loans to social ventures. A stocks and shares Social ISA would permit investments in social ventures in accordance with the ISA rules as amended following the consultation.

3. Supportive Regulatory Environment

From 2015, it will be important for the UK Government to ensure that legislation and regulation affecting social ventures is both beneficial and non-burdensome in order to support this growing sector. In particular, access to finance in the form of both investment and grants is critical to the sustainability and growth of social ventures.

A recent report from Triodos Bank, *Impact investing for everyone: A blueprint for retail*

impact investing, found that regulatory barriers are, in fact, negatively affecting social investment. The restrictions designed to protect investors from making inappropriate investments are discouraging participation in the market, diverting funds away from socially-beneficial causes. The Government should acknowledge that some investors have primarily social objectives and, within a framework of ensuring the provision of appropriate information, provide greater freedom to such investors to make their own investment decisions.

Allia seeks the Financial Promotion Regime exemption (applying to registered societies) to be extended to the issue of debt securities by charities and community interest companies. We also seek the exemption from the Prospectus Rules for charities issuing transferable securities to be extended to community interest companies. Further to this, a new category of 'self-certified social investor' should be recognised by the FCA in relation to financial promotions made by a charity or community interest company.

The Government has recognised the importance of using grant funding to help social ventures to be sustainable and able to take on investment (e.g. through the Investment and Contract Readiness Fund and the Social Incubator Fund). Big Lottery has also made supporting the growth of the social investment market one of its strategic priorities.

Such use of public funds however frequently constitutes State Aid where social ventures are engaging in economic activity. Under EU regulation, State Aid support is therefore commonly limited to the De Minimis threshold of €200,000 in any three-year period. There are, however, block exemptions that allow for higher funding for particular activities that are identified as needing additional support.

Allia seeks a commitment by the Government to lobby for the inclusion of social venture support in the EU's General Block Exemption Regulation (GBER), thus permitting additional financial support through public funding above the De Minimis threshold.

4. Social Enterprise Zones

It is accepted that the UK economy is currently too dependent on a narrow range of industry sectors. Academics and past and present governments assert that the UK needs an economy driven by private sector growth, with business opportunities evenly balanced across the country and between industries. As such a significant proportion of businesses and start-ups in the UK are small to medium-sized enterprises (SMEs), successive governments have worked to legislate to reduce burdens on them. This includes the implementation of lower tax levels, efficient planning processes and the removal of other administrative barriers to commercial success.

In 2011, the Department for Business Innovation and Skills (BIS) announced the chance for local enterprise partnerships (LEPs) to apply to have an enterprise zone within their community. These zones can take advantage of tax incentives and simplified local planning regulations. The UK now has 24 enterprise zones which are supported by LEPs, local authorities and commercial partners.

Two years later, the Government launched University Enterprise Zones (UEZs)—a £15 million pilot scheme which allows universities to push through local growth plans, and support entrepreneurship and innovation.

The zones aim to allow the construction of business spaces that can host a range of new high-tech companies in the early stages of their development. These innovative small businesses will then be able to share their expert knowledge at the university, helping them to grow and prosper. There are four pilot UEZs running between 2014 and 2017.

These same approaches should be used to accelerate the growth and impact of social ventures.

Allia seeks the creation of a formal Social Enterprise Zone (SEZ) scheme with a range of incentives to encourage the start-up and growth of social enterprises within specified zones.

Social ventures domiciled within the SEZ that employ up to 50 staff would benefit from:

- Business rates relief
- Planning regulation simplification
- Exemption from corporation tax for the initial four years of trading
- Exemption from National Insurance contributions from the date of start-up until ventures employ 15 full-time equivalent staff.

These measures will incentivise social ventures to remain domiciled within the SEZ, thus contributing to the development of vibrant, growing and socially-beneficial business communities.

5. Hot-housing of like-minded ventures in premium commercial space

Incubation centres for SME start-ups are helping to bring access to intensive business support, finance and expertise to like-minded entrepreneurs. The same approach can drive social venture start-ups. Experience proves that co-locating social entrepreneurs in modern, vibrant and supportive locations fuels the growth of the social economy.

As an example of the success of this model, Allia's Future Business Centre Cambridge, which opened in November 2013, is already fully occupied and delivering the Social Incubator project for the Eastern Region.

Allia seeks Government support for the creation of social enterprise centres across the UK, allowing them to become engines of social venture acceleration.

This support will include:

- Grant assistance for planning applications;
- A challenge fund to establish 20 new incubators in the UK by 2020.

6. Tax incentives for corporate-social venture skills transfer

Businesses and industries have a record of responding to government-supported incentive and reward schemes which address social issues like improved waste management, employee rights and corporate social responsibility.

There is currently a significant amount of pro bono support given by private sector businesses to support social ventures. For example, SkillsBridge in the North of England, an initiative started by Allia in 2001, brokers the placement of skilled personnel in the private sector with local social ventures. (See the box to the right for a case study on one social enterprise's experience with the SkillsBridge initiative in Newcastle.)

Creating these links between private sector companies and social ventures leads to greater welfare in the benefitting communities, promoting positive economic and social outcomes for all involved parties.

Additional Government incentives could provide a further boost to social ventures, allowing them to benefit from skills enhancement, capacity building and mentoring by UK businesses.

Allia seeks the creation of an incentive scheme to encourage established businesses in the private sector to donate staff time for mentoring and skills contribution to social ventures. Donated time, calculated on a cost-to-firm basis, would be eligible for tax credits.

CASE STUDY

Situated in the East End of Newcastle, Recyke Y' Bike is a small charity offering the surrounding community a range of services, such as bicycle and equipment sales, repair workshops and training opportunities. The organisation contacted SkillsBridge to help them to assess if their current location was suitable for the organisation's ambitious business development plans.

After an initial diagnostic meeting, SkillsBridge arranged for GVA Grimley Ltd to support the project manager with a feasibility assessment of their premises' needs. As a result of this, appropriate site development has enabled Recyke Y' Bike to employ additional staff and increase sales by £20,000 with an additional £8,000 generated in the servicing department.

"Our efficiency has gone up as a direct result of working with GVA through employing an additional member of staff. Without the advice from GVA we would not have felt confident enough that we were taking the right decision to employ additional staff, but now that we feel certain we are in the right location, we can start investing in the site."

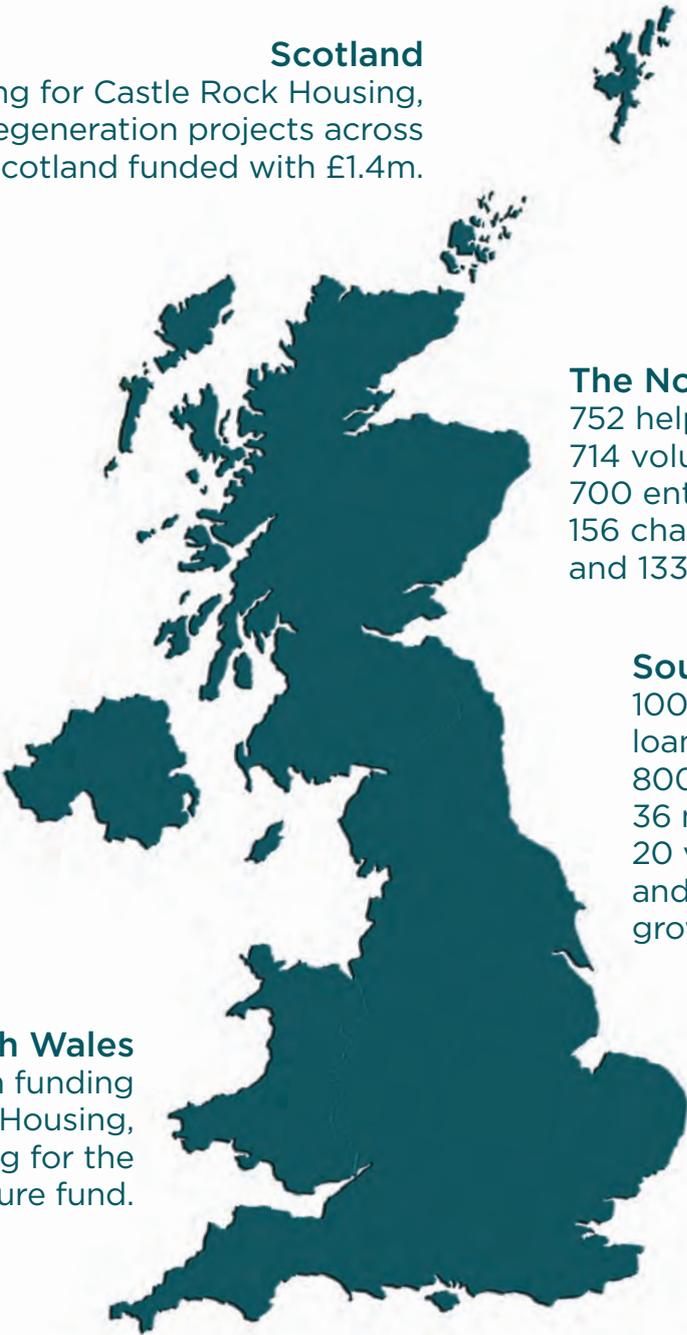
- Pete Pickard, Project Manager at Recyke Y' Bike

"The people at Allia think and do, mixing imagination and vision with a dogged determination to tackle real problems in the real world. It has become one of the great innovators in our sector, consistently entrepreneurial in creating new ways of supporting social ventures."

- David Robinson, OBE

"I met Allia in 2002 and ever since then I've seen the way they identify actions needed, empower communities and make differences happen!"

- The Baroness Stedman-Scott of Rolvenden, OBE, DL, FRSA



Scotland

£8.6m funding for Castle Rock Housing,
14 community regeneration projects across
Scotland funded with £1.4m.

The North East

752 helped into work,
714 volunteers helped,
700 enterprise events held,
156 charities supported
and 133 enterprises funded.

South Yorkshire

1000 personal loans to replace
loan shark lending,
800 people helped into work,
36 micro-business start-ups
20 voluntary sector jobs
and 7 social enterprise
growth loans.

South Wales

£0.25m funding
for Rhondda Housing,
£100k funding for the
Welsh Talent Nurture fund.

Cambridge

Allia has developed its
Future Business Centre
offering in Cambridge
to bring workspace,
ideation, innovation and
incubation for budding
social ventures.

East London

400 helped into work, £41k grant funding
for Bromley by Bow Centre in Tower
Hamlets and £41k grant funding for
Community Links in Newham.



A TRACK RECORD IN HELPING SOCIAL VENTURES FLOURISH

Allia is a UK charity that helps social ventures flourish. Social ventures are organisations that exist for the primary purpose of tackling particular social issues or creating specific social benefits. They may be charities or social enterprises and can take a variety of forms.

Allia exists to support these social ventures so they can make maximum impact. Working alongside people with an idea that can have a significant impact upon a community or on many communities, Allia helps these leaders to define, develop and start up new enterprises. We then provide support, funding, guidance and commercial expertise to foster growth, expansion and deliver agreed impacts and goals.

Allia offers incubation and hot-desking space for small, growing ventures, and affordable office space on flexible terms for ventures to co-locate with other like-minded people. We also develop finance solutions to connect individual and corporate investors to social ventures in need of funding – for instance through issuing publicly listed, retail eligible bonds listed on London Stock Exchange and traded on its Order Book for Retail Bonds ('ORB').

<http://www.allia.org.uk>
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<http://www.retailcharitybonds.co.uk>

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