The Oversight Trust

Assets for the Common Good

Better Society Capital
Quadrennial Review

30 Jan 2025

Contents

Summary

Since 2012, Better Society Capital has received £634 million in dormant assets and bank funding to invest in fund managers who have ranged from mainstream institutional funds to emerging social funds. These fund managers invest directly in social enterprises and 'profit with purpose' businesses. Acting as wholesaler and market-builder, BSC has:

- Helped catalyse 12-fold growth over 12 years in the UK impact investment market, to over £10 billion
- Crowded-in co-investors, particularly to invest in social housing
- Funded other social investment providers
- Researched and published as a thought-leader, promoting 'impact' to investors
- Sustained its own mission-led organisation, culture and talented staff.

BSC's strategy since the 2020 Quadrennial Review (QR) has become clearer, but we observe continuing tensions, grounded in original unrealistic expectations dating back to 2012:

- BSC's foundational goals were (and remain) to grow the market and deliver social impact. At one end of the range, BSC investment in mainstream impact funds (especially in social housing) has delivered growth, but BSC's 'additionality' is sometimes unclear. At the other end of the range, social fund managers who focus on more risky and often harder-to-scale catalytic investments have struggled to raise capital (especially since 2022) and remain fragile. BSC mitigates the risk associated with 22.5% of its deals (12% by value) by applying grants, guarantees and other effective subsidies, often via other players.
- One of BSC's founding principles is that its 'at market' returns will allow it to recycle capital and be self-sustaining. In 2022, BSC agreed a new target with key stakeholders for a net portfolio return of 1%, after covering investment and market-building costs. Experience suggests BSC cannot earn market returns while simultaneously delivering impact, covering its costs and mitigating risk from investing in vulnerable enterprises.
- BSC has always balanced its two cultural ecosystems — mainstream financial services and the social sector, the latter spanning charities, social enterprises, purpose-driven businesses and foundations. Our interviews with a wide range of stakeholders identified positives (talented staff working in a unified mission-driven culture) and negatives (excessive process and delays).

The Board of BSC is currently reviewing its strategy for 2026–30. From our analysis of inputs from BSC and interviews with 30–plus external organisations, we suggest that it considers:

Issue 1: Impact
Where should BSC strategy focus in the next phase?

- How to balance investing in impact funds with investing in social funds — and be transparent about the choices BSC makes?
- How to make catalytic investments and provide capital and other support to fragile intermediaries — and grow devolved regional players?

Issue 2: Sustainability
How should BSC fund its strategy?

- How to access new capital for future real terms growth, including grants or guarantees etc. to provide concessionary capacity and risk mitigation?

Issue 3: Engagement
How should BSC influence for its strategy?

- How could BSC make the case to Government for further long-term patient/grant/concessionary/blended capital?
- Where could BSC dedicate resource to reflect heightened priority for devolved decision-makers — and advocate for sector needs?

Issue 4: Organisational challenges
How should BSC organise and behave to deliver its strategy?

- How the Board of BSC ensure it hears alternative points of view?
- How BSC action the feedback and insight from investees and co-investors?

Review process

The independent review panel ('the Panel') of Keith Leslie (Chair), Claire Brown and Magdalene Bayim-Adomako, supported by Fiona Young Priest (secretariat), was tasked with assessing whether Better Society Capital (BSC) has met its objectives and whether it is effective in its operations. The Panel was accountable to an Oversight Trust (OT) group of Nicola Pollock, Kevin Davis, Vicki Thornton and Alastair Ballantyne. BSC made its senior staff available for interview; established a comprehensive data room of material comprising meeting records, analyses and other documents; and the senior BSC leadership engaged regularly with the Panel. We are grateful to Claire Goodridge for her support with documents, arranging meetings and dealing with various questions from the Panel. Terms of Reference are appended, as are brief biographical notes on the reviewers (Appendices 1 and 2 respectively).

The approach adopted by the Panel, in agreement with OT and BSC, was to engage the people and stakeholders of BSC in conversation, exploring:

- Successes, challenges and opportunities for the organisation during the preceding four years
- Progress on the issues identified in the 2020 QR and the impact of changes in the external world since then
- Issues for BSC to consider during its current strategy review.

The Panel did not conduct an audit of BSC's data nor develop alternative analyses; the review was conducted on the basis of data and analyses provided by BSC. The priority was to have open conversations with a wide range of stakeholders on the topics they wished to discuss and to do so in a constructive and confidential atmosphere. The Panel believes this priority has been realised.

The Panel worked with OT and BSC to identify 35–plus stakeholders and organisations including: BSC Board members, OT Directors, policy-makers, fund managers and intermediaries, investors, shareholder banks, social investment users and other partners. Appendix 3 lists the stakeholder organisations who were represented during the interview process. Interviewees also suggested further organisations and individuals who could provide valuable insight. Alongside the internal and external interviews, an open invitation was shared on the BSC and OT websites, and via social media channels (from 13th August to 16th September 2024). Respondents were encouraged either to share free-form responses to a dedicated mailbox or complete a short online survey.

We found a high degree of consensus across all our circa 40 interviews, across all stakeholder groups. Typically, an interview discussion comprised 15–20 minutes' appreciation of BSC's work and 20–40 minutes' discussion around issues and options facing BSC, all addressed constructively. Another beneficial aspect of the high degree of consensus is that it should enable BSC both to respond to this review and to constructively use its findings when considering areas on which to focus.

Internal interviews took place at BSC's offices, with external interviews taking place virtually. The Panel believes this combination worked well and we believe that we obtained full and open input both from interviewees and from BSC on our thinking and the report as they developed. Our thanks are due to all whom we 'met' during the review period 9th September to 15th October 2024. All data cited was correct as of 15th October 2024, but some may be subject to later change as reports are updated in the normal course of events.

Glossary of terms and actors

The terms used in this report to describe the spectrum of investments and key actors are defined as follows – this glossary is not intended to be an exhaustive list:

Access — the Foundation for Social Investment (Access)	BSC, together with the National Lottery Community Fund and the Cabinet Office, launched Access in 2015 to address two specific gaps for charities and social enterprises trying to access social investment. Access has become an increasingly important partner to BSC via its ability to provide patient and flexible blended funding programmes; including grants.
BBB	British Business Bank
Blended finance	Investment into social purpose organisations and/or funds that benefit from a grant or guarantee from others as 'first loss' and/or risk mitigation, as well as investment from BSC and other investors seeking a market or concessionary rate of return.
Catalytic capital	Capital designed to stimulate impact, mitigate risk and improve an opportunity's viability to attract third party investment.
CDFI	Community Development Finance Institution
Concessionary capital	Below-market debt or other investment instrument, including patient equity-like capital.
EDI	Equity, Diversity and Inclusion
ExCo	BSC's Executive Committee — the five-member top management team to whom the larger Senior Management Team reports.
Impact investment	Investments at or below market rate of return, with measurable social or environmental impact.
LGPF	Local Government Pension Fund
Mainstream investors	Established investors — including City, commercial and institutional — investing primarily for financial return, who may also have an Environmental, Social and Governance or impact objective. BSC co-invests in City funds and social funds.
Merlin Banks	Barclays, HSBC, Lloyds Banking Group and NatWest Group.
Social investment, social investment funds/'social funds'	Sub-set of Impact investment — investment in social enterprises and charities, at or below market return, primarily for social impact, alongside financial return. Can take the form of equity or repayable finance.

Overview of Better Society Capital

Context

BSC is a social impact-led investor; its mission is to grow the amount of money invested in tackling social issues and inequalities in the UK. BSC does this by investing through social fund managers and other impact investors. It aims to increase awareness of, and build confidence in, social investment by demonstrating best practice and sharing information. According to its latest annual assessment, since its inception BSC has helped build a market, directing more than £10 billion into social purpose organisations tackling issues from homelessness and mental health to childhood obesity and fuel poverty — a twelve-fold increase in twelve years. BSC's investments represent 5% of this market[1]. Overall, the UK impact investing market has grown to £76.8 billion assets under management[2] as of the end of 2023 (only 34% of these are invested in the UK and a significant proportion are focused on environmental impact rather than social impact). BSC's investment no longer makes up the majority of the market but BSC is still the largest social impact-led investor in the UK market.

BSC views its role as bringing the most relevant experts from its network together, generating ideas and connecting capital to where it is most needed, usually working with other impact investors in partnership. Externally provided grants and guarantees are transformational, enabling BSC to invest in the tougher parts of its market, given that 22.5% of the BSC portfolio (by number) and 12% (by value) has some element of risk mitigation.

BSC has four founding operating principles[3]:

- Wholesale investor — investing through fund managers, social banks and other intermediaries, rather than directly in enterprises; acting to crowd-in other investors, to grow the market, not be the market.
- Independence — independent of Government, allowing the organisation to best determine its activities and investments to deliver its 'locked-in' social mission and adapt over time.
- Sustainable returns — generating returns to cover its costs and bring in other investors. Building a sustainable platform to develop the market for the long term, and generate returns for its shareholders.
- Transparency — clear and transparent reporting to share openly priorities, activities and learnings to support others, build confidence and catalyse market growth.

BSC was established without a prescribed strategy on how best to deliver its mission. It was stipulated, though, that BSC's success would be judged by two factors:

- The growth and sustainability of the social investment market
- The social impact of its investments.

Vision and strategy

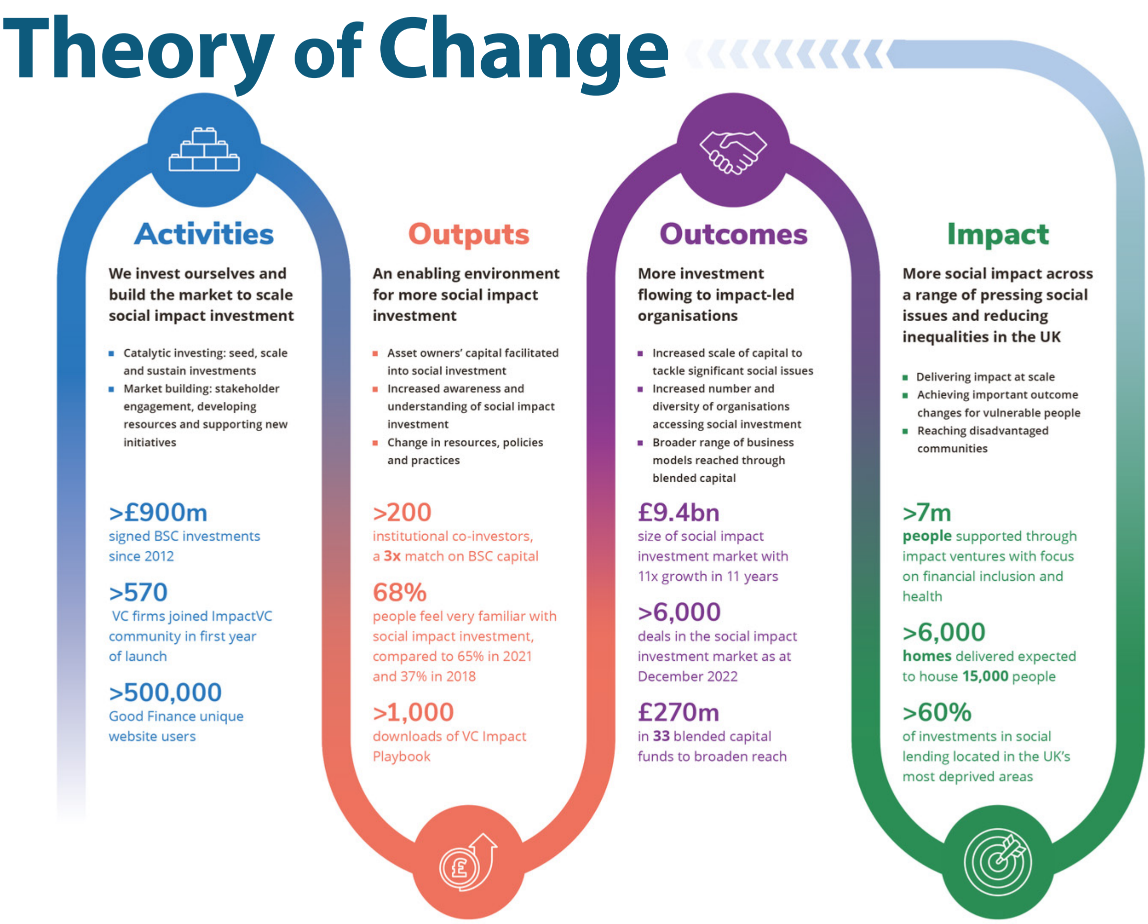
BSC's vision is "a world where all investments help improve lives and build a better society".[4]

In 2020, BSC launched its strategy to 2025 with the aim of at least doubling the UK social impact investing market from £5.2 billion at the end of 2019, and helping it grow to £10–15 billion by

2025. The 2020–25 strategy focuses on building four market systems where BSC believes it can make the biggest difference by increasing the quantity and quality of capital flowing to social enterprises, charities and social purpose organisations.

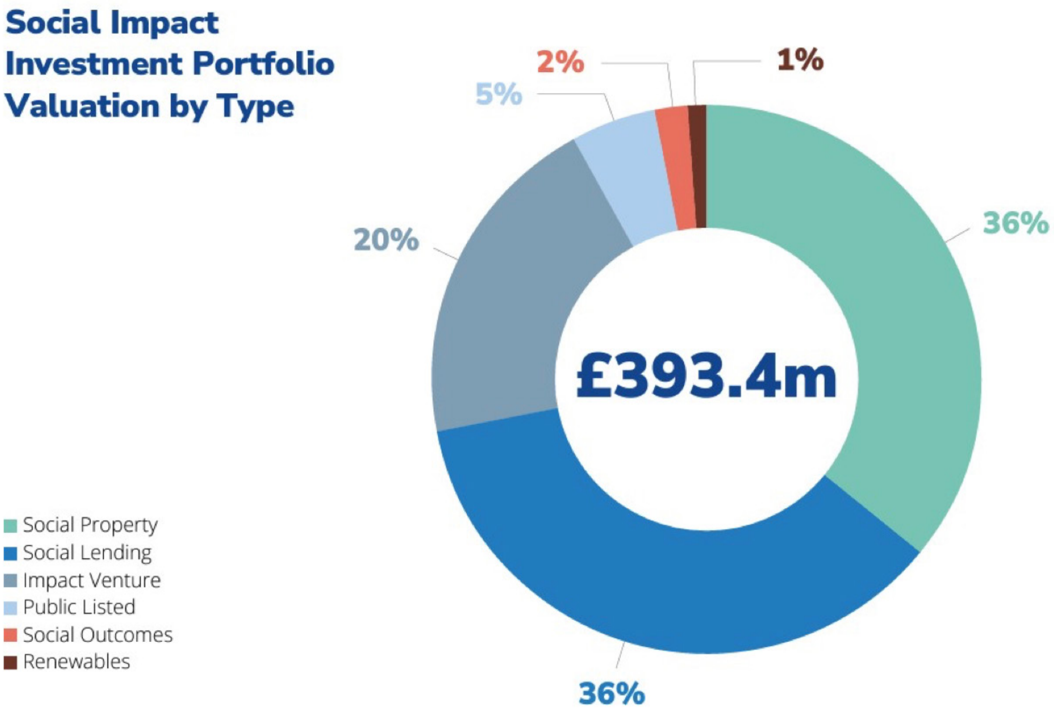
- Social Lending — building a social lending market that meets the needs of a diverse range of social enterprises, charities, small businesses and investors alike
- Social Property — building a housing market that creates more safe, secure and affordable homes for everyone to access, regardless of their circumstances, particularly for the most vulnerable people
- Impact Venture — building a venture market that nurtures and scales innovative ways of tackling social problems
- Social Outcomes — building a market for social outcomes contracts that improves public service delivery for people with complex needs, while creating better value in public services.

BSC's Theory of Change model illustrates how it intends to achieve this change by building an enabling environment for more investment to flow to impact-led organisations. BSC understands that building a market is anything but linear. Markets are complex; social systems are often hard to predict and constantly evolve and adapt. The model is used to illustrate how its activities are meant to contribute to positive impact in the UK.



Investments

As of 31st December 2023, BSC's social impact investment portfolio comprised investments totalling £393.4 million in the following activities (percentage of portfolio by valuation).



Investments are recognised at two distinct stages of the investment process. In addition to the above BSC had £133.1 million in capital commitments as of 31st December 2023 for investments signed with commitments outstanding i.e. not yet drawn down, plus £30.3 million in-principle commitments not yet signed. In total this represents £556.8 million; total commitments to date are circa £951 million[5].

BSC also holds a treasury portfolio of circa £230 million which is invested in line with responsible investment principles. This portfolio provides liquidity to enable BSC to meet its contracted social impact investment commitments (which typically are drawn down over 3–4 years following signing) and also reflects the impact of distributions and exits from previous investments.

At the time of the 2020 QR, BSC's social impact investment portfolio was valued at £270.4 million; with 24% invested in property, 17% in community renewables, 14% in Social Impact Bonds, 12% in debt funds with other allocations less than 10% of the portfolio[6]. The last four years have seen significant investments in social property and social lending with Impact Venture Funds emerging as a new theme from the 2020–25 strategy.

As of 10th October 2024, BSC had made 142 commitments (from which 35 have been fully exited). A full list of BSC investments can be found at Portfolio | Better Society Capital[7].

Key achievements and impact

BSC aims to enable and finance the social enterprises and charities in which it invests, to create direct and indirect impact. According to BSC's most recent Impact report[8], over the last twelve years BSC's financing of social fund managers has unlocked significant impact across a range of pressing social issues and has reduced inequalities:

- More than 7 million people supported through Impact Ventures with a focus on financial inclusion and health
- 55,000 people with complex needs reached through social outcomes contracts, delivering interventions across health services, employment and training, homelessness and family welfare
- More than 6,000 homes delivered, expected to house 15,000 people
- More than 60% of investments in social lending are located in the UK's most deprived areas
- More than 75% of enterprises taking on investment target vulnerable and/or under-served groups.

BSC is at least one step removed from impact delivery. This is challenging and many interviewees agreed that it is difficult to assess BSC's impact through attribution; social impact has to be assumed from the work carried out by the ultimate beneficiary organisations.

More information can be found at — Impact report 2023 | Better Society Capital[8].

In partnership with others, BSC has established:

- Access — The Foundation for Social Investment — to use dormant assets as grants to blend with investment in different ways, enabling a wider range of impactful organisations to access investment[9]
- Good Finance — a collaborative project to help improve access to information on social investment for charities and social enterprises[10]
- Impact VC — a community of 800 venture firms seeking to embed impact criteria in their investment decisions[11]
- Equity Impact Project — a common impact reporting framework for all investments into social and affordable housing, with tools to measure, manage and report on positive impacts and mitigate risks [12]
- The Community Enterprise Growth Coalition — a sector-wide campaign to make the case for dormant assets to be allocated to social investment targeting the most disadvantaged communities[13]
- Future Impact Finance — a community for new entrants to the impact investment sector to learn, share ideas and build connections to support sector development
- Blended Finance Community — a community of practice, set up together with Access, helping investors interested in combining different types of capital

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- Investment Committees of the Future — developed with the goal of supporting greater diversity and lived experience in investment decision-making[14]
- Training programmes for its intermediary fund managers.

BSC has published a number of reports in the last four years including:

- 10 Lessons from Growing a Market 10X in 10 Years[15]
- 2025 Strategy — Scaling Impact[16]
- UK Catalytic Capital — Growing Provision — Catalysing Impact[17]
- Mapping the Market: UK social and affordable housing funds 2022[18]
- Education and Employment – Outcomes for All[19]
- Ten Years of Investing for Impact[20]
- Outcomes for All — report[21]
- Financial Report as of 31st December 2023.[6]

Further information can be found at their website.[4]

Organisation and Resources

BSC is a social investment wholesaler, established in 2012 to improve the lives of people in the UK through investment with a sustainable financial return. BSC had equity investment from the OT of £426 million from the English allocation of monies collected by the Reclaim Fund under the Dormant Bank and Building Society Accounts Act 2008 — these funds can only be invested in intermediaries, such as fund managers and social banks. Over time the Merlin Banks each contributed £50 million in capital as an equity investment; using these funds BSC is able to make direct investments. BSC was established to make repayable investments and cannot make grants.

In 2023 BSC received a further £8 million in dormant account monies from OT as part of a Government initiative to support social sector organisations in becoming more resilient to high energy costs.

As manager of the Schroder BSC Social Impact Trust plc, as of 31st December 2023 the Trust had £85 million assets under management.[22]

BSC has a head count of 95 (Full Time Equivalent (FTE) staff as of September 2024) and based on its current strategy does not expect to grow beyond circa 100 staff. BSC has one office in London and, following COVID19, established hybrid working for staff. BSC has an Executive Committee (ExCo) of five and a Senior Management Team (SMT) of 20 — staff are organised into three groups: Engagement, Core and Investment.

In April 2024 BSC changed its name to Better Society Capital from Big Society Capital to better reflect its mission.

Issues and changes since the first Quadrennial Review in 2020

BSC produced a comprehensive programme of action in response to the QR in 2020. A great deal also changed in the external environment for BSC and as a result of BSC actions. Before reporting the findings of the current QR, we summarise the main BSC actions and changes in context.

Quadrennial Review 2020 and BSC responses

The first QR in 2020[23] identified a number of issues for consideration by BSC leadership which, in its initial[24] and updated responses,[25][26] noted its plans to address the issues:

Issue identified in QR 2020	BSC response 2020 and 2021
1. System change — building a robust social investment market	
What more needs to be done to realise this ambition over the coming years? The social investment market is still maturing and there are ongoing tensions between elements of BSC's mandate to sustain its capital base and to invest in building the market.	We will consult and research how better to communicate our approach to pricing. We will consult with Shareholder banks and the Oversight Trust on any potential changes. We will keep performance of intermediaries under review and in particular consider whether further capitalisation is needed.
2. Relationships	
Where does BSC need to improve aspects of its relationships with investors and investees? BSC is challenged by operating at every level — as wholesaler, as developer of potential co-investors and intermediaries, and as originator with charities and social enterprises.	We will review our investment process, use surveys, create a regular feedback mechanism for organisations going through this to drive improvement. We will support Access to consult with managers and investors to develop flexible patient products and help find other investors. We will review our communications and investor engagement strategies to see what improvements can be made.
3. Strategy and innovation	
What does maintaining success look like for BSC? BSC should continue its strategy to invest in innovative social investments and consider broadening its social impact focus areas.	We will expand the investor base by launching new social investment products. We will carry out a review of whether, and how, our investment process could help promote access to investment for diverse communities.

4. Influencing Government	
How can BSC have greater voice in the 'levelling-up' agenda? BSC has potential to play a bigger role, influencing Government across the UK for potential policy benefits from increased social investment.	We will step up policy engagement across Government to build awareness around social impact investment and its role in 'levelling up'. We have built relationships in local and regional Government leveraging investment for the Everyone-In-homelessness project. Longer term, we have agreed to expand our efforts on improving Government relations.
5. Culture	
How can BSC build on its powerful internal culture to be more open to learning? BSC has an enviable talent pool but organisationally it comes across to many investors and investees as insufficiently attuned to stakeholders.	We will work with consultants on an internal review of culture and processes. We will explore a structured secondment system to place staff into social sector organisations. We will review our current advisory board and identify how it can be better used.
6. Operating cost-effectively	
Is BSC cost effective in delivering its objectives — balancing investment in market development vs self-sustainability? BSC's cost base compares favourably to mainstream fund managers but there is a disparity when compared to some of those it funds.	We will keep our budget and expenses under close review. In 2021, BSC will generate fee income from client initiatives for the first time. Associated fee income takes longer to generate following up-front investment in new initiatives. Fee levels paid to Fund Managers are benchmarked as part of BSC's due diligence and approval process.
7. Governance	
How can BSC improve decision-making and challenge? BSC operates to appropriate governance standards but could be more transparent in decision-making and challenge to its strategic thinking.	We will carry out a strategy refresh and consult with our advisory board and others. We will consult on ways in which to widen access and encourage diversity through the social investment system. We will seek more input from those with lived experience.

During our interviews, we followed up on the 2020 issues. The following incorporates feedback received.

What changed for BSC 2020-24?

In the external world:

- Interest rates returned to historical norms and the UK experienced a cost-of-living crisis with inflation levels peaking at 11.1% in October 2022[27]. As a result, established fund managers have been the preferred home for new private impact capital.
- COVID19 and its ongoing impact — BSC committed £25 million to the Resilience and Recovery Loan Fund as part of a £100 million emergency response for social enterprises and charities affected by the pandemic.
- Following the 2024 General Election, the UK Government expressed an intention of greater engagement with social investment.
- The social investment market grew to an estimated £10 billion as of the end of 2023[28], compared to £202 million (2011/12 estimate)[29], with many more investors entering the market (now estimated at over 500 investors, including pension funds, charities and foundations, asset and wealth managers, and individuals/private wealth)[28].
- The fundraising environment for BSC and many of its social fund managers (intermediaries) has been very difficult over the last two to three years — some interviewees mentioned that it was the most difficult situation for 50 years.

Examples of new initiatives and approaches include:

- Increased level of understanding of social needs, asset classes and business models through investment deals
- Utilised risk mitigation mechanisms (guarantees, blended finance, benefits streams etc.) to enable deal viability
- Agreed a rolling 5-year average rate of return target of 1%, i.e. returns after BSC operating costs, with OT and bank shareholders
- Working with Social Investment Scotland, partnered with Lloyds on second phase of the Community Enterprise Fund — Lloyds is the first mainstream lender to support the CDFI sector
- Partnering with Schroders, launched the Schroder BSC Social Impact Trust — managed by BSC — the first diversified impact investment trust on the London Stock Exchange
- Partnered more with Government, including developing the 'Everyone-in' scheme with the Ministry of Housing, Communities and Local Government (MHCLG,) which generated £80 million of additional investment into housing homeless people
- Trialled generating BSC income from providing client services.

Internal changes within the BSC organisation:

- Board changes — a new Non-Executive Chair, Robin Hindle Fisher, has been in post since July 2022. Several new Board members have joined, including a new Senior Independent Director with impact experience, diversifying the Board's skillset

- New Chief Executive Officer appointed and further layer of management created (SMT)
- Staff team has grown from 71 as of 31st December 2019 to 95 FTEs
- Launched EDI policy and programmes internally and externally with the fund managers
- Began to reach internally set targets on funding deployed to social fund managers (intermediaries).

Strategic issues to be considered during the current BSC strategy review

Before proposing strategic issues for leadership attention, we observe:

- BSC's achievements in a complex and changing context have been described fully in the section Key achievements and impact above. Invariably, reviews of the nature of the present QR focus more on issues than strengths.
- For most organisations, issues or challenges are consequences of their strengths and therefore typically call for balanced judgments. In the case of BSC, interviewees from all stakeholder groups consistently understood and acknowledged the challenges BSC faces, operating in a complex, innovative and growing marketplace — and facing a tougher economic context since 2022.
- Throughout our interviews there was a high degree of consensus, from all interviewees and echoed across the different stakeholder groups (investees, co-investors, funders), around the issues that they consider require further leadership thought and attention.

BSC's founding philosophy in 2012 also set up tensions which persist in 2024, principally between (a) impact and sustainability of capital and (b) social investment and impact investing (profit with purpose). BSC management has developed approaches to manage the tensions which, compared to the 2020 QR status, it is able to articulate more clearly. We explore these tensions and articulations further below.

Shifts in BSC strategy and approach take time before they are apparent in social impact, due to inevitable time-lags between fund launch and fund investment, and between frontline funding and impact. The combination of the time-lags and the tensions in BSC's founding principles means that (unsurprisingly) the 2024 QR interviews identified:

- Significant impact from BSC activities and progress on many issues identified in the 2020 QR
- Persistent tensions around the same 2020 issues, with significant shifts in prioritisation and articulation of options open to BSC.

BSC is currently revising its strategy. In our view, the revised strategy should clarify the next phase of BSC strategy in terms of:

- Impact of BSC investments on the frontline regarding pernicious social issues
- System change, expanding the impact investment market and crowding-in other investors
- Architecting a coalition of actors in social investment, including mainstream investors, social funds and regional actors
- Influencing Governmental decision-makers at national and regional levels, not least to ensure future flows of capital to marginalised social actors.

We suggest that the Board and management consider the following issues as part of BSC's current strategy review. Issues 1-3 are broad strategic choices that should be on the Board's agenda while it considers BSC's 2026-30 strategy, whereas Issue 4 is an issue for improvement, given the disappointing progress since the 2020 QR. In total, attending to these issues will constitute a significant programme of change.

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Issue 1. Impact
Where should BSC strategy focus in the next phase?

Almost all our interviewees recognised BSC's value in growing the social investment market, crowding-in capital from commercial sources on attractive terms, encouraging growth in numbers of mainstream investors and finding ways to deploy capital to achieve social impact. The benefits are not only scale, but also the reach and the quality of impact — impact investment engages managers of large capital pools as co-investors and stimulates questions around impact and the choices for which fund managers will be held accountable. All our interviewees stated that if BSC had not existed, it is highly likely that the social investment market would have grown more slowly in both volume and value. 10 years ago, BSC was the largest and almost the only wholesale player and it is a sign of BSC's success that there are now many other players larger than BSC, including LGPFs and Impact Venture Capital providers. All our interviewees asserted strongly that there would always be a role for BSC — but took two or three broadly different views on what that role should be going forward.

BSC has shifted strategy and investment focus over its 12 years, to reflect experience and learning. Successes include creating the charity bonds market and the growing scale of social housing funds, while Social Impact Bonds/Outcomes Contracts have made disappointing progress, principally due to lack of Government priority. The chart on page seven sets out how BSC had invested its portfolio as of 31st December 2023. As the interest rate environment shifts back to historical norms, the BSC 'badge' provides credibility to fund managers that helps attract co-investors seeking market returns alongside strong impact credentials.

Having acknowledged BSC's achievements over three economic and strategy cycles, the question is 'what next?'. The BSC Board is asking the same question, in the form of its current strategy review. Having built the social investment market in particular market classes, it is timely for BSC to set out transparently its role and priorities for the next five years — not least to reflect the greater interest in social investment expressed by the new UK Government.

Current BSC impact/return strategy

Compared to the 2020 QR, BSC's strategy over the last four years has been much clearer, both to us as reviewers and to BSC co-investment partners and intermediaries. BSC has contributed to overall social investment market growth over the period 2020-24, predominantly through seeking to shift larger-scale mainstream fund managers towards a greater impact focus and social fund managers to a more scalable focus. Clearly, there is a range of funds and intermediaries in terms of their impact, returns and risks. However, most interviewees, including BSC, generally characterise the different fund managers as being 'more mainstream investors' or 'more social impact focussed'. Investing in mainstream impact funds reflects BSC's view that these funds deliver measurably greater impact as a result of BSC capital and achieve system change. BSC's parallel approach of bringing greater scale to social fund managers has not attracted the same level of capital, especially since the change in interest rate environment in 2022.

A further incentive for BSC's current impact/return strategy is that it delivers its portfolio level objective returns by investing in a mix of lower risk property-based funds and seeks market rate returns from CDFIs/social fund managers, whilst also making riskier and lower-than-market-rate return investments critically enabled by Access or BBB guarantees. A wide range of interviewees, both mainstream and social, argued that BSC needs to demonstrate the additionality of its investments in mainstream funds that are widely perceived as making 'safe as houses' investments. This approach by BSC was described by some interviewees as being akin to an endowed foundation that maintains its endowment through more financially motivated commercial 'at market' investments that then pay for grants, and, in some cases, financially riskier social and impact investments.

This is not the view of BSC which expresses a preference to support fund managers it sees as more commercial/at market because they have access to more capital that will grow the impact investment market at a faster rate, and are more likely to be sustainable in terms of continuing to attract investors. Where BSC has invested at market rates in established impact investment fund managers, it has done so in order to either grow the market, to signal fund attractiveness to other potential investors, and/or to work with those managers to build and improve their approach to impact.

In contrast, emerging social fund managers are often far more reliant on BSC for funding and remain thinly capitalised and dependent on a handful of key personnel. Since the interest rate environment shifted back to historical norms, social funds have struggled to raise capital from any source, including BSC. Social fund managers commented that, from their perspective, BSC has become more explicitly return-focussed rather than impact-focussed, which has further squeezed social fund managers' business models and limited their further investment in frontline investees. A regularly quoted example was of BSC exerting downward pressure on fund management fees or insisting on profit sharing to match commercial equivalents — an equivalence which is often disputed by fund managers and, even where fair, may diminish real impact in the harder-to-reach frontline investee communities. It is this disparity in provision of market capital reported by BSC that causes us to raise the issue of BSC portfolio balance and impact.

Risk and return in BSC portfolio

In 2022, BSC, OT and the Merlin Bank shareholders in BSC agreed to reduce BSC's average annual target rate of return from 4.5% to 1% net of all costs. In order to achieve this, BSC has set a gross return objective of between 3 and 5%. The agreement recognised the reality of the return profile of BSC's portfolio, together with the effects of BSC's own operating and market-building costs on year-by-year returns. BSC is committed to delivering this overall portfolio return. Due to BSC's risk appetite, commitments are more likely to be realised through the increasing capital commitments we have seen to established mainstream fund managers.

In contrast, fragile emerging social fund managers (intermediaries) struggle to raise funds and BSC pressure for commercial/at market rates of return places at risk intermediary viability, while some of the better-performing social investment funds are at internal BSC concentration limits. The predominance since 2022 of new capital from the wider market going to mainstream funds seems to leave the fragile emerging social fund managers exposed during a period of negative macro-economic context. At the same time, market failures continue in the supply of capital to vulnerable frontline social enterprises, especially black-owned and female-owned businesses.[30]

An indication of the differing financial expectations from emerging social fund managers is that BSC indicated to us that 22.5% (by number of deals) and 12% (by value) of the BSC portfolio requires risk mitigation — specifically for lending to community organisations. Examples include blended finance deals drawing on grants from Access (roughly 4% of investment value for BSC) and guarantees via BBB or others (roughly another 8%). Although only circa 20% of the number of BSC deals require risk mitigation, we would point to this need for risk mitigation to make the case for maintaining the flow of capital to more vulnerable social investment. If new patient long-term capital is to be available to reduce risk, then either BSC or another player will require funding in order to play the risk mitigator role. Mainstream investors stated to us that there is always going to be a need for risk-mitigating investors like BSC, reflecting the inevitable trade-off between return and impact. BSC argues this case for Access to receive additional dormant asset funding, but there is a wider case for risk-mitigating capital.

What next for BSC impact strategy?

BSC has published extensively on impact delivery but, with the market growth, interviewees questioned whether BSC remains the thought leader in impact investing and (separately) raised questions around 'over-claiming' impact. Although this QR is not tasked with providing recommendations, it is worth noting that many interviewees suggested greater transparency from BSC on returns, risk and impact — transparency that goes beyond more effective communication and visibly takes on board different perspectives. These matters are picked up under Issue 3 below.

Almost all our interviewees — whether internal to BSC, mainstream fund managers or social fund managers — grounded their thinking on BSC impact strategy in their own perspectives on how social impact can best be delivered through capital investment. Unsurprisingly, perspectives varied depending on how fund managers saw their firms' opportunities:

- Mainstream fund managers observe a range of large investors (LGPFs etc.) becoming more present in markets such as social housing. These large investors are highly likely to bring an impact focus similar to BSC's current approach with established mainstream funds. A few large organisations commented that BSC has the capabilities and infrastructure already in place to handle perhaps 50% more deals without adding to BSC headcount — and it should look to operate more at scale.

- Emerging social fund managers noted the growth in scale of the impact investment market and BSC's portfolio but questioned the depth of impact of BSC investments and the additionality of some recent investments. Universally, they stressed that BSC's strategy should emphasise the more challenging social impact sectors and riskier catalytic investments. Focussing more on these will be challenging for BSC because many are much more vulnerable and non-scalable, compared with the current balance of BSC investments.

The BSC Board's choice for its next phase will be a major inflexion either way, with significant consequences for frontline investees.

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We suggest the BSC leadership considers:

- How can BSC be more transparent about its strategic approach and explicit about the choices made by the Board in balancing investing in impact funds with investing in social funds?
- How can BSC, directly or indirectly, meet the needs of vulnerable communities through catalytic investments and (linked to those needs) provide capital and other support to fragile intermediaries?
- Where could BSC demonstrate its impact with greater clarity — for example, the contribution of BSC as the funder, commissioning impartial analysis and continuing thought leadership?
- How should BSC articulate its additionality when investing in mainstream funds?
- What criteria should BSC apply to decide when/whether it should exit sectors where mainstream capital is available?
- Can BSC replicate in other sectors the growth and entry of more mainstream fund managers in social housing/property-based funds?

Issue 2. Sustainability
How should BSC fund its strategy?

BSC was established with a governing principle that its investment portfolio should earn a return that enables BSC to recycle its capital and re-invest, thereby sustaining its impact without needing periodic re-capitalisation. BSC has applied a range of financial instruments, including equity, but most of its investments are repayable debt and it cannot make grants. Where blended finance is required, Access provides the grant component, to accompany repayable debt from BSC. During BSC's first strategic phase, it provided £22 million of equity to some emerging intermediaries making innovative investments, and is providing £7 million of equity under its current strategy. BSC is recycling its original capital with £1 billion committed of its £626 million original capital, but (as noted in the section Overview of Big Society Capital — Investments above) also holds a treasury portfolio of circa £230 million to provide liquidity to meet future significant investment commitments.

Sustaining BSC impact over the coming five years depends not only on BSC generating flows of impact investments as discussed under Issue 1, but also on BSC accessing capital for future investments, covering its costs (investing and continuing market-building), and engaging a range of viable intermediaries making the frontline investments using BSC and others' wholesale funds. Taking these requirements into account, BSC has to date been unable to earn a commercial return while delivering impact and therefore needs a steady flow of new capital if it is to continue to operate at the same levels in real terms in the future.

Challenges to sustainability of BSC portfolio

Capital for future investments. The lower return and higher risk of much social investment results in pressure to invest in lower-risk assets and/or requires other capital in the form of grant or guarantee to reduce risk, in addition to the repayable debt. Although the BSC long-term financial model demonstrates that new annual commitments of £60-70 million are achievable from BSC's balance sheet, failure to access new capital would risk BSC declining as a force in the social investment market. Disappointing volumes of funds have been generated from the Social Impact Trust and Social Outcome Contracts. Overall, BSC's capital base has declined in real terms after three inflationary years. BSC did not seek an allocation from the most recent Dormant Assets Scheme, instead supporting Access' request for a further allocation, but its future growth (emphasised by most intermediaries) may depend on new allocations or funding from elsewhere.

Covering costs. BSC has built substantial infrastructure around its investment process, which it benchmarks as a percentage of net assets against BBB, Homes England and British International Investment. In addition, BSC carries the cost of market-building which it ultimately also needs to cover through returns on its portfolio, although cost recovery may not play a role in any individual investment decision.

Viable intermediaries. BSC's social impact and reputation for tackling the difficult social issues depends on the sustainability of its social investment intermediaries, of whom only a handful are adequately capitalised and at scale, mainly due to injection of capital from other sources. BSC needs these fragile social fund managers to become more robust to economic change and to build their social investment pipeline to attract future BSC wholesale funding. Social fund managers struggle to provide talent development and pipeline development within their constrained fee income. A range of options are open to BSC beyond explicit subsidy or equity injection. BSC's role could be to support directly or to provide services, or it could be to influence other funders (such as the National Wealth Fund, Infrastructure Bank, Combined Authority Mayors etc.) who can build up intermediaries as part of the new UK Government's devolution/decentralising agenda, given the micro-scale of many social enterprises. BSC is already engaged with intermediaries in Scotland, the West Country, Liverpool and Manchester, but there could be options to go both wider and deeper to demonstrate progress on devolution.

We suggest the BSC leadership considers:

- What are the options for BSC to access a steady flow of new capital for future investments, including grants or guarantees to provide capacity for coverage of first-loss/concessionary/blended coverage capacity?
- What criteria should BSC apply to decide what are appropriate levels of (and when it can reduce) investment costs and market-building costs?
- How can BSC — directly or indirectly — provide capital and other support to fragile social fund managers and promote decentralised investment vehicles?
- How can BSC be more transparent about the Board's strategic choices in balancing the tensions it faces regarding its sustainability, risk and returns, cost base and impact?

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Issue 3. Engagement
How should BSC influence for its strategy?

BSC remains a core institution of the social investment market in the UK. Almost all interviewees saw a crucial role for BSC to play in effective engagement with and influence on the range of stakeholders in the market to deliver on its mission — from Government, bank stakeholders, intermediaries, co-investors and frontline social sector organisation investees.

Government and devolution

The sector sees a continuing role for BSC in engaging Government and policymakers on the role social investment can continue to play in driving economic activity to tackle pernicious social issues. That role and the ability to influence policy is particularly timely for BSC given the greater interest in social investment expressed by the new UK Government.

BSC has invested in resources to focus on engagement with policy and Government at various levels since the 2020 QR's finding that its relationship with Government had become more distant. Several interviewers pointed positively to BSC's work to influence (and in some cases change) Government policy on specific issues affecting the market, including social housing and tax reliefs. BSC has good relationships with various Government departments — reflected in our positive discussions with the Department for Culture, Media and Sport and MHCLG. BSC is seen as a 'trusted name' for the departments, who take comfort in the rigour of BSC's processes and governance structures and in their view of its 'quasi-public sector' origins.

Looking forward, the sector relies on BSC to influence Government and wants it to succeed, as only BSC has the resources to engage Government as part of its market-building brief. There is a hunger for BSC to increase its voice with Government beyond existing specific issues such as Social Outcomes Partnerships, where it is currently known for engaging Government, but with little progress so far. Similarly, the sector expects BSC to influence Mayoral Combined Authorities who will decide on larger programmes as part of the new UK Government's programme of devolution. BSC can point to individual Authorities where it is engaged, but not to an overall programme.

Impact practice

BSC has succeeded in attracting more mainstream investment funds into the market. Some interviewees questioned whether BSC's role as 'impact investing thought leader' has passed to the Impact Investing Institute and others. Instead, they argued, BSC should focus on its role as influencer and being bolder in its engagement with Government, policymakers and co-investors, more confident of its experience, expertise and the evidence it has gathered on the needs of the social investment market. In particular, BSC should advocate for continued investment into the sector and for ensuring that Government policy supports social investment infrastructure.

Shareholder Banks

Relationships between BSC and the Merlin Banks appear to be stable following the renegotiation in 2021 of the portfolio rate of return down to 1%. A representative of the Merlin

Banks continues to sit on the BSC Board. Where BSC has gone on to partner in transactions with such banks it has been on market terms, e.g. recent investment by Lloyds in the Community Investment Enterprise Fund supporting CDFIs. The stability of the relationship and the reduced rate of return expectations suggest that BSC could do more to encourage innovation in joint investments with the Merlin Banks' capital.

Social impact investors — including trusts and foundations/pension funds/high net worths/family wealth offices

There continues to be a need to grow the investor base for social investment, particularly new patient, catalytic, long-term capital. These funders are potential BSC co-investors. The Reclaiming the Future Report 30 points to charitable foundations as a potential source of such capital, noting that an increase in the amount of charitable foundation assets in social investment programme-related investments to 1% by 2030 would raise the total amount of capital available to social investment to £380 million (from a total of £145 million in 2019). Some interviewees suggested that there is currently a gap in advisory services to foundations considering social investment, which BSC could address. As noted in Issue 1, the market has seen a range of large investors enter specific parts of the social investment market, such as LGPFs in social housing. Many interviewees stressed how vital it was that BSC, being much larger and more focused on low-risk/secured investments, should continue to engage with other existing and new social fund managers in order to grow the pool of funds available to the sector.

Intermediaries and frontline (social enterprise and charity) investees

Most of BSC's social fund managers are reliant on BSC's funding but remain thinly capitalised, often with under-resourced personnel and infrastructure. The non-financial support BSC can provide to them is still much needed by intermediaries: support such as market events, guidance, introductions to potential investors, convening peer networks, dissemination of impact tools and frameworks/best practice support, and provision of secondees are all seen as helpful in developing emerging fund managers who otherwise have neither the time nor resources to dedicate to such activities. There is a desire for BSC to continue to innovate on the range of support it can provide to investees to improve their own sustainability, including fundraising strategy and leadership development models. Many interviewees were looking for more social impact advisory services from BSC and commented that BSC could use its Government relationships and sector knowledge to be more active in the media and in advocacy for the sector.

Across all investment-related interviewees (whether co-investors, social sector, mainstream investment managers or frontline investees) we heard that BSC capital is expensive, structures are complicated and processes are slow. In the 2020 QR we reported on the negative aspects of transacting with BSC due to the lack of flexibility in approach (in part because of BSC's interpretation of its mandate) and in its investment process. The 2024 QR interviewees repeated these criticisms. We address the structures and processes under Issue 4 below. On the cost of capital, it appears from our interviews that, despite BSC having reduced its overall portfolio target net rate of return to 1%, there has been no resultant benefit to investees in reduced cost of capital. BSC undertook to explain to the sector how it costs capital, but most interviewees felt this remains opaque, many suggesting greater transparency is needed.

When reporting on its impact, our understanding is that BSC applies an 'impact contribution' approach, but this does not seem clearly articulated to the sector. The view we heard from both mainstream finance and social sector participants is that "BSC often over-claims its frontline impact", appropriating the impact of the activities of intermediaries and frontline investees that goes beyond the effect of investment. BSC would no doubt refute this criticism and point to the need to bring to life 'on-the-ground' impact stories resulting from its work to crowd-in more social investment capital, but the combination of 'over-claims', together with additional data demands, is clearly resented.

We suggest the BSC leadership considers:

- Where could BSC dedicate resource to engage with Local Authorities/Combined Authorities/Mayors to reflect heightened priority for devolved decision-makers, as well as ensuring robust intermediaries engage at national/regional level?
- How could BSC make the case to Government for further long-term patient capital/grants/concessionary capital/blended capital?
- Where could BSC increase its influence, providing thought leadership and sharing expertise to encourage greater engagement by trusts, foundations, high net worth individuals and family wealth offices with social investment? And, similarly, developing strategies to engage LGPFs and other big investors?
- How could BSC become more transparent over the approach to setting cost of capital, objective returns, risk and actual financial performance?
- How could BSC leverage the relationship with Merlin Banks on joint investments?

Issue 4. Organisational challenges
How should BSC organise and behave to deliver its strategy?

BSC continues to attract talented personnel from a range of professional backgrounds across investment banking, professional services, the civil service and the charitable sector. BSC operates across multiple stakeholder groups, with often quite different cultures, and it is a regulated financial services organisation, which brings additional challenges. It is a large organisation within the social investment market, particularly when compared with the non-mainstream investors and frontline investees, as discussed in the section Overview of Better Society Capital — Context above. It is striking that there has been little churn in the ExCo team since the 2020 QR. A powerful internal culture, widely described by interviewees in variations of 'investment bank-like', has been built by senior leadership, which includes members of ExCo with long tenures. This delivers several substantial positives:

- Driving BSC's successes in building the market and managing its multiplicity of roles in the market
- Attracting, developing and retaining talented people
- Operating rigorous processes, flat decision-making

- Articulating the BSC mission and priorities in a unified voice, with shared purpose and a powerful known brand
- Providing continuity and corporate memory.

However, the strong internal culture is experienced by external stakeholders in markedly different ways, as outlined below. All these points were raised in the 2020 QR, but it appears from our interviews that BSC has made less progress in addressing them than hoped.

Culture

The converse of the powerful internal culture is that, internally, there is little diversity in organisational outlook. This has led in many instances to unhelpful behaviours in dealing with mainstream and social fund managers, co-investors and banks — and to insufficient learning from failures and articulation of such learning. The dominant outlook is set by the BSC investment team, which is unsurprising given the mission of BSC, and is evident to most external interviewees in several forms:

Power imbalance in transactions with BSC

There continues to be a perception within the sector that BSC wields its unique position in the market to impose its terms as the dominant player. Most intermediaries described in plain language their negative experience of power imbalance in their transactions with BSC and noted it as a feature they must live with given the lack of other funders in the market. Examples given range from a perception that BSC is not open to feedback, to its not valuing challenge as an organisation. Many co-investors and other stakeholders, including mainstream investors, expressed strong and similar views when commenting on interactions with BSC. Many of our interviewees were anxious about any negative comments affecting their future engagement with BSC.

Risk aversion and mistrust

Whilst BSC staff were universally praised as being motivated, skilled and pleasant to work with day-to-day, there was a common view that the default organisational style is one of risk aversion, paternalism and is not trusting of proven organisations that BSC has worked with for years, who want to be treated as partners.

Removed from frontline realities

Many intermediaries expressed irritation that BSC does not appear to acknowledge the expertise and value of co-investors, intermediaries or the frontline social enterprises and charities who are the actual deliverers of social impact. This further exacerbates the negative experience of the power imbalance. This is coupled with a continuing sense that BSC as a wholesaler is several steps removed from the underlying social issues it is trying to solve and the realities of the communities experiencing such issues.

Structure and cost

Given the scale of BSC's capitalisation by dormant assets, views on its structure and cost base are unsurprising:

Costs, as a percentage of investment made are, comparable to mainstream investors, but deal flow is low

Currently deal flow to the Investment Committee is low. Whilst there are many external factors that determine available deal flow for an institution, concerns were raised that the onerous internal processes (characterised by slow decision-making and numerous layers of interaction) for bringing deals to the Investment Committee constrain the volume of transactions that can be executed (see sub-section Process and decision-making below).

Stark disparity with social investment fund managers/frontline organisations

Despite operating a remuneration approach that seeks to mirror the public sector[6], there continues to be a perception that the visible cost base is a proactive choice to emulate mainstream investors, with a large staff base, the 'shiny office in London' and the luxury of resources to develop many 'bright shiny new things'. There is an obvious contradiction here with the sector's desire for BSC to expand its influencing role.

Substantial infrastructure and cost of BSC investment process

Unlike a mainstream fund manager BSC needs to cover not just the investment costs through the return on its portfolio but also the costs of its market-building role, engagement and advocacy. It may be beneficial to consider separately identifying (and seek funding for) such costs.

Process and decision-making

BSC is a flat organisation with a small ExCo directing a staff team that is much larger than those of the social funds in which BSC invests. BSC promotes internally-open decision-making, including — unusually — an open invitation to the whole organisation to observe Investment Committee meetings, as a tool for learning and development for staff.

Whilst appreciating BSC's professionalism, many interviewees, both investees and co-investors, repeated the criticism heard in the 2020 QR of BSC as inflexible in its investment approach, both in terms of philosophy and process. The slow pace of decision-making, rigid process and conservative approach to assessing risk were commented on in the majority of our 2024 QR interviews, including the following:

- Counterparties experience multiple points of interaction during an investment proposal with BSC. Opacity in investment decision-making continues to be a constant theme we heard, including perceived 'bottlenecks' in resolution of issues.
- Causes of friction raised relating to the transaction process include lack of clarity of commercial terms to investees in advance, last minute changes of terms, imposing unrealistic deal-breaking conditions, delays in communication of changes in BSC position and delays in legal negotiations, due diligence, and drawn-out completion processes.
- We heard many instances of where BSC's slow decision-making on transactions has resulted in significant costs to investees, whether in trying to meet revised commercial terms or due to the risk of co-investors interpreting such delays by BSC as a cause of concern. Some practised intermediaries stated that they manage this cumbersome

process by only working directly with the BSC Chief Investment Officers where decision-making power is perceived to be held.

In contrast, we heard from some investees who praised BSC for its responsiveness in 'coming to the rescue' with support in some business rescue situations, as well as the speed/impact achieved in BSC mobilisation of support to the sector during the pandemic. BSC would argue that the rigour in its investment process is proportionate and is important to providing investors comfort when co-investing with BSC. Nevertheless, the comments regarding decision-making are not restricted to social sector intermediaries, but also came from many co-investors and mainstream investors. A further review of decision-making processes would be of benefit.

People

BSC has been able to attract a large pool of talented staff who are seen as mission-aligned and passionate about the work BSC does. All intermediaries commented on the high quality/values of BSC staff and positive experiences of day-to-day interactions with team members.

A common theme that surfaced was the depth of experience of the team below the ExCo. Comments made included that there are 'lots of bright juniors' but a perceived gap between them and the small ExCo team. The effect of this perceived gap is played out where challenging issues arise and senior people are unavailable to lead on negotiations/discussions, whilst juniors lack the skillset or experience to take decisions. The next period for BSC may require a different skillset to manage a more mature market with a portfolio of investments requiring both financial and stakeholder management.

EDI

Following on from the 2020 QR, BSC committed to a focus on embedding EDI considerations to drive greater diversity in (a) the social investment system and (b) internally to BSC, including:

- EDI assessment framework that is considered as part of Investment Committee decision-making
- Internal goals as to fund manager diversity, diversity at the portfolio level and diversity at the end user level, have been set to improve the reach of social investment, in terms of EDI, by 2025
- EDI metrics are included in portfolio monitoring — BSC is explicit that it will act where fund managers fall short
- BSC also works with the sector to develop and share best practice standards around diversity data collection
- Since the 2020 QR, BSC has taken action to improve the diversity of both the Board in relation to gender, ethnicity and disability and its Investment Committee in relation to lived experience
- BSC has in place internal EDI plans and Board diversity plans aiming to better support diversity internally. It has undertaken several initiatives to operationalise its EDI policies including an

equal pay audit, a benefits review, a programme of reverse mentoring, commitment to publication of gender and ethnicity pay gaps, e-learning, published articles, self-assessments and participation in apprenticeships for candidates from under-served communities.

We heard mixed reactions as to the impact of the BSC EDI policies on moving the dial on systems-level diversity and, particularly, whether such policies flow through to its investments. Some intermediaries welcomed the challenge from BSC to focus on EDI in onward investments, appreciating the shared best practice and frameworks BSC brings. Others felt the requirements were unnecessarily burdensome (often in relation to additional data reporting), lacking clarity about whether such policies are impactful.

BSC continues to have a greater gender/racial diversity of staff at the levels below the small ExCo, which remains majority male and white. The long tenures at ExCo level, discussed above in this section, reinforce the lack of gender and racial diversity and, as importantly, according to our interviews, the lack of alternative voices of influence at senior level.

There is concern that BSC is tackling EDI with a process focus (i.e. data collection, measurement and monitoring) without having the deeper conversations needed about what is truly required to create equity in the system. It is no coincidence that most people put forward by BSC for interview during this QR were male and white, given the continuing challenge of diversity within financial services, where BSC could play an exemplary role.

We suggest the BSC leadership considers:

- How the Board of BSC ensures that it hears alternative points of view, both when reviewing strategy and when considering performance?
- How BSC actions the feedback and insight from investees and the wider sector? How are initiatives to address concerns communicated? Does BSC recognise these criticisms and, if so, how will it go about addressing them?
- How can BSC learn from structured no-blame discussion of learning from recent challenging initiatives?
- How does BSC retain the advantages of its current culture while adapting its organisational structure and skillset?
- How should the investment process and cycle adapt to determine blocks to efficiency and to a more supportive user experience?
- Do EDI initiatives elevate the need for divergent voices and viewpoints and a diversity of approaches to solve EDI issues, while ensuring measuring and monitoring do not become ends in themselves? How have decisions, actions and thinking changed at BSC as a result of these initiatives?
- There continue to be structural barriers for new social fund manager intermediaries to get started in the sector, particularly those from diverse communities. How are BSC's EDI initiatives addressing such failures and gaps in the market and ensuring investment flows through to under-served communities?

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Appendices

Appendix 1 — Terms of Reference

Purpose

To examine the effectiveness of each organisation within the Oversight Trust in delivering against its respective Objects/Mission, as set out in its governance documents

Output

A brief, high level report, envisaged at less than 20 pages, which is intended to be focused rather than comprehensive. The review team will identify (i) the organisation's key achievements and successes; and (ii) strategic issues where the review team believe further consideration is required. The Chair of the reviewed OpCo will be expected to offer a public response. The review will not attempt to offer specific recommendations to the organisation's management.

Data

Primary data: interviews with key stakeholders; open call for evidence; interviews with key staff.

Secondary data: governing documents / articles of association; internal policies and procedures; published financial accounts; published impact data.

	Social impact	Systems change	Operational effectiveness	Organisation specific
Potential guiding criteria	Does OpCo have a clear and ambitious strategy for achieving social impact which is in line with its mission? Has effective execution of this strategy delivered social impact? Do both the OpCo's mission and strategy meet a need, which is not adequately met by alternative interventions?	Has OpCo articulated a clearly stated theory of change in line with its mission? Does OpCo's Business Plan reflect the Theory of Change? Has OpCo attracted other funding or other resources through partnerships to leverage its activities?	Does OpCo have well functioning governance structures? Is the organisation operating with appropriate levels of transparency? Are the operating costs of OpCo in line with comparable organisations?	What are the particular challenges faced by OpCo? How well has OpCo responded to these challenges? Is the organisation prepared for changes to the conditions it may face in the future?
Potential points to consider	OpCo's approach to measuring the impact of, reporting the impact of, and learning from its programmes OpCo's ability to deliver sustained improvement in the social issues; it's approached longevity (i.e. spend down vs evergreen) OpCo's approach to making returns on programme related investments	OpCo's role in the wider ecosystem Evidence for the System Change that OpCo has achieved The partnerships that OpCo has formed, resources OpCo has leveraged, and funding it has unlocked for use on the social issue	OpCo's approach to its operating costs OpCo's pace of deploying funds OpCo's ability to identify and manage risks, (appropriate risk appetite) OpCo's controls and procedures around deploying funds	To be determined by the review panel, in association with Oversight Trust board members and key stakeholders

Appendix 2 — Reviewers

Keith Leslie

Keith is Chair at Samaritans in UK & Ireland and author of A Question of Leadership (Bloomsbury 2021). He is a former partner at Deloitte LLP and McKinsey & Company, and former Chair at the Mental Health Foundation and BuildAfrica.

Claire Brown

Claire has been a trustee and independent committee member of various charities, including Comic Relief, Nuffield Foundation, Barts Charity and The Royal Foundation. Most recently she sat on the Advisory Board of Cazenove's Charity Authorised Investment Funds. Formerly she was the Finance & Investment Director at the Esmée Fairbairn Foundation and before that the Finance Director of GlobeOp, a leading financial services technology business.

Magdalene Bayim-Adomako

Magdalene is an independent consultant and a trustee of various organisations, including Social Investment Business and Barnardo's. She was most recently an Investment Director at Impetus and before that a partner and head of the London Bank Finance department at White & Case LLP.

Fiona Young Priest

Fiona is an independent consultant specialising in charity finance and governance. She worked as Finance and Resources Director at the Tudor Trust and Crisis UK and has been a trustee of a number of charities.

Appendix 3 — Interviewees' organisations

Access — The Foundation for Social Investment
AllChild
Ascension
Bain and Company
Balderton Capital
BBRC — Bristol & Bath Regional Capital
Bethnal Green Ventures
Big Issue Invest
Bridges Fund Management
British Business Bank
Cazenove Capital
Charity Bank
Church of England
Department for Culture, Media and Sport
Fusion 21
HSBC
Key Fund
Lloyds Banking Group
Lord Victor Adebowale
Ministry of Housing, Communities and Local Government
P3 Charity
Pathway Fund
Resonance
SASC — Social and Sustainable Capital
SBSI Social Impact Trust
Social Investment Business
Social Investment Scotland
The National Lottery Fund
The Oversight Trust
Wagestream