

# The Oversight Trust

Assets for the Common Good

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## THE OVERSIGHT TRUST RESPONSE TO QUADRENNIAL REVIEW OF BETTER SOCIETY CAPITAL

### Overview

The Oversight Trust (OT), as part of its oversight of Better Society Capital (BSC), commissions Quadrennial Reviews by appointing an independent Review Panel (“the Panel”) to assess and produce a report on BSC’s effectiveness in delivering against its objects. This statement sets out OT’s response to both the Panel’s report and BSC’s response to that (all dated 30 January 2025).

OT welcomes the report of the Panel and would like to thank all those involved in its production. Having commissioned Quadrennial Reviews for each OT Operating Company (OpCo), this is a second, follow-on review of BSC. Unlike the reviews of Fair4All Finance and Youth Futures Foundation, it takes place after BSC has been in operation for over a decade which provides greater experience from which to learn and growing evidence of what has been achieved by the organisation.

In summary, the key points of OT’s response are:

- OT welcomes BSC’s commitment to engage fully with, and learn from, the issues raised, and address them, which OT expects to make an important contribution to the development of its 2026-2030 strategy.
- The report includes some thoughtful insights into BSC’s purpose and operation, most of which are interconnected, and suggests BSC needs to be better and more widely understood. This theme of transparency runs through much of the report. OT considers that full transparency should include a comprehensive stakeholder engagement strategy which positions transparency as a core principle in accounting for how public funds are deployed in realising BSC’s mandate.
- OT notes the tension established by BSC’s original mandate, which is discussed in the report, its impact on BSC’s own sustainability and how, among other things, BSC’s strategy of using a spectrum of investments in response to this was articulated clearly during the review. OT strongly endorses the report’s suggestion of transparency in sharing this approach and experience more widely.
- The report comments on the value of BSC articulating its ‘additionality’ (as the term is used in the context of report), for example when it invests in funds alongside mainstream investors to grow the social investment market, and its catalytic role in meeting the needs of more vulnerable and disadvantaged communities by working with those often more fragile intermediaries which reach those communities; repeating its response to the 2020 review, OT urges BSC to reconsider its approach to these intermediaries to provide more support to them and its rationale for this given that, if BSC does not do this, it is unlikely that anyone else would be able to.
- As in 2020, the report notes similar, consistent feedback from all groups of stakeholders on the challenges of BSC’s organisational culture and investment approach. OT expects the

Board and Executive to not only acknowledge this but also to review the effectiveness of initiatives introduced since the last report in order to create positive change.

- The report covers a lot of ground and, perhaps inevitably, it has not been possible for BSC to refer to each of the Panel's suggestions; some of the responses are general or aspirational. OT expects the BSC Board to ensure that an action **plan** which responds to the specific issues raised in both the report and OT's response is developed and implemented.

### **Introduction**

OT's role is to oversee operating companies that have received funding under the English allocation of monies under the Dormant Assets Acts 2008 – 2022 with the aim of ensuring that those four non-governmental entities remain true to their objects. This oversight regime includes commissioning an independent review of the effectiveness of each organisation in delivering against its objects every four years.

The Panel for the BSC Quadrennial Review comprised: Keith Leslie (Chair); Claire Brown and Magdalene Bayim-Odomako with Fiona Young Priest as Secretariat. In line with the Terms of Reference (appended to the report), they carried out interviews with stakeholders including BSC staff and Board members, issued a call for evidence and reviewed background information in order to produce a brief, high level report highlighting achievements in relation to BSC's objects and raising issues for further consideration. The Terms of Reference do not include the production of specific recommendations in relation to addressing those issues.

OT is very grateful to the many stakeholders who gave generously of their time and thoughts, and we would like to thank all involved. We would also like to thank the panel for their diligence and thoughtfulness and BSC for their active participation in the process. This includes the engagement of the BSC board in discussing the review process and findings with the Chair of the panel.

All interested parties are encouraged to read the report in full and reflect on the issues raised in relation to how BSC is developing the market for social investment in the UK. OT welcomes BSC's response and, as with previous reviews, will use its ongoing oversight role which includes in-depth update meetings, to ensure OT and BSC are aligned on how BSC's strategy for the coming years will be developed.

### **Broad reflections on this second report**

It is not appropriate for OT to reprise the content of the review, the report includes a useful Summary. The detail and examples covered will be of wider interest in contributing to the debate on how capital can be applied most effectively for social benefit.

It is, however, worth reiterating that BSC's objectives are, in summary, to act as an investment wholesaler, generally to promote and develop the social investment marketplace in the UK and to seek to achieve and sustain its own financial self-sufficiency. The report finds that this founding mandate creates ongoing tensions for BSC's operation which should be more widely communicated so this is understood by a broader audience, including critics who question the role of BSC as it is currently defined.

A key theme of the report is the striking consensus across the full range of stakeholders, across the issues raised. OT welcomes this as a valuable and consistent body of evidence and market intelligence for BSC in responding to this review and for OT in its oversight role.

The Panel also helpfully comments on the wider social investment **ecosystem**, within which it positions BSC as occupying 5% of the UK market, while still being the largest social impact led investor in the UK. BSC's dual aim of investing for social impact and also growing the social investment market gives it a unique position and wider influence in this area than its size alone suggests.

Increased transparency – the value of BSC sharing its considerable experience and being more explicit about its model – is a welcome theme that runs throughout the report. This also contributes to BSC's leverage, in informing and influencing multiple sectors, from social investors, voluntary and community groups to policymakers and government at national and devolved levels.

OT is pleased to read of BSC's further achievements since 2020 and notes in particular the growth in social investment market and BSC's catalytic role within that. The report highlights some new initiatives, funds and the development of mechanisms for managing riskier investments which enable BSC to achieve wider social impact. It also describes the following effective responses to some issues raised in 2020:

- Positive progress in relationships with government and policy makers including devolved administrations;
- The agreement of OT and the shareholder banks to a new target net investment return of 1% (previously 4-5%); and
- Launch of policies and programmes developing EDI within BSC and amongst its investees.

However, despite these developments, the report also identifies some key areas where there has been surprisingly little change from the 2020 QR. This can be seen as disappointing, an indicator of the endemic nature of the challenges of the social investment market and the need to balance impact with a financial return and/or a consequence of BSC's approach. The Panel found two significant issues identified in the 2020 QR report remaining:

- The tensions inherent in BSC's founding principles of investing for social impact while being financially self-sustaining, given that it has to-date been unable to earn a sustainable return; and
- The challenges of its investment approach, experienced by many stakeholders, both investees and co-investors, and the related power imbalance.

At the start of the review process, BSC saw the review as having the potential to contribute to their work on a **new strategy for 2026-2030**, as an opportunity and the means for BSC to engage with and move these issues forward. OT agrees with this and looks forward to seeing this new strategy informed by the results of this review, accompanied by a detailed action plan against which progress can be monitored.

### **Issues identified in the report**

OT has the following observations on the four key issues highlighted by the Panel and BSC's response to them. OT's comments are based on what is most central to its role of keeping BSC true to its mission of delivering social impact and growing the social investment market in the UK and its important role as a thought leader.

The overarching theme of transparency threads through all four issues identified by the Panel. OT suggests that BSC develops a systemic approach to greater transparency which presents its strategy as a coherent whole while making clear the challenges and barriers to be resolved.

OT welcomes BSC's commitment to full transparency and a review of its communications strategy. OT considers that transparency also means going beyond communications and publishing data and information, to synthesising and articulating the learning from this experience and its implications for BSC's own approach and the wider social investment and impact investing market. Engaging with stakeholders through events and discussions will also deepen mutual understanding and build bridges with some who are critical of BSC, perhaps without fully understanding it. As the largest player in the UK social investment market, BSC has a leadership role in sharing knowledge and catalysing a debate on the challenges and any trade-offs of greater focus on social impact, and how this can be enhanced.

### **1. Impact – where should BSC strategy focus in the next phase?**

- OT is supportive of the report's recommendation of greater transparency about BSC's strategic approach, its choices in balancing different investments across its portfolio and their relationship with returns and BSC's cost base; OT believes it would be valuable for BSC to explain this more fully as part of its review of asset allocation (in relation to the market and its own sustainability).
- OT also welcomes the report's recommendation that BSC specifically articulates the additionality of its investments in mainstream funds and encourages BSC to share this openly.
- OT suggests that this transparency should be extended to how BSC distinguishes its own impact from that of its investees, and the impact additionality of its more mainstream investments.
- BSC's commitment to work with smaller and emerging fund managers is welcome, and OT notes BSC's comments on the challenge of concessionary capital and the development of risk mitigation approaches in more fragile cases (as detailed in the report). OT agrees with the Panel that there should be a comprehensive and transparent statement of BSC's approach to support the more fragile end of the market, and a greater commitment to it, given the capacity of those intermediaries to reach organisations serving and often led by people from more disadvantaged groups (including women, and those from minoritised communities), many of which are reflected in the case studies in BSC's impact report. If BSC is not active in this area, then who else will provide investment?

### **2. Sustainability – how should BSC fund its strategy?**

- OT welcomes BSC's summary of the three aspects of sustainability, recognises they are interrelated and suggests that the definition and relative importance given to each element are explained more fully as part of the move to greater transparency, with an analysis of their respective contributions.
- BSC lists options for diversifying different forms of investment to complement and supplement its capital, and OT would find it helpful to see additional commentary or modelling of how these might interplay.
- As part of this, and its role in holding BSC to its original mandate, OT expects to see a response and comment from BSC on its own sustainability beyond the reference to monitoring its own costs base, as the real value of its capital reduces. This could include forecasting and analysis illustrating how BSC will maintain and deepen its social impact, commentary on the consequences of the reduction of the target rate of return to shareholders (from 4-5% to 1%), explaining what financial sustainability means for BSC as an organisation and any need for, and sources of, additional resources to compensate for the absence of a commercial return.

- Building on the previous point, and given that BSC's mandate is to grow the market in social investment, OT suggests that BSC clarifies how it sees its role evolving as its size relative to the market diminishes over time.
- OT welcomes BSC's intention to develop its strategy for working with national and regional government. OT suggests that BSC articulates more clearly how it will deliver these plans, and how the strategy will contribute to sustainability.
- OT expects the BSC Board to explore developing greater transparency about the tensions in its mandate, how this will be reflected in the 2026-2030 strategy, and OT would welcome a discussion on the need for any action.

### **3. Engagement – how should BSC influence for its strategy?**

- OT welcomes BSC's recognition of their informing/influencing role, its track record of working with government and plans to continue to do this to unlock capital.
- OT welcomes BSC's intention to develop its plans for partnerships with combined authorities, mayors and other regional economic players; as a new area of work, OT expects greater clarity from BSC in articulating how it will deliver these plans, as suggested under Issue 2 above.
- BSC's recognition of the potential of other investors beyond the example given is welcome: OT would welcome a plan to develop this area which, as the report suggests, provides clarity and transparency, particularly to potential investees, on BSC's approach to its pricing of capital in the context of risk and returns.
- OT notes the suggestion on closer working with BSC's bank shareholders and, as a fellow shareholder, is in a position to work with BSC on this and would be happy to do so.

### **4. Organisational challenges – how should BSC organise and behave to deliver its strategy?**

- The consistent message from this section of the report is that little has changed for external stakeholders since the 2020 review. OT welcomes BSC's openness to feedback and notes its proposed actions. However, BSC's response to the last report included similar plans, and the absence of significant progress suggests a different approach should be explored. OT would urge BSC to not only acknowledge the findings but also focus on whether it recognises this feedback, how it relates to the Panel's observations about the organisational culture, and what needs to be done to achieve real change.
- OT welcomes the steps taken by BSC to strengthen EDI since 2020, but notes the same question persists about whether these have led to actual investments which benefit organisations led by women or people from minoritised communities, or impact on system-level diversity. The value to an organisation of ensuring divergent voices and views are heard is integral to the themes of culture and feedback, which requires the integration of EDI into BSC's thinking and actions. EDI is also relevant to the relative priority of investing in the smaller, emerging intermediaries who are close to these communities. OT welcomes BSC's continued prioritising of EDI, with the caveat that this should be embedded in its feedback relationships and investment processes.
- Given that the actions since the 2020 Quadrennial Review do not appear to have shifted the dial, OT would encourage BSC to revisit its approach to stakeholder relationships and engagement and EDI, using the suggestions in the report as a basis for discussion. OT welcomes BSC's proposal to engage external expertise which should assist with fresh thinking.
- OT agrees that the Board is pivotal in an organisation's culture and welcomes BSC's intention to ensure they hear a range of perspectives. In doing so, OT suggests that BSC reflects on the extent to which existing feedback channels have strengthened and enriched debate and decision-making, surfaced alternative views and influenced strategy and performance. OT

expects to see plans that ensure opportunities for challenge and diversity of opinion at executive and Board level; and would encourage BSC to revisit working methods and explore new ways of presenting information, to enable fresh perspectives to inform board discussion and ensure the kind of market intelligence garnered by this report is fully available. OT suggests that BSC invites it to contribute to the framing of BSC's forthcoming governance effectiveness review.

- BSC's intention to improve investment processes by seeking feedback is welcome. OT suggests this could include work on internal culture, as BSC develops its intention to become a learning organisation by creating a safe environment for structured, no-blame approach, and using reflective practice to consider how to retain the benefits of the current culture while shifting those which give rise to the critiques in the report. There is also value in revisiting the mechanics of the process (such as: approach to risk; balance between proportionate rigour and excessive checking; frequency of client interaction; staffing structures; and levels of responsibility required to enable timely and effective decision making). The role and effectiveness of the Investment Committee in optimising processes and deal flow should also be considered. The power imbalance (next point) is also relevant here.
- OT welcomes BSC's recognition of the power imbalance and the need to reduce this. Experience shows that it is those who hold the power who can, and should, take steps to ensure the free and open exchange of experience. To achieve this, we encourage BSC to consider how to respond systematically to the report's observations on this issue; we also commend the use of independent, anonymised perception studies, which has emerged as one of the major contributions from this review. The values implicit in this approach also support the no-blame approach to learning and a culture of increased openness and transparency.

### **Conclusion**

Having published this Review and responses from BSC and OT, OT would welcome any comments from interested parties. OT is also committed to learning from experience and enhancing the process for future such reviews.

**Signed,**



**Sir Stuart Etherington**