

**WE ARE A SOCIAL  
INVESTMENT PIONEER  
AND CHAMPION,  
HELPING SOCIAL SECTOR  
ORGANISATIONS TO  
GROW AND TO DELIVER  
GREATER SOCIAL IMPACT.  
WE ARE TRANSFORMING  
SOCIAL INVESTMENT  
IN THE UK TO IMPROVE  
PEOPLE'S LIVES.**

**THIS IS OUR FIRST  
ANNUAL REPORT»»**

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## Chairman's foreword



This is Big Society Capital's first annual report since its launch in April 2012. Big Society Capital is an inspiring project, with ambitious aspirations that require effective long-term implementation.

Big Society Capital is charged with two primary objectives. Firstly to be a powerful force in transforming the social impact investment market in the UK, by stimulating the creation of social investment intermediaries that manage funds. It is at the top of a waterfall, providing capital flows into funds which are now in the process of attracting matching capital and recruiting teams to make social investments. These social investment managers generally operate a venture-like model and they need to recruit expertise so that social entrepreneurs can find the same kind of support as business entrepreneurs in achieving scale and significant positive impact on people's lives. Secondly its objective is to champion the development of the social impact investment market through spreading knowledge, defining effective approaches and informing government policy.



**Governments around the world are following the UK's lead in fostering the development of an impact investment market that will finance social entrepreneurs in generating innovative, more effective approaches to tackling persistent social issues.**

I am glad to report that in its first year of operation, Big Society Capital has achieved very significant progress on both these fronts, and has established itself as a highly capable organisation in achieving its objectives. We have recruited an impressive team of 25 people under the leadership of Nick O'Donohoe. We have bedded down the investment team and processes and established policy guidelines to invest the £72 million of unclaimed assets we received from the Reclaim Fund and the £48 million from our shareholder banks. We have made 20 investment commitments covering cornerstone investments in funds, Social Impact Bonds, and loans. We are directing our expertise and efforts into different social sectors and regions of the UK to tackle important social issues. At the level of the infrastructure of the market, we have invested in four initiatives aiming to link social investors to social entrepreneurs and social sector organisations.

As with any completely novel venture, it is hard to prove at the start how it will fare, what the public reaction to it will be, and how easily or how quickly others will understand what we are trying to do so that they join us in our enthusiasm for this venture. We have a passion for this enterprise and what we feel we can achieve through it. We are therefore genuinely delighted that in the past year there has been so much interest and so much support. We know it will take time for Big Society Capital to prove itself, but, in our eyes, this has been a strong and rewarding start.

For anyone who doubted that the supply of capital creates its own demand, the response to our establishment indicates this is very clearly the case. We have seen a good flow of interesting investment opportunities from the social sector and from outside it. Social organisations are achieving a huge amount despite the challenging environment and are raising their sights as our capital begins to flow. The same is true of the intermediaries that fund and support their efforts.

Governments around the world are following the UK's lead in fostering the development of an impact investment market that will finance social entrepreneurs in generating innovative, more effective approaches to tackling persistent social issues. A greater focus on evidencing social outcomes and

payment-for-performance is beginning to permeate government departments and the boards of charitable foundations. The Social Impact Bond is a potentially powerful breakthrough in boosting innovation because it correlates social performance achieved with the financial return to investors, paid out of a share of increased revenues or reduced costs of government.

I believe we are on the threshold of an era of social entrepreneurship, in which the motivation of talented individuals to help others as well as themselves is increasingly widespread. Social technology is likely to travel from country to country, spreading more effective ways of tackling social issues, just as advances in information technology and biotechnology have done in recent decades. The venture capital and private equity industry, which I see as our closest parallel, took a decade to get going properly and then became a major asset class. Thirty years later, I feel that impact investment is now emerging as the new asset class.

Big Society Capital could not have been established without the active support of Government. My thanks go to the Prime Minister and the Cabinet Office for directing unclaimed assets to us, and to Barclays, HSBC, Lloyds Banking Group and RBS for backing us with a significant equity investment, to the previous government which passed the enabling legislation in 2008 and to my colleagues on the Social Investment Task Force and the Commission on Unclaimed Assets. The achievements of the first year would not have been possible without the valuable contribution of the dedicated members of the boards of the Big Society Trust, Big Society Capital and our Advisory board. I am greatly indebted to them for accepting this responsibility and for applying their considerable expertise to making social impact investment a powerful force in improving people's lives.

**Sir Ronald Cohen**



## CEO statement



This is Big Society Capital's first annual report and in it we will cover who we are, what we do, how we do it, where our funding comes from, where it goes and who it helps.

We will explain and illustrate our dual purpose of investing money to stimulate the growth of the social investment market and our role as a champion of that market. We will highlight some of our successes but also illustrate where our challenges lie.

Before we do that, however, it is important to answer the question of why we exist in the first place.

Big Society Capital was established to help the social sector grow by increasing its funding and giving it more access to investment capital.

Social sector organisations play a critical role in our communities and in our society. They employ almost a million people and have income of over £35 billion. They work almost exclusively with the poorest and most disadvantaged in our communities. They provide services in health, education, social care and a host of other important areas. Increasingly they are market leaders in the provision of these services in an efficient, innovative and cost effective way and they benefit from being organisations which focus principally on creating social value.

Yet, despite their critical role, they are chronically underfunded, often lack scale and struggle to access funding from mainstream capital markets.

Big Society Capital's mission is to change this by transforming the supply of capital to social organisations in the UK. We want to help ambitious social enterprises grow and better evidence the value that they are creating. We want to support communities, particularly in economically deprived areas, so that they can purchase local assets and deliver more local services. We want to promote growth and employment in areas where access to investment capital is scarce. We want to help social organisations gain a larger share of public service contracts and transform the way those services are delivered.

To achieve this we need to develop a marketplace where social organisations can obtain loans and other forms of investment capital, a marketplace where this type of funding is available more

easily, on more reasonable terms and where it is provided by organisations who understand the critical role that social sector organisations play and the special challenges they face.

We also need to develop a community of social investors. These are individuals and institutions who want to invest at least some of their assets and do more than just maximise return. They want to invest with a social purpose and to do so they need to access suitable investment products. These products must allow them to invest their money not only in a way that seeks to preserve capital but also that enables them to back those organisations that seek to deliver positive social outcomes.

We do not pretend that developing this marketplace will be easy or will be quick, but are convinced that it is possible.

With that as broad context, what difference has Big Society Capital made in its first nine months?

### Growth of the Social Investment Market

Big Society Capital's mandate is not to supply capital directly to frontline organisations. Our mandate is to grow a network of specialised and sustainable social lenders and social investment funds that will do that – across a range of different social issues, around the UK and employing a variety of different forms of investment capital.

A robust social investment market requires substantial numbers of specialised and sustainable intermediaries. In the commercial



**We want to support communities, particularly in economically deprived areas, so that they can purchase local assets and deliver more local services.**



The social investment market will continue to grow rapidly ... propelled by a younger generation ... a new wave of social entrepreneurs who will build more sustainable social enterprises that will need capital to grow.

investment world there are tens of thousands – banks, brokers, stock exchanges, venture capital firms and many others. In the social investment world there is only a handful. Big Society Capital seeks to change that.

Since our launch in April, Big Society Capital has used its capital to cornerstone ten social investment funds. These funds have diverse objectives. They support enterprises using technology and innovation to solve social issues. They support communities in deprived areas to develop clean energy projects that lower their own energy costs and provide surplus funds to develop community assets. They invest in franchises which allow financially excluded individuals to set up their own businesses and create employment. They make loans to community land trusts to help these communities develop and let affordable homes. They provide capital to ambitious social entrepreneurs around the country to help grow their enterprises and create opportunity in their communities.

At the beginning of 2012 there were only two funds in the UK dedicated to social enterprises with committed capital in excess of £10 million. Today there are five and by the end of this year there will be more.

The other key area of focus for Big Society Capital has been the development of the Social Impact Bond market. Amongst their applications, these securities provide capital to charitable service providers to fund their participation in government payment-by-results contracts and to provide investors with the opportunity to invest in a way that targets social rather than purely financial outcomes.

At the beginning of 2012 only one Social Impact Bond had been successfully launched. Today 14 Social Impact Bonds have been closed and funded. Big Society Capital has invested in six of them. Our investments include helping young people in East London to improve their performance at school, helping improve the literacy and educational attainment of young people in South Wales, helping develop employment skills in Merseyside and helping children in Essex stay out of the care system and remain safely at home.

Big Society Capital has also provided the finance required to set up the first fund specifically to invest in a range of Social Impact Bonds. It will enable frontline social sector organisations to compete more easily for public service contracts and will also provide a vehicle to allow mainstream investors to invest in a diversified portfolio of Social Impact Bonds and similar financing structures.

The social investment market will continue to grow rapidly. It will be driven by the growing outsourcing of public services and the need to ensure that social organisations have access to the funding they need to compete effectively with private sector providers, by the Localism Act which makes it easier for communities to purchase assets and provide local services and by the mutualisation of big parts of the NHS. It will be supported by the Social Value Act which requires government bodies and local authorities to consider social value when awarding public contracts. Most importantly, it will be propelled by a younger generation, people in their 20s and 30s, a new wave of social entrepreneurs who will build more sustainable social enterprises that need capital to grow and bring new and innovative solutions to social issues.

All this growth needs funding. Research from the Boston Consulting Group, commissioned by Big Society Capital in 2012, examined the potential for further growth in demand for capital from social organisations. Their report estimates demand could rise from £165 million of social investment in 2011 to as much as £1 billion by 2016.

Big Society Capital's role is critical in building a market that facilitates this capital flow.

**Our Activities in 2012**

Big Society Capital grew rapidly in 2012. We started the year with a team of six people. We worked closely with the Cabinet Office, and in consultation with our shareholder banks, to finalise the legal and governance framework under which we operate.

We signed a subscription agreement with our shareholder banks in January 2012. We subsequently obtained Financial Services Authority (FSA) authorisation in March 2012.

We developed a unique governance structure by forming a shareholding trust, the Big Society Trust, which holds shares funded by the dormant accounts and also acts as the guardian of Big Society Capital's mission. This allows Big Society Capital to operate in a way that is fully independent of Government but ensures that the organisation will not deviate from its objective of building a sustainable social investment market.

We have built an operating infrastructure that is robust enough to receive and manage publicly directed funds in a rigorous and controlled way and that satisfies regulatory requirements.



**We recognise the need for further outreach into developing both investor and investee demand to grow the social investment market.**

We have established an Advisory board drawn from representatives of leading organisations across the market which has provided strategic guidance and acted as a source of advice and a forum for debate among constituent stakeholders.

In April, at the London Stock Exchange, the Prime Minister officially launched Big Society Capital.

Our website was launched simultaneously to explain in detail "who we are" and "what we do" and allow potential investees to submit investment proposals. The website provides the first comprehensive directory of Social Investment Finance Intermediaries to signpost frontline social sector organisations to the intermediaries that are direct providers of social finance.

Immediately following our launch we began our investment activities.

By the end of 2012 we had committed £56 million to 20 different intermediaries, £19 million firmly committed and £37 million subject to matching finance being raised.

These, and subsequent investment commitments we have made, form a broadly diversified portfolio across social issues and by geography. The details of all these investments (in funds, Social Impact Bonds and market infrastructure) are covered in detail in this report.

We continue to be encouraged by the quality of investment proposals we receive and the number of new entrants to the market.

In addition to building the market through our investment activities, Big Society Capital plays a crucial role as a champion for the development of the social investment market.

In 2012 we collaborated with social investors and experts in the field to produce a set of tools to deliver a more

consistent approach to evidencing social value.

The guides and indicators developed will help social investors embed an assessment of social returns into all stages of the investment process. They should also promote consistency in approach that will help social sector organisations demonstrate their social value, to showcase their achievements in procurement processes and to provide them with better access to social investment capital.

We launched a best practice guide for social investors and social sector organisations. We published an Outcomes Matrix, to help standardise definitions for key outcomes areas.

Since our launch, we have continued to work closely with the Government to encourage further policy initiatives. These include suggesting ways to make payment-by-results programmes more accessible and attractive to the social sector, making the case for more targeted tax relief to support social investment, supporting the case for providing grant funding to help social organisations become more investment ready, providing input into the Charities Act Review and the Red Tape Challenge, and participating in the European Commission's Social Business Initiative.

We have also sponsored research in a number of areas, including the growth of the social investment market, the suitability of social investment for investors, the potential of social franchising and the impact of potential tax reliefs on the growth of the market.

### **The Year Ahead**

By year end 2012, our team had grown to 25 people covering our investment team, market development and research, social impact, communications and operations.

We recognise the need for additional expertise in social sectors, as well as broader outreach, to develop both investor and investee demand in order to grow the social investment market. We will be adding more resources in those areas in 2013.

In the coming year we aim to commit £75-100 million in up to 20 new investments. We also intend to continue to raise significant levels of matching investment alongside our own commitments. This will represent a sizeable boost to the market.

We will continue to identify and back new intermediaries. We intend to encourage the creation of more pools of capital to specialise on specific social issues and on specific regions in the UK. We are also aware of the need to ensure that social organisations can access loans, particularly loans unsecured by assets, and will be providing capital to social lending intermediaries to facilitate it.

We will continue to work with all our stakeholders, particularly frontline organisations, to better understand their needs and help identify how they can benefit from investment.

We will encourage the development and distribution of new social investment products to new types of investors, with a particular focus on helping a broader range of smaller investors to access the social investment market. We will seek to partner with mainstream financial institutions to encourage them to explore how they can better engage with social investment. We were pleased by the budget announcement that tax incentives for social investment are to

be developed for the Autumn Statement and plan to be actively involved in the HM Treasury consultation on this initiative.

### **Conclusion**

Big Society Capital is an organisation that has been established to serve the social sector and help increase its impact on social issues. We cannot do that without continued support from organisations within the sector. We appreciate the help and encouragement that we have received from ACEVO, NCVO, SEUK and a host of established Social Investment Finance Intermediaries and frontline organisations. We are grateful to all of them. This collaboration is critical to our long term success.

Our success also depends on a favourable policy environment and on-going support for social investment from Government and other major grant funders. We cannot build this market alone and we are grateful in particular to the Office of Civil Society, the Big Lottery Fund and all the investors who have invested alongside us, for their sponsorship and support.

Big Society Capital has been very fortunate to attract an outstanding team of professionals dedicated to building it, growing a social investment market and ensuring that our investments make a real difference to people's lives. I would like to thank them all for their commitment and hard work.

Finally, I would like to thank the board of Big Society Capital, the board of the Big Society Trust and my Advisory board for their help, support and counsel over the last year. It has been invaluable.

**Nick O'Donohoe**



**We will seek to partner with mainstream financial institutions to encourage them to explore how they can better engage with social investment.**

Big Society Capital is an independent social investment firm that provides finance to organisations that support frontline social sector entities tackling social issues to help them grow. Social investment is about lending or investing money to achieve a social, as well as a financial, return. Big Society Capital makes investments, and encourages others to invest alongside us, to develop the social investment market. The capital we invest comes from dormant bank accounts via an independent Reclaim Fund and the leading four UK high street banks.

### The social investment market

Over the last 20 years, the social sector has moved away from being funded solely by grants and philanthropic donations to a more sophisticated and diverse financing model. Growing numbers of organisations have looked for ways to make repayable finance work more effectively for the social sector. There is now an emerging social investment market which is gaining a track record and building expertise. It is developing new ways to connect socially motivated investors with social sector organisations in need of capital. Big Society Capital exists to develop and support the social investment market.

Big Society Capital is a “**social investment wholesaler**”. This means we do not directly invest in frontline organisations, we invest in Social Investment Finance Intermediaries (SIFIs). In turn, SIFIs provide finance and support to social sector organisations.

We were set up as part of the Dormant Bank and Building Society Accounts Act 2008, which defined us as an organisation that exists “to enable other bodies to give financial or other support to third sector organisations”. (A third sector or a social sector organisation is “a body that exists to assist wholly or mainly to provide benefits for society or the environment”.)

We are therefore legally constrained only to invest in SIFIs.

Big Society Capital is building and strengthening a diverse market of social finance providers. If we invested directly in the front line it could undercut the intermediary organisations that are already active in the social investment market. We want to help build and strengthen this market, rather than undermine what is already there.

Big Society Capital receives capital from the Reclaim Fund Limited (RFL). RFL receives dormant account balances from banks and building societies and will hold sufficient funds to meet reclaims from account holders. Surplus funds are transferred to the Big Lottery Fund and the English portion of these is released to the Big Society Trust to invest as equity in Big Society Capital. Big Society Capital could receive up to £400 million from RFL and in addition four banks – Barclays, HSBC, Lloyds Banking Group and RBS – have agreed to invest up to £50 million each.

## INTRODUCING BIG SOCIETY CAPITAL

### Our vision

We want to see a vibrant, diverse, well capitalised and sustainable social investment market in the UK, through which social sector organisations can access appropriate and affordable finance and support to grow their positive impact on society.

### Our mission

Our mission is two-fold. We aim to act:

- 1. As an Investor:** To make a transformative impact on the social investment market by supporting Social Investment Finance Intermediaries (SIFIs) to become financially robust and effectively channel capital to the social sector.
- 2. As a Champion:** To raise awareness and increase confidence in, and the capacity of, the social investment market.

### Our founding principles

**Independence** – The Big Society Trust, an independent holding company that owns 60% of our shares, was set up to ensure that we are kept “on mission”. We are not owned or controlled by Government, nor are we controlled by the banks that have invested in us.

**Transparency** – We are committed to producing details of the financial and social impact of our investments. We act as a champion for sharing information and expertise across the social investment sector.

**Self sufficiency** – Over time, we need to cover our operating costs and any losses from the return on our investments, as well as earn a small financial return. This will demonstrate that the social investment model is sustainable.

**Wholesaler** – We act as a wholesaler, deploying capital through SIFIs, including organisations providing market infrastructure.

A timeline of events and policy developments that led to our launch in 2012.

## 2000

Labour Chancellor Gordon Brown set up the **Social Investment Task Force (SITF)** to look at ways to create wealth and promote enterprise to support economic regeneration and community cohesion. The first report of SITF highlighted the need for a "specialist wholesale intermediary" to provide new sources of capital to help the social sector grow.

## 2005

An independent body, the **Commission on Unclaimed Assets**, was set up to consider how money left unclaimed in dormant bank accounts for over 15 years could be used to benefit society.

## 2007

The Commission published its report "**Social Investment Bank – its organisation and role in driving development of the third sector**", which provided a blueprint for the institution's funding, goals and governance.

## 2008

The **Dormant Bank and Building Society Accounts Act 2008** passed with cross-party support. It stated that money from dormant accounts available for spending in England could be used for three specified purposes, one of which was creating a "Social Investment Wholesaler".

## 2009

The Cabinet Office consulted on the functions and design of this "Social Investment Wholesale Bank".

## 2010

### March

The Labour Government's Budget announced up to £75 million from the dormant accounts would be committed to a social investment fund.

### July

The incoming Coalition Prime Minister, David Cameron, pledged: "We will create a 'Big Society Bank' to help finance social enterprises, charities and volunteering groups through intermediaries... using every penny of dormant bank and building society account money allocated to England."

## 2011

### The Merlin Agreement

between the Government and the major UK high street banks included a commitment for the four largest banks to put £200 million into setting up the Big Society Bank.

After consulting with key social sector organisations, Sir Ronald Cohen (now our Chair) and Nick O'Donohoe (now our CEO) offered the Government an **Outline Proposal for the Big Society Bank**.

The proposal was accepted by the Cabinet Office subject to certain conditions, including regulatory approvals from both the EU Commission and the Financial Services Authority (FSA).

An interim "Big Society Investment Fund" was set up under the auspices of the Big Lottery Fund to make investments before the new institution was launched.

# HISTORY



## 2012

### April

**Big Society Capital** was launched by the Prime Minister at an event hosted by the London Stock Exchange.



## Key performance indicators

We have a range of key performance indicators (KPIs) that we use to evaluate both the social investment market and our organisation's performance. The charts below show our KPIs at 31 December 2012.

Capital received from the Reclaim Fund and banks in 2012

£119.4m

Total commitments to social investments

£56.6m

20 investments

Made up by:

Investments signed

£19.4m  
15 investments

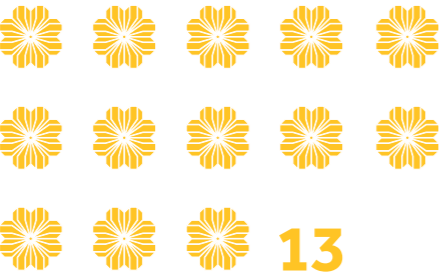
In principle commitments made

£37.2m  
5 investments

Matching finance for Big Society Capital investments signed

£19.7m 102%

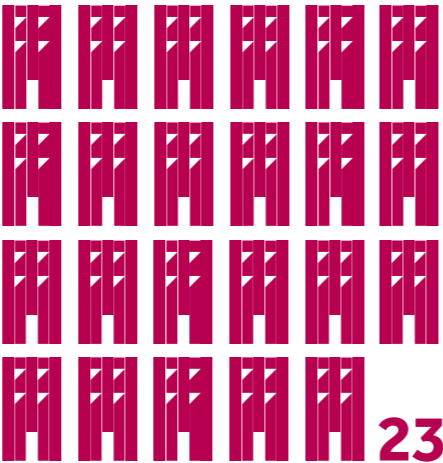
Number of new SIFIs



Investment commitments to new SIFIs

£48.2m

Number of frontline organisations receiving investment commitments so far



## Market diversification

Charts based on total commitments:

	Based on £ invested:		Based on Number of SIFIs:	
Intermediary type	Specialised Funds	29%	Specialised Funds	30%
	General Funds	60%	General Funds	20%
	Social Impact Bonds	4%	Social Impact Bonds	30%
	Operating Intermediaries	7%	Operating Intermediaries	20%
Geography	Nationwide	85%	Nationwide	50%
	North West	5%	North West	20%
	London/South East	5%	London/South East	20%
	South West	4%	South West	5%
	Wales	1%	Wales	5%
Outcome area	General	78%	General	25%
	Community	7%	Education	25%
	Infrastructure	7%	Infrastructure	20%
	Education	3%	Community	15%
	Employment	2%	Employment	5%
	Financial Inclusion	2%	Financial Inclusion	5%
	Social Well-being	1%	Social Well-being	5%

# BIG SOCIETY CAPITAL AS AN INVESTOR

Our role as an investor is to help social sector organisations increase their social impact by improving their access to appropriate and affordable finance.

We do this by supporting Social Investment Finance Intermediaries (SIFIs) to:

- Become financially robust and attract greater and more diverse sources of investment
- Effectively channel capital to the social sector
- Provide financial and business support services to the social sector.

In 2012, we made 20 commitments in 20 SIFIs working in a range of areas across the UK.

## Our current investments

The investments we have made so far fall into these broad categories:

1. **Specialised funds** – These funds have “themes”, for example, they might be for investing in specific social outcomes such as health and social care or a particular geographical area. Alternatively, they could invest in supporting specific types of contracts won by social sector organisations.
2. **General funds** – These funds increase the supply of capital available to a wide range of frontline organisations.
3. **Social Impact Bonds (SIBs)** – SIBs are a way of raising finance to deliver payment-by-results (PbR) contracts. Big Society Capital can invest directly in entities that are set up to take responsibility for funding and the delivery of outcomes detailed by PbR contracts.
4. **Operating intermediaries** – These are organisations that provide support for the social sector, such as performance measurement and capital raising.

We invest in a variety of ways, spreading our risk and helping us deliver a social and financial return on our investments.

## Our investment process

Chart showing stages of the investment process:



We aim to make our investment process highly rigorous, yet accessible to proposals from a variety of organisations. We can also work with organisations ahead of the formal investment process to help them understand what work needs to be done to develop their early stage ideas and get their applications ready to put to investors. From that initial contact through to post-investment monitoring, we work closely with each potential investee to tailor the process to their proposal.

## How we assess proposals

Each investment is assessed against three criteria:

- Achieving and evidencing social impact
- The ability to repay the capital invested and generate a return commensurate with the risk being taken
- Contributing to developing the social investment market.

We look for organisations that demonstrate strong management and a robust governance structure, to help them meet these criteria.

SPECIALISED FUNDS



Big Issue Invest/East Lancs Moneyline  
£950,000

Invests in East Lancs Moneyline, the largest personal lending Community Development Finance Institution (CDFI) in the UK.

Bridges Social Impact Bond Fund  
£10,000,000

Provides finance for social sector organisations that deliver services under payment-by-results (PbR) contracts.

See page 22 for more information.

Community Generation Fund  
£750,000

Lends money to support disadvantaged communities to reduce their energy costs and carbon footprint; also to generate an income for the community through developing community-owned renewable energy projects.

Community Land and Finance  
£2,500,000

Makes loans to Community Land Trusts, and similar community focused organisations, to provide properties for local communities to rent at affordable prices.

FranchisingWorks Licence Fund  
£1,000,000

Provides finance to purchase franchise contracts and enable unemployed and financially excluded people in Manchester to set up their own franchise businesses.

PURE Community Energy Fund  
£1,000,000

Provides finance for community renewable energy projects.

See page 23 for more information.

GENERAL FUNDS



Impact Ventures UK Fund  
£10,000,000

Provides growth capital for social ventures that will improve the life of less advantaged people in the UK. Managed by LGT Venture Philanthropy in association with Berenberg Bank.

See page 24 for more information.

Nesta Impact Investment Fund  
£8,000,000

Invests in social enterprises that use technology and innovation to solve social issues.

See page 25 for more information.

Social and Sustainable Capital  
£10,000,000

Invests in social enterprises with a clear and measurable social impact. It will be launched alongside a Social Bond Fund that invests exclusively in social housing bonds.

Social Venture Fund  
£6,000,000

Provides finance to social ventures to help them expand.

OUR COMMITMENTS

at 31 December 2012

SOCIAL IMPACT BONDS (SIBs)



Capitalise SIB  
£205,000

Supports a programme to help address the root causes of low attainment in schools in the Cardiff and Newport area, such as literacy problems and low self-esteem/belief. The Capitalise programme is performance managed by 3SC and delivered by Dyslexia Action and CfBT Education Trust.

Energise SIB  
£319,000

Supports a programme designed to build resilience, confidence and aspiration to enable vulnerable young people to progress in their lives, particularly in education and employment. This programme is managed by Social Finance and delivered by Adviza.

Essex SIB  
£825,000

Enables Essex County Council to support intervention programmes for 11-16 year olds at the edge of entering care or custody so that they can safely remain at home with their families. This programme is managed by Social Finance and delivered by Action for Children.

See page 26 for more information.

Teens and Toddlers SIB  
£176,000

Helps improve education and behavioural outcomes for teenagers in the North West of England at risk of becoming NEET (not in education, employment or training). This programme is managed by Social Finance and delivered by Teens and Toddlers.

ThinkForward SIB  
£450,000

Funds a school-based support programme to improve the lives of vulnerable 14-17 year olds by getting them into employment and/or further education. This programme is managed by ThinkForward and delivered by Tomorrow's People.

See page 27 for more information.

Triodos New Horizons SIB  
£450,000

Helps tackle youth unemployment in the Merseyside area. This programme is managed by Triodos New Horizons and delivered by Greater Merseyside Connexions Partnership (GMCP), a charity working with young people in Merseyside, to deliver the programme.

OPERATING INTERMEDIARIES



ClearlySo  
£1,000,000

An investment to respond to the expected increase in demand for investment from social enterprises, and to help ClearlySo engage with these enterprises to raise finance.

See page 28 for more information.

The Foundry  
£1,250,000

An investment into a building project managed by the Ethical Property Company to provide ethically managed office space in Vauxhall, London, for non-profit organisations or social enterprises tackling social justice issues.

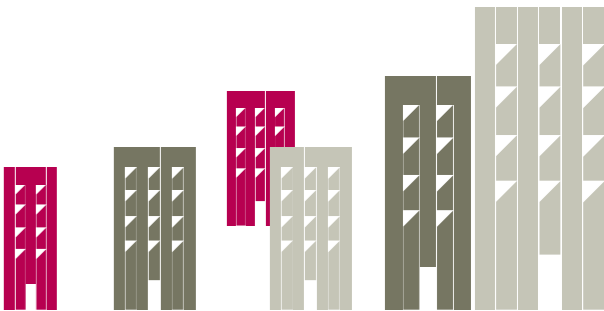
See page 29 for more information.

Social Investment Market CIC  
£875,000

A secured loan facility to support the Social Investment Market CIC Ltd to underwrite the issue of a fixed income bond by Scope, a UK disability charity. It will help build the market for further bond issues by charities and social enterprises.

Social Stock Exchange  
£850,000

An investment into the Social Stock Exchange to develop market infrastructure to connect socially motivated investors with social purpose businesses that need capital.



## Specialised funds

BRIDGES SOCIAL  
IMPACT BOND  
FUND

Providing finance and support for social sector organisations that deliver services designed to improve social outcomes through payment-by-results (PbR) contracts

**Who's involved?**

This fund is managed by Bridges Ventures – a private investment firm that aims to achieve social or environmental goals as well as financial returns with all its investments.

**How does the investment work?**

If social sector organisations are going to be able to deliver services under PbR contracts, they need working capital to fund them until they can evidence improved social outcomes and claim payments. Through the fund, social sector organisations can access capital to enable them to bid for and ultimately deliver contracts.

**What is the impact strategy?**

The fund will support a range of social organisations delivering social outcomes and improved services. Initial projects include early intervention for troubled families, therapeutic foster care, employment and education.

**How will we evidence the impact of our investment?**

As payments are made on the basis of defined social outcomes, each investment the fund makes will clearly specify a set of target social outcomes. These will be monitored and measured through the life of each investment. Methods of evidencing indirect, secondary or unexpected social impacts are likely to progress further over the life of the fund.

**How is it helping develop the social investment market?**

The fund is the first of its kind in the world and has potential to be game-changing for involving social sector organisations in PbR programmes. As well as giving social sector organisations the financial support to bid for contracts, the fund will provide social investors access to opportunities that meet their social and financial priorities and provide a degree of diversification across several investments. The team managing this fund at Bridges will be an important voice in the continued development of this part of the social investment market.



## Specialised funds

PURE COMMUNITY  
ENERGY FUND

Providing finance for community energy projects in deprived communities

**Who's involved?**

PURE the Clean Planet Trust manages this fund. PURE is a charity that provides funding to communities in the UK and the developing world to reduce carbon emissions and improve quality of life.

**How does the investment work?**

We have invested into this fund so PURE can provide small, low interest loans to community organisations in areas of high deprivation to pay for renewable energy equipment and energy efficiency measures. Charities, community energy cooperatives and other not-for-profit or community interest organisations can apply for the funds. PURE will lend up to 50% of the cost of any particular project up to a maximum of £50,000. One such project is described below:

**Greenway centre**

The Greenway Centre is a local community and business hub in Southmead, Bristol, run by Southmead Development Trust. It hosts a wide range of activities for community groups, from employment and training courses for adults to exercise classes for ex-offenders and those who have had heart attacks or lung problems.



**"Installing solar panels has enabled us to reduce our operating costs and generate some much needed income so that our services remain affordable for the local community. We were only able to proceed with the installation with PURE's match funding. The loan is at an affordable interest rate and spread over a time period to suit our needs, which ensures we can meet repayments and benefit immediately from feed-in-tariffs savings."**

**Alex Kittow**  
General Manager  
Southmead Development Trust

**What is the impact strategy?**

Our investment will benefit community organisations in the bottom 50% most deprived areas of the country who wish to fund renewable energy projects. The fund will help to increase community cohesion as well as help other community projects be delivered, as any financial surpluses generated will be invested back into the community.

**How will we evidence the impact of our investment?**

We will focus on the effect our money is having on the capacity of community organisations to provide inclusive, accessible and affordable facilities and services, increasing community cohesion and participation.

**How is it helping develop the social investment market?**

Our investment into this fund, alongside private sector grant funding, is supporting an innovative scheme that helps social sector organisations in areas of high deprivation increase their financial strength and resilience. Using money raised from generating electricity (feed-in-tariffs) to support community projects is a scalable investment model – one that is likely to attract further capital into the market.



## General funds

IMPACT  
VENTURES UK  
IN ASSOCIATION  
WITH BERENBERG

*Private Bankers*  *founded 1590*  
**BERENBERG BANK**  
*John Berenberg, Gossler & Co. KG*



Providing growth capital for social enterprises that will improve the life of less advantaged people in the UK

**Who's involved?**

The fund manager is LGT Venture Philanthropy, an experienced impact investor providing tailored financial and non-financial support to selected organisations that deliver high social impact. Berenberg Bank is the co-founder, having created the vision for this fund through its extensive knowledge and involvement in the sector.

**How does the investment work?**

The fund will invest risk capital into 15 to 20 social enterprises with proven business models that have the potential to scale and increase the delivery of their social impact in the UK.

**What is the impact strategy?**

Impact Ventures UK is an 'impact-first' fund that will provide long-term growth capital for social enterprises with innovative business models that will deliver a positive and sustainable improvement to the quality of life of less advantaged people in the UK.

**How will we evidence the impact of our investment?**

The fund will measure both the reach and depth of impact of their investees and provide regular updates together with an annual impact report.

**How is it helping develop the social investment market?**

Our investment into the fund will bring an experienced social impact investment fund manager into the UK. Over the past six years, LGT Venture Philanthropy has established itself as a highly regarded impact investor in emerging markets with a rigorous investment process. They have made over 25 investments to date, touching the lives of approximately seven million people through the businesses they have supported.

Berenberg will undertake a significant role in bringing together the relevant experts for this fund, which will bring additional experience and capital into the market and build on Big Society Capital's commitment. Over the past few years, the team at Berenberg have been actively involved in understanding the growing interest and development within the UK social investment industry and this fund will create a viable product to enable interested investors to directly invest, learn and participate in businesses that are creating positive social impact in the UK.



## General funds

NESTA IMPACT  
INVESTMENT  
FUND

Nesta  
Impact  
Investments 

Providing a range of finance for social ventures that use technology and innovation to address social issues

**Who's involved?**

The fund manager is Nesta Investment Management LLP (NIM) – an FCA-authorized wholly-owned subsidiary of Nesta (a UK charity). Nesta's mission is to help people and organisations bring great ideas to life by providing investments and grants and mobilising research, networks and skills.

**How does the investment work?**

The fund will invest risk capital in 15 to 20 frontline organisations that are addressing some of the UK's most pressing challenges, particularly youth unemployment, elderly care and community exclusion.

**What is the impact strategy?**

The fund will invest in organisations that seek to have a positive impact on the:

1. Health and well-being of an ageing population, including reducing avoidable injury and premature deaths of older people and increasing the number of older people participating in social, cultural and economic life
2. Educational attainment of children and the employability of young people
3. Social and environmental sustainability of communities, including increased access to products and services for people and communities experiencing exclusion.

**How will we evidence the impact of our investment?**

This fund seeks to pioneer evidence-based impact investing by tracking and reporting the social impact performance of each investee and of the fund. The fund has defined social outcome targets that it plans to use to screen potential investees and will record the impact of an investment across three dimensions: the effect an investment has on defined target outcomes, the scale of an investee's activities and the rigour of impact evidence.

**How is it helping develop the social investment market?**

The fund manager, Nesta, has extensive knowledge of the social sector that will help effectively channel capital to support social ventures. Nesta's aim is to help embed social impact planning and measurement into each social organisation that they invest into and boost their capacity in this area. Alongside its work on social impact, the focus on risk capital for early stage ventures will encourage and support innovation in its chosen sectors.



**"The UK is currently facing major social and economic challenges, which we face at a time when public spending is constrained and the economy isn't growing.**

**There needs to be a major shift in the way we do things – we need innovation, and we need entrepreneurship to drive these innovations to a meaningful scale. Nesta Impact Investments, with the support of Big Society Capital, is bringing finance and advice to these innovators whose work we believe will transform the lives of individuals and communities across the UK."**

Joe Ludlow  
Impact Investment Director  
Nesta

## Social Impact Bonds

### ESSEX SIB

Helping vulnerable young people avoid care or custody and stay safely at home with their families



Essex County Council

**“We know from working in communities across the UK that intervening at the earliest possible stage ensures that children are safe and protected, and that neglect is prevented even when problems are already entrenched. Stable funding from the Social Impact Bond allows us to work with Essex County Council over the longer term to produce real results that will benefit children, families and communities.”**

**Dame Clare Tickell**  
Chief Executive  
Action for Children



## Social Impact Bonds

### THINKFORWARD SIB



Supporting vulnerable teenagers to stay in education or move into employment

**“Big Society Capital’s imaginative investment in ThinkForward is helping a generation of young people who are struggling to make a successful move from education into employment. The support that our coaches offer young people could not be delivered without the working capital they provide.**

**But Big Society Capital is more than just an investor to us. Not only do they contribute their expertise to govern and support the programme but, through our partnership, they have also made particular efforts to develop a rigorous and sustainable model for social investment.”**

**Kevin Munday**  
Programme Development Manager  
ThinkForward

#### Who’s involved?

ThinkForward Social Investment Fund manages one of the Department for Work and Pensions Innovation Fund payment-by-results (PbR) contracts designed to reduce the number of young people not in education, employment or training (NEET) so they can reach their full potential. The team at ThinkForward is seconded by the Private Equity Foundation to manage this contract. The charity Tomorrow’s People is delivering the programme, providing one-on-one support to disadvantaged and excluded young people to drive better attainment at school.

#### How does the investment work?

The fund will provide working capital for a programme of intensive support for the most vulnerable young people in Tower Hamlets, London, helping them successfully move into further education or employment. The fund aims to eventually expand and finance more programmes across the UK.

#### What is the impact strategy?

The programme will work with around 950 vulnerable 14-17 year olds, identified by their schools as being most at risk of dropping out of school and becoming unemployed. Coaches will work in Tower Hamlets schools for three years, providing intensive one-to-one support. They will focus on helping improve confidence, well-being, life skills and school work, and help the young people gain work experience.

#### How will we evidence the impact of our investment?

The fund seeks to be a pioneer. The goal of the programme is to reduce the likelihood of young people leaving school without going into further education, training or employment. Teachers will verify if a young person’s behaviour and attendance level has improved as a result of the intervention. National Qualification Framework (NQF) Levels 1 and 2 qualifications and successful work placements will also be tracked.

#### How is it helping develop the social investment market?

Our investment will help to build a track record for ThinkForward as performance manager of PbR contracts.



## Operating intermediaries

## CLEARLYSO

Raising capital to support social enterprises

**Who's involved?**

ClearlySo is a Social Investment Finance Intermediary (SIFI) with over 12 years' experience working with social enterprises. Since 2012, ClearlySo has been focused on developing the capital raising side of the business, using its well-established enterprise and investor networks. It has also launched Clearly Social Angels, the first network of impact start-up investors in the UK.

**How does the investment work?**

We expect to see a surge in demand for investment from social entrepreneurs as well as an increase in fund managers seeking to raise capital for impact investment funds. Through its services, ClearlySo will help meet that demand. We believe that it is well positioned to help support the sector and investors in achieving its goal of growing the social investment market.

**How is it helping develop the social investment market?**

ClearlySo will use our investment to accelerate its growth in the capital raising space, and as a result help raise more capital for social businesses and enterprises. This is a key piece of infrastructure for the sector, which will help a diverse range of frontline organisations. Alongside capital raising, ClearlySo is in a position to offer support that will help to strengthen the business models and investment readiness of these organisations.

## Operating intermediaries

## THE FOUNDRY

Providing affordable office space for social justice organisations

**Who's involved?**

The Foundry office space is managed by the Ethical Property Company (EPC) – a company that buys, redevelops and manages property for the charity sector. They currently manage 23 centres across the UK.

**How does the investment work?**

The investment will help fund a major refurbishment and large extension of affordable office space for social organisations in Vauxhall, London. Office space at The Foundry is for social justice organisations, non-profit organisations or social enterprises.

**How is it helping develop the social investment market?**

Our investment into The Foundry will help some social sector organisations build up their resilience. By providing business premises this centre will help social justice charities focus on their core business and will allow them to share ideas and resources with each other as well as educate, engage with and inform the wider public.

This investment will further strengthen EPC's role as a leading ethical property developer in the market. The Foundry and other similar developments offer investors the chance to make an ethical investment in property that has the potential for financial and social returns.



Our role as a market champion is to help shape, develop and promote a sustainable UK social investment market. We do this by:

- Spreading the word about social investment
- Creating and defining social impact standards and market information
- Helping to shape policy
- Analysing the market and commissioning research
- Seeking opportunities and ideas for social investment

### Spreading the message about social investment

In 2012, we held two major events that shone a national and international spotlight on social investment: the Big Society Capital launch by the Prime Minister in April; and an event to announce our first £37 million of investment commitments in September with over 300 guests.

Members of our Executive Committee have made presentations at over 90 events across England and in Scotland, Wales and Northern Ireland. They showcased social investment, signposted sources of funding for social sector organisations to become investment ready, and gave would-be investees and intermediaries an opportunity to have their questions answered. Over 6,600 people attended these events.

### Creating and defining social impact standards and market information

One of our goals in building the social investment market is to showcase how invested capital can bring about real social change. By raising awareness and celebrating successes, we will encourage more investment into the sector.

To make this happen, we are working with social investors and investees on developing social impact standards and best practice guides for embedding social impact into the investment process. We are also establishing best practice among Social Investment Finance Intermediaries (SIFIs) and working on a standard set of definitions for outcome-based investing.

Most importantly, we want to help make evidencing social value a core part of intermediaries' and front-line organisations' strategy and business planning processes. This will allow them to demonstrate the difference that they make to people's lives and how investment capital can be used effectively.

We commissioned a best practice guide for investors, called The Good Investor, that focuses on integrating social value considerations into a robust investment decision-making process. It covers all areas – from how social impact should feature as part of creating an investment policy and strategy, through to screening, application and due diligence, and then through the negotiation and management of the investment to term.

It includes guidance for social sector organisations looking to raise investment capital which helps them understand what social investors want to see. It provides standardised social outcomes with detailed overviews, indicators and data sources that are common and relevant.



We have worked with social sector specialists to build a standardised system for frontline organisations to use when reporting on how they are performing and the social outcomes they are achieving. This will help investors see the full impact of their investments.

At Big Society Capital, we also aim to conform to this best practice and will report against the Outcomes Matrix to judge our own social performance. We are turning social impact into a discipline rather than just an operational process, moving away from the operational mechanisms of measurement and reporting to creating social strategies, assessing social risk and looking for long-term social performance.

We have also supported the Engaged X research project. Engaged X will pilot the aggregation of investment data from social investment portfolios of intermediaries in the sector. The idea of the index is to bring together in one place financial and social data that investors need to assess this new market and its suitability for investment. Developing this index will be important in increasing confidence in the social investment market.



[www.bigsocietycapital.com/outcomesmatrix](http://www.bigsocietycapital.com/outcomesmatrix)

BIG SOCIETY CAPITAL  
AS A MARKET  
CHAMPION

### Helping to shape policy

There have been many positive initiatives and work by successive Governments over the last decade to improve the environment for social investment. But there is still much to do.

Some of the things we have been doing to advocate further change include:

- Working with public sector commissioners to improve how payment-by-results (PbR) works with social sector organisations. This includes writing an open letter with specialist fund manager Bridges Ventures to Oliver Letwin, the Minister on Government Policy, with five priorities for PbR reform, as well as forming a working relationship with the Ministry of Justice on forthcoming PbR reforms.
- Writing to the Chancellor of the Exchequer setting out our case and detailed ideas for levelling the tax playing field for investors into social enterprises and charities.
- Submitting a detailed response on social investment regulation as part of the Government's Red Tape Challenge, and working with the civil society community on amendments to the Financial Services Bill.
- Playing a part in the European Union's Social Business Initiative, particularly engaging on developing the regulations to establish a framework for EU Social Entrepreneurship Funds (EUSEF).

Many of these initiatives have been undertaken in collaboration with partners such as NCVO, Social Enterprise UK and the City of London Corporation. The policy environment for social investment has continued to strengthen in 2012, with key developments in:

- Investment readiness – particularly the Cabinet Office's new £10 million social incubator fund and Big Lottery Fund's commitment to investment readiness funding.
- Social Impact Bonds (SIBs) – including the Cabinet Office's new £20 million Social Outcomes Fund to help co-commission SIBs, and a SIB Centre of Excellence.
- Regulatory framework – including Lord Hodgson's Charities Act Review and Government's subsequent response, and Government's commitment to a range of social investment regulatory changes as a result of the Red Tape Challenge.

### Analysing the market and commissioning research

For the social investment market to improve and develop, we need to make sure there is relevant, high quality market research and analysis available. We have already started to make a significant contribution to the body of research in the market by commissioning research (ourselves and in partnership with others) and will continue to do this. Research in 2012/2013 included:

- Advising Clients on Social Investments and Deciding on Suitability, partnered with Bates, Wells & Braithwaite and Worthstone (July 2012).
- The First Billion: A Forecast of Social Investment Demand, partnered with Boston Consulting Group (September 2012) – this has been viewed as an important piece of social investment intelligence and one of the first forward looking forecasts of social investment demand.
- Investing in Social Franchising, partnered with the International Centre for Social Franchising (September 2012).
- Tax Incentives to Encourage Social Investment, partnered with City of London Corporation, Worthstone and Wragge & Co (March 2013).
- Supply Chains for Social Impact, partnered with Harvard Kennedy School (expected spring 2013).
- Opportunities for Social Investment in the Education Sector, partnered with the Private Equity Foundation (expected spring 2013).

### Seeking opportunities and ideas for social investment

We are always looking for opportunities to plug specific gaps in the social investment market. So far we have done this in three ways:

- Our call for a fund manager for a PbR fund in May 2012, which led to the Bridges Social Impact Bond Fund LP.
- Our "Market Update and Call for Ideas" of October 2012 detailing our view of the market's development, and setting out the areas where we see demand-side potential but fewer investment proposals. The call for ideas placed a particular emphasis on health and social care markets, on community assets, and on more PbR opportunities.
- An active ideas co-development programme – since late 2012 we have run four programmes to co-develop investment ideas with potential partners in a range of target areas such as social housing and community assets.

We have also contributed to investment-readiness efforts across the market. Our staff are represented on the panel awarding grants from the £10 million Investment and Contract Readiness Fund, and advise the Minister for Civil Society on the Government's social incubator programme.



The policy environment for social investment has continued to strengthen in 2012.



# CORPORATE GOVERNANCE



Big Society Capital is an independent financial institution authorised by the Financial Conduct Authority.

Independence is ensured by a structure which involves the Big Society Trust on whose board one Government representative serves. Big Society Capital is accountable to the Big Society Trust whose responsibility it is to ensure that Big Society Capital fulfils its mission.

Big Society Capital has its own board managing the company and an advisory board.

The company's object is to act as a social investment wholesaler and generally to promote the development of the social investment marketplace in the UK. It also seeks to achieve and maintain financial sustainability over the longer term.

## The Big Society Trust

The Big Society Trust acts as the majority shareholder in Big Society Capital. Its role is to ensure that Big Society Capital remains true to its mission.

To enable it to carry out its role, the Big Society Trust has a controlling interest in Big Society Capital. It controls 80% of the voting rights at shareholders' meetings. For important issues such as any change to the company's objects or removal of a Big Society Capital director the consent of at least 75% of the Big Society Trust board is required.

Big Society Capital reports regularly to the Big Society Trust on its financial performance, its investments and board and senior manager appointments. The Big Society Capital CEO is invited to attend the Big Society Trust board meetings as an observer.

There is a Governance Agreement between the Big Society Trust and Big Society Capital detailing the operating and reporting arrangements agreed between the two entities.

## The Big Society Trust Directors as at 31 December 2012

### Sir Richard Lambert (Chair)

Former Director General of the CBI and currently Chancellor of the University of Warwick and senior independent adviser to Deutsche Bank

### Ian Davis

Non-executive Director of Rolls Royce plc, BP plc, Johnson and Johnson; Adviser to Apax Partners and non-executive member of the Cabinet Office Board

### Sir Stephen Bubb

CEO of ACEVO and Chair of Social Investment Business

### Peter Holbrook

CEO of Social Enterprise UK

### Baroness Pitkeathley

House of Lords, Chair of the Professional Standards Authority, previously CEO of Carers National Association (now Carers UK)

### David Robinson

Senior Adviser and founder of Community Links

### Gareth Davies

Executive Director, Cabinet Office

### Sir Ronald Cohen

Chair of Big Society Capital. Co-founder of Bridges Ventures, Social Finance UK, USA and Israel, and The Portland Trust. Co-founder and former Executive Chairman of Apax Partners

## Shareholder banks

Each shareholder bank (Barclays, HSBC, Lloyds Banking Group and RBS) has committed to subscribe to up to £50 million of Big Society Capital's shares. Their individual shareholding will always be less than 10% of the outstanding paid-in capital.

The banks can vote at shareholders' meetings. Their votes are in proportion to their shareholding, but each is capped at 5% of the overall voting rights. The banks are represented on the Big Society Capital board by a bank-nominated director. In addition to information provided to them by the Bank Director, the banks receive all Big Society Capital board papers and quarterly and half yearly reports. In certain circumstances the banks have the right to request a meeting with the senior management of Big Society Capital to discuss its performance.

## Big Society Capital

Big Society Capital is a company limited by shares with capital comprising "A" shares, held by the Big Society Trust, and "B" shares, held by the four shareholding banks.

The composition of the Big Society Capital board reflects its purpose and includes directors with financial and/or social sector expertise. The board is mainly non-executive, with the CEO of Big Society Capital the only executive member.

Big Society Capital has two board Committees each comprising a majority of non-executive directors:

Nominations and Remuneration Committee – responsible for making recommendations concerning the appointment of directors, particularly for ensuring that there is an even balance on the board between individuals with the appropriate depth of experience and expertise in the financial and social sectors. It also has responsibilities for setting levels of remuneration.

Audit, Risk and Compliance Committee – examines management processes and other arrangements to ensure the appropriateness and effectiveness of systems and controls, including risk management.

The Investment Committee is an executive committee with delegated responsibility for the performance of Big Society Capital's portfolio of investments. It defines the investment policy of Big Society Capital and monitors and reports on investment performance to the Big Society Capital board. It is chaired by the CEO of Big Society Capital.

## Big Society Capital Advisory board

The Advisory board is made up of prominent practitioners from the social, financial and business sectors and provides advice to the CEO of Big Society Capital. It met three times in 2012.

## Advisory board members as at 31 December 2012

### Robert Annibale

Community Development and Finance

### Daniela Barone Soares

Impetus Trust

### Adele Blakeborough

Social Business Trust

### Matthew Bowcock

Community Foundation Network

### Philip Colligan

Nesta

### Steve Cooper

Barclays

### Toby Eccles

Social Finance

### Victoria Hornby

Foundation of Prince William and Prince Harry

### Jonathan Jenkins

Social Investment Business

### Nigel Kershaw

Big Issue Invest

### Stephen Lloyd

Bates, Wells & Braithwaite

### Mick May

Blue Sky

### Ed Mayo

Co-operatives UK

### Philip Newborough

Bridges Ventures

### James Perry

Panahpur

### Cliff Prior

UnLtd

### Hugh Rolo

Locality

### Rod Schwartz

ClearlySo

### Simon Tucker

Young Foundation

### Peter Wanless

Big Lottery Fund

# REMUNERATION REPORT



This report covers the 12 months ending 31 December 2012 and sets out the policy and disclosures in relation to the remuneration of the employees and directors of Big Society Capital.

## Nomination and Remuneration Committee

The Nomination and Remuneration Committee is responsible for establishing a formal and transparent procedure for setting the remuneration policy for the executive staff of the company and for determining the remuneration packages of executive staff. It also leads the process for setting non-executive directors' fees.

The Committee is appointed by the board of the company and will make recommendations on these issues to the board of the company.

The Committee's responsibilities regarding remuneration are to:

- make recommendations to the board of the company in relation to the remuneration of executive directors, non-executive directors and the senior executive team;
- make recommendations to the board of the company in relation to the identity and terms of appointment of independent consultants for the conduct of an independent survey, as necessary and at least once every five years;

- establish the benchmark for remuneration packages for persons engaged in like positions in the public, not-for-profit or charity sectors;
- review the on-going appropriateness and relevance of the company remuneration, pensions and employment benefits policies;
- determine the total individual remuneration package of members of the senior executive team in consultation with the Chair and/or CEO of the company, as appropriate;
- review on an annual basis the level of payment of non-executive directors;
- ensure that contractual terms on termination, and any payments made, are fair to the individual and the company;
- oversee any major changes in the nature of employee benefits provided by the company; and
- agree the policy for authorising claims for expenses from the directors.

## Principles for executive remuneration

- Executive directors and the senior executive team will be paid a comparable remuneration package to persons engaged in like positions in the public or not-for-profit sectors, as appropriate.
- The board shall commission an independent survey as necessary and at least once every five years to establish the benchmark for such salaries.
- The senior executive team shall not be paid any bonuses.

## Principles for non-executive remuneration

- Non-executive directors will be paid an equivalent sum paid by other comparable not-for-profit and public bodies such as housing associations and primary care trusts to non-executive directors.
- In 2012, the amounts were £7,000 per annum for the service of acting as a non-executive director, £3,000 per annum for chairing a board committee and £1,500 per annum for acting as a non-chair member of a committee. These figures will be reviewed by Big Society Capital annually in the light of inflation and comparable organisations.
- Total non-executive directors' fees in 2012 were £45,500.

## Higher paid employees

The total number of employees, including directors, with annual remuneration of £60,000 or more and employed as at the period end were as follows:

	2012 Number	2011 Number
£60,000 - £69,999	1	1
£70,000 - £79,999	1	-
£80,000 - £89,999	3	1
£90,000 - £99,999	2	2
£100,000 - £109,999	1	-
£140,000 - £149,999	1	1

Seven of these employees participate in the company pension scheme. Employees make a contribution of up to 8% of salary to the pension scheme. The company matches the employee contributions and pays an additional 3% of salary.

## Company information

### Directors

Dawn Austwick  
David Carrington  
Sir Ronald Cohen (Chair)  
John Kingston  
Steve Morrison  
Geoff Mulgan  
Nick O'Donohoe  
Dai Powell  
Lady Susan Rice  
Danielle Walker Palmour

### Secretary

Alastair Ballantyne

### Auditor

KPMG Audit Plc  
8 Salisbury Square  
London  
EC4Y 8BB

### Bankers


HSBC Bank Plc  
69 Pall Mall  
London  
SW1Y 5EY

### Registered office

Chronicle House  
72-78 Fleet Street  
London  
EC4Y 1HY

# DIRECTORS' REPORT

Registered number: 07599565



The directors present their report and financial statements for the year ended 31 December 2012.

Principal activities

Big Society Capital's objectives are:

1. To have a transformative impact on the social investment market in the UK by investing in and supporting Social Investment Finance Intermediaries (SIFIs) to become financially robust and able to: attract greater and more diverse sources of investment; effectively and efficiently channel appropriate and affordable capital to the social sector; and provide effective financial and business support services to social sector organisations.
2. To increase awareness of and confidence in social investment by: promoting best practice and sharing information; improving links between the social investment and mainstream financial markets; and working with other investors to embed social impact assessment into the investment decision-making process.

Review of the business

The Financial Statements on pages 42-66 show the income and expenditure for the period. Big Society Capital has been set up with equity capital from dormant bank accounts, estimated to be approximately £400m and £200m from the shareholder banks (Barclays, HSBC, Lloyds Banking Group and RBS). These amounts will be received over four years. EU state aid approval has been received to allow the use of money from dormant bank accounts and FSA authorisation has been obtained.

During 2012, £119.4m of equity capital has been received, £71.7m from the dormant bank accounts via the Reclaim Fund Limited and £47.7m from the shareholder banks. In principle commitments of £56.6m have been made for 20 investments. Of this total, £5.4m has been drawn down.

Total revenue for the year was £1.9m principally from treasury management returns. Expenses were £3.0m with average headcount of 18.

Future developments

Big Society Capital will continue to be capitalised via the Reclaim Fund Limited and the shareholder banks. This capital will be used to invest in SIFIs to achieve the objectives outlined above.

Principal risks and uncertainties

The principal risks and uncertainties facing the company relate to its investment portfolio. These risks, and the steps taken to manage them are outlined in Note 16 to the accounts.

Events since the balance sheet date

In January 2013, the company received £8.6m of share capital via the Reclaim Fund Limited and in February 2013, £5.7m of share capital was received from the shareholder banks.

Since the year end, the company has: paid investee draw downs of a further £0.9m; signed one further investment with a value of £10m (included in the £37.3m of in principle commitments detailed in Note 23); and approved one further in principle commitment with a value of £5m (stage 3 of the investment process described in Note 23).

Going concern

The financial statements have been prepared on the going concern basis. The company has incurred losses since inception of £1.1m, including a loss for the period of £1.1m. The company had cash and current asset investments of £112.7m as at the year end, having been capitalised with £119.4m of equity investment during the year. This means that, despite the losses to date, the company is in a position to continue to finance and support the overall business objectives. The directors have prepared cash flow projections that support the ability of the company to continue as a going concern.

Dividends

The directors do not recommend the payment of a dividend for the year.

Directors

The following persons served as directors during the year:

- Dawn Austwick  
David Carrington  
Sir Ronald Cohen (Chair)  
John Kingston  
Steve Morrison  
Geoff Mulgan  
Nick O'Donohoe  
Dai Powell  
Lady Susan Rice  
Danielle Walker Palmour

Statement of directors' responsibilities in respect of the Directors' report and the financial statements

The directors are responsible for preparing the Directors' report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

## DIRECTORS' REPORT continued

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

**Directors indemnity**

The company arranges directors' and officers' liability insurance to cover certain liabilities and defence costs.

**Pillar III disclosures**

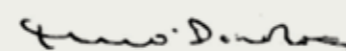
The company makes disclosures on its website – [bigsocietycapital.com](http://bigsocietycapital.com) – setting out the company's capital resources, risk exposures and risk management processes.

**Disclosure of information to auditors**

Each person who was a director at the time this report was approved confirms that:

- so far as the director is aware, there is no relevant audit information of which the company's auditor is unaware; and
- the director has taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the company's auditor is aware of that information.

This report was approved by the board on 15 April 2013 and signed on its behalf by:



**Nick O'Donohoe**  
Director

# INDEPENDENT AUDITOR'S REPORT

to the members of Big Society Capital Limited

We have audited the financial statements of Big Society Capital Limited for the year ended 31 December 2012 set out on pages 42 to 66. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

**Respective responsibilities of directors and auditor**

As explained more fully in the Directors' Responsibilities Statement set out on pages 39 and 40, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

**Scope of the audit of the financial statements**

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at [www.frc.org.uk/auditscopeukprivate](http://www.frc.org.uk/auditscopeukprivate).

**Opinion on financial statements**

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2012 and of its loss for the year then ended;
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

**Opinion on other matter prescribed by the Companies Act 2006**

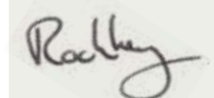
In our opinion the information given in the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

**Matters on which we are required to report by exception**

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

**Lord Rockley**  
Senior Statutory Auditor



**for and on behalf of KPMG Audit Plc,  
Statutory Auditor**

Chartered Accountants  
8 Salisbury Square  
London EC4Y 8BB

15 April 2013

Profit and Loss Account

For the year ended 31 December 2012

	Notes	2012	2011
		£	£
Investment gains and losses	2	685,691	-
Income	3	788,142	190
		<b>1,473,833</b>	<b>190</b>
Other income	4	462,471	1,058,094
Administrative expenses		(3,013,573)	(1,058,094)
<b>(Loss)/profit on ordinary activities before taxation</b>	<b>5</b>	<b>(1,077,269)</b>	<b>190</b>
Tax on (loss)/profit on ordinary activities	8	5,482	(64,022)
<b>Loss for the financial year</b>		<b>(1,071,787)</b>	<b>(63,832)</b>

Continuing operations

All activities relate to continuing operations

The company has no recognised gains or losses other than the loss for the above two financial years

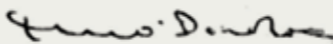
The notes on pages 45-66 form part of these financial statements

Balance Sheet

As at 31 December 2012

	Notes	2012	2011
		£	£
<b>Fixed assets</b>			
Tangible assets	9	146,082	121,719
Investments	10	5,264,835	-
		<b>5,410,917</b>	<b>121,719</b>
<b>Current assets</b>			
Debtors	11	704,134	121,190
Investments	12	76,928,884	-
Cash at bank and in hand		35,821,505	823,983
		<b>113,454,523</b>	<b>945,173</b>
<b>Creditors: amounts falling due within one year</b>	13	(537,896)	(1,023,535)
<b>Net current assets/(liabilities)</b>		<b>112,916,627</b>	<b>(78,362)</b>
<b>Total assets less current liabilities</b>		<b>118,327,544</b>	<b>43,357</b>
<b>Creditors: amounts falling due after more than one year</b>	14	(79,522)	(91,475)
<b>Provisions for liabilities</b>			
Deferred taxation	15	(9,805)	(15,713)
<b>Net assets/(liabilities)</b>		<b>118,238,217</b>	<b>(63,831)</b>
<b>Capital and reserves</b>			
Called up share capital	18	119,373,836	1
Profit and loss account	19	(1,135,619)	(63,832)
<b>Shareholders' funds</b>	<b>20</b>	<b>118,238,217</b>	<b>(63,831)</b>

Approved by the board on 15 April 2013



Nick O'Donohoe  
Director

Cash Flow Statement

For the year ended 31 December 2012

	Notes	2012 £	2011 £
<b>RECONCILIATION OF OPERATING PROFIT TO NET CASH INFLOW FROM OPERATING ACTIVITIES</b>			
(Loss)/ Profit on ordinary activities before taxation		(1,077,269)	190
Depreciation and amortisation		39,135	4,730
Increase in debtors		(582,944)	(121,190)
(Decrease)/increase in creditors		(449,283)	1,066,701
Fair value adjustments on current assets investments		(788,426)	-
Returns on current asset investments		(84,093)	-
Fair value adjustments on fixed asset investment		134,529	-
Returns on fixed asset investments		(9,737)	-
Increase in unamortised deferred commitment fee		19,941	-
Amortised commitment fee released in year		4,813	-
<b>Net cash (outflow)/inflow from operating activities</b>		<b>(2,793,334)</b>	<b>950,431</b>
<b>CASH FLOW STATEMENT</b>			
<b>Net cash (outflow)/inflow from operating activities</b>		(2,793,334)	950,431
<b>Taxation</b>		(48,735)	-
<b>Capital expenditure and financial investments</b>	21	(5,477,879)	(126,449)
		<b>(8,319,948)</b>	<b>823,982</b>
<b>Management of liquid resources</b>	21	(76,056,365)	-
<b>Financing</b>	21	119,373,835	1
<b>Increase in cash</b>		<b>34,997,522</b>	<b>823,983</b>
<b>RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT</b>			
Increase in cash in the period		34,997,522	823,983
<b>Change in net debt</b>		<b>34,997,522</b>	<b>823,983</b>
<b>Net funds at 1 January</b>		823,983	-
<b>Net funds at 31 December</b>		<b>35,821,505</b>	<b>823,983</b>

Notes to the Financial Statements

1 ACCOUNTING POLICIES

For the year ended 31 December 2012

Basis of preparation

The financial statements have been prepared under UK GAAP in accordance with applicable accounting standards. They have been prepared under the historical cost convention, except for financial instruments at fair value through profit or loss, which are measured at fair value.

Use of judgements and estimates

The preparation of the financial statements in conformity with applicable UK GAAP requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an on-going basis.

The most significant area of judgement is the determination of fair values for investments. This is discussed in Note 17 – Valuation of financial instruments.

Going concern

As referred to in the Directors' report, the financial statements have been prepared on the going concern basis. The company has incurred losses since inception of £1,135,619, including a loss for the period of £1,071,787. The company had cash and current asset investments of £112,750,389 as at the year end, having been capitalised with £119,373,836 of equity investment

during the year. This means that, despite the losses to date, the company is in a position to continue to finance and support the overall business objective. The directors have prepared cash flow projections that support the ability of the company to continue as a going concern.

Financial reporting controls

The company's systems of internal control aim to safeguard assets, ensure that proper accounting records are maintained, and ensure that the financial information used in the business and published externally is robust and reliable. The corporate governance report is provided on pages 34 and 35.

Government grants

Government grants received are included within these accounting statements according to the nature of the grant and the terms and conditions contained therein. Grants received which support capital expenditure are credited to the profit and loss account over the expected useful economic life of the related asset, on a basis consistent with the depreciation policy. The revenue-based grants received, which are offset against core expenditure, are recognised in the profit and loss account when such expenditure is incurred.

NOTES TO THE FINANCIAL STATEMENTS continued

Interest

Interest income is recognised either using the effective interest method or on an accruals basis, depending upon whether the financial asset has been designated upon initial recognition into the category 'loans and receivables', or 'fair value through profit or loss'.

The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial instrument to the carrying amount of the financial instrument. When calculating the effective interest rate, the company estimates future cash flows considering all contractual terms of the financial instrument, but not future credit losses.

Net gain from financial assets designated as at fair value through profit or loss

Net gain from financial assets designated as at fair value through profit or loss includes all realised and unrealised fair value changes, but excludes interest income.

Financial assets and financial liabilities

i) Recognition and initial measurement

Financial assets designated as at fair value through profit or loss are recognised initially at fair value, with transaction costs recognised in profit or loss. Financial assets or financial liabilities not at fair value through profit or loss are recognised initially at fair value plus transaction costs that are directly attributable to their acquisition or issue. Investments within the social investment portfolio, in which the company has significant influence are held as part of an investment portfolio, rather than qualifying as associates.

The company recognises financial assets, within the balance sheet, on the date on which investments are closed and a draw down notice has been received by the company. Additionally the company discloses commitments at two distinct stages: commitments contracted but not drawn down and; in principle commitments. Details are set out in Note 23 – Capital commitments.

ii) Classification

The company classifies financial assets and financial liabilities into the following categories:

Financial assets at fair value through profit or loss:

- Designated as at fair value through profit or loss – debt, equity, fund and social impact bond investments

Financial assets at amortised cost:

- Loans and receivables – debt investments, cash at bank and in hand, cash deposits (included in investments held as current assets) and other debtors

Financial liabilities at amortised cost:

- Other liabilities – other creditors

Assets meeting the definition of loans and receivables are classified as financial assets at amortised cost. Otherwise assets are classified as at fair value through the profit or loss. Financial liabilities are classified as at amortised cost.

Note 16 provides a reconciliation of line items in the balance sheet to the categories of financial instruments, as defined by FRS 26.

iii) Amortised cost measurement

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

iv) Fair value measurement

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction on the measurement date.

The company's approach to determining fair value is set out in Note 17.

NOTES TO THE FINANCIAL STATEMENTS continued

v) Impairment

A financial asset not classified at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence of impairment. A financial asset or a group of financial assets is impaired if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset(s), and that loss event(s) had an impact on the estimated future cash flows of that asset(s) that can be estimated reliably.

vi) Offsetting

Financial assets and liabilities are offset and the net amount presented in the balance sheet when, and only when, the company has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted under UK GAAP e.g. for gains and losses arising from a group of similar transactions, such as gains and losses from financial instruments at fair value through profit or loss.

Depreciation

Depreciation is provided on all tangible fixed assets, at rates calculated to write off the cost, less estimated residual value, of each asset evenly over its expected useful life, as follows:

Leasehold land and buildings	over the lease term
Fixtures, fittings and equipment	over 3 years

Deferred taxation

Full provision is made for deferred taxation resulting from timing differences between the recognition of gains and losses in the accounts and their recognition for tax purposes.

Deferred tax is calculated at the tax rates which are expected to apply in the periods when the timing differences will reverse.

Pensions

The company operates a defined contribution pension scheme. Contributions are charged to the profit and loss account as they become payable in accordance with the rules of the scheme.

## 2 INVESTMENT GAINS AND LOSSES

	2012 £	2011 £
Net gain from financial assets designated as at fair value through profit or loss:		
Current asset investments – Treasury portfolio (Note 16)	839,280	-
Fixed asset investments – Social investment portfolio (Note 16)	(153,589)	-
	<b>685,691</b>	<b>-</b>
	£	£
Net gain from financial assets designated as at fair value through profit or loss:		
Realised	4,832	-
Unrealised	680,859	-
	<b>685,691</b>	<b>-</b>

## 3 INCOME

	2012 £	2011 £
Interest income on financial assets carried at amortised cost:		
Cash at bank and in hand	252,504	190
Current asset investments – Treasury portfolio	496,156	-
Fixed asset investments – Social investment portfolio	19,064	-
Interest income on financial assets designated as at fair value through profit or loss:		
Fixed assets investments	15,418	-
Fees	5,000	-
	<b>788,142</b>	<b>190</b>

## 4 OTHER INCOME

	2012 £	2011 £
Government grants received	462,362	1,058,094
Other income	109	-
	<b>462,471</b>	<b>1,058,094</b>

## 5 (LOSS)/ PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

	2012 £	2011 £
This is stated after charging:		
Depreciation of owned tangible fixed assets	39,135	4,730
Auditor's remuneration for audit services	48,000	24,000
Auditor's remuneration for taxation advisory services	27,840	-
Auditor's remuneration for non-audit services	20,169	-

## 6 DIRECTORS' EMOLUMENTS

	2012 £	2011 £
Emoluments	187,605	56,147
Company contributions to money purchase pension schemes	15,400	5,133
	<b>203,005</b>	<b>61,280</b>
Highest paid director:		
Emoluments	142,105	-
Company contributions to money purchase pension schemes	15,400	-
	<b>157,505</b>	<b>-</b>

## NUMBER OF DIRECTORS IN COMPANY PENSION SCHEME

	2012 Number	2011 Number
Money purchase schemes	1	1

## NON EXECUTIVE DIRECTORS

During 2012 the company offered £7,000 (2011: £7,000) per annum for the service of acting as a non-executive director, £3,000 (2011: £3,000) per annum for chairing a board committee and £1,500 (2011: £1,500) per annum for acting as a non-chair member of a committee. A total of £45,500 was paid in the year (2011: £9,480).

## 7

## STAFF COSTS

	2012 £	2011 £
Wages and salaries	1,266,482	171,812
Social security costs	141,263	19,600
Other pension costs	89,280	9,533
	<b>1,497,025</b>	<b>200,945</b>

Other pension costs include £9,167 (2011: £9,533) of outstanding pension contributions as at 31 December 2012.

AVERAGE NUMBER OF  
EMPLOYEES DURING THE YEAR

	2012 Number	2011 Number
Investment	9	-
Senior Management	2	-
Strategy	2	-
Communications	1	-
Operations	4	3
	<b>18</b>	<b>3</b>

A breakdown of the total number of employees, including directors, with annual remuneration of £60,000 or more and employed as at the period end is disclosed in the Remuneration Report on pages 36 and 37.

## 8

## TAXATION

## Analysis of charge in period

Current tax:

UK corporation tax on profits of the period  
Adjustments in respect of previous periods

	2012 £	2011 £
UK corporation tax on profits of the period	-	48,309
Adjustments in respect of previous periods	426	-
	<b>426</b>	<b>48,309</b>

Deferred tax:

Origination and reversal of timing differences

Origination and reversal of timing differences	(5,908)	15,713
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Tax on (loss)/profit on ordinary activities

Tax on (loss)/profit on ordinary activities	<b>(5,482)</b>	<b>64,022</b>
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## Factors affecting tax charge for period

The differences between the tax assessed for the period and the standard rate of corporation tax are explained as follows:

	2012 £	2011 £
(Loss)/profit on ordinary activities before tax	<b>(1,077,269)</b>	<b>190</b>
Standard rate of corporation tax in the UK	24.5%	26.0%
Profit on ordinary activities multiplied by the standard rate of corporation tax	£ (263,931)	£ 49
Effects of:		
Expenses not deductible for tax purposes	24,948	76,869
Capital allowances for period in excess of depreciation	7,908	(18,278)
Pension contributions not paid in the year	(90)	2,479
Adjustment in respect of unrealised fair value movements	37,629	-
Marginal relief	-	(12,810)
Tax loss not recognised as deferred tax asset	193,110	-
Adjustments to tax charge in respect of previous periods	426	-
<b>Current tax charge for period</b>	<b>-</b>	<b>48,309</b>

## Factors that may affect future tax charges

Future tax liabilities will be affected by the fall in the basic rate of corporation tax from 24% to 23% with effect from 1 April 2013.

## 9 TANGIBLE FIXED ASSETS

	Land and buildings £	Fixtures, fittings, and equipment £	Total £
<b>Cost</b>			
At 1 January 2012	89,290	37,159	126,449
Additions	33,867	29,631	63,498
At 31 December 2012	<b>123,157</b>	<b>66,790</b>	<b>189,947</b>
<b>Depreciation</b>			
At 1 January 2012	3,521	1,209	4,730
Charge for the year	20,123	19,012	39,135
At 31 December 2012	<b>23,644</b>	<b>20,221</b>	<b>43,865</b>
<b>Net book value</b>			
At 31 December 2012	<b>99,513</b>	<b>46,569</b>	<b>146,082</b>
At 31 December 2011	<b>85,769</b>	<b>35,950</b>	<b>121,719</b>

## 10 FIXED ASSET INVESTMENTS – SOCIAL INVESTMENT PORTFOLIO

	£
At 1 January 2012	-
Purchases	5,391,700
Disposals/Repayments	(2,073)
Profit and loss – Unrealised	(124,792)
At 31 December 2012	<b>5,264,835</b>

## 11 DEBTORS

	2012 £	2011 £
Other debtors	11,769	29,176
Prepayments	108,695	30,346
Accrued income	522,002	-
Rental deposits	61,668	61,668
	<b>704,134</b>	<b>121,190</b>

## 12 INVESTMENTS HELD AS CURRENT ASSETS

	2012 £	2011 £
Treasury portfolio – Cash deposits	41,729,326	-
Treasury portfolio – Listed debt securities	35,199,558	-
	<b>76,928,884</b>	<b>-</b>

## 13 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2012 £	2011 £
Trade creditors	27,088	243,849
Corporation tax	-	48,309
Other taxes and social security costs	54,313	15,256
Other creditors	156,172	164
Accruals	263,815	237,790
Deferred income	36,508	478,167
	<b>537,896</b>	<b>1,023,535</b>

Deferred income comprises the portion of grant for core costs from the Office for Civil Society, part of the Cabinet Office, which will be offset against depreciation on tangible fixed assets purchased up to 31 March 2012.

14

CREDITORS: AMOUNTS FALLING DUE AFTER ONE YEAR

	2012 £	2011 £
Deferred income	79,522	91,475

Deferred income comprises:

- The portion of grant for core costs from the Office for Civil Society, part of the Cabinet Office, which will be offset against depreciation on tangible fixed assets purchased up to 31 March 2012
- Placement fees received, which become repayable if conditions are met during the term of investment. These will be released to the profit and loss account at the end of the investment term, if the conditions for repayment are not met.

15

DEFERRED TAXATION

	2012 £	2011 £
Accelerated capital allowances	9,805	18,120
Tax losses carried forward	(193,110)	-
Tax losses not recognised as deferred tax asset	193,110	-
Pension contributions not paid in the year	-	(2,407)
Undiscounted provision for deferred tax	9,805	15,713

	2012 £	2011 £
At 1 January	15,713	-
Deferred tax charge in profit and loss account	(5,908)	15,713
At 31 December	9,805	15,713

16

FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

Introduction

The board is responsible for overall corporate governance, which includes ensuring that there are adequate systems of risk management. The systems and processes aim to identify, measure and report risks. Risk is controlled through a system of procedures, checks, reports and responsibilities. The Audit and Risk Committee examines management processes and other arrangements to ensure the appropriateness and effectiveness of systems and controls, including risk management.

The company is a 'social investment wholesaler' which provides finance to Social Investment Finance Intermediaries (SIFIs). These are organisations that provide finance and support to frontline charities, social enterprises and voluntary organisations (the social sector). The company's objectives are:

1. To have a transformative impact on the social investment market in the UK by investing in and supporting SIFIs to become financially robust and able to: attract greater and more diverse sources of investment; effectively and efficiently channel appropriate and affordable capital to the social sector; and provide effective financial and business support services to the social sector organisations.
2. To increase awareness of and confidence in social investment by: promoting best practice and sharing information; improving links between the social investment and mainstream financial markets; working with other investors to embed social impact assessment into the investment decision-making process.

Therefore financial instruments are highly significant to the company's financial position and performance.

The company's investment portfolio comprises a social investment portfolio and a treasury portfolio. The social investment portfolio comprises unlisted equity investments, loans, investments in unlisted funds and investments in social impact bonds. These investments are made to meet the company's objectives outlined above. The treasury portfolio comprises bank and building society cash deposits and listed debt securities, and represents capital held before it is drawn down into social investment.

All social investments are approved by the Investment Committee (which has been delegated authority by the board to operate within set parameters). The treasury portfolio is managed in accordance with the company's treasury policy, as approved by the board.

FINANCIAL MANAGEMENT  
AND FINANCIAL INSTRUMENTS  
continued

## CATEGORIES OF FINANCIAL INSTRUMENT

At 31 December the company had financial instruments at the carrying values below:

### 2012

	Financial assets at fair value through profit or loss	Loans and receivables	Liabilities at amortised cost	Non financial instruments	Total
	£	£	£	£	£
<b>Assets</b>					
Tangible assets	-	-	-	146,082	146,082
Investments	3,284,125	1,980,710	-	-	5,264,835
Debtors	-	595,439	-	108,695	704,134
Investments held as current assets	35,199,558	41,729,326	-	-	76,928,884
Cash at bank and in hand	-	35,821,505	-	-	35,821,505
<b>Liabilities</b>					
Creditors: amounts falling due within one year	-	-	(537,896)	-	(537,896)
Creditors: amounts falling due after more than one year	-	-	(79,522)	-	(79,522)
Deferred taxation	-	-	-	(9,805)	(9,805)
	<b>38,483,683</b>	<b>80,126,980</b>	<b>(617,418)</b>	<b>244,972</b>	<b>118,238,217</b>

### 2011

	Financial assets at fair value through profit or loss	Loans and receivables	Liabilities at amortised cost	Non financial instruments	Total
	£	£	£	£	£
<b>Assets</b>					
Tangible assets	-	-	-	121,719	121,719
Debtors	-	90,844	-	30,346	121,190
Investments held as current assets	-	-	-	-	-
Cash at bank and in hand	-	823,983	-	-	823,983
<b>Liabilities</b>					
Creditors: amounts falling due within one year	-	-	(1,023,535)	-	(1,023,535)
Creditors: amounts falling due after more than one year	-	-	(91,475)	-	(91,475)
Deferred taxation	-	-	-	(15,713)	(15,713)
	<b>-</b>	<b>914,827</b>	<b>(1,115,010)</b>	<b>136,352</b>	<b>(63,831)</b>

FINANCIAL MANAGEMENT  
AND FINANCIAL INSTRUMENTS  
continued

Gains and losses recognised in the profit and loss account during the period to 31 December by category are shown below:

### 2012

	Financial assets at fair value through profit or loss	Loans and receivables	Other income and expense	Total
	£	£	£	£
Investments gains and losses	685,691	-	-	685,691
Income	15,418	767,724	5,000	788,142
Other income	-	-	462,471	462,471
Administrative expenses	(77,218)	(22,304)	(2,914,051)	(3,013,573)
Tax on profit on ordinary activities	-	-	5,482	5,482
	<b>623,891</b>	<b>745,420</b>	<b>(2,441,098)</b>	<b>(1,071,787)</b>

### 2011

	Financial assets at fair value through profit or loss	Loans and receivables	Other income and expense	Total
	£	£	£	£
Income	-	190	-	190
Other income	-	-	1,058,094	1,058,094
Administrative expenses	-	(67)	(1,058,027)	(1,058,094)
Tax on profit on ordinary activities	-	-	(64,022)	(64,022)
	<b>-</b>	<b>123</b>	<b>(63,955)</b>	<b>(63,832)</b>

FINANCIAL MANAGEMENT  
AND FINANCIAL INSTRUMENTS  
continued

CREDIT RISK

Credit risk is the risk of financial loss from a counterparty's failure to settle financial obligations as they fall due. The company is exposed to credit risk principally from debt securities held, loans and receivables and cash deposits.

Loans included in fixed asset investments are social investments. Debt securities, showing as current asset investments are held within the treasury portfolio. Cash deposits are either held for operational purposes or as part of the treasury portfolio. Cash deposits that can be withdrawn at any time without notice and without penalty or that have a maturity or period of notice of not more than 24 hours or one working day are shown as cash at bank and in hand, all other deposits with a maturity of up to 1 year are shown as investments held as current assets.

Within the treasury portfolio the company has set a maximum exposure limit for each counterparty. The treasury policy seeks to minimise the exposure to counterparties with perceived higher risk of default by specifying an average credit rating for the portfolio. The treasury portfolio is managed externally and counterparty exposure limits and average credit rating are monitored by the external manager. The company receives monthly treasury reports.

The company's maximum credit risk exposure at the balance sheet date is represented by the respective carrying amounts of the relevant financial assets in the balance sheet, with the exception of social investment loans, held as 'loans and receivables', for which the carrying value and the credit exposure are shown below. The carrying value includes adjustments to the amortised cost that do not represent a reduction in credit risk.

FINANCIAL MANAGEMENT  
AND FINANCIAL INSTRUMENTS  
continued

Credit risk exposure as at the balance sheet date comprises:

Credit risk exposure	2012 £	2011 £
Fixed asset investments*	5,284,774	-
Other debtors	11,769	29,176
Accrued interest	522,002	-
Rental deposit	61,668	61,668
Cash deposits – Investments held as current assets	41,729,326	-
Listed debt securities	35,199,558	-
Cash deposits – Cash at bank and in hand	35,821,505	823,983
Maximum exposure to credit risk as the balance sheet date	118,630,602	914,827

* Included within fixed asset investments	Credit risk exposure £	Carrying value £
Loans	876,291	856,351
	876,291	856,351

As at the year end cash at bank and in hand and investments held as current investments were held at institutions rated as follows by Moody's:

	Rating	2012 £	2011 £
Listed debt securities (average portfolio rating)	A2	35,199,558	-
Cash deposits – Investments held as current assets	A2	23,302,954	-
Cash deposits – Investments held as current assets	A3	18,426,372	-
Cash deposits – Cash at bank and in hand	Aa3	701,195	823,983
Cash deposits – Cash at bank and in hand	A2	23,981,068	-
Cash deposits – Cash at bank and in hand	A3	11,139,242	-
		112,750,389	823,983

LIQUIDITY RISK

Liquidity risk is the risk that cash may not be available to pay obligations when due at a reasonable cost. The company's policy is to ensure it has sufficient funds to fulfil liabilities as they fall due, including investment commitments approved by the Investment Committee.

The company's financial assets include loans, unlisted equity investments, investments in unlisted funds and investments in social investment bonds, which are generally illiquid.

The company's investments in listed debt securities are considered to be readily realisable as they are actively traded. All cash deposits held as current assets have a maturity of less than 12 months.

The company's overall liquidity is monitored on a daily basis. The company expects to receive quarterly capital inflows to meet its social investment commitments and other obligations.

2012	Carrying amount £	Contractual cash flows £	6 months or less £	6 to 12 months £
Creditors: amounts falling due within one year	481,383	481,383	481,383	-
Creditors: amounts falling due after one year	-	-	-	-
	481,383	481,383	481,383	-

2011	Carrying amount £	Contractual cash flows £	6 months or less £	6 to 12 months £
Creditors: amounts falling due within one year	545,368	545,368	497,059	48,309
Creditors: amounts falling due after one year	-	-	-	-
	545,368	545,368	497,059	48,309

MARKET RISK

Market risk is the risk that changes in market prices, such as interest rates and credit spreads (not relating to changes in the issuers credit standing) will affect the company's income or the fair value of its holdings of financial instruments.

The company has interest rate exposure. The company currently has £112.8m in cash or current asset investments, that earn interest at a variety of rates. Any reduction in interest rates will reduce the interest income on these deposits. A reduction of interest rates by 1% would therefore result in a reduction in returns of £1.1m.

REGULATORY RISK

The company was authorised and regulated by the FSA during 2012. From 1 April 2013 the company is regulated by the Financial Conduct Authority (FCA). It is required to regularly assess the amount of capital needed for operations and will hold liquid capital in excess of this amount.

The company has, at all times during the period under regulatory supervision, held sufficient capital to meet its regulatory capital requirement.

17  
VALUATION OF  
FINANCIAL INSTRUMENTS

The determination of fair value for financial assets and liabilities for which there is no observable market price requires the use of valuation techniques as described in Note 1 – Accounting policies, financial assets and liabilities, iv) Fair value measurement.

The company uses a three-level hierarchy for fair value measurement disclosure, as follows:

- Level 1. Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2. Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3. Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

In determining a fair value using Level 3 valuation techniques, the company applies the principles included in the 'International Private Equity and Venture Capital Valuation Guidelines':

Where an investment has been made recently, a more accurate valuation is not available and there is no evidence to suggest that the unadjusted Price of Recent Investment is no longer relevant, the company will apply the Price of Recent Investment. Where it is felt that there has been a change to the milestones or benchmark then the company will use the Price of Recent Investment adjusted to reflect milestone/ benchmark analysis.

Where appropriate Earnings (or other) Multiples are available for comparable business, the company will apply Multiples valuation techniques to derive a value for the investment.

Where a regular Net Asset Valuation is available for the investment, the company will assess this for reasonableness and consider whether the investment can be valued on the basis of the underlying Fair Value of its assets, rather than its earnings. If this is considered appropriate the company will apply the Adjusted Net Asset Valuation method.

If future cash flows can be reasonably estimated, and it is felt that the risks, due to the high level of subjectivity, involved in applying the Discounted Cash Flow method do not render the method insufficiently reliable, this will be applied.

If industry benchmarks can be applied to the investment to derive a fair value, these will be applied.

The company may decide to use a combination of the mentioned methods, or other methods that are considered more appropriate to derive the fair value of its investments.

Given that all investments have been made recently, the company has used Price of Recent Investment, unless a more accurate valuation is available. The company has considered whether there is any evidence to indicate that the Price of Recent Investment is no longer relevant, where this is the case a fair value adjustment has been made.

## VALUATION OF FINANCIAL INSTRUMENTS continued

The fair value hierarchy of financial assets and liabilities as at 31 December 2012 can be analysed as follows:

<b>31 December 2012</b>	Level 1 £	Level 2 £	Level 3 £	Total £
Financial assets held at fair value:				
Fixed assets – investments	-	-	3,284,125	3,284,125
Investments held as current assets	35,199,558	-	-	35,199,558
	<b>35,199,558</b>	<b>-</b>	<b>3,284,125</b>	<b>38,483,683</b>

**Level 3 financial assets held at fair value**

	Financial assets held at fair value through profit or loss £
<b>At 1 January 2012</b>	<b>-</b>
Purchases	3,418,654
Sales	-
Total investment returns recognised in profit or loss	(134,529)
<b>At 31 December 2012</b>	<b>3,284,125</b>

Total investment returns included in profit or loss relating to assets held at the end of the reporting period:	<b>(134,529)</b>
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18  
SHARE CAPITAL

	Nominal value	2012 Number	2012 £	2011 £
Allotted, called up and fully paid:				
Ordinary shares	£1 each	-	-	1
Ordinary A shares	£1 each	71,696,000	71,696,000	-
Ordinary B shares	£1 each	47,677,836	47,677,836	-
		<b>119,373,836</b>		<b>1</b>

	Nominal value	Number	Amount £
Shares issued during the period:			
Ordinary A shares	£1 each	71,696,000	71,696,000
Ordinary B shares	£1 each	47,677,836	47,677,836
		<b>119,373,836</b>	

Shares were issued in order to provide capital to the company to enable it to fulfil its objectives, outlined in the Directors' report. Ordinary A shares have a minimum of 80% of voting rights attached to them.

19  
PROFIT AND LOSS ACCOUNT

	2012 £	2011 £
At 1 January	(63,832)	-
Loss for the financial year	(1,071,787)	(63,832)
<b>At 31 December</b>	<b>(1,135,619)</b>	<b>(63,832)</b>

20  
RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS

	2012 £	2011 £
At 1 January	(63,831)	-
Loss for the financial year	(1,071,787)	(63,832)
Shares issued	119,373,836	1
Shares redeemed	(1)	-
<b>At 31 December</b>	<b>118,238,217</b>	<b>(63,831)</b>

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## GROSS CASH FLOWS

	2012 £	2011 £
<b>Capital expenditure</b>		
Payments to acquire tangible fixed assets	(63,498)	(126,449)
Payments to acquire investments	(5,416,454)	-
Receipts from sales of investments	2,073	-
	<b>(5,477,879)</b>	<b>(126,449)</b>
<b>Management of liquid resources</b>		
Purchase of current asset investments	(105,203,689)	-
Sale of current asset investments	29,147,324	-
	<b>(76,056,365)</b>	<b>-</b>
<b>Financing</b>		
Issue of share capital	119,373,836	1
Redemption of share capital	(1)	-
	<b>119,373,835</b>	<b>1</b>

## 22

## POST BALANCE SHEET EVENTS

Since the year end, as described in the Directors' report, the company has received further capital; from the Big Society Trust, to the value of £8.6m, on 25 January 2013, and from the banks, to the value of £5.7m, on 18 February 2013. This resulted in the issue of £8.6m of 'A' Shares to the Big Society Trust at par and £5.7m of 'B' shares to the banks at par. Each of the banks (Barclays Funds Investments Ltd, HSBC Bank plc. The Royal Bank of Scotland plc., Uberior Investments Ltd,) received £1.4m of 'B' shares.

Since the year end, the company has: paid investee draw downs of a further £0.9m; signed one further investment with a value of £10m (included in the £37.3m of in principle commitments detailed in Note 23); and approved one further in principle commitment with a value of £5m (stage 3 of the investment process described in Note 23).

## 23

## CAPITAL COMMITMENTS

The company recognises investments and potential investments at three distinct stages of the investment process:

1. Investments signed and drawn down – legal agreements are completed and signed and funds (in total or partial) have been drawn down. The amounts drawn down are recognised as financial assets in the balance sheet, and the balance of the commitment is disclosed below.
2. Investments signed, commitment undrawn – legal agreements are completed and signed and funds (in total or partial) have not been drawn down. These are not recognised within the balance sheet, but are disclosed below.
3. In principle commitments – the commitment has been approved in principle by the company's Investment Committee, legal agreements and deal terms are in the process of being prepared. These are not recognised within the balance sheet, but are disclosed below.

As at 31 December, there were capital commitments, in respect of investments signed, commitment undrawn of:

	2012 £	2011 £
Commitments contracted but not drawn down and not provided in the accounts	<b>13,933,547</b>	-

As at 31 December, there were in principle commitments of:

	2012 £	2011 £
In principle commitments (approved by the Investment Committee, subject to legal approval)	<b>37,250,000</b>	-

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## OTHER FINANCIAL COMMITMENTS

At the year end the company had annual commitments under non-cancellable operating leases as set out below:

	Land and buildings 2012 £	Land and buildings 2011 £
Operating leases which expire: within two to five years	<b>80,410</b>	<b>80,410</b>

25  
RELATED PARTY TRANSACTIONS

During the period the Big Society Trust, being the parent company, purchased £71.7m (31 December 2011: £1 Ordinary Share) of £1 Ordinary A shares in Big Society Capital Limited, as detailed in Note 18 – Share capital. The original £1 Ordinary share held by the Big Society Trust was cancelled during the year.

Directors’ emoluments are disclosed in Note 6 – Directors’ emoluments, and senior management remuneration is included in Note 7 – Staff costs.

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ULTIMATE CONTROLLING PARTY

The directors consider that the immediate parent undertaking and the ultimate controlling party of this company is the Big Society Trust, a company incorporated in the UK and limited by guarantee.

The consolidated financial statements of the group are available to the public and may be obtained from Companies House.

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Big Society Capital Limited is registered in England and Wales at Companies House number 07599565

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Big Society Capital is authorised and regulated by the Financial Conduct Authority



[www.bigsocietycapital.com/annualreport](http://www.bigsocietycapital.com/annualreport)