Big Society Capital
Response to MHCLG green paper, *A New Deal for Social Housing* *November 2018*

Executive Summary

Big Society Capital's purpose is to improve the lives of people in the UK by connecting social investment to charities and social enterprises. Housing is an area of strategic focus for us, with the goal of creating a fairer housing market where people, particularly vulnerable people, are able to live in secure and affordable homes and communities.

We were therefore very pleased to see the social housing green paper's recognition of the role of social investment in boosting the supply of social housing to date. Social investment is already contributing to the solution by partnering with housing associations, developing new financial instruments to connect more capital to the sector and supporting specialist and smaller housing providers.

Social investment into housing is continuing to grow, with £400 million in dedicated property impact funds currently[1], and our ambition is for this to become an investment sector which attracts billions of pounds of risk capital into social and affordable housing each year.

With government's support, we believe socially motivated capital can achieve more and in our consultation response we have identified two key areas: designing grants and guarantees around social outcomes and improving standards of social impact management.

In our view, delivering the homes the UK needs will require new partnerships and a diversity of solutions. As an investor driven by social purpose, we want to be part of those solutions. We would therefore be delighted to engage further with you on these recommendations.

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Background

Big Society Capital's purpose is to improve the lives of people in the UK by connecting social investment to charities and social enterprises. With our co-investors, we have made over £1.3 billion of new capital available to organisations with a social mission. These co-investors include mission-oriented investors such as trusts and foundations, as well as government, individuals and institutional investors.

As the Social Housing Green Paper rightly highlights, housing is a serious and growing challenge. Existing market models are not delivering the best outcomes, especially for vulnerable people. Leading homelessness organisations have identified that there is a need for a substantial increase in the number of socially rented homes that are genuinely affordable to people on low incomes and

[1] Source: Big Society Capital investment numbers and data on the Size of the Social Investment Market. www.bigsocietycapital.com

that social housing often forms an important part of preventing and relieving homelessness[2]. It is therefore vital that all resources are brought to bear on the challenges in front of us – including that of investors. And we believe the greatest chance to contribute to solutions comes when both investors and enterprises are motivated by social mission.

Housing is therefore an area of strategic focus for Big Society Capital. Our vision is a fairer housing market where many people, and especially people who are more vulnerable, are able to live in safe, secure and affordable homes. Social investment can contribute to this by connecting socially motivated capital to those housing solutions that deliver better outcomes for people and communities.

We were very pleased to see the Social Housing Green Paper's recognition of the role of social investment in boosting the supply of social housing. This acknowledges the role that impact-led capital has played to date in:

- **partnering** with ethical developers, such as housing associations and local authorities, to enable them to develop housing that is designed around the needs of their local communities. For example, United Communities' award-winning scheme in Southmead, Bristol, which raised investment from Cheyne Capital's social impact property fund and was able to provide a range of tenures and 70% of the homes at sub market rents.
- **developing** new financial instruments that better serve the needs of socially motivated housing providers and the people they house and support. These include social property funds such as Cheyne Capital and Resonance's Real Lettings Fund which provide off-balance sheet finance to housing associations and local authorities, thereby boosting their capacity to deliver more homes to people on low incomes or at risk of homelessness, as well as helping to alleviate the costs of temporary accommodation. They also include charity bonds such as Hightown Housing Association's £31.5 million raise to support their development programme of 1,000 homes in the next 2 years.
- **capitalising** specialist business models that meet the needs of some of the most vulnerable people in society, helping them to live safe and fulfilling lives. Some of these organisations sit within the regulated housing sector, others are performing a vital function by supplementing those services for people most in need. For example, models such as Homes for Good, The Ethical Lettings Agency and Real Lettings will unlock around 1,000 homes for temporary or move-on accommodation using social investment from investors such as Impact Ventures UK, Bridges Fund Management, Resonance and Charity Bank.
- **supporting growth** of smaller housing providers, including community-led housing organisations such as Giroscope in Hull who have taken two loans from Social and Sustainable Capital in order to bring empty homes back into use. These organisations do not just provide homes to people who struggle to access them elsewhere, but also empower and revitalize communities that are often in disadvantaged places.

Future opportunities

We also believe that there is considerable further potential to grow this segment of the market. This growth is already underway: there is currently over £400 million capital available in dedicated property impact funds compared to £30 million 5 years ago (the majority of which was provided by

[2] Source: Research undertaken by Heriot Watt University for Crisis estimates a need for 90,000 more social homes each year. Source: Crisis Plan to End Homelessness

BSC and co-investors). Furthermore, over £1 billion has been raised by social Real Estate Investment Trusts in the last 2 years in addition to the entrance of substantial players as for-profit housing associations. Although some of these recent entrants do not have an explicit social purpose, they do indicate that investors are becoming more comfortable with the provision of equity investment into social housing. We also see appetite from investment managers to develop new impact products that could attract up £2 – 3 billion of capital into housing in the next 5 years.

This growth is driven by a number of factors, with the rising awareness of the need for new solutions within housing coinciding with an increasing number of mainstream investors seeking to enter impact investing through a well understood asset class, and a greater appetite for social innovation within the housing sector. In the future, we see opportunities for social investment to contribute to solutions by:

- promoting innovation within the social housing sector, through continued partnerships between social investors and housing associations. This was evidenced by the recent NHF Greenhouse initiative, Creating Our Future, where BSC was an investment partner for the year long programme. Some of the ideas emerging have the potential to transform not just how the housing association sector delivers new homes, but also their impact on lives and communities[3].
- tackling homelessness and providing homes for the most vulnerable people: attracting capital at scale to models that provide better homes for people facing or at risk of homelessness, and people with higher care and support needs. These include working in partnership with the providers of the Housing First pilots in order to ensure they are able to access sufficient homes.
- supporting ethical and innovative development models, that seek to optimise the number of high quality homes they deliver at genuinely affordable levels, while delivering an appropriate rate of return to investors (such as ethical build to rent, modular build and shared ownership alternatives).
- making the private rented sector work better for people on lower incomes: social investment is providing new sources of capital for genuinely affordable and secure build to rent developments, and to test and implement alternative rent-setting models. This is often in partnership with housing associations, thereby enabling them to generate an additional income while living up to their social mission.

This is important because some of the distinct characteristics and behaviours of impact-led capital, can lead to:

- Greater appetite for innovative and systemic approaches to change
- Stronger mission-aligned partnerships between investors and investees
- Willingness to share knowledge for replication and "what works"

And a housing system founded on alignment between the interests of providers, investors, government and, most importantly, people should be more responsive to tenants' evolving needs and be more sustainable and resilient. Therefore, our ambition is for this to become an investment sector which attracts billions of pounds of 'risk capital' into social and affordable housing each year. This is in addition to an expanding amount of debt finance currently provided by social investors through social banks such as Charity Bank, Unity Trust Bank and Triodos, or through Charity Bonds (the market for which has grown ten-fold since 2014, to £334m issuance). By connecting these financial tools and sources of capital with the most impactful business models in housing, we believe we can achieve better outcomes for people and communities.

[3] An example of this is the Just One shared ownership idea, which would enable customers to own a home with a minimum share purchase of 1%. For more details, please see the National Housing Federation.

Recommendations

To fully realise this potential, government can assist by:

1) **Designing grants and guarantees around the social outcomes achieved:** this can be achieved in a number of ways, both of which are being employed by social investors:
   - Structuring grant programmes so grant can be efficiently “blended” with social investment capital. This enables grant to be efficiently targeted to where it is needed to achieve the desired social outcomes including a greater number of homes. For example, the recently launched Move On Fund could be used to ‘top up’ social investment funds so that they are able to provide move on accommodation in places where local housing allowance is too low relative to house prices to make an investment solution viable. This would help the Fund to achieve its objectives and leverage in external sources of funding.
   - Grant making organisations such as Power to Change and the Big Lottery Fund have been leading the way in blending grants with repayable finance for social enterprises and charities (for example, the Giroscope investment mentioned above), and government can learn from their approach to date.
   - Continuing to provide outcomes funds for homelessness and other housing-related issues, which can be financed through a growing market for social impact bonds.

   Guarantees are also a well established tool for addressing disconnections in returns or risk that prevent private capital from serving a market well, but are less well-used in the UK social investment market. However, there are currently areas of the market where investors and investees are not yet aligned in their risk and return requirements. This is particularly the case in the provision of housing to more vulnerable people, where providers and therefore investors are reliant on multiple, uncertain revenue sources for housing, support and care costs. Although these gaps may close over time, guarantees could potentially be an efficient mechanism for accelerating the flow of substantial amounts of socially motivated capital into housing.

2) **Endorsing improving standards of social impact management, alongside regulation**: We believe there is an opportunity and a need to create enhanced common standards of impact measurement across housing. These standards and metrics should be developed by investors and providers, but would ideally sit alongside and complement regulatory approaches to improving standards and tenant satisfaction.

   For an investor seeking to allocate their capital to impact, it is currently difficult to discriminate between housing investments on the basis of impact – with few shared standards, benchmarks or tools for investors to measure performance or make comparisons. Conversely, if there is an agreed basis for assessing and comparing impact by investors, this could create additional incentives for participants in the affordable housing sector (such as developers, HAs, landowners, investors) to optimise social impact throughout the value chain of their activities.

   As an example of how this can work, BSC considers and makes investments into housing funds which assess prospective housing investments against a range of social impact factors. In addition to providing homes that meet the minimum standards, these factors also consider wider outcomes such as who will live in them, whether the home meets their needs in terms of affordability, safety and security of tenure and how their lives will be affected by living there. Investments may also actively seek to make a positive impact on the neighbourhood or broader market.