

TRANSPARENCY- NEXT STEPS

ABOUT BIG SOCIETY CAPITAL'S TRANSPARENCY CONVERSATION

Earlier in 2015, Big Society Capital began a review to ensure we are being as transparent as possible as an organisation as well as encouraging wider transparency in the social investment market. Our objectives for this review were threefold. We wanted to:

- Increase availability of information to support charities and social enterprises who are considering accessing finance, fund managers who are currently providing finance and institutions who are looking to invest in the market.
- Improve understanding of Big Society Capital as an institution.
- Ensure the public and other stakeholders can hold BSC to account for its activities and results.

We looked at best practice in transparency across comparable organisations and matched up with what Big Society Capital currently does across three of our roles: as an investor, as a market champion and as a corporate. As a result, we developed 11 proposals to improve our transparency. These ranged from publication of further information on investments made by the fund managers BSC invests in to holding an annual board meeting open to all members of the public. We published these proposals and invited feedback through an [Open Conversation on Transparency](#) that started in July 2015 and ran for 6 weeks. We wanted to ensure our proposals were achievable and would not unintentionally lead to misinformation, as well as gather suggestions for other areas we could be more transparent in.

We received 12 responses through our website and discussed our proposals in greater detail with ten of our fund manager investees, given the likely impact on their operations. Additionally, to better understand the data infrastructure needed to take the deal level proposal forward, we convened a small roundtable of experts. We are very grateful for the input of everyone involved.

FEEDBACK AND EMERGING THEMES

We did not receive any significant objections to any of the proposals so over the next year we will be implementing all of them. Publication of data on investments into charities and social enterprises was consistently considered the most important of the 11 proposals by stakeholders. This emphasis was shared by the fund managers, although some concerns were raised around client confidentiality and commercial sensitivities.

We also reviewed a number of additional suggestions, beyond our original 11 proposals, made by stakeholders. These included further detail on our operational costs and scoping ways to integrate customer service surveys into our processes.

The feedback we received and the discussions that followed brought out a number of themes in considering transparency in social investment:

- The importance of clarity on the audience for the range of proposals and ensuring we are not promoting “transparency for transparency’s sake”. There is a significant cost to transparency that will inevitably be borne by charities and social enterprises as well as fund managers and Big Society Capital.
- When considering publication of data, there are risks of misinterpretation given limited information and lack of reporting standards associated with a market at the earlier stages of growth. Where the

limitations of data validity would reduce understanding rather than improve it, BSC plans to take a longer term approach in making the data available.

- Similarly, the importance of taking into account the early stages of the market and ensuring our efforts to increase transparency are not going against our role as a market champion. For example setting standards for reporting too early on would stifle innovation and flexibility associated with bottom up standard development. Or sharing the failures of existing programmes and organisations too soon would detract from their ability to adapt and make changes to improve performance.
- The difference between availability of raw information and the tools to interpret it. There is a need for both in the market but different organisations might need to play different roles in facilitating the two.
- The need to start somewhere and develop iterations as we continue to learn as an organisation and as a sector more broadly.

DETAILED PLANS FOR PROPOSALS WE SET OUT

Below is a summary of feedback on each proposal we set out and Big Society Capital’s plans on taking them forward:

Original proposal	Feedback from stakeholders	Action agreed	Timing
<p>Proposal 1 – Publication of data on investments into charities and social enterprises made by fund managers</p>	<ul style="list-style-type: none"> - Highlighted as most important of the proposals. - Encouragement to “start somewhere” rather than aiming to develop an exhaustive database from the start. - Interest from charities and social enterprises on understanding the terms of the transactions in the market. - Challenge for fund managers to express data on terms without a high number of additional data fields that are unlikely to be comparable. 	<p>In Q4 2015 we will work with our investees to publish data on the majority of the investments made into social enterprises and charities. The data fields will include outcome area, target beneficiary group(s), geography(s) of target beneficiary, total commitment amount, legal form of investee, type of investment, duration of investment and purpose of investment.</p> <p>From 2016, we will begin updating this database on a bi-annual basis.</p> <p>For existing deals we will not be including information on price as we have not collected this to date in a comparable format.</p> <p>We would like to move forward to greater disclosure and will be taking steps to do so. However we recognise there are (1) barriers around commercial sensitivity associated with the data and (2) challenges of capturing the value brought by social investors solely in deal terms.</p> <p>Going forward, we will collect pricing information from fund managers and depending on the quality of the data received, share key insights on pricing trends and drivers to provide greater clarity to charities and social enterprises looking to raise investment.</p>	<p>Q4 2015 and on a biannual basis going forward</p>

<p>Proposal 2 – Shifting to the default of publishing one page summaries of the characteristics and rationale (the “what” and the “why”) of each investment Big Society Capital makes as soon as it is made.</p>	<ul style="list-style-type: none"> - Positive feedback on Big Society Capital’s plans to publish further information on each of its deals. - In the longer term, there was encouragement for fund managers to make the information available independently and on their own website without BSC’s involvement. - Important to capture information on individuals involved in decision making at fund managers (with clear guidance around data protection). 	<p>From now on, we will publish a one page summary of each new SIFI investment we make outlining information on the investment as well as Big Society Capital’s rationale for making the investment.</p> <p>We will aim to include information on co lenders, total amount of investment, target fund size, investment period, composition of the Investment Committee and investment policy including details on the size, duration and terms of investments the fund intends to make.</p>	<p>Commencing Q4 2015</p>
<p>Proposal 3 – Publication of Big Society Capital’s portfolio breakdown across geography and sector on a bi-annual basis</p>	<p>No specific feedback on the proposal</p>	<p>Big Society Capital will proceed with bi-annual publications of its portfolio broken down by outcome area, strategy strand as per BSC’s strategy and geographical focus.</p> <p>In October 2015, Big Society Capital published the first half figures for 2015 including data on commitments and drawdown. These can be found http://www.bigsocietycapital.com/blog/first-half-figures-2015</p>	<p>Q4 2015</p>
<p>Proposal 4 – Improving dialogue on how we consider social and financial return</p>	<p>Responses highlighted the importance of sharing our early thinking on tradeoffs between social and financial returns.</p>	<p>As our thinking on these tradeoffs is best represented in each investment, we will include this thinking in the one page summaries being published as part of Proposal 2.</p>	
<p>Proposal 5 – Publication of an abridged version of our internal investment manual</p>	<p>There were several assertions for the need to do this.</p>	<p>We will be publishing the abridged version of our investment manual summarising how we identify, do due diligence, structure and draft legal documentation for transactions, and monitor our investments.</p>	<p>Q1 2016</p>
<p>Proposal 6 & 7 – Development of tools to encourage transparency and lead by example</p>	<p>Stakeholders agreed this was key to increasing transparency in the sector but encouraged us to undertake any activities jointly and in collaboration.</p>	<p>We are working with the Social Investment Forum to develop a transparency charter for fund managers and other social investors to take part in.</p>	<p>By 2016</p>
<p>Proposal 8 – Publication of market</p>	<p>There was broad agreement on the benefits of Big Society Capital sharing this information.</p>	<p>We will publish a list of all projects BSC undertakes to fulfil its role as a market champion and grow the social investment</p>	<p>Q4 2015</p>

championing projects		market. We will also publish additional materials we use in identifying and discussing with partners potential opportunities for social investment.	
Proposal 9 – Publication of a summary of key governing principles and constraints derived from Big Society Capital’s governing documents	There were several requests for greater clarity on governance documents (details of the agreement Big Society Capital has with the four high street banks, mechanism of dormant bank account money being granted to Big Society Capital)	We will publish a summary of the design parameters that guide our decisions and the governance documents these originated from.	Q1 2016
Proposal 10 – Holding a town hall meeting with Big Society Capital board members	Broad agreement	We will proceed as described. On an annual basis, we will provide an opportunity for stakeholders and members of the public to meet our board and discuss with them our strategy and activities as part of our extended AGM.	Q2 2016
Proposal 11 – Development of a signposted annual report	We had positive feedback in our annual report.	Proceed as described.	Q1 2016

ADDITIONAL PROPOSALS WE RECEIVED

As part of the transparency “conversation” we asked stakeholders to come up with other ideas for Big Society Capital to improve its transparency. The input has been very valuable and we will be taking many of the suggestions forward as per the table below. For some of the suggestions, Big Society Capital does not currently have the information in the proposed format but will be looking to develop this over the longer term.

Proposal	Proposed Big Society Capital response
Operational costs	
Publish a detailed P&L account with a description of costs	Big Society Capital will include more detailed information on its operational costs alongside the publication of its next Annual Report.
Publish benchmarks of admin expenses against business performance	As above
Publish top/bottom salary ratios and further explanation of salary benchmarking	Big Society Capital will provide further information on salary ratios and the process it goes through in benchmarking those salaries alongside the publication of its Annual report. In its first three annual reports, Big Society Capital published

	information on all employees with annual remuneration above £60,000. Our annual report is at www.bigsocietycapital.com/annualreport .
Publish Big Society Capital's procurement and supplier policy	Big Society Capital will include its procurement and supplier policy in the FAQ section of its website.
Highlight the amount of money Big Society Capital spends with social sector organisations	In 2014 we increased the number of social enterprises in our supply chain in a range of areas from electrical safety testing and stationery purchasing to design agencies. We hope to continue this trend, working with more socially motivated organisations throughout our operation and would welcome charities and social enterprises that come forward to become our suppliers.
Publish explanation for incurring higher costs to boost drawdown and market growth. E.G. what is the rationale for Big Society Capital increasing number of staff?	Big Society Capital has been set up to operate on a sustainable basis and cover its costs through the income it generates. The majority of the costs we incur are to (1) cover our investment activity and to (2) undertake work to grow the social investment market, to be outlined in greater detail alongside the publication of our market championing projects as per Proposal 8. The decisions to incur these costs are always considered within the framework of a sustainable operating model.
Big Society Capital legal processes	
Publish Big Society Capital's strategy for reducing legal costs across the sector and streamlining processes	In 2016 the legal team will publish a blog outlining BSC's strategy towards the legal infrastructure for social investment.
Publish Big Society Capital's legal costs for each transaction	In the blog mentioned above we will include our total spend on legal fees for the amount of investments that have been signed.
Big Society Capital's Future strategy	
What does Big Society Capital look like in 20 years and sunset clauses	In 2014 Big Society Capital undertook a strategy review and published a strategy up to 2017. We will be reviewing our future strategy at that point.
Surveys on SIFI and frontline experience of investment process	
Collect and publish surveys on Big Society Capital investment process 2 months following the completion of the legal transaction Provide a template for SIFIs to use for SIFI investees and encourage publication of these surveys	Big Society Capital will scope the development of "customer service survey" templates and consider integration of the results into its reporting processes. We will come back with a timeline and plans in 2016.
Investment process and policy	
Publish IC minutes	In the one page summaries of each of our investment decisions as part of Proposal 2 we will publish the outcomes and rationale of the positive decisions made at Investment Committee. Publication of IC minutes would breach confidentiality of our applicants and in many cases detract from their future fundraising efforts so we will not be publishing them.
Publish Big Society Capital Investment policy	Big Society Capital's investment policy has been available on Big Society Capital's website since 2013.

Write off policy	Big Society Capital will include its approach to write-offs in the FAQ section of the website.
Publish information on the additionally of SIFI/Big Society Capital investment	Big Society Capital will seek to address this suggestion through the integration of investee feedback into the investment process.
Big Society Trust	
Publish information on the process by which BST currently assesses Big Society Capital's performance and makes decisions to invest and to finance operating costs of Big Society Capital.	Big Society Capital will discuss the proposals relating to Big Society Trust with the Chair of the Big Society Trust.
Publish minutes of BST meetings.	As above
Publish information on board membership and on recruitment of BST trustees.	As above
Staff and recruitment	
Recruitment processes and policies	Big Society Capital operates an open and rigorous recruitment and selection process. All candidates are assessed against a consistent criteria at every stage and reasons for decisions are documented. Our process is based on principles such as selection according to merit, equal treatment for all, respect for diversity, ethical values. Adherence to the process ensures all stakeholders are confident of the outcome.
Diversity of staff	We will publish additional information on the diversity of staff alongside the annual report.
Other	
Big Society Capital board minutes	Through holding an Open Town Hall meeting, Big Society Capital will ensure the public can engage with the board members and understand their decision making.

WHERE NEXT?

Big Society Capital is committed to increasing transparency in the social investment market. Below is the full list of the proposals we will be taking forward from now on.

- Publish historical deal-level data up to September 2015 on the investments made into charities and social enterprises and continue to publish twice yearly.
- Publish one page summaries of the characteristics and rationale (the “what” and the “why”) of each investment Big Society Capital makes as soon as it is made.
- Publish Big Society Capital’s portfolio breakdown across geography and sector twice a year.
- Publish an abridged version of our internal investment manual.
- Develop tools to encourage transparency e.g. a transparency charter.
- Publish a list of market championing projects.
- Publish a summary of key governing principles and constraints derived from Big Society Capital’s governing documents.
- Hold a town hall meeting with Big Society Capital board members.
- Develop a signposted annual report.
- Publish details on operational costs alongside the annual report.

- Publish a blog outlining BSC's strategy towards the legal infrastructure for social investment.
- Discuss with Big Society Trust publishing further information on their decision making.
- Scope the integration of "customer service" surveys into investment process surveys.

These proposals are just the first step forward. We hope the conversation will catalyse further actions from fund managers and others to consider how they could be more transparent.

There is a long way to go but in a year's time we hope that we will have moved on significantly in the availability of information, and data in the market. In particular, deal level data will improve the understanding of activity in the social investment market whilst further information on our processes and non-investment activities will enable our stakeholders to better understand how Big Society Capital operates.