Big Society Capital’s aim is to improve the lives of people in the UK by connecting investment to charities and social enterprises that are creating social change.

In our first five years we focused on getting social investment flowing.

**OUR NEW STRATEGY SETS OUT OUR PLAN TO:**

1. **MAKE IT EASIER** for more people and organisations to use social investment and access the wide range of funds that are now available.

2. **WORK WITH PARTNERS** to focus on areas where social investment could be a big part of the solution. Our three themes are:
   - Providing homes for those in need
   - Supporting communities to improve lives
   - Early action to prevent problems
MESSAGE FROM OUR CHAIR AND CHIEF EXECUTIVE

Big Society Capital has reached its fifth birthday. We have grown from being a start-up and making our first investment, to seeing the sector develop and witnessing the impact which we and many investors, charities and social enterprises have made.

We conducted our first ever stakeholder survey and received valuable feedback from over 200 people. Their opinions showed strong support, but also identified key challenges for us to address, such as making social investment more affordable and being able to raise more capital. Many of these findings were echoed at our inaugural Town Hall event in November, where stakeholders had the opportunity to ask board members and senior staff about our operations and future direction. We gained valuable insight from these initiatives and are much better placed to understand how we might improve our work. We are delighted to see Access - the Foundation for Social Investment commence work with investment funds from us, providing more support and affordable finance for smaller investments in smaller charities and social enterprises.

GAINING MOMENTUM

It takes time from us committing funds to intermediaries to that money reaching charities and social enterprises. We have seen increasing momentum in our investments. Now this is catching up.

By the end of 2016:
- £467 million had been drawn down by intermediaries to support charities and social enterprises from Big Society Capital and our co-investors.
- £893 million had been committed to intermediaries
- £300 million had been received from dormant accounts, alongside the full commitment of £200 million from four high street banks.
- the wider social investment market in the UK had reached almost £2 billion with over 3,000 charities and social enterprises benefiting, and annual growth nearing 30%.

DEFINING OUR ROLE FOR THE FUTURE

Our five year milestone is not just a time for reflection, but an opportunity to refocus. The key theme of this Annual Review is what lies ahead as we launch our new strategy (page 6). Throughout 2016, we developed a view of what social investment looks like and where it is headed.

Our first areas of focus will be providing homes for those in need; supporting communities to improve lives; and early action to prevent problems. In future years, we will continue to engage with the social sector to identify further opportunities for social investment to achieve social impact.

Social investment is a tool, a means to an end, often most effective with other tools such as grants, contracts and development support. We believe that by focusing on key areas of social need, and engaging with other organisations which share a common goal, far more can be achieved.

More charities and social enterprises are considering and taking up social investment. More individuals and foundations are joining in as investors, with increasing interest from institutional investors.

We aimed to:
- improve access to finance for small and medium-sized charities and social enterprises
- enable innovative approaches to tackling social problems to grow and replicate
- build mass participation in social investment
- bring greater scale to the financing of social issues

Our Impact Report, published online in June 2017, looks back over the last five years and highlights the difference we and our partners have made to charities and social enterprises who are now using social investment as a tool to do more of their important work. Over 400 organisations have received investment from Big Society Capital and our co-investors over the last five years. These organisations are making life better for hundreds of thousands of people around the UK.

DEVELOPING SOCIAL INVESTMENT

Over the last year, the team has been working to grow social investment and the organisations we work with. We co-developed a Building Blocks tool focused on the essential components that make up a strong social investment intermediary (page 20). We launched the Get Informed campaign, offering practical support and information to help trustees and board members of charities and social enterprises understand the risks, opportunities and route maps of social investment (page 55). We partnered with the Joseph Rowntree Foundation and many others to end the poverty premium, so that people on low incomes will no longer have to pay extra for essential goods and services (page 18).

As a wholesale social investor, we also support the development of a robust, diverse and capable intermediary sector, and improvements in social impact practice.

There are now many social investment funds and social banks operating across a wide range of themes, areas and investment sizes. With what we’ve learned in the last five years, we are now able to focus our next efforts on where social investment can make a substantial difference.

This is often in partnership with other organisations with their own tools and capabilities. Our first areas of focus will be providing homes for those in need; supporting communities to improve lives; and early action to prevent problems. In future years, we will continue to engage with the social sector to identify further opportunities for social investment to achieve social impact.

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DEFINING OUR ROLE FOR THE FUTURE

Our five year milestone is not just a time for reflection, but an opportunity to refocus. The key theme of this Annual Review is what lies ahead as we launch our new strategy (page 6). Throughout 2016, we developed a view of what social investment looks like and where it is headed, and were helped in doing so by many of our stakeholders. We defined what role we can play in the future, and planned how we should do this.

Now it is time to make this new strategy a reality.

Our aim is to improve the lives of people in the UK by connecting investment to charities and social enterprises that are creating social change. They are the key organisations who both understand social needs and can deliver the solutions. We will continue to develop services to help them navigate social investment, including supporting the development of goodfinance.org.uk.

We conducted our first ever stakeholder survey and received valuable feedback from over 200 people. Their opinions showed strong support, but also identified key challenges for us to address, such as making social investment more affordable and being able to raise more capital. Many of these findings were echoed at our inaugural Town Hall event in November, where stakeholders had the opportunity to ask board members and senior staff about our operations and future direction. We gained valuable insight from these initiatives and are much better placed to understand how we might improve our work. We are delighted to see Access - the Foundation for Social Investment commence work with investment funds from us, providing more support and affordable finance for smaller investments in smaller charities and social enterprises.

And while funds are in our treasury portfolio, waiting to be deployed, they are now managed in a way to maximise social impact and support our mission. All of this has been achieved through the hard work and dedication of a committed and talented team, both Board members and staff. We would like to thank them all for their valuable contribution to developing social investment and for the experience and passion they bring.

We particularly thank David Carrington, one of our founding non-executives, for his outstanding service to social investment as he retires from our Board.

As a whole, Harvey McGrath and Cliff Prior, we want to thank our co-investors and charities for their fantastic work—improving the lives of people across the UK.
Social investment has developed a lot since Big Society Capital was set up five years ago. Our new strategy aims to respond to these changes. We need to be in a position to work with partners to have the biggest impact in the future.

THREE KEY THEMES HAVE EMERGED:

1. **SOCIAL INVESTMENT IS MORE WIDESPREAD**
   - in helping tackle some social issues, and supporting certain types of organisation, than it is in others. For example, with partners we have been able to deploy large amounts of money to create strong impact in social housing. But social issues that are heavily dependent on public sector commissioning decisions have proved more difficult to address.

2. **THERE ARE MORE PRODUCTS AVAILABLE**
   - than there were five years ago. Initially, social investment was dominated by secured lending. Now there is a much wider range, including crowdfunding, unsecured loans, risk finance and bonds. There is increasingly not one social investment market, but a range of very different social investment products and opportunities.

3. **SOCIAL INVESTMENT WORKS**
   - when it is considered as one tool (alongside others, such as grants and donations) for charities and social enterprises to use to create impact. Our role at Big Society Capital is to help ensure the right investment tools are available for social entrepreneurs and organisations to pick up and use to deliver their social mission.

Social investment has grown impressively. In 2016, we estimated that the market in the UK was about £2 billion. There are ten times as many people working in social investment as there were five years ago. There are many more risk products. There is also much greater awareness of the potential role of investment across the sector – thanks in part to campaigns such as Get Informed (see page 35).

Our new strategy aims to build on this success, but also address gaps and lessons learned along the way.
OUR NEW STRATEGY

Big Society Capital’s ultimate purpose is to improve people’s lives. We do this by connecting investment to organisations that will deliver that improvement.

Social investment is not enough by itself. It is one tool alongside others such as leadership, skills and expertise, income, and a supportive environment.

We believe the way we can have the greatest impact is to help the investment part of that toolkit become as effective as possible. That means charities and social enterprises can get whatever they need to change lives.

Social investment is not an end in itself or, on its own, the solution to most problems. However, in the right circumstances and combined with the right other factors, it can be transformational. This is the theory of change that underpins our new strategy.
In all these areas we already have investments and relationships that we can build on and learn from, as well as new propositions that we are already developing. During 2017, we will gradually devote more resource to pushing these areas forward. However this will not be at the expense of other important projects that are already underway or need to be completed, and the existing funds, relationships and market championing activity that remain core to our overall purpose.

We cannot work alone in any of these areas. We will seek partners and build on the energy and leadership that others bring. We will devote our investment capital where it is needed, but also our staff time and ability to contribute to bringing people together, solving problems, promoting understanding and providing insight. Our current portfolio of investments creates learning that we will use ourselves but also share widely, hopefully enabling others to come up with their own solutions. And we will work with partners to find the best shared approaches to measuring and reporting social impact.

Our focus on these three areas does not mean we will be closed to other ideas. We believe that they are the clearest opportunities for Big Society Capital to make a difference right now, but social investment is an exciting, growing and changing field. Our role as a market champion means we will continue to promote wider understanding and also listen to what the market needs and respond accordingly. We look forward to an ongoing conversation with everyone involved in social investment about what is working, what isn’t and where the next opportunities are.

Our strategy for 2017 onwards is a natural evolution from the last five years of Big Society Capital. We will continue to make it easier for more people and organisations to use social investment and access the wide range of funds that are now available. We will still continue to support the development of the social investment intermediaries that are channelling those funds.

To deepen our impact in the coming years, we are going to focus our effort more on three areas where our experience has shown us that there is a particular opportunity for social investment to make a difference.

**1 PROVIDING HOMES FOR THOSE IN NEED**
There are rising levels of homelessness and people living in unsuitable accommodation. Along with our co-investors, we have already invested £370 million in social property funds and housed more than 2,000 people. Social investment has clear potential to catalyse and scale those innovations in property that benefit those in greatest need.

**2 SUPPORTING COMMUNITIES TO SOLVE PROBLEMS**
We believe that by working with both local and national partners it will be possible to bring together a range of social investment tools (from investing in community assets like energy generation to addressing financial exclusion for individuals and businesses) to make a difference to communities.

**3 EARLY ACTION TO PREVENT PROBLEMS**
Our experience so far shows that social investment is one potentially powerful way of shifting towards intervening early to prevent problems escalating and greater harm and costs down the line. This area of work includes social impact bonds but also goes much more widely, for example investing in new organisations that come up with ways to prevent social problems.
OUR NEW STRATEGY IS UNDERPINNED BY A NEW THEORY OF CHANGE

THEORY OF CHANGE

Our aim is to improve the lives of people in the UK by connecting investment to charities and social enterprises that are creating social change.
OUR INVESTMENTS

WORKING IN PARTNERSHIP

As an investor, we focus on sustainable solutions that will achieve positive investment returns. This is because we believe those solutions will be able to attract the most co-investors and, ultimately, achieve the greatest systemic change.

We prioritise interventions and organisations that improve the lives of some of the most vulnerable and disadvantaged people in the UK. We look for ideas that address gaps in demand as well as bringing new skills and sources of capital to social investment.

We have a target return across our portfolio of 4–6%, though we have made investments with expected returns both below and above this range.

We judge the financial return for an individual investment against the likely risk, but also take into account the social impact and the contribution it will make to developing the market. As a result, we make some higher risk investments at a more modest return. We do this when we believe that the intervention it supports could have the potential to significantly improve the lives of vulnerable people. Or where our investment will help create a new tool or channel that better meets the investment needs of many charities and social enterprises.
IN 2016 WE...

MONEY AVAILABLE TO CHARITIES AND SOCIAL ENTERPRISES

£893m
Cumulative amount of investment signed by Big Society Capital and our co-investors
Of this
£340m
is Big Society Capital’s money
£553m
is from our co-investors
Across
63
different investments

MONEY REACHING CHARITIES AND SOCIAL ENTERPRISES

£467m
Cumulative amount drawn down from Big Society Capital and our co-investors
Of this
£142m
is Big Society Capital’s money
£325m
is from our co-investors

This is how the drawdown has been used (we have based our calculations on Big Society Capital’s drawdown):

PRODUCT TYPE
50% is capital for charities and social enterprises through funds and social banks
39% is in property, mainly to help charitable service delivery
4% is in helping charities deliver services using Social Impact Bonds
4% is management fees paid to intermediaries
3% is capital for arrangers

ORGANISATIONAL FORM
74% to asset locked charities and social enterprises
19% to non-asset locked social enterprises
4% is management fees paid to intermediaries
3% is capital for arrangers

CO-DEVELOPING SOCIAL INVESTMENT

We have partnered with
7 INSTITUTIONAL CO-INVESTORS
104 CHARITIES AND SOCIAL ENTERPRISES USING SOCIAL INVESTMENT TO SUPPORT SOCIAL OUTCOMES

£306m
annual investment into risk products versus £20m in 2012
75% of our investments have been into startup intermediaries, teams or products

Across our portfolio, the financial returns and risks we are willing to take are substantially determined by what our co-investors expect. This is because a core part of our role is to attract more capital to be available to charities and social enterprises over the long-term.

We also consider the affordability of finance for charities and social enterprises. The interest rates charged by social investment intermediaries vary significantly depending on the risk and type of investment. For example, unsecured loans are higher risk so will have a higher headline interest rate than a secured bank loan.

In some segments of what we do, commercial investors simply will not help at any price because the perceived risk is too high. Interest rate is only one element of the ‘price.’ For example, the term of the investment or the flexibility and support provided by the investor may make more of a difference to the charity’s ability to thrive.
OUR INVESTMENTS

THIS YEAR

In 2016, we aimed to provide finance to fund managers and social banks across three areas.

SOCIAL ISSUE-FOCUSED FUNDS

Health and Wellbeing South West Fund – delivered by Resonance, co-investment from Access

£3 million

Small loan fund to:
Create change by: involving voluntary, community and social enterprises in delivering health and social care services in the South West of England.
Generate impact by: improving the provision for older people and promoting healthy lifestyles for people living in Cornwall, Devon and Somerset.

Community-led Housing Co-investment facility – delivered by FSE Group, Northstar Ventures and Social and Sustainable Capital

£15 million

Co-investment fund to:
Create change by: increasing the money available to develop larger community-led housing projects and give them the confidence to proceed.
Generate impact by: supporting community-led organisations to design and build affordable homes and address local housing needs.

BROADENING CAPITAL AVAILABILITY

Crowduner SITR Match Fund

£2 million

Match fund to:
Broaden capital availability by: driving the establishment of community shares on the UK’s largest reward-based crowdfunding platform.
Generate impact by: providing grassroots, social investment tax relief eligible organisations with access to community shares.

Community Chest SITR Match Fund

£4 million

Match fund to:
Broaden capital availability by: establishing a new social loan peer-to-peer lender.
Generate impact by: providing grassroots, social investment tax relief eligible organisations with access to loan finance.

Ethex SITR Match Fund

£4 million

Match fund to:
Broaden capital availability by: building an SITR bond and community share offering on their existing platform.
Generate impact by: providing grassroots, social investment tax relief eligible organisations with access to bonds and community shares.

Pure Solar Bridge Fund

£15 million

Expansion of existing bridge fund to:
Create change by: providing debt finance at a large scale to community energy groups who currently struggle to access it.
Generate impact by: enabling communities to take ownership of larger solar developments and use the profits to fund local projects.

Cheyne Social Property High Impact Fund

£3 million

Property fund to:
Create change by: buying and developing properties and leasing them to charities and social enterprises to deliver innovative or high-intensity services.
Generate impact by: improving the capacity of charities and social enterprises to provide accommodation for vulnerable people.

Northern Impact Fund – delivered by Key Fund, co-investment from Access

£2.5 million

Blended fund of grant and loan to:
Broaden capital availability to charities and social enterprises in the North of England and Midlands.
Generate impact by: helping to support organisations that cannot sustain debt (due to their size margins or stage of growth) to develop and expand.

Invest for Impact Fund – delivered by First Ark, co-investment from Access

£2 million

Blended fund of grant and loan to:
Broaden capital availability to charities and social enterprises in the North West.
Generate impact by: helping to create a vibrant and sustainable social sector in the North West.

Impact Loans England – delivered by Big Issue Invest, co-investment from Access

£3.5 million

Blended fund of grant and loan to:
Broaden capital availability by enabling Big Issue Invest to grow its existing lending and expand its product range to offer loans of less than £50,000.
Generate impact by: making finance available for smaller charities and social enterprises that would struggle to access finance from mainstream banks.

Bridges Evergreen Holdings

£15 million

Permanent capital vehicle to:
Broaden capital availability by: providing large scale, long-term finance to ambitious mission-led businesses.
Generate impact by: enabling mission-led businesses to deliver large-scale public service delivery contracts.

CAPITAL TO HELP INTERMEDIARIES GROW

Unity Trust Bank

£3 million

Additional capital to:
Support the intermediary to: grow its lending portfolio.
Impact charities and social enterprises by: significantly increasing the amount of lending available to organisations aiming to create social and community benefit.

Mustard Seed

£250,000

Growth equity to:
Support the intermediary by: enabling it to develop its high net worth investor network and funds under management.
Impact social enterprises by: providing early stage, risk-taking capital for social entrepreneurs.

Bethnal Green Ventures

£1 million

Growth equity to:
Support the intermediary by: enabling it to strengthen the team and run new accelerator programmes which will help businesses grow quickly and effectively.
Impact social enterprises by: supporting early stage ventures that remove barriers preventing access to health, education and civic services.

Key Fund

£4.5 million

Bridge finance to:
Support the intermediary by: enabling it to provide finance while waiting for its own capital to be repaid and recycled.
Impact charities and social enterprises by: providing loans under £150,000 to small and medium-sized organisations in the Midlands and North of England that cannot secure finance from traditional lenders.

Social Finance

£1 million

Working capital to:
Support the intermediary by: allowing greater flexibility to innovate and design new services and programmes.
Impact charities and social enterprises by: encouraging different approaches to tackling social issues.
FAIR BY DESIGN: TACKLING THE POVERTY PREMIUM

People living in poverty or on low incomes often pay more for products or services than people who are better off financially. This is called the poverty premium – the extra cost of being poor. There is not one poverty premium but many unfair increases in cost that, when added together, can lead to a significant drain on tight personal budgets. The increased costs are found mainly in the energy sector, financial services and insurance industries.

New research by Bristol University has shown the scale of the poverty premium for the first time, which they estimate at an average of £490 per household each year. Some premiums might seem inconsequential, such as paying an extra £5 per year for a paper copy of an electric bill because you are not online. Others are eye watering, such as paying £540 over the odds for a doorstep loan because you cannot access mainstream credit or an additional £120 for a payday loan.

We have partnered with the Joseph Rowntree Foundation to develop Fair by Design, a programme that aims to eliminate the poverty premium entirely by 2027. It will challenge entrepreneurs, corporates, government and the public to innovate and develop new ideas to address this problem.

We are setting up a venture fund to support the most promising ideas. The aim of the fund is to help develop innovative competitors to larger corporate brands in these products and services. The fund will provide access to world-class business development programmes, sector-specific mentors and networks, and appropriate finance.

Working closely with government and regulators, Fair by Design will deliver a change programme to make sure there is appropriate policy in place to protect the interests of low-income consumers. The programme will also work with large corporates to make sure products and services are available to people on a low income and raise awareness among consumers who can apply pressure on the government and corporates to do better.

Managing the social and financial performance of our portfolio of investments is a vital part of achieving our mission. We also work with intermediaries to help build strong and sustainable business models and we make sure we all learn from past experiences.

WHAT WE’VE LEARNED

We continuously learn from our challenges and successes.

SUCCESSES:

With significant help from our partners, we developed the Building Blocks tool identifying the key components needed to make a strong intermediary. You can read more about this on page 20.

We deployed £7.4 million during 2016, almost equal to the amount committed, giving a cumulative total of £42 million. The number of intermediaries with over £50 million of funds to invest grew to seven. The number of social impact reports published by our intermediaries grew significantly during 2016 and the quality improved. We received 22 reports during the year showing that impact reporting is becoming embedded in organisations.

The social impact bonds forming part of the Department of Work & Pensions Innovation Fund that we invested in in 2012, repaid with surpluses aligned with the delivery of outcomes.

We set up an Intermediary Advisory Group to enable peer learning and solve problems together. One of the first tasks was to agree a set of principles to support an organisation when it faces difficulty and at risk of failing.

PORTFOLIO MANAGEMENT

We assign a Red-Amber-Green status to all our investments to assess progress towards goals. For 2016, we graded Investments.

4.5%

Write-downs cumulatively to the end of 2016 of drawdown capital. This is inline with what we projected at this stage of our portfolio.

CHALLENGES WE’VE FACED DURING THE YEAR:

Drawdown from funds continues to be slower than expected, but has picked up substantially in 2016. It is clear that understanding the needs of charities and social enterprises and having a problem-solving approach is extremely important.

We have incurred losses on investments into early-stage organisations, both those made into and through intermediaries. This is expected and reflects the risks taken in investing in early stage intermediaries and social enterprises.

It is particularly difficult to build a sustainable model for advisory businesses, where a lower proportion of revenues are recurring. We have invested in a number of these intermediaries, including Evidence Based Social Investments (EBSI) which transferred its business to Triodos Bank during the year in a transaction that preserved the value of EBSI’s capability.

Fundraising for co-investment is challenging due to several factors, from risk appetite to awareness of social impact. However, we have seen co-investment alongside ours increase substantially in the year from £326 million to £553 million. We have seen a general increase in co-investors coming into social investment, but particularly into social housing – this is the area where financial institutions are already interested, and where the scale of investment fits their preferences. It is much harder to find co-investors for work in areas like innovation, where risk factors are higher than in other areas.

Like any business, attention to the basics such as good leadership, cash management and business planning is vital for any intermediary to be successful. A focused business model, while maintaining flexibility, is also crucial.

As a social investor increasing the number of investments we make each year will mean that we need to continually review our approach to portfolio management and develop ways of improving scalability.

44 board and committee seats were taken by our staff or appointees.

54 investments in our portfolio.

7 other closed, repaid or been sold.

11 too early to assess.

5 red

20 amber

18 green

18
WHAT’S COMING NEXT?

In early 2017, we piloted the Building Blocks with the intermediaries in our portfolio, to use the tool to determine their individual strengths and development needs, mapped against available support. In summer 2017, we will publish a map that shows what support is already available to intermediaries across the Building Block themes.

We hope that Building Blocks becomes a core part of our ‘business as usual’ partnership with all the organisations we work with. As this is an evolving process, we continue to be open to feedback and suggestions for how we can refine and improve the tool.

WHY DID WE DO THIS?

Our portfolio has grown to include more than 50 investments, 75% of which have been in start-up intermediaries, teams or products. We have recognised that we need to develop a more proactive and strategic approach to working with our intermediaries. This will not only help strengthen the social and financial performance of the organisations we invest in, but we hope this will also help us to identify gaps where intermediaries need more support to be sustainable in the long term.

To work towards this, in early 2016 we launched a programme called Building Blocks. We worked in partnership with our intermediaries across three phases:

1. **Identifying the essential components** or ‘building blocks’, for a strong, effective and sustainable social investment intermediary.
2. **Developing a self-assessment tool** based on these blocks to allow intermediaries to identify areas of strength and further development.
3. **Working towards tangible solutions and support** to help address gaps that we have identified with our intermediaries.

HOW ARE WE PROGRESSING?

Over the course of the year, conversations and input from 35 intermediaries have helped us develop the Building Blocks framework, identifying the key components of an effective and sustainable intermediary and providing detail on what good practice looks like. Tools are currently available on our website for fund managers and advisors or arrangers. These are designed to be live documents that are worked with and developed over time.

WHAT HAVE WE LEARNT?

Through the process of developing the tools, we have seen some common challenges emerge – such as the difficulty in recruiting and retaining quality staff from diverse backgrounds. It is likely that more of these will surface, and we are keen to encourage sector-wide solutions. Some of these solutions could be suitable for support from The Connect Fund launched in summer 2017. Similarly, each of our intermediaries has areas of core strength that others in the sector could learn from, so we are encouraging peer learning as much as possible.

BUILDING BLOCKS

A solution-focused programme to develop strong, effective and sustainable social investment intermediaries.

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OUR SOCIAL IMPACT

Charities and social enterprises are using repayable finance to develop creative solutions to social issues, from supporting families and delivering affordable housing to providing skills and jobs and strengthening communities.

South Bristol Sports Centre which raised a charity bond supported by Bristol and Bath Regional Capital and Resonance

428 organisations across the UK have accessed repayable finance from our social fund managers or Charity Bank to buy assets, expand their services or to use as working capital.

71% of those organisations are located in the 50% most deprived areas in the UK.

87% operate outside London or on a national basis.

94% are on track to deliver their intended social impact.
When my son started nursery, the first time he came here he was very shy, very reserved, he hardly talked. But over the past nine months he has developed so much and I’ve seen so many changes in him. He’s the most chatterbox child in the world!

ALICIA GORDON
WORKING MUM

Families can face many pressures on a day-to-day basis such as coping with debt, managing childcare costs or dealing with relationship breakdown. It can also be difficult for families if they do not have access to a proper support network.

Social investment is helping:
- people take out loans they can afford to repay
- support children and young people in care and on the edge of care
- provide high quality childcare.

SUPPORT AND CHILDCARE FOR FAMILIES

Hull has some of the highest levels of child poverty in the country. Child Dynamix provides high quality, affordable nursery care to the most deprived communities in the area, as well as family support services and a toy bank. They received financial support from Social and Sustainable Capital and Power to Change to buy a building and provide nursery places for 106 disadvantaged two-year-olds. Child Dynamix is also expanding its community services for children who are growing up in challenging and difficult circumstances, such as living in families with addiction or alcohol issues and domestic abuse. A third of families who have received support said that it was life changing and 100% reported that their situation had improved.

HELPING FAMILIES COPE FINANCIALLY

Both Street UK and Moneyline provide small loans to people who are on low incomes and they both have received repayable finance from Big Issue Invest in 2016. Access to affordable finance is making a difference to customers lives. For example, 79% of Street UK customers reported that getting a loan had more than just a financial impact as it had contributed towards reduced stress, improved health and better relationships.

“We started with 23 nurseries. With the loan from Big Issue Invest and Bridges Ventures we increased that number to 38. That means 2,000 children have more access to a London Early Years Foundation nursery. We can now take 60 apprentices increasing our staff to 600. We’re a social business and we want to develop more social impact, so it’s natural that we should think about social finance.”

JUNE O’SULLIVAN CHIEF EXECUTIVE, LONDON EARLY YEARS FOUNDATION

CASE STUDY: LONDON EARLY YEARS FOUNDATION

Many parents are discouraged from returning to work because of the high cost of childcare. This means that children from low-income backgrounds miss out on high-quality nursery education. London Early Years Foundation provides free nursery places in some of London’s most disadvantaged areas, subsidised by full fee-paying places in more affluent areas. They are the largest provider of free childcare for two-year-olds in the capital.

4,000 children have attended a London Early Years Foundation nursery

95% of customers said they were satisfied

43% of nursery places in deprived areas are subsidised

“When my son started nursery, the first time he came here he was very shy, very reserved, he hardly talked. But over the past nine months he has developed so much and I’ve seen so many changes in him. He’s the most chatterbox child in the world!”

ALICIA GORDON WORKING MUM
The lack of affordable housing is one of the most pressing challenges facing the UK today, with many people living in unsuitable accommodation in the private rented sector.

Social investment is helping:
- provide an alternative solution to the financing of building new affordable houses
- give people the opportunity to live in good quality affordable accommodation
- tackle the causes of homelessness.

FINANCING THE BUILDING OF AFFORDABLE HOMES

Housing associations are facing increasing challenges across the country. In 2016 the Cheyne Capital Social Property Fund agreed an investment to finance 200 new flats in Sheffield for South Yorkshire Housing Association which will be available by 2018. A large proportion of the properties will be offered below market rent, which will give people the opportunity to live in good quality affordable accommodation.

PROVIDING ALTERNATIVES TO SOCIAL HOUSING

London Community Land Trust (LCLT) is using repayable finance from Big Issue Invest and community shares to provide permanent and affordable housing to people who do not qualify for social housing but cannot afford to buy a home on the open market. Its first project is in Mile End in East London at a former hospital site and includes 23 affordable new homes which are priced according to local earnings and not the property market. This will ensure that homes remain affordable even if they are sold at a future date. The LCLT has plans to replicate the model at other sites across London.

CASE STUDY: NATIONAL HOMELESSNESS PROPERTY FUND

Since 2013, the Real Lettings Property Fund has bought over 250 homes, providing accommodation for people at risk of homelessness in London. The model was so successful that social impact investment company Resonance, who developed the Fund with homelessness charity St Mungo’s, decided to replicate it in Oxford, Bristol and Milton Keynes.

Working with the local authorities and St Mungo’s in each of those areas, Resonance looked at how the fund could help ease the housing shortage. They supported tenants who struggle to access housing in the private rented market and are staying in hostels or expensive bed and breakfast accommodation.

“Without this scheme I would literally have nowhere to live and nowhere to go. This property has helped my whole life and I couldn’t be more grateful.”

PETER, REAL LETTINGS PROPERTY FUND TENANT

“A shortage of genuinely affordable housing is contributing to rising homelessness and rough sleeping. Our work with Resonance is about finding new solutions to this problem. The new national fund will help people stay within their local support networks, to keep their kids at school and to move towards securing longer term tenancies.”

HOWARD SINCLAIR, CHIEF EXECUTIVE, ST MUNGO’S

St Mungo’s supports people to rebuild their lives
ANNUAL REVIEW 2016
OUR SOCIAL IMPACT

“I was a police officer in Glasgow for nine years. What I found was that I would put somebody away for a number of years and they would come out and I’d catch them doing the same thing four or five years later, interview them and they’d say to me: ‘What else am I supposed to do? I don’t know anything else.’ That stuck with me. Social investment works for us because it brings certainty to what we do, it gives people the opportunity to put money into something they believe in.”

BARRY MOCHAN
CEO, GLASGOW TOGETHER

One and a half million people are currently unemployed in the UK. Employment rates are at their lowest since the 1970s but there are significant challenges such as the lack of quality employment opportunities, wage stagnation and discrimination.

Social investment is helping:
- ex-offenders rebuild their lives
- remove barriers to employment
- charities and social enterprises provide new employment opportunities for young people.

MATCHING YOUNG PEOPLE WITH THE APPRENTICESHIPS THEY WANT

Employment opportunities for young people can be a challenge in the current competitive environment. GetMyFirstJob is using repayable finance from Nesta Impact Investments. It is an innovative web-based platform that improves the speed and quality of matching young people to available apprenticeships. Over 300,000 young people are currently registered on the system which has matched them to 25,000 apprenticeships.

PROVIDING TRAINING AND IMPROVING EMPLOYMENT PROSPECTS

The Isle of Wight has disproportionately high unemployment and child poverty compared to other areas in the UK. Storeroom is a social enterprise that recycles furniture and provides training opportunities in areas such as carpentry and joinery. Social and Sustainable Capital provided repayable finance alongside a grant from Power to Change to buy a warehouse to store and sell furniture. In total, 5,200 households have received affordable furniture and over 230 people have taken part in free accredited courses to help with their employment prospects.

CASE STUDY: GLASGOW TOGETHER

Glasgow Together creates full-time, living wage jobs for ex-offenders in the construction industry and provides work experience for current prisoners. The organisation builds new affordable homes and refurbishes empty homes, selling the properties and reinvesting the capital and profits back into the business to finance more land and property and create more jobs.

60%
of adults serving sentences of less than 12 months are reconvicted within a year of release

£2mof capital raised through a bond

150ex-offenders and current prisoners will be trained and mentored over the lifetime of the five-year bond

“If it wasn’t for Glasgow Together, I’d probably be in prison or sat on somebody’s couch. I used to drink every day. Now I’m a better person, it changes you. Once my time is up I can go for an interview, put this on my CV and show that I’ve got the on-the-job experience I need and that hopefully goes well for me and I’ll get a job.”

JORDAN BURNS
GLASGOW TOGETHER EMPLOYEE

“I was a police officer in Glasgow for nine years. What I found was that I would put somebody away for a number of years and they would come out and I’d catch them doing the same thing four or five years later, interview them and they’d say to me: ‘What else am I supposed to do? I don’t know anything else.’ That stuck with me. Social investment works for us because it brings certainty to what we do, it gives people the opportunity to put money into something they believe in.”

BARRY MOCHAN
CEO, GLASGOW TOGETHER
Many communities in the UK face significant challenges including poverty, anti-social behaviour and the closure of local services. Local people are best placed to develop local solutions to the issues which matter to them, but it can be a challenge to access the right type of financial support in the current economic climate.

Social investment is helping:
- young people get involved in their communities
- fund activities that generate income which can be used for good causes
- be a catalyst for communities to develop services that address local needs.

HELPING YOUNG PEOPLE RE-ENGAGE WITH SOCIETY

Young people can sometimes become disaffected with the world around them and need positive experiences to re-engage with society. South Bristol Sports Centre is running social inclusion projects for young people which are funded by generating income from letting out state of the art football pitches to adult leagues in the evenings. The new pitches were funded by raising £1 million of repayable finance through Bristol and Bath Regional Capital which included £250,000 from social investment tax relief.

FINANCING CLEAN ENERGY

Community assets can help to engage communities and generate long-term income to support good causes in a local area. Plymouth Energy Community used repayable finance from Pure Leapfrog to install a solar energy system on a derelict brownfield site which will produce enough clean energy for 1,000 homes and also generate an estimated £2.9 million to help tackle fuel poverty and develop climate change projects.

“Without Key Fund we wouldn’t be here now and that would have a major impact on the local community; we’d have had to close down, jobs would be lost, and we wouldn’t have been able to take on the vulnerable children in the pre-school in September. They also looked at our finances, looked at the year ahead and they’re going to continually review our forecasts, which is a piece of gold. We’ve never had that support before, it’s absolutely fantastic.”

JO RAMSAY CENTRE MANAGER, BEVERLEY CHERRY TREE COMMUNITY CENTRE

BEVERLEY CHERRY TREE COMMUNITY CENTRE

When a serious cash flow problem meant the Beverley Cherry Tree Community Centre faced being closed down, Key Fund provided investment that allowed them to restructure and continue operating.

24 part-time staff were able to keep their jobs
30 people socialise at weekly bingo
16 residents attend a monthly club for people affected by stroke
20 attend weekly Humbercare sessions for people struggling with addiction

STRENGTHENING COMMUNITIES

SUPPORTING THE LOCAL COMMUNITY

The Beverley Cherry Tree Community Centre in East Yorkshire works with people who are struggling with issues such as debt, ill health and housing. They offer a range of services including a food bank, furniture recycling, advice services and social activities to reduce isolation. They also run Gruffalos, a pre-school club that provides affordable breakfast, after school clubs and holiday clubs to support working parents.
We act as a champion, increasing the use of social investment and building understanding with charities, social enterprises and investors.
ENGAGING CHARITIES AND SOCIAL ENTERPRISES

We want to make sure that every organisation that can benefit from investment has access to the right kind of repayable finance, and the information they need to make informed decisions.

We build confidence in and understanding of repayable finance as a tool to support growth, innovation and sustainability. We do this in three ways:
1. Building navigation
2. Raising awareness
3. Annual campaigns

GOLD FINANCE

Good Finance is a website helping to improve information about social investment for charities and social enterprises. Over the past year, we have worked closely with organisations, using user-led design approaches to develop goodfinance.org.uk. The full site was launched in Spring 2017. It includes updated information on social investment and a new interactive tool to help charities and social enterprises find out more about the investment that’s right for them.

Good Finance is a collaboration with key sector partners who are providing strategic direction, as well as helping to promote the website.

GOLD FINANCE AIMS TO:

1. Improve knowledge of social investment, what it is, what it can be used for and the process it requires.
2. Give organisations the information they need to make informed investment decisions based on their needs and situation, not on embedded attitudes. Help connect organisations to the right investors to talk to, based on their shared values.

REACHING OUT, RAISING AWARENESS AND WORKING IN PARTNERSHIP

1.43 events presented at
58% of these events were outside London
1,850 estimated attendees

“I found the seminar one of the most useful that I have been at in a long time. Thanks to Big Society Capital for your time and for your support to all of us who attended.”
DAVID SMITH, CHIEF EXECUTIVE, OASIS AQUILA HOUSING

WORKING IN PARTNERSHIP

4 KEY ISSUES FOCUSED ON

- Housing & Homelessness
- Health & Social Care
- Children & Young People
- Local Communities

In 2016 we worked with

- 14 membership organisations
- to create the What’s New in Social Investment network – an online forum to support their work with members around social investment, and to share resources.

We connected with

- The GRITTY REALITY OF SOCIAL INVESTMENT
- blog series to share stories and learnings of where social investment has been challenging or gone wrong.

GET INFORMED

In 2016, we launched our second campaign GET INFORMED – Social Investment for Boards offering practical support and information to help board members of charities and social enterprises understand the opportunities and risks of social investment.

GET INFORMED offers free resources including events and workshops, educational emails and reading material, and time with mentors who can help build knowledge. The campaign shares case studies and learnings from board members who have already used or explored social investment.

350+ subscribers
40+ mentors available
450+ campaign video views
8 case studies developed

Project partners:
- Local Enterprise Partnerships
- MATTERS
- NCEO
- National Foundation for Social Enterprise Growth
- FLIP Finance
- Good Finance
- London Enterprise Hub
- Nesta Social Impact Academy
- Social Enterprise UK
- Access for Social Enterprise
- locality
- Matspace
- NCEO
- Social Enterprise UK

“Key part of a board’s role is to ensure the organisation delivers the best outcomes for its beneficiaries. It is important that boards explored how social investment might enable them to do that well.”
ALICE MAYNARD, FORMER CHAIR OF SCOPE

GOOD FINANCE AIMS TO:

1. Improve knowledge of social investment, what it is, what it can be used for and the process it requires.
2. Give organisations the information they need to make informed investment decisions based on their needs and situation, not on embedded attitudes. Help connect organisations to the right investors to talk to, based on their shared values.

A hub of social investment networks across the UK was created to provide charities and social enterprises with a forum in which they can find out more about social investment and better navigate the market.

GET INFORMED

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- Social Enterprise UK
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- locality
- Matspace
- NCEO
- Social Enterprise UK

“Key part of a board’s role is to ensure the organisation delivers the best outcomes for its beneficiaries. It is important that boards explored how social investment might enable them to do that well.”
ALICE MAYNARD, FORMER CHAIR OF SCOPE

LET’S TALK GOOD FINANCE

A hub of social investment networks across the UK was created to provide charities and social enterprises with a forum in which they can find out more about social investment and better navigate the market.
ENGAGING WITH INVESTORS

We engage with existing and potential social investors to raise awareness and understanding of what social investment is and the types of investment opportunities that are available. We also make sure that any new funds and products suit the needs of investors as well as those looking for investment.

Our priorities:

CHANNELS TO INDIVIDUAL INVESTORS

We work with financial institutions that have links to individual investors to raise awareness of social investment and showcase the types and range of investment products available to them.

TRUSTS, CHARITIES AND FOUNDATIONS

We help charitable organisations with investable assets understand how they can be social investors. We also actively support those who already make social investments or wish to learn more about how social investment could be relevant for them.

INSTITUTIONAL INVESTORS

We help mainstream financial institutions learn more about social investment, showing them how they can be social investors or create social investment products.

“Big Society Capital plays an important role in the foundation sector. Social investment is very much ‘part of the toolkit’ for some funders and many are exploring how it could be useful in the future. They have worked facilitively and collaboratively with foundations and the team are an excellent source of information and knowledge about the social investment market, as well as support for foundations who want to develop their social investment activities.”

CAROL MACK CHIEF EXECUTIVE, ASSOCIATION OF CHARITABLE FOUNDATIONS


HOW WE ARE ENGAGING WITH INVESTORS

SPONSORED

2 Worthenhouse Social Investment Academy events reaching an estimated 120 financial and wealth advisers interested in how they can advise clients on making social investments

12 events supported reaching an estimated 80 trusts and foundations with Association of Charitable Foundations (ACF) and Social Impact Investors Group (SIIG)

9 mainstream investment managers engaged with how social pensions could be developed in the UK

ENGAGED

with 7 health related charities linked to NHS hospitals (previously NHS Charities) on how social investment might be relevant for their work

COLLABORATED

with British Venture Capital Association (BVCA) on events reaching more than 100 BVCA members to showcase some of the social investment intermediaries and their social investments

65 social investors met one to one

17 events presented at

3000 estimated attendees

WAYS TO WELLNESS

which received investment from the Bridges Social Impact Bond Fund

EQUALITY AND DIVERSITY

In May 2016, Big Society Capital hosted the launch of the Young Foundation’s report on the state of ‘gender-lens’ investing, The Sky’s the Limit. To prepare for the event, we looked at the gender make-up of our own portfolio. We found that only 20% of organisations have a woman fund manager. Inspired by the report and our findings, we made a commitment to look at the issue of diversity.

We are encouraging the market to publish figures for female leaders. In data about social investment deals, we gave the intermediaries the opportunity to report on which of their investees had female CEOs.

716 organisations only 62 companies reported the gender of their CEO

That’s 8.6% of the sample size

We understand that diversity and equality is broad and complex and we have thought hard about how best to begin addressing these issues, acknowledging that it is difficult to take the first few steps. As a starting point from which to build, we will focus first on gender. We are committed to counting and reporting our funds led by women, and hope to set an example for the market by doing so. We strongly agree about its importance and plan to collaborate with our peers next year to find ways to tackle this area.

Ways to Wellness
THE RESOURCES WE USE TO DRIVE CHANGE

In March 2016, we changed the mandate for managing our treasury portfolio. We developed a new approach, together with Cambridge Associates and AXA Investment Management, so that a greater proportion of funds can be used proactively to create social impact without compromising on the financial performance in terms of preserving capital, maintaining liquidity and generating returns on investment.

AXA Investment Management manages the portfolio on a ‘buy and maintain’ basis, investing primarily in sterling issuers that address societal challenges. The approach makes use of innovative techniques for integrating and measuring the impact of environmental, social and governmental (ESG) factors. ESG and social impact principles are embedded in all aspects of the mainstream investment process, from portfolio construction, to the management and monitoring of the portfolio.
Our full audited Report and Financial Statements for the year ended 31 December 2016 are available on our website.

PROFIT AND LOSS
for the year ended 31 December 2016

These are our main investments which you can read about on pages 12-21. The majority of losses on the social investment portfolio reflect the early stage of our investments. We are currently incurring set-up costs and management fees, as well as valuation changes, but there is not yet sufficient corresponding income.

<table>
<thead>
<tr>
<th></th>
<th>2016 £000</th>
<th>2015 £000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Social Investment Portfolio</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Far value adjustments on investments:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Management fees and expenses paid to intermediaries</td>
<td>3,343</td>
<td>2,694</td>
</tr>
<tr>
<td>- Valuation changes and income relating to underlying investments</td>
<td>586</td>
<td>1,181</td>
</tr>
<tr>
<td>Valuation changes and income relating to investments at amortised cost</td>
<td>284</td>
<td>-</td>
</tr>
<tr>
<td>Interest, fee and dividend income</td>
<td>1,216</td>
<td>721</td>
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<tr>
<td>Total</td>
<td>2,997</td>
<td>2,454</td>
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<tr>
<th></th>
<th>2016 £000</th>
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<tbody>
<tr>
<td>Treasury Portfolio</td>
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<td></td>
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<tr>
<td>Far value adjustments on investments</td>
<td>1,414</td>
<td>619</td>
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<tr>
<td>Net foreign exchange loss</td>
<td>-</td>
<td>-1,739</td>
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<tr>
<td>Interest income</td>
<td>2,467</td>
<td>1,739</td>
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<tr>
<td>Total</td>
<td>3,848</td>
<td>2,358</td>
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<thead>
<tr>
<th></th>
<th>2016 £000</th>
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<tbody>
<tr>
<td>Staff costs</td>
<td>2,956</td>
<td>2,655</td>
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<tr>
<td>Other expenses</td>
<td>3,170</td>
<td>2,998</td>
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<tr>
<td>Total</td>
<td>6,126</td>
<td>5,653</td>
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<thead>
<tr>
<th></th>
<th>2016 £000</th>
<th>2015 £000</th>
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<tbody>
<tr>
<td>Loss on ordinary activities before taxation</td>
<td>5,275</td>
<td>6,749</td>
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<thead>
<tr>
<th></th>
<th>2016 £000</th>
<th>2015 £000</th>
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</thead>
<tbody>
<tr>
<td>Taxation</td>
<td>4</td>
<td>31</td>
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BALANCE SHEET
as at 31 December 2016

<table>
<thead>
<tr>
<th></th>
<th>2016 £000</th>
<th>2015 £000</th>
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</thead>
<tbody>
<tr>
<td>Fixed assets</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tangible assets</td>
<td>276</td>
<td>512</td>
</tr>
<tr>
<td>Social investment portfolio</td>
<td>112,518</td>
<td>78,415</td>
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<tr>
<td>Total</td>
<td>132,594</td>
<td>78,727</td>
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<thead>
<tr>
<th></th>
<th>2016 £000</th>
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</thead>
<tbody>
<tr>
<td>Current assets</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Debtors</td>
<td>320</td>
<td>779</td>
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<tr>
<td>Current assets held in our treasury portfolio</td>
<td>339,823</td>
<td>204,214</td>
</tr>
<tr>
<td>Cash at bank and in hand</td>
<td>15,842</td>
<td>62,869</td>
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<tr>
<td>Total</td>
<td>355,985</td>
<td>267,862</td>
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<tr>
<th></th>
<th>2016 £000</th>
<th>2015 £000</th>
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<tbody>
<tr>
<td>Creditors: amounts falling due within one year</td>
<td>(4,906)</td>
<td>(2,489)</td>
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<tr>
<td>Net current assets</td>
<td>351,079</td>
<td>265,373</td>
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<table>
<thead>
<tr>
<th></th>
<th>2016 £000</th>
<th>2015 £000</th>
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</thead>
<tbody>
<tr>
<td>Total assets less current liabilities</td>
<td>483,673</td>
<td>344,100</td>
</tr>
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<table>
<thead>
<tr>
<th></th>
<th>2016 £000</th>
<th>2015 £000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deferred taxation</td>
<td>(30)</td>
<td>(34)</td>
</tr>
<tr>
<td>Net assets</td>
<td>483,643</td>
<td>344,066</td>
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<table>
<thead>
<tr>
<th></th>
<th>2016 £000</th>
<th>2015 £000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital and reserves</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Called up share capital</td>
<td>501,395</td>
<td>356,547</td>
</tr>
<tr>
<td>Profit and loss account</td>
<td>(17,752)</td>
<td>(12,481)</td>
</tr>
<tr>
<td>Total</td>
<td>483,643</td>
<td>344,066</td>
</tr>
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</table>

THE TOTAL NUMBER OF STAFF PAID MORE THAN £60,000 WERE:

<table>
<thead>
<tr>
<th></th>
<th>2016 Number</th>
<th>2015 Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>£60,000 - £69,999</td>
<td>8</td>
<td>6</td>
</tr>
<tr>
<td>£70,000 - £79,999</td>
<td>4</td>
<td>4</td>
</tr>
<tr>
<td>£80,000 - £89,999</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>£90,000 - £99,999</td>
<td>2</td>
<td>1</td>
</tr>
<tr>
<td>£100,000 - £109,999</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>£140,000 - £149,999</td>
<td>1</td>
<td>1</td>
</tr>
</tbody>
</table>

The ratio of highest salary to lowest salary.

www.bigsocietycapital.com/annualreport