



## **Big Society Bank/Big Society Capital**

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This note sets out the establishment of the Big Society Bank and its emergence and connections to the dormant bank accounts legislation. It is now called the Big Society Capital Group and the note gives a list of recipients of BSC funding.

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# 1 Big Society Bank (BSB)

## 1.1 Who pays?

The funding basis for the BSB has its origins in the legislation setting up a scheme to re-use money held in dormant bank and building society accounts which is set out in a Library paper [Dormant Bank and Building Society Accounts Bill \[HL\] Bill 80 of 2007-08](#). The use to which money would be put is set out in Section 18 of the Act.<sup>1</sup>

18 Distribution of money for meeting English expenditure

(1) A distribution of dormant account money for meeting English expenditure must be—

(a) made for meeting expenditure on or connected with the provision of services, facilities or opportunities to meet the needs of young people,

(b) made for meeting expenditure on or connected with—

(i) the development of individuals' ability to manage their finances, or

(ii) the improvement of access to personal financial services,

or

(c) made to a social investment wholesaler.

The use of money in Wales and Scotland was left to the respective national authorities. The order in which these purposes are listed was not entirely random. The Labour Government made it clear that it saw youth services as being the priority. Even before the Bill, during the Pre- Budget Debate in 2005 the then Chancellor, Gordon Brown, said:

Today, I can announce [...] that unclaimed assets held in bank accounts will, once realised, be put to use to improve youth and community facilities throughout Britain. It is right for us as a Government to make a start now. First, the Government are joining with seven of Britain's leading companies to launch the country's first national youth community service. With up to £100 million of initial finance, it will fund gap-year volunteering in Britain and abroad for young people who otherwise could not afford gap years, and it will fund part-time and full-time community service in every constituency. Secondly, because we want the 2012 Olympics and, beyond that, any English bid for the 2018 World cup, to regenerate sport for young people in our country, the Culture Secretary and I are today announcing details of a national sports foundation, modelled on the Football Foundation's successful investment in football facilities. We will invest new money in improving facilities, amenities and participation across all sports in every area of the country.

But as the Youth Green Paper said, more can be done not only to support wider youth services, but to put decisions about the programmes for young people in the hands of young people themselves. So as a first step, we will provide finance for each local authority to set up a young people's fund; for amenities and activities run by young people, and decided on by young people themselves. On average, half a million pounds will be provided for each local authority over the next two years, so that they can strengthen local communities.<sup>2</sup>

In a consultation document issued pre-Bill (*HMT consultation document on Unclaimed Assets distribution mechanism*)<sup>3</sup> the Treasury set out three priority destinations for unclaimed funds and the social investment wholesaler as it was then called, but which came to be referred to as the social investment bank (SIB) although acknowledged was the lowest of these:

- a 'main focus' on youth services;
- financial capability and inclusion; and

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<sup>1</sup> [Dormant Bank and Building Society Accounts Act 2008 c.31](#)

<sup>2</sup> HC Deb 5 December 2005 c614

<sup>3</sup> HM Treasury; [Unclaimed Assets distribution mechanism: a consultation](#); May 2007

- “resources permitting ...a proportion of the available assets used to invest in the long term sustainability of the third sector”.<sup>4</sup>

During discussion on the Bill the Government admitted that it could not say how much it expected to be spent on each category, but indicated that “the main priority for distribution of funds in England will be youth services”.<sup>5</sup> The Government’s preference for youth-related issues explains the fact that the Secretary of State for Children, Schools and Families is envisaged as being the ‘Secretary of State’ wherever that appears in the legislation.

In proceedings in the Lords, the Minister hinted that the inclusion of the financial education objective, its second priority, was done more at the behest of the banks than Government:

He will recognise also that we are dealing with money that is certainly not the Government’s, but is private. Therefore, we needed to negotiate desirable outcomes with the organisations concerned. One priority is improving financial literacy, which has a role to play.<sup>6</sup>

One difficulty with the SIB idea was that to establish it it would need a very large proportion of the money available, to the detriment of the other plans. A report by the Commission on Unclaimed Assets called *The Social Investment Bank*, in March 2007<sup>7</sup> concluded that: “the bank will need £250 million capital and £20 million annual income for four years”.

Both the previous and current governments put considerable effort into supporting what is usually described as the ‘third sector’. This encompasses a broad church of organisations such as charities, voluntary groups, credit unions and mutual societies. Legislation has been forthcoming to improve the ability of things like mutuals to adapt to new economic conditions and funding has been forthcoming to assist with the spread of credit unions and others.

Despite their commitment, action on unclaimed asset distribution was slow, perhaps understandably the financial crisis interrupted policy development with respect to SIB as the Treasury, and the participating banks, had more urgent matters to deal with than to organise something that neither saw as a priority.

However, the SIB idea (now renamed Social Investment Wholesale Bank (SIWB)) was not forgotten and the development of policy continued. In July 2009 a consultation document was issued - [Social Investment Wholesale Bank: A consultation on the functions and design](#).<sup>8</sup>

Since SIWB and the BSB are closely related in both purpose and funding, the July consultation paper is a good source for information on how the BSB might function in practice.

The document revived the ideas produced by the Commission on Unclaimed Assets. It set out the economic and strategic arguments for a SIWB. On funding, the paper gave somewhat contradictory indications. At one stage it said:

We are not, through this document, aiming to identify the resources required to make it happen, which would be the next step. Before knowing what the Bank would do and how it would work, it is impossible to set out the appropriate financial resources.<sup>9</sup>

However, it also acknowledged the role of unclaimed assets:

The Government consulted on a UK unclaimed assets scheme in March 2007. In England, the focus of these resources will be on funding youth services that are responsive to the needs of young people, followed by financial capability and inclusion. Following responses to the

<sup>4</sup> HM Treasury; [Unclaimed Assets distribution mechanism: a consultation](#), p 6

<sup>5</sup> HL Deb 11 December 2007 GC373; HL Deb 15 January 2008 GC481

<sup>6</sup> Ibid GC496

<sup>7</sup> [The Social Investment Bank](#)

<sup>8</sup> Office of the Third Sector under the Cabinet Office; [Social Investment Wholesale Bank: consultation on the functions and design](#); July 2009

<sup>9</sup> Ibid p4

consultation, the Government made it clear<sup>5</sup> that it saw merit in the model of a new social investment institution and recognised a gap in the market at the **wholesale** level.

The Government stated that, resources permitting, it would like to see a proportion of unclaimed assets in England used to support social investment in third sector organisations, by strengthening existing finance providers.<sup>10</sup>

The key here may be the words 'resources permitting'. Since the generally accepted minimum for such an institution was broadly equivalent to the total of expected unclaimed assets, any expenditures on the first two priority areas would severely undermine the effectiveness of SIB. If it was to move forward, the project would effectively require additional funding from somewhere.

Following the consultation the December 2009 Pre Budget Report announced that:

Following consultation on the design and functions of a Social Investment Wholesale Bank, the 2009 Pre-Budget report announces a commitment to take forward further work towards the creation of a new institution. The Social Investment Wholesale Bank will aim to leverage in investment for organisations with social impact from a wide range of sources and improve their access to finance. The Bank will also aim to increase financial inclusion by supporting Community Development Finance Institutions and credit unions, and contribute significantly to innovation in public service delivery. The Bank would be mission-driven, operate at a wholesale level, and would be independent from government.

**5.63** By Budget 2010, Government will finalise the model for the Bank setting out how the institution could grow over time. To fund its initial capitalisation, the Government announces its intention to commit up to £75 million of the funds expected to be released through the Dormant Accounts Scheme in England, subject to the final volume of funds and alongside funding other priorities.

**5.64** To ensure progress towards the release of dormant account funds, the Co-operative Financial Services (CFS) has agreed to support the Government and industry efforts to take forward the Dormant Accounts Scheme, by preparing a plan for the establishment of the Reclaim Fund. The CFS intend to submit an application to the FSA for authorisation to establish and administrate the Reclaim Fund, subject to work going ahead as planned.

**5.65** The Government confirms its commitment to use the majority of the investment from dormant accounts funds to deliver new and improved youth facilities across the country, with at least 25 per cent and up to £100 million of the fund for financial capability, and up to £75 million for the establishment of a Social Investment Wholesale Bank, subject to the final volume of funds available for distribution in England.<sup>11</sup>

Although the SIWB as a concept appeared by now to have climbed up in the order of priorities from that set out in the Dormant Accounts Act, £75 million was still short of what most commentators thought necessary to set it up (about £200 - £250 million).<sup>12</sup>

Interest in the concept continued past the general election and change of government, as it became clear that previous ideas of SIWB could be taken forward within the broad policy plans of the Big Society.

At a time when their joint public reputations were at a low ebb, several of the major UK banks found themselves in the role of unlikely 'fairy godmothers'.

### ***Project Merlin***

Project Merlin was the outcome of negotiations between the banks and government on a number of issues. Its intention was a combination of 'peace' talks and 'reparations'. The Banks wanted a more normal relationship with government (and public). The Government wanted signs of renewed commitment from the banks to the public good, reflecting the public support given to them during and

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<sup>10</sup> Ibid p8

<sup>11</sup> *Pre Budget Report 2009*, CM 7747, HM Treasury p89

<sup>12</sup> The capital sum to set it up would be used to generate funds for distribution, it would in itself not be distributed

after the financial crisis. The banks gave the broad context of the agreement in a statement they issued alongside that of the government. They said:

The context for this agreement is the creation of an accord between the UK Government and the major UK banks – specifically Barclays, HSBC, LBG and RBS, and, in the context of lending, Santander. In entering this agreement, the banks explicitly recognise their responsibility to support economic recovery. The components of the agreement are lending, tax, pay and other economic contributions beyond those. The banks expect, in the light of the statements contained within this document, a commitment by the Government to the stabilisation and improvement of the relationship between the Government and the banks; to the creation of a level playing field internationally for UK banks (in particular consistent with G20 commitments); and, subject to increasing shareholder engagement, the acceptance of the right of self-determination by bank boards.<sup>13</sup>

The agreement covered several aspects of bank performance such as lending targets to business, pay and a commitment to the BSB. The Treasury press release sets this out.

#### Supporting Regional Growth and the Big Society

The banks have today announced additional support of £1.2 billion to support regional growth and the Big Society.

Of this the banks will provide £200m of additional capital over two years to set up the Big Society Bank.<sup>14</sup>

This extra funding would provide the SIWB/BSB with an effective funding base.

## 1.2 The BSB

The Coalition Government issued details about how the BSB would work in a major launch of the Big Society in July 2010. A key announcement was that all funds would be applied to general good works:

The Big Society Bank will be an independent wholesale organisation that will work and invest its funds through existing financial intermediaries like social investors and community lenders, who in turn will increase access to finance for frontline, social organisations.

[...] The Big Society Bank will ensure that all the money from dormant bank accounts made available to England is put to good use for the benefit of society.

Our target is to establish the Bank by April 2011. A key milestone will be the creation of a Reclaim Fund to protect the interests of deposit holders, as required by the Dormant Bank Accounts Act. Co-operative Financial Services are currently in the process of submitting an application to the FSA to perform this role.<sup>15</sup>

The Cooperative Financial Services group first agreed to act as the coordinating body for the reclaim fund.<sup>16</sup> It estimated that the sum to be transferred would be between £60 and £100 million.<sup>17</sup> To this is added 'Merlin' money giving a total in the region of the original recommendations of the Unclaimed Assets Commission.

In March 2011 it was announced by the Cabinet Office that

Sir Ronald Cohen, former chair of the social investment taskforce, and Nick O'Donohoe, former global head of research at JP Morgan, are taking the lead on developing a proposal for a big society bank. They are engaging with the sector, and we expect that they will present their proposal to Government within the next few weeks. At that point, we expect to make an in-principle decision about whether the organisation they are proposing to establish could be the recipient of unclaimed assets from dormant accounts, subject to further development work and

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<sup>13</sup> [Statement](#) by banks on Project Merlin 9 February 2011

<sup>14</sup> HM Treasury [press release](#) 9 February 2011

<sup>15</sup> Cabinet Office [press release](#) 19 July 2010

<sup>16</sup> The reclaim fund is the fund into which dormant money will be transferred by the participating banks

<sup>17</sup> Cooperative Financial Services [press release](#), 20 July 2010

state aid approval. If the decision is made to go ahead, detailed set up work for the big society bank would then be able to commence, including recruitment of its chair and board.<sup>18</sup>

In May 2011, the Cabinet Office published its [outline proposals](#) for the BSB. The BSB's mission is set out as follows:

The BSB's objectives will be to help:

Develop intermediaries to operate effectively between sources of capital and those in need, be they social ventures or individuals, and so to augment the flow of investment and skills to the social sector;

Connect social entrepreneurs to the capital markets so that they can access growth capital;

Support financial innovation so that social organisations can be rewarded for their performance in delivering valued social outcomes;

Develop the investor market through the creation of social investment vehicles that support high growth ventures, as well as smaller local organisations; and

Support the development of community-led, social enterprise initiatives to improve opportunities for young people.<sup>19</sup>

It will:

The BSB will spur development of the market infrastructure necessary to boost social entrepreneurship and investment by supporting the growth of existing and new intermediaries that can:

Develop robust investment propositions with clearly articulated social and financial risks and returns;

Provide reliable independent research on social investment opportunities and organisations; and

Create effective financial markets to trade and issue securities.<sup>20</sup>

It will not:

The BSB will not be a grant-making organisation. Funds deployed will therefore seek both financial and social returns. It is expected, however, that it will often partner with grant-making institutions such as the Big Lottery Fund (BLF), NESTA and foundations that share the BSB's objectives.

[...]

In modelling the financial performance of the BSB, we have split the demand for capital into five categories:

1. Co-investment of equity or debt in social-purpose funds managed by intermediaries;
2. Provision of subordinated capital to social investment intermediaries and funds;
3. Investment in existing intermediaries;
4. Investment in infrastructure organisations; and
5. Investment and underwriting for innovative financial products.<sup>21</sup>

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<sup>18</sup> HC Deb 21 March 39WS

<sup>19</sup> [Big Society Bank Outline Proposal](#), Cabinet Office, May 2011

<sup>20</sup> Ibid

<sup>21</sup> Ibid

### 1.3 Big Society Capital in Action.

The BSB is now the BSC. The main source of information about it is its website which can be found [here](#).<sup>22</sup>

#### **Funding**

BSC estimates that dormant account funding might eventually reach £400 million. In addition Barclays, HSBC, Lloyds and RBS have each invested £50 million of BSC equity and will own 40% of BSC shares.

#### **Investments**

The [website](#) includes a list of investments made by BSC with links to further information about the recipients. A list of the recipients is shown below:

<b>Big Society Capital Investments</b>	
<b>Organisation</b>	<b>Issue</b>
iaam	Adoption social impact bond
resonance	Affordable homes rental fund
Big Issue	Help for financially excluded
Bridges	Social impact bond fund
Clearly So	Social enterprise infrastructure
FSE Group	Community generation fund
DWP	Innovation fund
Essex CC	Essex social impact bond
ethical property	The Foundry
Franchising works	Franchising works licence fund
Impact Ventures UK	Growth capital for social ventures
Nesta Impact Investments	Technology & Innovation Fund
Leapfrog	Leapfrog community energy fund
real lettings	Real Lettings property fund for homeless
Investing for good	Charity bond market support
Social Stock Exchange	Developing Market Infrastructure

*Source: BSC website as at March 2014*

For a wider understanding of the social enterprise funding world readers are recommended to look at a Report produced for the City of London Corporation – [Investor Perspectives on Social Enterprise Financing](#), which describes the social enterprise world from the perspective of the investment and fund management side of things. The Report includes, at the back, a list of the sort of social enterprises which BSC might be involved with and indicates how they might financially contribute. For example, on p160 it gives the example of the Charity Bank which issues bonds on behalf of charities in multiples of £1 million; investing units being £10,000 per investor.

### 1.4 Triennial Review of the Big Lottery Fund Report

Nick Hurd, the Minister for Civil Society, announced the start of the Triennial Review of the Big Lottery Fund in a Written Ministerial Statement on 21 November 2013.

All government departments are required to review their Non-Departmental Public Bodies at least once every three years. The Review will be conducted in two stages. The first stage will examine whether there is a continuing need for the functions performed by the Big Lottery Fund, and whether the organisation should continue to operate in its current form. If it is determined that

<sup>22</sup> Big Society Capital <http://www.bigsocietycapital.com/>



there is a continuing need for the organisation in its current form, the second stage will assess whether the body's control and governance arrangements continue to meet the recognised principles of good corporate governance and whether the Fund operates in an effective and efficient way.

The findings of both stages of the review will be examined by a challenge group. Copies of the report will be placed in the Libraries of both Houses.<sup>23</sup>

The Cabinet Office published the Review on 12 June 2014.<sup>24</sup> Extracts from the full list of recommendations are shown below:-

The three main functions of the Big Lottery Fund (distribution of National Lottery funds, distribution of non-Lottery funds, and distribution of funds from dormant bank and building society accounts) all continue.

The Cabinet Office and the Department for Culture, Media and Sport scope the potential for increased use of a shared service model between the Lottery distributors and other grant making bodies, for corporate services and/or for grant making and the Fund considers shared service opportunities as part of its overall cost control.

The Big Lottery Fund improves the transparency of the way it carries out its work by:-

- (a) promoting the governance arrangements for the organisation more clearly to ensure customers and stakeholders are aware of how and by whom decisions are made
- (b) including management information about the number and type of complaints in the 13/14 annual report and ensure that this becomes a standard part of the annual report going forward
- (c) holding Board meetings open to the public
- (d) reconsidering its approach to publishing data on spend over £500.<sup>25</sup>

A [press notice](#) from The Big Lottery Fund on 12th June, 2014 welcomed the publication of the Review and its conclusion that the Fund is highly respected and 'a valued organisation with an important role to play with the Voluntary, Community and Social Enterprise sector as well as with the public sector partners and business stakeholders'.

Peter Ainsworth, the Fund's Chair said: "I am confident that we are making good progress towards growing and developing the Fund's vision in accordance with many of the recommendations made in the review. I will now be discussing with the Board the areas of our work and operations that we can further enhance to ensure the best possible service for our customers and stakeholders."

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<sup>23</sup> [HC Deb 21 November 2013 c55WS](#)

<sup>24</sup> [Triennial Review of the Big Lottery Fund Report](#), Cabinet Office, June 2014

<sup>25</sup> [Ibid; Full list of recommendations](#) p14