

## **HM Treasury and Office of the Third Sector's Consultation on 'Unclaimed Assets Distribution Mechanism': A response from Social Enterprise London**

Social Enterprise London (SEL) welcomes the opportunity to discuss the unclaimed assets distribution mechanism. SEL promotes social enterprise solutions to economic and social issues in the capital. With a membership of over 420 social enterprise organisations in the London Social Enterprise Network, SEL serves as the representative voice for social enterprise in London. Members of the London Social Enterprise Network have been consulted in the process of preparing this final response.

The distribution of unclaimed assets to serve the needs of youth, financial capability and inclusion, and the third sector is a programme that should be supported. SEL believes that this should only be carried out if the assets have been submitted to due process by a reclaim fund that guarantees the primacy of ownership and privacy of customer accounts in banks and building societies.

Given the growth in social enterprise and the third sector in the United Kingdom, SEL also believes that social enterprise and the third sector should be made a priority. This is a great opportunity to support social enterprise organisations that can deliver youth services, have the financial capability and is inclusive. As an example, youth clubs could be set up as social enterprise hubs where social entrepreneurs involve young people within the running of their enterprise. The enterprising model, and the buy-in from the young people, would make the venture more sustainable than providing support in the form of grants to set up youth clubs. Capitalising and investing in such enterprises should be the focus of the proposed social investment bank.

At the same time, there is a need to be innovative in investing these funds. There is room to also look into other projects that could potentially bring significant social and financial returns.

### **Question 1: Are the principles underpinning the distribution of the available surplus assets the right ones?**

The scheme's principles of fair distribution, accountability, transparency, and efficiency set a strong framework for the distribution of the available surplus assets. There is a determined effort to make the assets a separate and community focused resource in the government funds, and to do this in such a way that uses the third sector, including a substantial number of social enterprises, as an essential partner in delivery as well as a beneficiary. In addition to this framework it would be vital that stakeholders in the third sector receive concrete examples of what sort of investment would take place. For instance, being clear about what projects are included in "practical projects in local communities"? (Page 7). It is also best for the wider context (e.g. support for centres, greater parental involvement, youth-related social enterprises) to be considered in deciding which projects to fund.

The prioritisation of young people followed by financial capability and inclusion and the third sector highlights a very important assessment of social objectives. In practice, however, the involvement of the third sector as deliverer could be improved by initial investment in selected charities and social enterprises to ensure that their delivery is appropriate and effective. This selection could be a preliminary part of the scheme and reviewed on a regular basis. This would improve the sustainability of the third sector as well as provide for the delivery of services to the youth services and financial capability and inclusion, and ensure that returns on investments could play a more central part in the funding process. It would also set in place a principle for fair distribution that sees

country and region specific distribution predicated on the basis of level of suitability of deliverers in addition to level of need.

The principles beg the question of what form of funding will take place for the third sector organisations that administer the investment. A central part of a sustainable program is that there is a model for how beneficiary and benefactor interact, and how they develop through their relationship to ensure a return on investment, therefore becoming more effective in their relationship. The sustainability of the funding would be greatly benefited by more detailed specification of what funding will take place for the third sector both as vehicle and recipient of the funds.

**Question 2: Where is the greatest need for finance and funding for third sector organisations that is not currently being met in the market?**

There are an enormous number of barriers to organisations in the third sector being set up. Foremost of these is the practical knowledge of how to obtain funding and how to draw on the available sources of business support. Despite these difficulties there has been growth in the size of organisations in the third sector, and this growth is enjoyed by an increasingly small slice of the market. The market could benefit greatly by more investment in start up companies in order to increase innovation and a wider distribution of resources. Funding for core activities and R&D is also much needed. Research conducted by the London Social Economy Taskforce point to the fact that social enterprises need specialist support in governance, finance, and feasibility studies which is not provided through the generic business support provision. Specialist business support for organisations such as social enterprises needs to be made available.

If the focus is on how to ensure organisations become sustainable, then a clear route would be to encourage asset management. However in order to develop an asset management strategy they need to become investment ready. Following from this, organisations will then be able to access resources to buy assets and develop a sustainability strategy.

**Question 3: Is there a need for a specialist social investment wholesale institution?**

Yes. The idea has been suggested for a number of years. Various investment models have been looked at. Alternatives such as a third sector stock market has been muted. However, if finance for the third sector is to move to the next level then there is a clear need to develop a wholesale institution using expertise such as the Big Invest.

The institution should have the scale of finance to eventually become self-financing. Ideally, it should aim to have the scale and profile such that it leads growth in other forms of social investments too.

**Question 4: Is this the best means of increasing the investment available to sustainable third sector organizations?**

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**Question 5: If so, what kinds of activities should the wholesaler focus on?**

Yes. Client streams to third sector organisations are frequently unreliable and it would therefore be most important to have a social investment institution that provides grants to meet this shortfall in a sustainable way. On the donor side, there should be a management service to ensure that donations are sustainable and encouraged to grow. If possible, the social investment institution should aim to reach the areas of the social economy that are hard to reach through the normal

channels of government and charitable endeavor. This especially includes communities that are disadvantaged linguistically or economically to the extent that they are unable to get the help on where to look for government or charitable assistance. However, this is likely to incur a greater administration cost on the distribution of funds. If it is the case that the most efficient use of resources takes place, then the wholesaler focus should be on distributing funds in the most straightforward manner which does not require lots of hand holding or support to the third sector organisation who will be in receipt of these funds.

The wholesaler should also focus on those areas outlined in the Government's own Third Sector review (e.g. children's services and provision, education, environment, health) and on boosting targets in the Social Enterprise Action Plan.

**Question 6: Is the proposal to use the Big Lottery Fund as the primary UK-wide distribution vehicle for the available surplus assets the right one, based on the principles for distribution outlined in this document?**

The Big Lottery Fund has a structure that is well established as a channel for distributing public money to projects of community and charitable importance. It also has the brand and the profile to help it function well. It therefore represents a good option in the choice of an existing rather than a newly created agency for the distribution of unclaimed assets.

However, a number of commentators have pointed out that the process of channeling money through BIG before then going on to the organisations that will distribute the funds to the projects that really need it is at odds with the principle of the distribution being fair and efficient. There needs to be a thorough review of the means by which BIG will carry out the role in order to make sure that it will deliver both fairly and efficiently. The whole process must be transparent. It should also be mentioned that BIG is also disadvantaged in the broadness of its appeal. There are certain religious groups that, for matters of principle, would prefer not to partner with it, or receive money from it, due to its relationship with gambling

**Question 7: What are the different approaches that the Big Lottery Fund could take to the distribution of the available assets to ensure they deliver maximum benefit to communities? How should BIG best work with other intermediaries and deliver partners to ensure the best outcomes?**

Research carried out by Social Enterprise London has consistently shown that the most cost efficient funding support for the third sector is a mixture of capacity building and investment grants. The model used by Futurebuilders to support start up and fledgling businesses has had significant success using this combination. Contracting as a method of support has also shown considerable benefits along side grants and capacity building.

It is important that the delivery is carried out with the guidance of a board of practitioners from within the third sector. This will allow the assessment of the needs within the sector to be as comprehensive and precise as possible. A particular danger of using assessment that is anything less than expert could cause the existing structure of independent funding to be partially offset and act negatively on those organisations.

The different equalities strand should also be catered for. For example, gender impact assessments could become an important element of all community projects BIG chooses to fund. Monitoring may also take account of take-up by gender.

Another possibility is to consider match funding existing grants given to some organisations. This would assist organisations with smaller funding to extend their reach and sustainability. BIG should also explore working alongside other new financial instruments emerging in the sector now.

**Question 8: Do you agree with the proposals for how legislation will work in relation to the distribution of these assets?**

The use of evidence gained from the HM Treasury and Cabinet Office review of the role of the third sector in economic and social regeneration, along with the structure of BIG and a program for locally based financial institutions to channel unclaimed assets through an arm's length charity set a solid basis for making effective change to youth services and financial capability and inclusion.

In terms of long term sustainability, there needs to be a stronger legislative emphasis on the partnership with the third sector to make sure that the source of expertise is used to its utmost benefit. This would allow the programme to have a more social economy specific role rather than merging with BIG's existing role. The effectiveness of this role would also be enhanced by making the scheme mandatory for small-locally based institutions. As an optional scheme, sustainability will be compromised; investment will not be as reliable or embedded in the local community, and it could act as a substitute to bank's and building societies normal charitable operations. A 'light touch' can be maintained in a mandatory scheme by setting different levels of contribution depending on institution size.

8 August 2007