WHAT A RELIEF!

A review of Social Investment Tax Relief for charities and social enterprises

Written and researched by David Floyd
Introduction – about this report

In Autumn 2017, Social Investment Business (SIB) commissioned Social Spider CIC to consider how best they could support charities and social enterprises to make more and better use of Social Investment Tax Relief (SITR)\(^1\).

The outputs of this research consisted of an internal report to SIB to inform their work in this area and this external report providing an overview of the development of the market for SITR since its launch in 2014.

This report considers:
- The purpose of SITR
- The place of SITR within the wider social investment market
- How successful SITR has been so far
- Whether and how SITR could be more widely used

Over the course of the project we talked to:
- Charities and social enterprises
- Social investors
- Social investment Infrastructure organisations
- Civil servants
- Wealth managers
- Others with an interest in the development of the market\(^2\)

The report draws on these interviews alongside the best data currently available on SITR-eligible investment deals.

We hope this research can contribute to the ongoing efforts to promote and develop SITR as an effective tool to help charities and social enterprises access the finance they need to create more positive social impact.

I’d like to thank Gen Maitland-Hudson, Kirsten Mulcahy and Oliver Monty at Social Investment Business for supporting this research, and Chris Dadson who originally commissioned the project. Additional thanks to Jess Daggers, Ged Devlin and Dan Gregory for their feedback on earlier drafts.

David Floyd
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We are also grateful to all the interviewees who talked to us as part of this research.

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\(^2\) See Appendix A for full list of interviewees
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1. What is SITR?

1.1 Launch

Social Investment Tax Relief (SITR) is a tax break for individual investors making investments into charities and social enterprises. The relief was launched in 2014 as part of the government’s drive make the UK ‘the easiest place in the world to invest in social enterprise’.

SITR is the charity and social enterprise equivalent of existing venture capital schemes - Enterprise Investment Scheme (EIS) and Seed Enterprise Investment Scheme (SEIS), that aim to encourage private investors to invest in early stage companies and other small businesses.

1.2 What it offers

SITR enables investors to deduct 30% of the value of qualifying investments from their income tax bill.

These investments must be made into charities, Community Interest Companies or Community Benefit Societies that carry out a ‘qualifying trade’, have fewer than 500 employees and have assets of no more than £15 million.

The investments can be either equity or unsecured debt, and must be held for minimum of three years - although interest on loans can be paid during this period.

Initially the maximum amount of investment eligible for relief was around £300,000. This was raised to £1.5 million in April 2017.

Aside from the organisations that are eligible, the main difference between SITR and other venture capital schemes is the fact that it is available on debt as well as equity investments. This means that, while investors in private businesses via EIS and SEIS can only get a return on their investment through dividends or by selling their shares, investors making SITR-eligible loans can have their capital repaid after three years.

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4 [https://www.gov.uk/guidance/venture-capital-schemes-tax-relief-for-investors](https://www.gov.uk/guidance/venture-capital-schemes-tax-relief-for-investors)
5 [https://www.gov.uk/government/publications/income-tax-enlarging-social-investment-tax-relief/income-tax-enlarging-social-investment-tax-relief](https://www.gov.uk/government/publications/income-tax-enlarging-social-investment-tax-relief) - although these changes were announced in April 2017 they were not actually implemented until November 2017
2. Why the need for SITR?

All discussions about the need for different forms of social investment are contested and there are even ongoing debates about the extent to which social investment is needed at all⁶. While acknowledging that differing perspectives will continue to exist, this section outlines the potential role of SITR within the wider social investment market.

2.1 Growing the social investment market

The term ‘social investment’ became widely used in the 2000s following the launch of the first Social Investment Task Force⁷, chaired by Sir Ronald Cohen. During this period, a small ‘social investment market’ developed including government-backed funds such as Adventure Capital Fund and Futurebuilders, alongside specialist social investors such as CAF Venturesome, Key Fund and Big Issue Invest.

On coming to power in 2010, the Coalition government took on the outgoing Labour government’s plan to launch a social investment wholesale institution, with aim of creating a social investment market big enough to enable charities and social enterprises to scale-up their activities.⁸

Since its launch in 2012 that institution, Big Society Capital, has had an impact on the social investment market in two major ways:

1. There has been a significant increase in the overall amount of money being invested
2. There has been a significant increase in the average size of investments

2.2 More money and bigger deals

As shown below, the annual value of social investment deals almost trebled between 2011/12 and 2016. Alongside this increase in the overall size of the market there was also a major increase in the value of what Big Society Capital describe as ‘non-bank’ investment.

The term ‘non-bank investment’ is used to describe a range of different forms of investment that are not secured loans or other forms of property-related investment. The significance of this ‘non-bank investment’ is that it is particularly difficult for charities and social enterprises to get from mainstream investors (such as high street banks).

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⁶ https://www.thirdsector.co.uk/truth-social-investment-asks-craig-dearden-phillips/finance/article/1388442
⁷ https://sirronaldcohen.org/commissions-task-forces
On the one hand, the figures below show that the financial value of ‘non-bank’ investment in the social investment market substantially increased between 2011/12 and 2016. On the other hand, the actual number of investments made decreased. More money was invested, but fewer organisations received any money at all.

### 2.2.1 Total value, number and average size of investment deals

#### Total value of investment deals (£ million)

- **2011/12**
  - Total value: £264,000
- **2016**
  - Total value: £735,000

#### Total number of investments

- **2011/12**
  - Total: 765
- **2016**
  - Total: 810

#### Average investment size

- **2011/12**
  - Average: £264,000
- **2016**
  - Average: £735,000

### 2.2.2 Total value, number and average size of ‘non-bank’ investment deals

#### Total value of ‘non-bank’ investment deals (£ million)

- **2011/12**
  - Total value: £65,000
- **2016**
  - Total value: £149,000

#### Total number of non-bank investments

- **2011/12**
  - Total: 536
- **2016**
  - Total: 477

#### Average non-bank investment size

- **2011/12**
  - Average: £65,000
- **2016**
  - Average: £149,000
2.3 Supply vs. Demand

The best available data on demand for social investment from charities and social enterprises offers two consistent messages:

- Most charities and social enterprises that want investment want relatively small amounts of money
- Most charities and social enterprises want unsecured investment
- Many charities and social enterprises want flexible investment products

The figures below from Social Enterprise UK (SEUK)’s State of Social Enterprise Surveys\(^9\) show that the average size of investments sought is consistently below the average size of investment available from the social investment market.

<table>
<thead>
<tr>
<th>Year</th>
<th>Median Investment Sought by Social Enterprises</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>£58,000</td>
</tr>
<tr>
<td>2015</td>
<td>£60,000</td>
</tr>
<tr>
<td>2017</td>
<td>£80,000</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Secured against...</th>
<th>2013</th>
<th>2015</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business</td>
<td>N/A</td>
<td>38%</td>
<td>29%</td>
</tr>
<tr>
<td>Personal Assets</td>
<td>N/A</td>
<td>6%</td>
<td>10%</td>
</tr>
<tr>
<td>Unsecured</td>
<td>N/A</td>
<td>50%</td>
<td>52%</td>
</tr>
</tbody>
</table>

Other research highlights the demand for flexible investment products beyond conventional loans. The biggest single survey of social investment demand, *Investment Readiness In the UK*\(^10\), reported that 49% of respondents were interested in a ‘mixed-funded product’ - a mixture of grant and loan finance - while only 7% had been able to secure it.

This point is reinforced by qualitative research from 2017\(^11\) carried out by SEUK for Social and Sustainable Capital, which emphasised demand from social enterprises for flexible investment products and greater risk sharing with investors. The report recommended that social investors: “review existing product offerings for their ability to flex to potential investee needs, and for their factoring in of risk on both sides.”

This creates an overall picture of a social investment market which is meeting the needs of some, mostly larger, organisations with increasing levels of success - but is struggling to meet the needs of smaller organisations seeking types of finance unlikely to be offered by mainstream providers.

This is particularly important because the vast majority of charities and social enterprises are small:

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\(^9\) [https://www.socialenterprise.org.uk/Pages/Category/state-of-social-enterprise-reports](https://www.socialenterprise.org.uk/Pages/Category/state-of-social-enterprise-reports)


• Charity Commission figures\(^{12}\) show that 93% of charities have a turnover of under £500,000
• SEUK research\(^{13}\) reports that the median turnover for social enterprises is £125,000 with 86% having a turnover of £1 million or less.

2.4 Why can’t charities and social enterprises get what they want?

In 2014, then Chief Executive of Big Society Capital, Nick O’Donohoe, expressed the view that, for social investors making investments of £250,000 or less: “some part of the investment will always have to be grant.”\(^{14}\)

He explained that subsidy was necessary because: “small loans are expensive. They’re expensive to originate, they’re expensive to monitor. The default risk is always going to be reasonably high and there’s a point at which the rate of interest is just inconsistent with the social mission of the enterprise.”

2017 research by this author for Access - The Foundation for Social Investment on subsidy\(^{15}\) identified four groups of tools used to subsidise various aspects of the development of the UK social investment market:
• Grant funding
• Tax breaks for investors
• Guarantees for investors
• Subordinate investment

A blog published alongside this research\(^{16}\) highlighted two broad categories of need, where charities and social enterprises would not be able to offer investors sufficient returns to justify their investment without subsidy:

• **Clearly socially useful, not quite commercial** – investment into charities and social enterprises that are close to being commercially investable, but whose business models’ would be significantly damaged by the attempt to repay an unsubsidised commercial investment.

• **Venture Capital (VC)**\(^{17}\) **risks / ISA**\(^{18}\) **returns** – investment into charities or social enterprises that, if the investment is successful, would generate positive social impact

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\(^{16}\) [https://access-socialinvestment.org.uk/blog/first-billion-subsidy-next/](https://access-socialinvestment.org.uk/blog/first-billion-subsidy-next/)

\(^{17}\) [https://www.investopedia.com/terms/v/venturecapital.asp](https://www.investopedia.com/terms/v/venturecapital.asp)

\(^{18}\) [https://www.nationwide.co.uk/products/isas/isas-explained](https://www.nationwide.co.uk/products/isas/isas-explained)
that is: (a) on a huge scale (b) unusually transformative or (c) both on a huge scale and unusually transformative. While the potential social returns are the equivalent of those of a tech startup seeking VC funding, the potential financial returns are relatively modest even if the investment is successful.

SITR is a tax break that has the potential to meet both of these needs. It either:
1. Enables investors to seek a lower rate of return than they would otherwise need to justify their risk - for example, by offering a loan at a lower rate of interest - or:
2. Provides investors with an incentive to make investments that would too risky for them to make at all with receiving a tax break

2.5 All’s well that blends well
The main tool currently being used to de-risk small investments to relatively small organisations within the UK social investment market is blended finance: a mixture of grant and loan finance.

The single biggest blended finance programme is the Access Growth Fund\(^\text{19}\), a £45 million fund which provides intermediary social investors with a mix of loan finance from Big Society Capital, and grant funding from Big Lottery Fund to enable them to provide unsecured investments of £150,000 or less.

Other funders offering blended finance on a smaller scale include Power to Change, who provide grant funding to de-risk investment by partner social investors including SASC and Key Fund on a case-by-case basis.

2.6 Why SITR offers something different
SITR is a useful alternative de-risking tool to blended finance for two main reasons:

A. Grant funding is a scarce resource
The two biggest current sources of blended finance within the UK social investment market – Access: the Foundation for Social Investment\(^\text{20}\) and Power to Change\(^\text{21}\) – are both time-limited organisations who will cease to exist in the mid-2020s. Access has already allocated the majority of the money it has available to support blended finance.

In the absence of major funders with a specific commitment to blended finance, social investors seeking subsidy will be competing in the wider market for grants with all other possible uses of grant funding.

B. Tax breaks are specifically designed to mitigate risk of failed investments

\(^{19}\) https://access-socialinvestment.org.uk/blended-finance/the-growth-fund/
\(^{20}\) https://access-socialinvestment.org.uk/us/what-we-do/
\(^{21}\) https://www.powertochange.org.uk/about-us/our-ambition/
Blended finance usually involves providing a small amount of grant funding to unlock a larger amount of social investment. For example, a £10,000 grant enables a social investment of £50,000.

It is a model that is particularly well suited to supporting investment into organisations that fit the category of ‘clearly socially useful, not quite commercial’.

These might be organisations such as cafés, training organisations or recycling businesses that:

I. definitely have some customers  
II. are likely to be able to generate most of the income they need to keep going  
III. but due to their social focus—such as being based in a low-income area and/or employing with a disability—are unlikely to generate enough profit to repay an unsubsidised investment.

Good projects that almost work as businesses represent a high risk unsubsidised investment but they are a low risk grant funding opportunity.

Blended finance is less useful as a tool to subsidise investments in the ‘VC Risks / ISA Returns’ category. These investments are not just high risks investments, they are also high-risk grant funding opportunities. They are likely to require both a higher percentage subsidy and a larger amount of subsidy—and most grant funders are very wary of spending large amounts of money on big, new ideas that may not work.

Venture capital schemes\(^\text{22}\) EIS and SEIS are specifically designed to support investment into mainstream businesses that are great ideas which may not work.

SITR is designed to fulfill the function of these mainstream venture capital schemes for charities. However, to fulfill this function successfully, three key conditions need to be in place:

- Individual investors want to invest  
- Charities and social enterprises are willing and able to use the kind of investment that is on offer  
- The rules of the relief are fit for purpose.

The following sections show that these conditions are not yet in place to a significant extent while considering what would need to change in order to improve this situation.

\(^{22}\) [https://www.gov.uk/guidance/venture-capital-schemes-tax-relief-for-investors](https://www.gov.uk/guidance/venture-capital-schemes-tax-relief-for-investors)
3. How is SITR used?

3.1 Advance Assurance
Organisations seeking to offer an investment opportunity providing investors with SITR can contact HMRC to check whether the investment is eligible via a process called Advance Assurance\(^\text{23}\).

This process involves providing HMRC with documentation both about your organisation’s eligibility for SITR and about the investment for which you are seeking approval.

HMRC either approve the request and send a statement to be shown to investors saying that the investment is likely to qualify for SITR or send an explanation of why the request has not been approved so that (if you still intend to offer SITR) you can make the necessary changes.

3.2 Approaches to raising SITR investment
In a technical sense, SITR can be deployed in three ways. The two main models are:

A. Discretionary investment agreements with investment managers marketed as SITR loan funds. Intermediary organisations set up SITR funds enabling investors to invest into organisations selected by the fund managers

B. A charity or social enterprise creates its own investment and seeks investors directly

In addition:

C. Social Impact Bonds – companies set up to deliver Social Impact Bonds can be eligible for SITR if they receive accreditation from the Cabinet Office.

In practice, ‘B’ splits into two broad strands and ‘C’ is an option that relates to Payment by Results contract funding rather than risk finance for ongoing business activities.

As a result the main SITR products currently on offer to investors are:

1) **SITR Funds** – Intermediary organisations set up SITR funds enabling investors to invest into organisations selected by the fund managers

2) **Crowdfunding platforms** – an organisation seeks direct investment from individual investors (including retail investors) through a website which ensures that the offer complies with relevant financial regulations

3) **Private offers** – an organisation creates its own investment offer (after receiving appropriate legal advice) and makes it available to individual investors including High Net Worth Individuals (HNWIs).

\(^{23}\) [https://www.gov.uk/guidance/venture-capital-schemes-apply-for-advance-assurance](https://www.gov.uk/guidance/venture-capital-schemes-apply-for-advance-assurance)
3.2.1 SITR Funds

SITR funds are specialist funds set up by social investment intermediaries (sometimes working with other investment partners) to take SITR-eligible investment from a pool of sophisticated investors and invest the money into charities and social enterprises.

While the money in the funds is technically split into individual investments, the application process for charities and social enterprises is similar to the process of applying for any investment from a fund run by an intermediary social investor.

Four specialist SITR-funds have been set up following the launch of the relief in January 2014 (see table).

In addition to this, investment managers, Triplepoint, arranged several SITR-eligible deals\(^{24}\).

<table>
<thead>
<tr>
<th>Loan Funds</th>
<th>Bright Futures SITR Fund(^{25})</th>
<th>SIS Community Capital(^{26})</th>
<th>Resonance Bristol SITR(^{27})</th>
<th>Resonance West Midlands SITR(^{28})</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Social Investor</strong></td>
<td>Social Finance with Kin Capital</td>
<td>Social Investment Scotland</td>
<td>Resonance</td>
<td>Resonance</td>
</tr>
<tr>
<td><strong>Launched</strong></td>
<td>2014</td>
<td>2015</td>
<td>2016</td>
<td>2018</td>
</tr>
<tr>
<td><strong>Time period</strong></td>
<td>3-5 years</td>
<td>6 years</td>
<td>6 years</td>
<td>6 years</td>
</tr>
<tr>
<td><strong>Interest rate for investees</strong></td>
<td>Between 5% and 10%</td>
<td>6%</td>
<td>6%(^{29})</td>
<td>6%</td>
</tr>
<tr>
<td><strong>Predicted return to investors</strong></td>
<td>Target IRR 4% excluding SITR (^{30})/ Estimated 12% IRR including SITR</td>
<td>1.5% / 7% Gross IRR dropping to 3% if 25% defaults(^{31})</td>
<td>7-8% Post Tax Relief (12% Gross Equivalent)(^{32})</td>
<td>7-8% Post Tax Relief (12% Gross Equivalent)</td>
</tr>
</tbody>
</table>

\(^{24}\) Big Society Capital data records 4 deals worth £137,000 however this is not confirmed.
\(^{27}\) [https://resonance.ltd.uk/investment-opportunities/bristol-sitr-fund/](https://resonance.ltd.uk/investment-opportunities/bristol-sitr-fund/)
\(^{28}\) [https://resonance.ltd.uk/resonance-west-midlands-sitr-fund-video/](https://resonance.ltd.uk/resonance-west-midlands-sitr-fund-video/)
\(^{29}\) [http://resonance.ltd.uk/get-investment/](http://resonance.ltd.uk/get-investment/)
\(^{30}\) [https://eqinvestors.co.uk/research/bright-futures-sitr-fund/](https://eqinvestors.co.uk/research/bright-futures-sitr-fund/)
\(^{31}\) Confirmed via email from Thomas Gillan
\(^{32}\) [http://resonance.ltd.uk/investment-opportunities/bristol-sitr-fund/](http://resonance.ltd.uk/investment-opportunities/bristol-sitr-fund/)
3.2.2 Crowdfunding platforms

A second route for SITR-eligible investment is through direct offers posted on ‘Alternative Finance’ platforms. In this instance, the platform is responsible for ensuring that the information a business provides about itself is as accurate as it can be. But it is up to the individual investors to decide whether or not the investment offer is right for them.

The markets for what Nesta describes as ‘Alternative Finance’ have been growing fast in recent years\textsuperscript{33}. In 2015 British businesses took on £881 million in peer-to-peer lending (excluding real estate) via platforms such as Funding Circle and £243 million in equity-based crowdfunding via platforms such as Seedrs and Crowdcube.

However, these investment routes are not available to most charities and social enterprises. Equity-based crowdfunding is not available to organisations who cannot sell shares, while peer-to-peer lending is unlikely to be available due to the wariness of platforms over lending to charities and social enterprises. In the case of Funding Circle, the single biggest peer-to-peer platform, charities and social enterprises are specifically excluded from taking on loans as a matter of policy\textsuperscript{34}.

Despite these challenges, Big Society Capital recognised the potential value of SITR in making Alternative Finance more accessible to charities and social enterprises. In December 2016, they launched the Crowdmatch fund to provide £10 million of investment to match individual SITR-eligible investments made via three crowdfunding platforms: Community Chest (loans), Crowdfunder (community share offers) and Ethex (bonds and community share offers)\textsuperscript{35}.

Unlike investments via funds or private direct offers, these crowdsourced offers enable charities and social enterprises to take on small amounts of investment (often from as little £100) from large numbers of investors. This means they potentially offer additional benefits beyond just raising money - and (see Future Wolverton case study) are likely to attract some investors who are more interested in supporting the project than getting their money back with interest.

\textsuperscript{33} https://media.nesta.org.uk/documents/pushing_boundaries_0.pdf
\textsuperscript{34} Email correspondence between author and Funding Circle.
Case Study A – Future Wolverton

**Type of investment:** Community share issue

**Type of offer:** Direct investment via crowdfunding platform

**Amount raised:** £122,666

**Number of investors:** 125

**Term:** Withdrawable shares (no term limit)

**Interest:** 2% (from 2019/20)

Future Wolverton is a Community Benefit Society that aims to establish Wolverton as a thriving and sustainable town through activities including incubating a community energy business and transforming local buildings for community use.

In 2016 the organisation was given the opportunity to buy the Old School, a listed building in the town, and received a grant from Social Investment Business to carry out a feasibility study.

Following the completion of the feasibility study, Future Wolverton successfully applied for £450k worth of grant funding from Power to Change but then - as the costs of refurbishment increased - needed to raise additional finance to get to the point where the building could generate income from operating a cafe and community space.

As Chief Executive Marie Osborne explains: “we got the building but it didn’t look like we would be able to do anything with it, so we decided to go into the unchartered territory of community shares.”

The organisation decided to raise as much as possible of the money it needed through a community share offer via the online platform, Ethex and were advised that offering SITR would help them to make their investment offer attractive to investors from beyond the local area.

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36 https://www.powertochange.org.uk/get-inspired/stories/future-wolverton/
37 https://www.ethex.org.uk/future-wolverton—offer-closed_1894.html
The SITR approval came through after the offer had launched and while locally based investors had been happy to invest at the 2% interest rate offer ‘for love’, Osborne believe the ability to offer SITR helped to attract investors from beyond the local area: “My impression is that they came in when we had SITR in place. I think it made a little bit of a difference, but not between whether or not our share offer was successful or not.”

Osborne makes clear that SITR is only one part of the investment package. “I was just looking for ways to get more people interested in the share offer…. It is presented as the answer, and no one thing in social investment is the answer.”

Ultimately the organisation raised £122,666 towards the total £250,000 it needed. 64% of orders came from investors with a local postcode, however 58% of the money came from investors previously registered on the Ethex platform - as opposed to investors who had signed up specifically to invest in Future Wolverton’s offer.

Future Wolverton subsequently raised the additional finance it needed in loans from institutional investors, including £110k from the Architectural Heritage Fund.
3.2.3 Private offers

Private offers are direct investment offers which are not made available to the general public. The organisation making the offer contacts a specific group of individuals and asks whether they would be interested in making an investment.

This could mean contacting investors who have a common interest (see Shofar case study) or where investors are identified as sophisticated investors (see Breadshare example).

The process for this kind of offer is that a charity or social enterprise decides how much investment it wants and on what terms, then - having received appropriate legal advice - sends the offer to the potential investors who decide whether they would like to invest.

The small number of SITR-eligible private offers so far includes examples both of organisations literally doing it themselves - with a small amount of legal support - and examples of organisations who have been supported to create offers through social enterprise support programmes.
Case Study B – Shofar Daycare Nursery

Type of investment: Loan
Type of offer: Direct investment
Amount raised: £200,000
Number of investors: 25
Term: 7 years
Interest: Unknown

Shofar Day Care Nursery is a nursery set up by two local synagogues in East Finchley, North London. In 2015, the organisation was seeking investment to get up and running, and decided to seek loan finance from the local community including parents sending children to the nursery.

Trustee Paul Israel, the organisation’s treasurer, explains why SITR made sense for the charity: “It is a community nursery, and it was an easy way to raise money. There was a social dimension to it. It was an easier pitch than asking people to give or to lend. The tax relief made a big difference.”

The organisation raised £200,000 of the total £600,000 it needed through SITR-eligible investment. The largest individual investment was £40,000 and the smallest was £2,000. There was strong interest in the offer and the limit on SITR investment in place at the time prevented more investment being raised: “It didn’t feel a big risk because(...) a lot of people in the community were pushing kids to the centre. At the time, the limit constrained us. We would have raised more money from it if we could have.”

As Shofar were one of the first organisations to make use of SITR, they received legal support to go through the Advance Assurance process, however the actual process of securing investment was not overly complicated.

Generally, Israel found that SITR worked well alongside other sources of finance: “I think the timing of it was quite good. We got ⅓ of our funding from it. The other methods worked. It meant that the number of people who were involved grew.”
4. What has happened so far?

Since SITR was launched in January 2014 use of the relief has been limited and the data available on this use is also limited.

Two main sets of data are currently available:
I. official figures from HMRC, which provide limited information (4.1)
II. a database of deals developed by Big Society Capital (4.2)

The overviews below provide an incomplete but indicative picture of SITR-activity so far.

4.1 HMRC data overview:
A report published by HMRC in May 2018 provides the figures for charity and social enterprises raising funds over the first three years of SITR (see table 3.2.1).

These figures show a total of £5.1 million raised by (up to) 35 charities and social enterprises, compared to a predicted figure of £83.3 million - based on Treasury estimates of the cost of the relief.

4.1.1 Treasury Estimates for Cost of SITR

<table>
<thead>
<tr>
<th>Year</th>
<th>2014-15</th>
<th>2015-16</th>
<th>2016-17</th>
<th>2017-18</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Estimated</td>
<td>0</td>
<td>£5 million</td>
<td>£10 million</td>
<td>£10 million</td>
<td></td>
</tr>
<tr>
<td>Predicted</td>
<td>£16.6 million</td>
<td>£33.3 million</td>
<td>£33.3 million</td>
<td>£83.3 million</td>
<td></td>
</tr>
<tr>
<td>Actual</td>
<td>£0.5 million</td>
<td>£2.3 million</td>
<td>£1.8 million</td>
<td>£5.1 million</td>
<td></td>
</tr>
<tr>
<td>Dealflow</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

4.1.2 Investments made
The most recent official figures show just 35 SITR-eligible investments were made in the first three years following the launch of the relief and that the amount raised dropped in 2016-17 compared to the 2015-16 figure.

---

4.1.3 Number of enterprises raising funds through SITR and amounts raised, from 2014-15 to 2016-17

<table>
<thead>
<tr>
<th>No. Enterprises raising funds</th>
<th>Funds raised (£ million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014-15 5</td>
<td>0.5</td>
</tr>
<tr>
<td>2015-16 15</td>
<td>2.3</td>
</tr>
<tr>
<td>2016-17 15</td>
<td>1.8</td>
</tr>
<tr>
<td>2017-18 N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>Total N/A 40</td>
<td>5.1</td>
</tr>
</tbody>
</table>

4.1.4 Advance Assurance Applications
Applications for Advance Assurance grew significantly during the first three years of the relief but this was followed by a big drop in the fourth year. Factors in this drop are likely to include the increase in excluded activities and uncertainty about amendments to the legislation.

The figures below do not always add up due to HMRC’s policy of rounding up or down to the nearest five.

4.1.5 No. of enterprises seeking Advance Assurance (graph)

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40 No figure given as ‘enterprises may raise funds in more than one year’
4.1.6 Total no. of enterprises seeking Advance Assurance

![Circle chart showing applications received, approved, rejected, pending or not approved.]

4.1.7 No. of enterprises seeking Advance Assurance (table)*

<table>
<thead>
<tr>
<th></th>
<th>2014-15</th>
<th>2015-16</th>
<th>2016-17</th>
<th>2017-18</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Applications Received</td>
<td>20</td>
<td>65</td>
<td>175</td>
<td>80</td>
<td>345</td>
</tr>
<tr>
<td>Applications Approved</td>
<td>15</td>
<td>45</td>
<td>120</td>
<td>30</td>
<td>215</td>
</tr>
<tr>
<td>Applications rejected</td>
<td>10</td>
<td>20</td>
<td>50</td>
<td>10</td>
<td>85</td>
</tr>
<tr>
<td>Applications pending or not approved</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>40</td>
<td>45</td>
</tr>
</tbody>
</table>

*Since 2014-15, 345 AAR applications have been made for SITR. 215 (62%) of them have so far been approved.

4.2 Big Society Capital database

In July 2016, NPC published the report *Social Investment Tax Relief: Two Years On*, which provided information – to the extent it was available – on deals completed up to that point.\(^\text{41}\)

Big Society Capital (BSC) recently estimated\(^\text{42}\) that around 60 deals had taken place in total and they have no compiled an open source database (Appendix B) which includes at least partial information on 63\(^\text{43}\) deals.

Table 4.2.1 combines information from the NPC Research, BSC database and our own to estimate the number of deals in each category over the first four years of the relief.

\(^{41}\)https://www.thinknpc.org/publications/social-investment-tax-relief-sitr/
\(^{42}\)https://www.bigsocietycapital.com/latest/type/blog/sitr-many-not-few
\(^{43}\)This figure includes a single listing for deals arranged by Triplepoint
Tables 4.2.2, 4.2.3 and 4.2.4 are drawn entirely from the BSC database (see Appendix B).

There has been limited activity from funds in 2017-18 because the two most successful initial funds - run by Resonance and Social Investment Scotland - had invested most of their money during 2016-17.

On the other hand, there has been increased activity via platforms such as Crowdfunder and Ethex, which have been successfully supported by the Crowd Match scheme in 2017-18.

So while funds accounted for 11 out of 15 deals in 2016-17, platforms accounted for 8 out of 12 deals we are aware of in 2017-18.

4.2.1 Approaches to raising investment

<table>
<thead>
<tr>
<th></th>
<th>Funds</th>
<th>Platforms</th>
<th>Direct</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014-15</td>
<td>0</td>
<td>0</td>
<td>5</td>
<td>5</td>
</tr>
<tr>
<td>2015-16</td>
<td>8</td>
<td>2</td>
<td>5</td>
<td>15</td>
</tr>
<tr>
<td>2016-17</td>
<td>11</td>
<td>3</td>
<td>1</td>
<td>15</td>
</tr>
<tr>
<td>2017-18</td>
<td>1</td>
<td>8</td>
<td>2</td>
<td>11</td>
</tr>
<tr>
<td>Total</td>
<td>20</td>
<td>13</td>
<td>13</td>
<td>46</td>
</tr>
</tbody>
</table>

4.2.2 Amounts of investment raised

<table>
<thead>
<tr>
<th>Total amount raised</th>
<th>Average amount raised</th>
<th>Smallest amount raised</th>
<th>Largest amount raised</th>
<th>Deals for which this information is available</th>
</tr>
</thead>
<tbody>
<tr>
<td>£9,533,810</td>
<td>£180,261</td>
<td>£3,100</td>
<td>£1,460,000</td>
<td>53</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Amount raised</th>
<th>Up to £50,000</th>
<th>£50,001-£100,000</th>
<th>£100,001-£250,000</th>
<th>£250,001-£500,000</th>
<th>£500,000&gt;</th>
</tr>
</thead>
<tbody>
<tr>
<td>No. of Deals</td>
<td>13</td>
<td>10</td>
<td>14</td>
<td>15</td>
<td>1</td>
</tr>
</tbody>
</table>

44 This is a provisional figure and the final total is likely to be slightly larger
45 This is a mean figure
### 4.2.3 Types of investment raised

<table>
<thead>
<tr>
<th>Investment Type</th>
<th>Debt(^{46})</th>
<th>Equity(^{47})</th>
<th>SIB</th>
<th>Unknown</th>
</tr>
</thead>
<tbody>
<tr>
<td>No. of SITR investments</td>
<td>34</td>
<td>24</td>
<td>3</td>
<td>2</td>
</tr>
</tbody>
</table>

\(^{46}\) Including bonds but excluding SIBs  
\(^{47}\) All Community Shares

### 4.2.4 Legal form/registration of investee organisation

<table>
<thead>
<tr>
<th>Registration/Legal Form</th>
<th>CIC</th>
<th>Community Benefit Society</th>
<th>Charity</th>
<th>Social Impact Bond</th>
<th>Unknown</th>
</tr>
</thead>
<tbody>
<tr>
<td>No. of SITR Investments</td>
<td>14</td>
<td>31</td>
<td>13</td>
<td>3</td>
<td>2</td>
</tr>
</tbody>
</table>

19
5. Five Key Challenges For SITR

5.1 Lack of awareness from charities and social enterprises:

Since its launch in 2014, 345 charities and social enterprises have been interested enough in using SITR to apply for Advance Assurance and at least 63 have so far made use of the relief. While around 180,000 eligible organisations are technically eligible, recent analysis by Big Society Capital (BSC)\(^{48}\), which takes into account organisation size and the impact of restrictions on SITR-eligible activities, suggests a potential market size of over 30,000 organisations that could realistically consider making use of the relief.

A potential market does not necessarily equate to a likely market and this figure should be understood in the wider context of the social investment market as a whole. BSC’s most recent deal level data\(^{49}\) published in April 2018

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\(^{48}\) [https://www.bigsocietycapital.com/latest/type/blog/sitr-many-not-few](https://www.bigsocietycapital.com/latest/type/blog/sitr-many-not-few)

\(^{49}\) [https://www.bigsocietycapital.com/latest/type/blog/reflections-dataset](https://www.bigsocietycapital.com/latest/type/blog/reflections-dataset)
lists 1,777 outstanding investments across the entire market including areas of activity excluded from SITR eligibility.

While it may be hard to imagine 30,000 charities and social enterprises wanting to use SITR in the near future, our research suggests that there are at least some more charities and social enterprises who could and would use SITR if they were:

(a) aware of its existence and
(b) better supported to make use of it

We conducted qualitative interviews primarily with organisations from Social Investment Business’s portfolio of grantees and investees\(^{50}\) to better understand their knowledge of and potential interest in SITR-eligible investment.

Even amongst this sample of organisations who both:

(a) had some previous experience of social investment
(b) were interested enough in SITR to agree to an interview about it,
knowledge and understanding of the SITR was often extremely low and several interviewees expressed strong interest in using the relief once they were made aware of the possibilities for doing so.

The SITR-deals that have been completed so far do not show any clear pattern in terms of approach to raising investment, deal size, type of investment raised or organisational form. This raises the possibility that there are multiple circumstances in which the relief could be useful if there was wider awareness of the possible uses.

Big Society Capital’s GET SITR programme\(^{51}\) has been raising awareness of the relief over the past year with some funding from the government’s Inclusive Economy Unit.

**5.2 Slow pace of legislative change**

The Chancellor of the Exchequer’s Autumn Statement in 2016\(^{52}\) included a series of proposed changes to SITR, the most notable of which was the increase in the limit of SITR-eligible investment into a single organisation from around £300,000 to £1,500,000.

However, while these changes were originally planned for implementation from 6\(^{th}\) April 2017, delays in the progress of the Finance Bill meant that they did not come into force until November 2017.

At least two £300,000 plus deals went through in the following two months and many of our interviewees believe there would have been several more deals in 2017-18 if the changes had been implemented sooner.

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\(^{50}\) See Appendix A for list of interviews


\(^{52}\) [https://www.kincapital.co.uk/autumn-statement-2016-changes-to-vct-eis-sitr-rules/](https://www.kincapital.co.uk/autumn-statement-2016-changes-to-vct-eis-sitr-rules/)
As further reflected in 5.3 and 5.4, there is a general impression amongst those attempting to use SITR that the relief is not a priority for the government and this is hampering the ongoing development and use of the relief.

5.3 SITR is not fit for purpose

Many of the social investment experts and voluntary sector leaders we interviewed believe that SITR is poorly designed to support the specific needs of charities and social enterprises looking to take on risk finance.

A key reason for this is that SITR is seen as being too much of a copy and paste of EIS\(^5\), the equivalent tax relief aimed at mainstream SMEs. As a result, it does not specifically meet the needs of charities and social enterprises.

Problems that were present when the relief was launched include:

- Business activities initially excluded from the relief included some of the key activities that charities and social enterprises are likely to seek investment for, including ‘property development’\(^5\)
- The rules around charities taking on investment for use by trading subsidiaries were complicated and not appropriate for many charities
- Attempts to replicate EIS restrictions on the percentage of a company that can be owned by an individual investor for the purposes of debt investment have created significant confusion.

The consensus from our interviews is that most subsequent amendments to SITR have served to make the relief less, rather than more, useful.

For example, while many had high hopes for SITR as a source of investment for community energy projects, in the 2015 Autumn Statement the government announced that ‘all energy generating activities’ would be excluded from the relief\(^5\).

Additional changes announced in the 2016 Autumn Statement included:

\(^{53}\) [https://www.gov.uk/guidance/venture-capital-schemes-apply-for-the-enterprise-investment-scheme](https://www.gov.uk/guidance/venture-capital-schemes-apply-for-the-enterprise-investment-scheme)

\(^{54}\) Big Society Capital’s deal level data shows ‘Housing and Local Facilities’ accounts for 44% of the investment in the social investment market in terms of investment value: [https://www.bigsocietycapital.com/home/about-us/deal-level-data](https://www.bigsocietycapital.com/home/about-us/deal-level-data)

• Adding further business activities to the excluded list including ‘on-lending’ and ‘leasing assets’
• Prohibiting the use of SITR funding to repay or refinance existing debt

While many of our interviewees were sympathetic to the government’s desire to close loopholes that might allow SITR to be used to provide a tax break for speculative activity with limited social value, there is a major concern that some of the most investable social activities are currently being excluded as part of that process.

In the case of one excluded activity, “operating and managing nursing homes and residential care homes”, an accreditation scheme has been put in place to enable charities and social enterprises carrying out these activities with clear social purpose to prove their eligibility for the relief.

In proposals put to HM Treasury, Social Enterprise UK called for this approach to be extended to other excluded activities including community energy and leasing.

5.4 Process challenges

Based on our interviews with both charity and social enterprise leaders and with investment professionals, the general experience of seeking SITR has been extremely negative in process terms, particularly when dealing with HMRC.

While the impression was that some activity in the first two years of the relief had proceeded relatively smoothly due to the political interest in the success of the relief, between 2016 and 2018 the experience for organisations seeking to use SITR became progressively worse.

It is not clear what the time frame for response for Advance Assurance for SITR is meant to be. One social entrepreneur we spoke to waited ten months to receive Advance Assurance while an adviser with experience of both the mainstream relief, EIS, and SITR said that EIS applications were typically processed in around three weeks while SITR applications often took 6 months or more.

Recent slow progress may have been partly due to the delay in new rules being implemented during 2017 but there is also now an additional ongoing challenge of two slightly different sets of rules being in operation: one for organisations trading for fewer than seven years, one for organisations trading for seven years or more.

Our research does not suggest HMRC staff are being deliberately obstructive and uncooperative, with some interviewees reporting a positive, helpful service when they finally got through to ‘the right person’. However, the impression is that HMRC are not adequately resourced to respond to the current (relatively small) demand.

Beyond Advance Assurance, other process challenges include:
• the need for all qualifying investments in a particular deal to go through on the same day in order to qualify
- the need for charities and social enterprise to process and deduct tax on interest payments at source - a particular challenge for organisations with large numbers of relatively small investors
- difficulties in claiming tax relief - particularly for (mainly small scale) investors who do not fill in a tax return

At least one of these problems will affect every SITR-eligible investment, however it is structured. Taken together they are particularly discouraging for organisations who might otherwise seek to create direct offers and don’t have previous experience of the world of finance. This closes down what might otherwise be a useful source of risk finance.

5.5 Lack of pipeline or mismatch between supply and demand
As part of our research we carried out interviews with six people working in the wealth management industry with an interest in SITR.

Our research shows that there is some theoretical interest in SITR-eligible investments from wealth managers and their clients, however there is a mismatch between supply and demand. Commercially minded investors are mostly interested in investing through funds offering risk adjusted returns but where the availability of SITR enables them to make riskier investments than they would otherwise have made.

Very few charities or social enterprises are in a position to offer large investments (£150,000) with this kind of risk profile and the market for smaller investments is very competitive with large numbers of social investment funds currently offering grant-subsidised blended finance for deals of this size.

This does not mean it is impossible to identify investors who are willing to take a higher risk in order to support social impact and investees who are able to make use of their money. Two intermediary social investors, Resonance and Social Investment Scotland have successfully raised funds and made investments accounting for over 30% of all SITR investments so far. However, the Bright Futures Fund managed by Social Finance and Kin Capital has only made one investment since its launch in 2015.

In terms of investee demand, at least 215 applications for Advance Assurance have been approved but – based on currently available data – only 63 organisations have raised investment using SITR.

56 https://www.brightfuturesfund.co.uk
While no directly comparable figures are available for the mainstream tax relief EIS, the figures for 2016-17\(^{57}\) show that 2,945 business had Advance Assurance applications approved and 3,470 raised investment\(^{58}\).

There is no data available on why 152 charities and social enterprises who received Advance Assurance for SITR-offers have not so far gone on to raise investment: whether they have attempted to raise investment and failed, or whether they have decided not go ahead with an investment offer.

A working hypothesis is that they may not have been able to find investors (or enough investors) who were interested in investing in their organisations on the terms they wanted to offer.

It may be that the right investors are out there but charities and social enterprises are not currently able to find them. There is a significant market of investors on websites such as Crowdcube\(^{59}\) or Seedrs who are prepared to invest from small amounts to relatively large amounts in early stage businesses, where the likelihood that the investment will ultimately result in a profitable exit is extraordinarily small. It seems possible that there is a market of individual investors who would be prepared to make similar kinds of investment into charities and social enterprises.

In addition to this, Nesta’s research on community shares has shown that there is a significant number of investors who are keen to invest in (often local) charities and social enterprises in which they have a specific interest\(^{60}\) and over \(\frac{1}{3}\) of SITR-deals so far are community share offers.

In some cases it may be that the right investors are out there and charities and social enterprises need to support to find them. In other cases, it may be that charities and social enterprises need to be able to offer a better deal in order to attract investment.

In the latter case, one option would be to increase the level of relief offered from the current 30% to 50%, the same level of relief currently offered to early stage private businesses through the SEIS scheme\(^{61}\).

\(^{58}\)It is not obligatory to seek Advance Assurance before offering a tax relief if a business is confident that their investment offer is eligible
\(^{59}\)https://www.crowdcube.com
\(^{61}\)https://www.gov.uk/guidance/venture-capital-schemes-apply-to-use-the-seed-enterprise-investment-scheme
6. Conclusion and Recommendations

The broad conclusion from our discussions with a wide range of participants and potential participants in the market for SITR is that the relief has not yet been a major success.

There are many different views on why this is. Three of the most prominent ones are:

1. SITR is not yet working because the market is developing slowly
2. SITR is not yet working because the government has got both the design and administration of the relief badly wrong
3. SITR is not working because there is no significant demand for it and there never will be

While our interviewees had a range of different perspectives on the best specific uses for SITR, most believe that the relief does have potential to help meet some of the demand for risk finance in the social investment market.

The recommendations below outline ways that different stakeholders can support greater and more effective use of the relief.

Government should:

1. Recognise that charities and social enterprises are not the same as mainstream businesses and – as a result – a copy and paste model of a mainstream tax relief will not work effectively for them
2. Amend legislation to enable the relief to be more easily used by charities with trading arms
3. Extend its positive work on nursing and care homes to set up an accreditation scheme for all currently excluded activities – including property, leasing and community energy – if they are being carried out for a demonstrable social purpose
4. Give investors 50% rather than 30% relief to bring SITR into line with SEIS rather than EIS
5. Develop a model process for applying for Advance Assurance, registering investments, and administering payments, which is accessible for small charities and social enterprises with limited administrative capacities.

Voluntary sector/Social investment infrastructure organisations should:

6. Promote and create awareness of both the existence of SITR and ways that charities and social enterprises can make use of it
7. Use networks to promote awareness of SITR amongst voluntary sector support agencies including CVSs and other local bodies
8. Provide access to relevant legal and other professional support that would enable charities and social enterprises to create their own offers
9. Collect and publicise all available data in formats that are comprehensible to Government, potential investees and potential investors.
Wholesale and intermediary social investors (including trusts and foundations) should:

10. Develop and fund support programmes for charities and social enterprises to create investment offers and connect with potential investors

11. Provide match funding for SITR eligible investments - either via platforms or to support direct offers.
Appendix A: Interviewees

Lisa Ashford - Ethex
Dave Boyle - Community Shares
Jill Bramall - Cycle Penistone
Daniel Brewer - Resonance
Kevin Caley - Community Chest
Malcolm Caley - Community Chest
Jon Cape - ipower
Joshua Davidson - Night Zookeeper
Greg Davies - Centapse
Ged Devlin - Power To Change
Simon Evill - Clearly So
Simon Fitton - Manse Capital
Jason Flynn - Stackhouse Poland
Gavin Francis - Worthstone
Thomas Gillan - SIS
Lindsey Hall - Real Ideas Organisation
Turly Humphreys - Circle Collective
David Hutchison - Social Finance
Paul Israel - Shofar Day Care Centre
Josiah Lockhart - Firstport
Gavin MacFarlane - Clearwater Wealth Management
Melanie Mills - Big Society Capital
Jason Nuttall - Crowdfunder
Marie Osborne - Future Wolverton
Neil Pearson - Mills and Reeve LLP
Holly Piper - CAF Venturesome
Charlie Pushman - Social Finance
Modwenna Rees-Mogg - The Pluralists Club
Debra Riddell - Breadshare
Daniel Rostrup - EVPA
Matt Smith - Key Fund
Bob Thust - Numbers for Good/Practical Governance
Whitni Thomas - Triodos
Ali Warmsley - Community Wood Recycling
Francis Wight - Student Hubs
**Appendix B: BSC Open Source Database** *(15th Nov 2018)*

<table>
<thead>
<tr>
<th>SITR deal no.</th>
<th>Organisation name</th>
<th>SITR Investment raised £</th>
<th>Type of Investment</th>
</tr>
</thead>
<tbody>
<tr>
<td>0001</td>
<td>FareShare South West</td>
<td>£70,000</td>
<td>Debt</td>
</tr>
<tr>
<td>0002</td>
<td>FC United of Manchester</td>
<td>£270,000</td>
<td>Debt</td>
</tr>
<tr>
<td>0003</td>
<td>Aspire Glos</td>
<td>£50,000</td>
<td>SIB</td>
</tr>
<tr>
<td>0004</td>
<td>Ambition East Midlands</td>
<td>£100,000</td>
<td>SIB</td>
</tr>
<tr>
<td>0005</td>
<td>Freedom Bakery</td>
<td>£48,000</td>
<td>Debt</td>
</tr>
<tr>
<td>0006</td>
<td>Burley Gate Community Shop</td>
<td>£57,000</td>
<td>Debt</td>
</tr>
<tr>
<td>0007</td>
<td>Delivered Next Day Personally</td>
<td>£50,000</td>
<td>Debt</td>
</tr>
<tr>
<td>0008</td>
<td>Shofar Day Care Centre</td>
<td>£200,000</td>
<td>Debt</td>
</tr>
<tr>
<td>0009</td>
<td>Clevedon Pier and Heritage Trust Limited</td>
<td>£250,000</td>
<td>Community shares</td>
</tr>
<tr>
<td>0010</td>
<td>Breadshare</td>
<td>£50,000</td>
<td>Debt</td>
</tr>
<tr>
<td>0011</td>
<td>Portpatrick Harbour Community Benefit Society</td>
<td>£100,000</td>
<td>Community shares</td>
</tr>
<tr>
<td>0012</td>
<td>South Bristol Sports Centre</td>
<td>£250,000</td>
<td>Debt</td>
</tr>
<tr>
<td>0013</td>
<td>Dundee Gymnastics</td>
<td>£44,000</td>
<td>Debt</td>
</tr>
<tr>
<td>0014</td>
<td>Broxburn United Sports Club</td>
<td>£50,000</td>
<td>Debt</td>
</tr>
<tr>
<td>0015</td>
<td>Street League</td>
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* This is a database compiled by BSC based on the best available data from a range of sources. In some instances data is currently incomplete.
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