
UK National Advisory Board: Second Meeting Minutes

Date: 15th June 2016, 0930-1230

Location: 38 Seymour Street, London W1H 7BP

Attendees:

- David Blood (Co-Founder of Generation Investment Management)
- Keith Smithson (Managing Director in Treasury at Barclays)
- Laurie Spengler (President of Enclude)
- Nick O'Donohoe (Senior Advisor on Blended Finance to Bill and Melinda Gates Foundation, Chair of Dormant Assets Commission, Chair of Former UK NAB)
- Sacha Romanovitch (CEO of Grant Thornton)
- Saker Nusseibeh (CEO of Hermes Investment Management)
- Tim Farazmand (Non-Executive Director of ClearlySo, Former Chair of BVCA)
- Speaker: Simon Rowell at Big Society Capital
- Speaker: Kieron Boyle at Guy's and St Thomas' Charity
- Chair: Michele Giddens (Co-Founder of Bridges Ventures)
- Secretariat: Zoe Burgess (Bridges Charitable Trust)

Apologies:

- Alan Milburn (Chair of Social Mobility and Child Poverty Commission)
- Dawn Austwick (CEO of Big Lottery Fund; former CEO of Esmée Fairbairn)
- Sir Harvey McGrath (Chair of Big Society Capital and Heart of the City)
- Helia Ebrahimi (Business Correspondent for Channel 4 News)
- Sir Tony Hawkhead (CEO of Action for Children)
- Active Observer: Tim Kiddell (PM Private Secretary at No. 10)

Introductions and highlights of activity from the Global Steering Group

- The Chair welcomed a wider group of participants for the second meeting of the UK National Advisory Board (NAB) and invited all attendees to introduce themselves. New participants shared their primary objective for joining the NAB, citing the **need for “impact” to become mainstream if we want to build a vibrant economy that is sustainable**, and **requesting greater clarity about what “impact” means**.
- The Chair reminded the group of the role and structure of the Global Steering Group (GSG), the UK National Advisory Board (NAB) and the Practitioners’ Council (PC) and how they interact. She highlighted the upcoming **global plenary taking place on 7-8th July in Lisbon** and warmly invited those not already attending to join to share best practice and sustain momentum.
- The Chair informed participants that the **UK NAB will need to raise approx. £60-90k over the next 1-3 years** in order: (i) to **fund a small secretariat for the GSG** to advance its communications work and promote ecosystem development, and (ii) to **support the NAB to develop its hypotheses and publish a report by Q1 2017**. The Chair noted that a few members of the PC were interested to make personal contributions, which are voluntary but very welcome given the credibility that “match funding” lends to any fundraising proposal. One participant suggested **the Secretariat contact the sponsorship team at BVCA**, and there was a consensus to **avoid named corporate sponsorship options** since a donor would be likely to receive significant visibility for a relatively small financial contribution.

Key decisions and/or actions:

1. **NAB members to recommend potential sources of funding for the NAB. Secretariat will write a short fundraising brief to share with potential funders and reach out to the sponsorship team at BVCA to gauge their interest in supporting this work.**
2. **NAB members to make arrangements to join Lisbon plenary and confirm attendance with Secretariat.**

Recap from planning session: framework for work of the NAB and 5 hypotheses to explore further

- The Secretariat requested feedback on the vision for the group: **“build a sustainable and inclusive economy”** and questioned whether or not it was a problem that “it could just as easily be the vision of the UK government” (source: member of the NAB). She shared a suggestion to add “impact investment” before “economy” but participants disagreed since it risked relegating “impact” to a niche activity outside of the mainstream, plus the group felt it was **positive for the group to be aligned with government**. There was a consensus that the **vision should reference the notion of scale** in order to acknowledge the **group’s appetite for growth and mainstreaming**.
- Participants were happy to adopt the following mission statement, outlining *how* the group will achieve its mission: **“measurable impact is regularly embraced as a deliberate driver in investment and business decisions to create better outcomes for stakeholders and wider society”**.
- The Chair reminded the group of the hypotheses proposed during the first planning session, and noted that “authoritative” mapping was a foundational exercise (to set the baseline from which growth could be measured) rather than a hypothesis. The Chair proposed a new hypothesis: **“the rise of the profit-with-purpose business”**, which was suggested by a member of the NAB in between meetings and strongly endorsed by the Practitioners’ Council. The group were **supportive of its inclusion** as an opportunity to collapse the binary debate between profit and purpose, and to complement the public sector hypothesis. One participant commented that there may be two audiences for this: a large universe of traditional businesses and a smaller segment of those with tighter locks around mission. Another attendee suggested it may be timely to engage with the Charity Commission on the topic since “they are getting increasingly cold feet” about mission-led businesses.
- The group noted that there was **no implied ranking of the hypotheses**, and suggested this be made explicit in our report. The Chair suggested **re-ordering the list** to reflect areas the NAB will focus on first.
- The Chair asked the group whether they felt that the five hypotheses captured the principal themes. One participant questioned whether **“the scale conundrum” should be more explicit, providing an opportunity for the NAB to frame the path towards scale at a systemic level as well as by segment**. There was a consensus to include the scale ambition within the vision of the NAB rather than as a standalone theme, and a commitment for the NAB to explore hypotheses only if they are agreed to be instrumental to achieve scale.

Key decisions and/or actions:

- 1. Secretariat to include a reference to scale in the NAB's vision, and to frame each hypothesis in the report within a long-term direction of travel followed by a concrete set of actions we can take now. This will help to build the momentum for scale, while also catalysing immediate change.**

Update on "authoritative" mapping of the sector

- The Secretariat shared a high-level overview of the mapping exercise underway, including a revised Spectrum of Capital, a draft sizing of the UK "sustainable" and investor-motivated "impact" investment segments (including both socially and environmentally motivated investments), and a "potentially addressable market" of capital that the NAB may seek to influence, including mainstream finance into mission-driven organisations and government spending on social infrastructure and "human services". A participant noted that **it may also be interesting to look by investor category, including capital flows from local authority pensions funds, corporate foundations and sovereign wealth funds in the "potentially addressable market"**. Another member encouraged the NAB to **consider and influence broader decision-makers, such as regulators, in order to achieve systemic change**.
- The Chair asked the group whether they thought it would be valuable to develop an **interactive online portal to enable users to identify owners of capital, intermediaries, recipients and impact achieved for all different types of product in the marketplace**. The group agreed that the tangibility of such a portal would be very valuable, but questioned who was best placed to develop it and how often it would need to be updated. The Chair proposed **investigating opportunities for collaboration with the global communications effort**, and mentioned that if this was an area the NAB would like to develop further it may be appropriate to outsource some of this work.

Key decisions and/or actions:

- 1. Refine Spectrum of Capital and market sizing, including an analysis of capital flows using an LP lens, which may be addressable for impact investment. Iterate with the 'mapping' working group.**
- 2. Evaluate whether global portal will be adequate to serve UK purposes; if not, look to collaborate with another partner to develop an interactive portal for users to access definitions and illustrative examples of owners of capital, intermediaries, recipients and impact achieved for key products.**

Hypothesis: Addressing the "financial intermediary challenge"

- The Chair welcomed an external speaker and invited him to share the French experience of addressing the "financial intermediary challenge" through "Fonds Solidaires" together with a perspective on whether an equivalent social retail product should be developed in the UK and what it may look like.
- The speaker informed the group that **Big Society Capital began investigating the subject following the former NAB's recommendation to "require all pension funds to offer a social investment pension option"**, and it forms part of the wholesaler's ambition to **build mass participation**. He highlighted 3 characteristics of the French model that make it particularly compelling: i) it has enabled capital to flow into genuine "impact investment", (ii) it has **attracted ordinary retail investors**, and (iii) it has **achieved significant scale** with over 1M savers and close to €6B now invested in these funds (of which €300-600M, or 5-10%, is "impact" and the remainder is "sustainable" investment). He noted that the **product delivers comparable market-rate returns**, and that the average investment size of ~€3.5k indicates adoption by employees at middle-office within companies.
- The speaker noted that the **pensions landscape in France is significantly different from the UK, resulting in a model that relies on participation using discretionary savings from corporate employer saving schemes, not the primary source of savings for retirement**. Whereas primary pensions are paid for by the government in France, they are paid for by employers and private individuals in the UK. Citizens contributing to DC pensions schemes are likely to have a particularly low risk appetite, **therefore social products targeting a UK audience cannot be viewed as concessionary or greater risk than alternatives** (at the very least they need to be tax neutral relative to other investments).
- A **French law in 2008** mandating that corporate employee savings schemes must offer a solidarity investment fund option was a **critical catalyst to encourage providers to develop products**. Today positive traction and growth in demand has encouraged some providers to develop further products as

a source of competitive advantage. Although the political context is different in the UK, the speaker noted an **openness within government to engage with a social pensions idea**, which should be seized.

- The group discussed the extent to which the **existence of an independent accreditation agency**, such as Finansol, has been pivotal to **establish integrity and trust** in the “Fonds Solidaires”. Participants agreed that **an independent kite-mark to signal legitimacy could be critical to reassure investors as well as regulators in the UK market**. The group expressed a need to **clearly define the pool of investable assets for the “impact” segment in the UK**, most likely including assets outside of the traditionally regulated social sector, such as profit-with-purpose businesses, to support long-term scaling and growth.
- The group discussed the best process for developing social retail products starting with supply, with demand or ideally catalysing both at the same time:
 1. **Evidence demand** by asking corporate employers to enquire whether employees would be interested in a social product, and under what conditions.
 2. **Promote supply by communicating the business case for social products** (“appeal to the wallet” of providers by evidencing demand among key stakeholders, or by using the logic of: (i) increase consumer engagement and loyalty (ii) opportunity to align your company’s money with its mission or (iii) differentiate by becoming a “pensions pioneer”). The speaker noted that employers were typically **most interested in aligning money with their mission**.
- The group agreed that the **development of model portfolios would be crucial to bring mainstream institutions on board**. Big Society Capital has focused on engagement with corporate employers to stimulate demand, but there may be an opportunity to link-up with the impact allocation work being scoped as a follow-on to the G7 work in due course, and to target a mainstream institution that is interested in impact investment, such as BlackRock or Legal & General, to pilot this product.
- The Chair asked the speaker how the NAB may best support this area of work, above and beyond the inclusion of a recommendation in a Q1 2017 report. The speaker shared the following ideas:
 1. **Ask intermediaries to justify what the demand is for a social product from their customers** (e.g., through a call for action or by running a competition)
 2. **Contribute policy recommendations ahead of a potential consultation to government**, for example explore the opportunity for government to adopt a “comply or report” approach asking providers whether or not they offer a social product and why.
 3. Help to **stimulate competitive tension on the ground**. The speaker noted that the product is more likely to take off as a competitively-driven rather than a regulated activity, and the NAB may leverage their network to influence mainstream institutions.
- One participant recommended **framing the conversation with government around the promotion of choice within DC pensions**, which will in turn drive consumer engagement. There was a consensus that **DC pensions were a more appropriate source of funding than corporate savings in the UK** given that liquidity is a significant issue with savings and will restrict a large number of investments that require time to deliver impact. In addition, there may be a more “natural” link between pensions savings that are invariably long-term and the creation of a future world individuals’ want to live in.
- The Chair **encouraged participants to volunteer to join a working group** to advance the subject.

Key decisions and/or actions:

1. **NAB members to volunteer to join a working group to (i) explore how best to develop an equivalent social retail product in the UK and (ii) articulate a long-term vision for changing the approach of fiduciaries to incorporate impact.**
2. **Secretariat to schedule the first meeting of the working group, with the following draft agenda:**
 - i. **Review membership of working group incl. opportunity to invite external experts**
 - ii. **Agree the most appropriate product for development (e.g., likely DC pensions vs. savings)**
 - iii. **Develop a plan to analyse what a model portfolio would look like in the UK, including eligible assets for investment in the “sustainable” and “impact” segments and what the proportional split should be (i.e., is the French 90/10 appropriate in the UK context?)**
 - iv. **Discuss who is best placed to confer legitimacy on what is included in the “impact” segment**

v. Agree the most effective way to get the product started (early support for bottom-up vs. top-down approach, using the NAB network to drive competitive tension on the ground).

Hypothesis: Placing impact effectiveness at the heart of public sector procurement

- The Chair welcomed a member of the UK Practitioners' Council to share his perspective on the biggest levers to enhance public sector impact delivery. The speaker reminded participants that **government is composed of multiple audiences and should be viewed as an "industry"** with different departments and central and local actors. He noted that the **scale and complexity of realising change should not be underestimated** and recognised that a number of the easy wins had been achieved already, meaning at this point there were more questions than answers.
- The government spend on outcomes contracts is very small today (~1% of est. government spend on 'human services' & 4% outsourced 'human services' spend) and the speaker noted that the **addressable market is not just outcomes-based contracts but any outsourced areas of service provision**.
- A challenge with enhancing impact effectiveness is that **"impact" lies in the eye of the beholder**. The speaker noted that one stakeholder may view "impact" as innovation and helping the hardest to reach, whereas another may see it as reducing the cost of delivery. Success for one stakeholder may equate to failure for another, demonstrating why an **aligned approach to defining impact goals and measuring their achievement is crucial to avoid perverse incentives**.
- The speaker described a Venn Diagram with three intersecting circles of activity. Whereas government has traditionally searched for the holy grail of all 3 together (as is achieved through Social Impact Bonds), in reality only 2 out of the 3 may be required for impact delivery to gain scale.
 - **Outcomes-based commissioning (OBC)**: focus on what works and innovation around delivery
 - **Mission-aligned providers**: who does government do business with and what motivates them?
 - **Aligned capital**: what discipline can capital bring to the process; in particular, what extra may aligned capital bring in terms of understanding underlying issues or willingness to share risk?
- The group discussed **levels of acceptance within government for each circle** of the Venn diagram:
 - OBC has gained ground and the idea is now intuitive and compelling. A language around **"philosophy of outcomes"** is most appealing to government and may best be endorsed by an insider rather than by the NAB whose message may seem self-interested.
 - **Proving that mission-aligned organisations are the best partners for government** is tricky, especially given that many traditional social sector organisations do not have the capacity to deliver major public sector contracts. There is **need for greater clarity** in this area.
 - Evidencing **how and why aligned working capital leads to a much more dynamic delivery of a contract** should be simpler to prove than (2) and yet still very powerful to realise change.
- The speaker shared a progress update against the procurement recommendations made by the former NAB, informing the group that **initiatives have been launched but "not had the time to run yet"**. He highlighted that **£80m top-up funding** reserved in the 2015 Spending review **held immense political capital** (it was one of only 3 areas that the Prime Minister ring-fenced) despite the fact that it represents only a small number relative to the size of the public purse.
- There was a consensus around the need for early evidence to support the hypothesis (as articulated by the Practitioners' Council) that mission-driven organisations deliver better outcomes today and tomorrow at lower risk than traditional providers. The speaker argued that the **big idea to land with government may be "who is it that you are doing business with and why?"**, rather than the **NAB attempting to intervene on a policy basis (e.g., by strengthening the Social Value Act)**. Strengthening policy may be more effective bottom-up than top-down and he gave the example of Zurich, Interserve and Wates who have all committed to spend more money with social value considerations than anything we have seen from the public sector in their sub-contracting to date.
- The speaker highlighted two different ways to address government: an **incremental approach building an evidence base of a myriad of local interventions** to try and convince government to change, or a **"big bang" approach that asks, "how are you going to radically improve health?"** and then follows up with the "tools" of outcomes-based commissioning, mission-aligned providers and aligned capital.

- One participant noted that **inadequate impact delivery can be the result of poor procurement and/or poor provision**, and highlighted that the understanding and sophistication of contracting with government is at times very limited. She recommended that further consideration be paid to the **interaction of outcomes, in particular of unintended outcomes**, when designing contracts.
- The Chair noted that **inadequate incentives and skills may underpin many of these challenges**. The speaker agreed that incentives are crucial to encourage individuals to commission differently from how they have done so historically.
- The Chair **encouraged participants to volunteer to join a working group** to advance the subject.

Key decisions and/or actions:

- 1. NAB members to volunteer to join a working group to (i) articulate a long-term vision for changing the impact effectiveness of government spending, addressing all three circles of the Venn Diagram, and (ii) focus in the next year on a) building an argument for mission-aligned provision supported by a few compelling case studies, and b) communicating the procurement block to outcomes-based commissioning and proposing solutions to address this.**
- 2. Secretariat to schedule the first meeting of the working group.**

Next steps and wrap-up

- The Chair endorsed an ambition shared by other members of the NAB to be open and transparent with the public about their work. The **NAB intends to launch a website and to commission an article in sector press in early July** in which the membership of the UK NAB and PC will be published alongside their vision, the key hypotheses they are exploring and their roadmap of activity for the next year.
- The Chair thanked the group for an insightful and constructive session and reminded participants of an **intention to publish a report by Q1 2017 outlining the UK landscape for impact investment and including the 3-5 biggest levers for change over the next three years.**

Key decisions and/or actions:

- 1. NAB members to confirm they are willing for their name to be published on the NAB website and in press materials, both due to be released in July.**
- 2. NAB members to share any feedback on the structure or content of meetings and communications.**

NAB foundational exercise	Next steps
“Authoritative” mapping	<ul style="list-style-type: none"> • Secretariat to arrange ongoing calls with individuals and the group as a whole to advance this area of work

NAB hypotheses	Next steps
1. The rise of the profit-with-purpose business	<ul style="list-style-type: none"> • 1-hour call to be scheduled before 8th July to respond to CO mission-led business review Call for Evidence.
2. The financial intermediary challenge	
3. Placing impact effectiveness at the heart of public sector procurement	<ul style="list-style-type: none"> • Secretariat to schedule first meeting for each working group, find a Chair and develop an agenda and materials.
4. Impact measurement and management	
5. International development impact investing	