

# Social investment tax relief: is it achieving an impact?

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**Social Investment Tax Relief (SITR) is helping smaller social enterprises and charities raise the much needed investment that they need.**

**S**ITR was first announced in the 2014 Budget. It's a generous tax relief (30% income tax relief) brought in to encourage private individuals' investment into qualifying charities and social enterprises. By giving investors a tax incentive in this way, it levels the playing field for social enterprises and charities with small- to medium-sized enterprises (SMEs), who have enjoyed tax incentives similar to this under the Enterprise Investment Scheme (EIS) for many years. As at July 2015, EIS have raised more than £12.2bn for SMEs in the UK (EISA Association). It's an exciting development and offers a new dynamic to social impact investing.

Despite the recent indication that the enlargement of the scheme to £5m per annum and up to a maximum of £15m per organisation won't be approved by the European Union (EU) for another 6 – 12 months, what we have seen to date have been very encouraging signs of how SITR is unlocking much needed investment for social enterprises. In particular, the diverse nature of the deals would suggest some very different organisations operating in a variety of impact areas are making use of the tax relief in order to raise investment. From small organisations that are raising only SITR investment to larger deals where SITR is the higher riskier layer of capital provided.

There have been five direct SITR deals to date:

**FareShare South West** is a Bristol-based charity which works with the food industry to reduce the amount of fit-for-purpose food going to waste, distributing it to local organisations working with vulnerable people so that the most in need have nutritious meals. They took an investment of £70,000

from a small group of angel investors to scale up their activities in the Bristol area, particularly the expansion of their catering arm, which provides socially conscious and sustainable catering for events, festivals and offices. They also offer work experience and job opportunities for vulnerable individuals who are excluded from the job market.

**FC United of Manchester** is a supporter-owned football club which is democratically run by its 4,000 members and raised a £270,000 loan stock scheme using SITR. Without their own ground since they were established in 2005, they used the loan stock as part of the funding for a new 5,000 capacity stadium, opening at the end of May 2015. The project includes new sport and non-sport community facilities, giving them a base in Moston, North Manchester, from which to continue their outreach work. Andy Walsh, General Manager of the club, used SITR as an opportunity to enable supporters to have a stake (and say) in their own club, very much going against the grain of billionaire and private equity takeovers of football clubs in the country.

Two Social Impact Bonds (SIBs), **Ambition East Midlands** and **Aspire Gloucestershire** were arranged by Triodos Bank to provide £910,000 to four charities to help 500 young people who are homeless or at risk of homelessness. These social impact bonds are payment by results contracts with the Department for Communities and Local Government and supported by the Cabinet Office. Each SIB will use the investment raised to deliver programmes aimed at housing and supporting vulnerable young people into education, employment or training. Investors receive a competitive rate of interest and the benefit of the tax relief. Return of capital is dependent on the successful achievement of the stated goals of the SIB.

**Freedom Bakery** is a new Glasgow-based artisan bakery established at HMP Low Moss. Set up as a social enterprise rather than a charity, the bakery will give training and employment to recently released ex-offenders. The social impact is to reduce reoffending through increasing employability of ex-offenders. They



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successfully raised £60,000 from individuals to help start the bakery. Matt Fountain, Founder of Freedom Bakery believes going to investors directly using this attractive tax relief, helped him get things moving faster and access the investment he needed at a level that was more affordable than other forms of investment.

### What other deals are on the horizons?

To date, we know that the government has received 40 applications for SITR. There are currently a diverse range of social enterprises looking to raise capital using SITR including a socially driven courier and mail service, community shares in a Victorian Pier, a local community shop where the area was at risk of losing their local shop and Post Office, a sports centre and a religious nursery.



### SITR funds

Aside from direct investments, there are also a number of SITR funds in the market.

**Social Investment Scotland Community Capital** Earlier in 2015, Social Investment Scotland launched the first ever SITR fund in Scotland. The fund had a successful launch and close and will look to support between five and ten social enterprises in the area.

**Resonance Bristol SITR Fund** A partnership between Resonance and UBS Wealth Management. The fund is looking to raise £5m from individual investors and will look to support charities and social enterprises in the Bristol area. The fund managers have ambition to grow and have plans for more SITR funds around the country.

**Bright Futures Fund** Social Finance and Kin Capital have launched the first national SITR fund in child-based, youth and other vulnerable communities and will only invest in social enterprises alongside a Social Investment and Finance Intermediary where they are the lead investor.

### What's on the horizon?

Our research and engagement suggests that more funds are being developed by both Social Investment and Finance Intermediary and mainstream EIS managers. How quickly these funds will come to market will very much depend on how quickly enlargement of the SITR scheme happens.

Looking forward, crowdfunding is another channel where SITR deals can be accessed by socially conscious investors. We will be soon be launching our Crowd Match Fund, a £5m fund to match crowdfunded investments made by individuals into SITR-eligible charities and social enterprises.

It's really exciting that there are now a growing number of channels where individuals who are motivated by social impact can invest in charities and social enterprises that resonant with them either directly or with the help of professional managers. More importantly, SITR is helping organisations raise much needed investment that will enable them to continue, scale or replicate the social impact they are delivering to their communities.

*Evita Zanuso is the Financial Relationships Director and is responsible for investor engagement and building relationships with the financial community.*

*She is currently focused on building relationships with VC & PE fund managers, take up of SITR and working with Charitable Trusts & Foundations. She has more than 10 years' experience with*

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