

## SOCIAL INVESTMENT SCOTLAND

### CHAIR'S STATEMENT

for the year ended 31 March 2021

In my last Chair's Statement, for the year to March 2020, I noted that Social Investment Scotland (SIS) was starting to feel the early impact of the COVID-19 global pandemic. Like every organisation in Scotland and beyond, almost every part of our activity and performance has been impacted to a greater or lesser extent by the pandemic. However, as is often the case, challenge often brings with it opportunity. In line with our enduring mission to connect capital with communities, we have worked closely with a range of stakeholders, and in particular the Scottish Government, to connect resilience and recovery funding and support with charities and social enterprises. More detail of this activity is provided later in this report.

In my last Statement, I also intimated that the next period would see the launch of a new strategic framework that would be a bold, longer-term vision for the future of the organisation. Although delayed, SIS launched 'Building an Impact Economy' in the summer, setting out a ten-year vision that would be delivered through a series of shorter-term action plans and guided by a strategic Theory of Change. This slight delay also allowed the opportunity to adjust the first of these action plans (through to March 2022) to take account of the pandemic. In retrospect, this was a sensible decision given the unexpected duration of lockdown restrictions, which was still impacting SIS and most of our customers at the strike date of our accounts.

Building an Impact Economy sets out a vision for an economy where:

- Enterprises will be provided with the tools, support, and inspiration to plan, create, and scale their social impact.
- Governments and their agencies can partner with social enterprises in a range of different ways, but particularly to enhance the delivery of social impact.
- Social entrepreneurs can readily access mission-aligned investment and support.
- Consumers and businesses can purchase products and services from social enterprises.
- Investors of all kinds can make purposeful investments for a financial and social return.
- Businesses of all kinds implement responsible business approaches as standard.

To support delivery of this vision, a framework of strategic segments has been developed to set the activities of an increasingly complex group in context:

- Market building: including the business support activity of SIS, together with programmes to help organisations understand their social investment options and prepare to take on investment, perhaps for the first time; and scale programmes to support organisations exploit growth opportunities supported by social investment.
- Communities: covering SIS investment programmes for charities, social enterprises, and mission-driven businesses, including the emerging activity of subsidiary SIS Ventures.
- Access to Finance: a defined strategic segment encompassing SIS's investment activity with other providers of responsible finance, namely households unable to access mainstream credit and small businesses excluded by the high street banks.
- An innovation segment to provide focus and resourcing for new opportunities.

Sitting alongside the inaugural action plan is an Impact Plan as part of our evolving impact management approach. This includes a range of impact indicators and will form the foundation for evolving impact reporting going forward. Some impact highlights are provided in the Trustees' Report.

Turning to the trustees, as Governance dictates, several directors have left the board in the last year and I would like to acknowledge their contribution. Kenny McDowell stood down in the summer of 2020 after several years as Chair of the Audit and Risk Committee. I am grateful to Kenny for his meticulous attention to detail and contribution to the external financial audit of an increasingly complex group of companies, particularly the Covid-related impact on the 2020 audit. We also said farewell to Celia Hodson, a renowned social entrepreneur and CEO of Hey Girls CIC. Celia brought invaluable input and experience from the social enterprise ecosystem and was willing and able to

commit time and expertise to the retail academy. In addition, Sandy Kennedy, whose term came to a close at the year-end and whose insight and contribution to our renewed strategy was most welcome, has also stepped down. I am grateful to them all for their tireless effort in supporting me and the SIS executive over many years.

These changes have resulted in several new appointments to the board. We have taken the opportunity to reshape the Governance Framework of SIS to support the delivery of the new strategy. The most significant of these changes has been the creation of a new Risk Committee that has oversight of portfolio, strategic and operational risk across the Group. Consequently, the Portfolio Risk Committee has been disbanded and the previous Audit and Risk Committee now focuses solely on internal and external audit. I was very pleased to welcome Claire Tracey and Sheila Fazal, who were appointed to chair the Risk and Audit Committees respectively. Collette Norval, who joined at the same time, has experience of establishing her own social enterprise. Aligned to the year-end, Louisa Macdonell joined the board, succeeding Sandy Kennedy. The board now consists of seven women and four men. I am delighted with the new additions to the board who bring a very broad range of skills, which will assist the executive in the execution of the strategy.

During the last financial year, supported by the delivery of both business-as-usual and resilience funding programmes, SIS deployed a record level of capital to communities. This included, exceptionally, delivery of grant programmes in areas of interest. However, aside from these, SIS has now exceeded the milestone of having made investments in excess of £100m. This is a particularly important milestone as SIS approaches its 20<sup>th</sup> anniversary in September 2021. Progress made during the year has included the following:

- £1.3m of new loans from SIS Community Finance. This on-balance sheet fund is supported by investments from the SIS founding banks, later joined by Triodos Bank. Most of these loans continued to be smaller, straightforward investments with an average loan value, of those deployed in the year to March, of £70k. Deployment from this fund was lower than in previous years as a direct result of the pandemic and other available funding streams. Given the fund is on-balance sheet, loan provisions continue to be closely monitored, with further detail later in this report.
- £1.3m of new investments from the Scottish Social Growth Fund (SSGF), a follow-on fund to the original Social Growth Fund. The SSGF includes investment from the Scottish Government, Big Society Capital (BSC) and the University of Edinburgh. Deployment from this fund was also impacted by the pandemic, however the availability of £3m of grant capital from the Scottish Government in March 2021 facilitated the creation of the 'Growth Challenge' providing a blended finance option. This led to 12 loan approvals totalling £3.2m, expected to conclude in FY22.
- £10.7m from the Community Enterprise Investment Facility (CEIF). The CEIF, backed by Big Society Capital, makes investments in social enterprise lenders who provide financial support to small and medium-sized enterprises in disadvantaged communities.
- A further £380k of equity investment from Impact First, a fund managed by SIS Ventures Limited. These investments support high-growth and high-impact potential, mission-led businesses.

During the year, SIS also continued to oversee and fund manage the Scottish Investment Fund (on behalf of the Scottish Government), Asda Community Capital Fund, Social Impact Accelerator Fund (on behalf of BSC) and the Affordable Credit Fund (on behalf of the Carnegie UK Trust and the Scottish Government). Across all funds, where it has been required, SIS has worked closely with Investees to restructure repayments to ease pressure on short-term cash flows.

In addition to these funds, new arrangements were established to provide emergency support to charities and social enterprises because of the pandemic:

- The Third Sector Resilience Fund (TSRF) loan fund: using up to £5m of capital recycling from the proceeds of the Scottish Investment Fund, a 0% interest loan fund was created to provide emergency working capital as a result of the pandemic. The fund sat alongside the grant capital provided by the Scottish Government, managed by Firstport and the Corra Foundation and supported by an information hub developed by SCVO.

- The Credit Union Resilience Fund (CURF) being the first phase of the Scottish Government's £10m Credit Union Investment Fund. £2.5m of commitments were made to Scottish Credit Unions in the form of subordinated debt. Later in the year, SIS was asked to manage £15m of grant capital under the Scottish Community Lender's Fund for Credit Unions and Affordable Credit providers. Although this saw the initial loans from the CURF largely repaid, SIS continues to work with the Scottish Government on the strategy for future funding.

An unexpected (and perhaps unintended) consequence of support available as a result of the pandemic has been the repayment of SIS loan balances as organisations were able to raise finance from British Business Bank (BBB) loan schemes, in particular the Bounce Back Loan Scheme (BBLs). Across all funds, and particularly in the Community Finance and Asda Community Capital funds, lump sum repayments have meant a reduction in loan balances, including those loans where provisions had been applied.

In combination, this financial support, as well as a range of grant funding from government and other independent funders and the support available from the UK Government under the Job Retention (furlough) Scheme, has successfully provided a layer of protection that was not expected in the early days of the pandemic. That said, the social and economic impact of COVID-19 will be a feature for years to come, and continued support from SIS and partners will be required.

Market Building activity during the year has continued, and the forced transition to online delivery a significant learning opportunity – so much so that virtual events will continue to feature. In the early days of the pandemic, new webinar content was developed quickly to signpost organisations to help and support; and a series of inspirational leadership webinars was developed to provide encouragement and insight. I am grateful to two of our Patrons, Dame Susan Rice and Wendy Alexander, for taking part in two of these sessions.

Market Building activity continues to be delivered in partnership with a range of organisations. Over the past year, we have worked with the Scottish Government, Creative Scotland, Asda, Baillie Gifford, People's Postcode Lottery, Scottish Enterprise, and Zero Waste Scotland to deliver content. Of particular note have been our Retail Academy programme, now delivered entirely online with continued support from Asda and the Scottish Government; and the 'Ambitions' programme, inspiring leaders with growth ambitions. The latter moved to fortnightly online meetings as a result of the pandemic, a format that will continue for future events, and is possible thanks to the support of the People's Postcode Lottery Trust and Baillie Gifford, a new partnership developed during the year.

The financial results for the Group reflect these challenges and opportunities that have come about linked to the pandemic. The detail around the financial results is further discussed within the Trustees' Report.

Despite the significant impact of the pandemic on day-to-day ambitions, the ambition of the Building an Impact Economy has not been forgotten, particularly as a result of the innovation segment of the strategic framework. Towards the end of the financial year, significant opportunities were brought forward that will have a bearing on activity in the next year and beyond.

- Exploring the role of social enterprises in line with the drive towards a more circular economy was identified as an innovation priority. Working in partnership with Zero Waste Scotland, a research and mapping exercise was completed which is supporting the development of new funding propositions (see below).
- In March 2021, the Scottish Government allocated £15m of repayable resource from a new £30m Third Sector Growth Fund to SIS. This has then been allocated into three 'lots':
  - £5m to support further investments from the SIS Ventures portfolio.
  - £5m to support the further development of the new circular economy fund highlighted above.
  - £5m to support the development of a funding proposition for charities and social enterprises particularly impacted by the pandemic.

The latter two propositions remain in a development phase.

- During the year, with financial support from 12 academic institutions, the feasibility of a new impact investment fund to support spin-out activity was explored by SIS Ventures. This new fund, to be known as 'Impact 12', was announced in the early summer of 2021.

The year to March 2021 has been an extraordinary one. 'Unprecedented' is a word that has perhaps been overused in recent months, but the short, medium, and long-term impact of the pandemic has been, and will continue to be, unprecedented. I am delighted that, as is evident from the activity highlighted above, that Social Investment Scotland has risen to the challenge and will continue to do so in the months and years ahead. This would not have been possible without the unwavering commitment of the executive who have endured any number of enormous challenges. There was no playbook for the circumstances they faced, but, true to the values of everyone in the organisation, SIS was able to meet the huge challenges that were encountered during the pandemic. My heartfelt thanks go to our CEO Alastair Davis and everyone in the SIS team who has gone above and beyond all reasonable expectations, in spite of the personal challenges they all faced, to ensure that the organisation continued to function and customer needs were met. I am also enormously grateful to the board of SIS, who participated in extra meetings, both individually and collectively, to provide support when it was required. The 12 months under review have been undoubtedly the most challenging, not just of my tenure but, I suspect, for many a long year. A grateful thank you to everyone involved in seeing it through with such determination and ultimate success.

We look forward now to the milestone of our 20<sup>th</sup> anniversary as a confident, ambitious organisation determined to fulfil our mission to connect capital with communities, and to make a real, measurable, and sustainable impact upon people's lives. We believe that social enterprise could and should play a meaningful role in the social and economic recovery of Scotland post-pandemic and beyond in support of our overall ambition of an Impact Economy.