The Promise of Social Impact Bonds:

* A Discussion with Nick Hurd MP

Monday, May 6, 2013
3:30 – 4:30 p.m.

**Program and Panel**

Introduction: **Jitinder Kohli**, Senior Fellow, Center for American Progress
Remarks: **Nick Hurd** MP, UK Minister for Civil Society
Interview: **William Schambra**, Director, Bradley Center for Philanthropy and Civic Renewal

*This event is co-sponsored by*
JITINDER KOHLI: Welcome, everyone. My name is Jitinder Kohli, and on behalf of the Center for American Progress and Hudson Institute, I’d like to welcome you today to this event. In a town where bipartisanship is perhaps somewhat rarer than it might be, this is evidence of bipartisanship. And it’s an absolute pleasure to have the Minister here this afternoon to talk about his experience in the UK. Just to give a little bit of context, Nick Hurd is the Minister for Civil Society in the British government, and he is going to talk about the experience of the UK in the space of social impact bonds. It should be a relatively informal conversation, and I’m sure it will be very enjoyable.

So just a couple of things to say. One is that in their very conception, social impact bonds are evidence of bipartisanship. This is an idea emerged in the UK under a Labor government and has been embraced and taken forward to a different level by a conservative government. When the current government came into power, there wasn’t one on the books, but there was one in the pipeline. Now there are 13 on the books and eight more in the pipeline in the UK. So it is a real success story of how you take an idea and move it forward.

In the US, there are similar experiences. A year or two ago, we had none in the US. We now have one that has gone live and a number of others that are in the pipeline. So today is a real opportunity to learn from the United Kingdom, to get a sense of where the US is at, and hopefully, we can avoid reinventing the wheel in the United States. Now with that very, very brief introduction, I’m just going to turn it over to the Minister.

NICK HURD: Thank you. I’m really, really pleased to be here. I’m told that anything that brings together the Hudson Institute and the Center for American Progress must be politically interesting, and I think this is. I’ll speak very briefly, because this isn’t just about social impact bonds. Social impact bonds are a tool in the box that we’re keen to develop and explore, but actually they are just part of a much bigger challenge and picture. How we frame it in the UK, and I suspect it’s the same for you, is how can we do a better job of tackling our social problems. How do we meet the public’s demand for better services when we have got much less public money? We are having to contract public budgets in a very, very severe, sustained way, and particularly at the local level, where more and more power is being devolved.

This is happening at a time when, as you well know, the demographics are such that many local governments are concerned that most of their budgets are going to go predominantly to adult social care. So this is the fundamental challenge. How do we meet our citizens’ expectations at a time when we have got significantly reduced public money? And underlying all this is, what we’re trying to engineer in the UK is a completely different attitude towards how public money gets allocated and spent, with evidence-based evaluation and rigor underlying that process.

I am not trying to make a political point, but over a long period of time we developed a very unrigorous process of spending public money, with a shockingly low evidence-based underpinning and tremendous built-in resistance to working with the private sector and private capital to innovate and do new things. And as a result, our system has developed into something that is fantastically risk averse. It is very bad at looking at the cost and the risk associated with the status quo.
This is what we have to dismantle, challenge, break down, chisel away at to try and create the space for genuine social innovation because we won’t get to where we need to get to by only cutting budgets. We have to create the space to back the social entrepreneurs who can help us find better ways of doing things.

There are two very important tools. One is by sending a really powerful signal to the people spending our money, the people commissioning services on our behalf, that we expect them to commission for outcomes and to pay on results. It’s not appropriate in every situation. This is a big, big cultural change, and one that we are gradually introducing with, I think, some success.

But alongside it, what we’re also actively doing is developing a new market for social investment. This is money that’s prepared to blend financial return with social impact. And it’s small. It’s embryonic. In the UK, it is independently measured at about £200 million pounds at the moment. There were sensible people thinking it could be worth about a billion pounds in 2015. It is money that we are very interested in if it’s genuinely socially motivated as well.

We’ve made some large interventions to try and grow this market. First was to set up the world’s first social investment institution, an organization called Big Society Capital. It has £600 million pounds on its balance sheet. It hasn’t cost the taxpayer a penny because we got the money from unclaimed, dormant bank accounts and we gently persuaded our four biggest banks to put up £200 million pounds of risk capital.

So, a new institution with £600 million pounds to grow the social investment marketplace as a wholesaler, investing through intermediaries. It is sending a big challenge to the market, saying come to us with things to invest in. And this is important because the biggest risk to the growth of this potentially really important market is not money. We think there is plenty of money that would be motivated by this proposition of investing to make a positive difference to something you care about and getting your money back. Rather, we think the challenge is how to build the supply of credible investment propositions, the deal pipeline. So alongside this, we’ve invested relatively significant sums of taxpayers’ money in building a pipeline of funds that are designed to support a social enterprise from startup, effectively through to the point that they are ready to absorb serious amounts of social investment.

So where do social impact bonds sit in all this? They are something to invest in. However critically, for us, they are a tool that creates the space for genuine social innovation. Why? Because they are a set of contracts that are designed to do the following. Let me give you one real life example from the UK. A local government in a big area called Essex has a huge problem with children in foster care. Children that have to be taken away from their families and the state is effectively the parent. Well, the state is a lousy parent, and this is very expensive. So Essex decided that they must do something different. And through structuring the social impact bond, what they’ve managed to persuade real investors with three million pounds to fund a new intervention that complements what they’re doing. It is not substituting anything. It has a decent evidence base behind it.

If the outcomes that are contracted are delivered, then Essex will pay 8 to 12 percent per annum and will save a big multiple of that. If it doesn’t work, Essex pays nothing. The investor is
effectively taking, in this case, equity risk, which they are happy to do. They’ve priced it and they are just as motivated by a child staying out of care as they are by earning 8 percent.

This is really valuable money for us and I hope by the way I've described it that you can see why Essex would be attracted to that. It gives them a chance to try something new at very little risk to themselves that complements what they’re doing already. It allows them to hopefully keep more children out of foster care and help them deliver better services. Essex has led every other local authority in the country that has a problem with children in care to look at that program very closely. So you can see how this could spread through a system that is desperate to look at new ways of tackling some very big stubborn social problems. It’s a tool in the box.

My final point is this. Like you, for some time, we just had one social impact bond and a lot of hype around it. We were uncomfortable about that. So what we’ve done is create a fund that is designed to accelerate more social impact bonds across the country because we need more of them. We need to test whether these things work. We need to find out what price investors are prepared to charge for various levels of risk.

So we now have 13 and we can see another eight coming down the track. Beyond them, we can see another five or six. Within a couple of years, we hope to have at least 20 social impact bonds in the market across different sectors, and we’ll then have a better view of how important this could be. We have a sense it could be very important, which is why finally, my boss, the British prime minister, has used our presence at the G8 this year to put this whole issue of social investment on the agenda, because most developed economies face that same big challenges that I addressed at the start. How do we do better with less? Thank you. [APPLAUSE]

WILLIAM SCHAMBRA: Let me add my welcome, Minister, to the Hudson Institute-Center for American Progress joint project here, and my thanks to Kristen McIntyre and Kristina Costa for helping set this up. I mentioned, before we sat down here, that I would ask you this very general question, a sort of 50,000 foot question. The United States obviously doesn’t have a Department of Civil Society, and yet this is something that people have talked about periodically. That we need some sort of central federal authority that would be more involved in regulating and promoting civil society, various versions of it. It’s something that Britain obviously has that we don’t have. Can you say a word about the role of the Ministry in UK civil society and what that might mean for the United States?

NICK HURD: So the Office for Civil Society sits in the Cabinet Office, which is right at the heart of government. The corporate headquarters of government. And that is important because we have effectively three functions. One is a general advocacy for civil society. The United States obviously doesn’t have a Department of Civil Society, and yet this is something that people have talked about periodically. That we need some sort of central federal authority that would be more involved in regulating and promoting civil society, various versions of it. It’s something that Britain obviously has that we don’t have. Can you say a word about the role of the Ministry in UK civil society and what that might mean for the United States?

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The second part of the program is the work we are doing to try and help our civil society adapt to quite profound changes. Not just in the way government works, but also, in terms of new technology options and new attitudes of the business sector towards working with charities. It is a huge amount of change for our civil society to manage and it’s a relationship that matters enormously to us. Not least because part of this Prime Minister’s vision is to try and rebalance power and responsibility in our country where the state has been too powerful and to try to build a better balance between a more open government, a more socially-responsible private sector, and a strong civil society. It was felt that we needed a team at the heart of government to act as an advocate and drive that.

WILLIAM SCHAMBRA: Great. You mentioned that this concept, social investment, has an ability to bring together the ideological wings in the United States, and the joint Hudson-Center for American Progress event is one piece of evidence of that proposition. Does it function the same way in British politics? Is it an important piece in sort of reconciling the ideological tension in Britain, and thoughts about how that might function in the United States.

NICK HURD: There is a lot of bipartisan support for it, in terms of social investment. As was mentioned before, the first intervention was made possible by a Labor government because they took through the legislation that allowed these dormant bank accounts to be used for social impact. Now, we were much more ambitious than they were in terms of how that money was used, but we wouldn’t have been able to do it without that legislation. So underpinning this is a strong bipartisan approach.

That is important for investors. That is important for the intermediaries that are structuring these things. Where there is a rub is around the appetite for genuinely opening up the public service markets to non-public sector deliveries. We’re very keen to do that, and particularly, in that to try and make it easier for charities and social enterprises to help us deliver better public services. There is more obstruction on the Left because of the influence of the unions.

WILLIAM SCHAMBRA: Right, because one of the comments you made was about the shockingly low level of evidence for success in government programs. This is obviously an ideologically-laden comment in the United States, and the only –

NICK HURD: I wouldn’t know anything about that. [LAUGHTER]

WILLIAM SCHAMBRA: Right, of course. But I’m glad the Center for American Progress has subscribed to this notion. We are making progress here, indeed. Talk for a minute about, and this is a really important barrier for this proposition in the United States, the notion of changing the status quo, the culture of the nonprofit sector and government contracting. Everyone has programs well in place for this sort of thing. A lot of government programs in the United States are already delivering through nonprofits and people are perfectly content to sustain that process the way it is. You obviously faced that kind of problem in Britain. What can you say about changing the status quo? What was helpful for that and again, how might we think about it here?

NICK HURD: I think we’ve only just started, and I don’t underestimate the size of the mountain we have got to climb. We are definitely in the foothills because over the years it has been
allowed to accumulate a tremendous aversion to risk, and not enough rigor in actually assessing the risk that has already been taken with the status quo. And this needs to be challenged.

We are gradually setting about that by sending a strong signal of permission for commissioners to try and do things in different ways, by sending strong signals that we want to encourage leadership in this space. That is important because these people are operating in a very risk averse environment, and they need to receive a strong signal that it is okay to challenge the status quo and think about doing things in different way.

Where we are fortunate, if I can use that expression, by the environment in which we are in, because frankly, business as usual is not an option across most of the system. People are being forced because of budgetary constraints to think about doing things in different ways and to doing it with different partners. And we have got to use that. We’ve got to use that.

And in terms of the voluntary sector, the nonprofit sector, again, it is a big cultural change because most of them are used to being funded through hand to mouth funding, through grants, through philanthropy, so the concept of taking on investment with the social investment process is new and challenging, which is why we’ve invested to try and support capacity in that context.

WILLIAM SCHAMBRA: In Britain, you mentioned that there is a lot of decentralization going on in government. Could you just say a word about that and how important that might be in promoting this process?

NICK HURD: Yes, it is hugely important. It carries great risk but also great opportunity. So I am not making a party political point that the central government amassed a huge amount of power, because this happened over governments of different colors. And now we are in the process of letting that go by devolving and commissioning responsibilities, but also by transferring power in terms of new rights and opportunities at the community level. We think this is really important. And I get the impression this is beginning to happen in the States as well, that the localities and communities are responding. We are seeing some really good examples of very creative thinking, very imaginative thinking, great entrepreneurship. That is exactly what we need to harness and capture and support.

WILLIAM SCHAMBRA: So you are finding that local governments are in fact embracing this in some places. That they are the drivers of this ---

NICK HURD: It’s inevitably patchy. If you are to progress, if you are to embrace the challenge that I set out, you have to give people freedom to innovate. You have to give some permission to fail because we know from our own lives, it’s normally when we screw up that we actually learn something. And this is an environment in which we have to be much more permissive of failure and much tougher on the status quo and encourage people to innovate. But in doing so, we need to make it easier for the innovators to access risk capital.

WILLIAM SCHAMBRA: Do you face the charge that this is privatizing what should in fact be public services? We hear comments about that relating to social investment in the United States.
NICK HURD: I mean, it has been around for decades, but there’s a big noise around contracting out public services to big private sector providers. There is less noise around involvement of the nonprofit sector or public sector mutuals, which is something we are very keen to encourage. So it is kind of graded. We don’t really care because, actually, what we’re interested in is trying to create the conditions for innovation and better outcomes, and we think a diverse market supply is pretty fundamental to that.

WILLIAM SCHAMBRA: Very good. Well, let’s go to the audience. We have about a half an hour, and we have a terrific audience. A lot of knowledgeable people.

[Question for the audience not spoken into the microphone]

NICK HURD: So the question was, what kind of investors are getting interested in these projects? It’s a good question. We have a small ecosystem of existing specialist investment organizations, a handful of pioneers, which we’re actively supporting. Big Society Capital is a prominent investor in social impact bonds, as you’d expect. Another organization called Bridges Ventures is another specialist in this area. So you have some specialists.

Then, the other market is the charities and foundation trusts that are sitting in our country on about $80 billion of assets currently invested through conservative institutions, investing in conservative financial instruments. And our argument to them is that impact investing is entirely consistent with your mission. Why not think about putting your endowment to work, just at the margin? Two, three, four, one percent, whatever it is. If we could just achieve that, we’d move big money into the social sector. So that is the money closest to the market.

Then you have got institutional money. That is complicated. I think their participation depends on the development of what we call blended funds, which structure the investment funds that allow different types of capital to participate with risk allocated in different ways between them. And you are more advanced than us in that respect.

Then, at the end, there are savers and investors. We have done research in the UK that shows that high net worth individuals are very open to this proposition. And I think the general public would be as well. I look at it very simply. If my bank came to me and said that here is a standard ISA earning you X percent, and here’s a socialized ISA that allows you to make a contribution to something you care about and pays you X percent minus a bit, I’d be open to that now. However I’m not being offered it, and I don’t expect to be offered it within the next few months, but I know in the UK, at least two retail banking organizations are thinking of offering this product. It makes me think that money is not actually the problem here. It’s proving the concept that if you invest in these things, you will get your money back.

WILLIAM SCHAMBRA: Could you say, getting your money back raises that interesting question about evidence-versus-innovation in this field? Obviously, investors want to see strong evidence of likely success. And yet, there is a claim being made for this field that it will in fact encourage innovation, thoughtful, cutting edge and unproven approaches to social problems. How do you balance that?
NICK HURD: Yes, I think that it is a journey. Inevitably this new social investment will tend to gravitate towards proven programs because there is less risk attached to that. However, that in itself will send a strong signal to the suppliers of interventions that they need to be more robust in developing an evidence base around what they do. But I think also that people will come in, and it may not be social investors, it may be venture philanthropists, it may be a different type of money that is prepared to take more risk to help people climb the evidence curve. So I think this market will become a bit blurred, a bit more sophisticated in terms of money coming in to do different things to help the social entrepreneurs, help the pioneers climb the evidence curve.

WILLIAM SCHAMBRA: Great. More questions, please. Yes, the gentleman right here in the middle of the row.

Q: Thank you very much. In the UK, how is this investment treated? In the US, we have laws that apply to the private sector and those that apply to the public sector. How is this treated in a social impact bond setting?

NICK HURD: It’s a very good question, and I don’t have a final answer to it because it is work in process. We have tried to take a very holistic look at how we, as a government, can help encourage the growth of this market, and part of that has been to look at the regulatory environments in which this operates. And our starting point is, how can we make this regulatory environment as benign as possible?

So we were making gradual, incremental changes so that our financial service regulator, the FSA, having been quite agnostic or uninterested in this space, are now much more engaged with it and there are discussions about the proportionality of the regulation around how these products are marketed. And that is an ongoing conversation that I don’t think we’ve got quite to where we want to get to, but there’s so much political will to drive this market, that that helps enormously.

So work in progress, but our desire is to try and make the regulatory environments as proportionate and benign as possible, particularly for the promotion of this product.

Q: Thank you. My name is Jackie Pfeffer Merrill and I’m a staffer at the American Council of Trustees and Alumni, but I’m a political scientist by training, so I’m going to ask a political scientist question.

NICK HURD: I don’t know what that means. [LAUGHTER] I’m braced.

JACKIE MERRILL: I’m thinking about this as well as the Legacy 10 changes to the tax laws, and I’m wondering how your government conceived of the relationship between these proposals and perhaps others to increase the role of the public in addressing social problems or private money is addressing social problems. Was this a cabinet-level decision that you wanted to think about ways in which to accomplish this? Or were there programs that it bubbled up within your ministry to say that we were going to expand this initiative? So was it a government-wide holistic approach? Or was it department by department?
NICK HURD: No, of course, it was part of a brilliant grand design [LAUGHTER] executed with seamless throughout the government, which is characteristic of our administration.

[LAUGHTER] No, there is some truth in that. Our prime minister, and I know your president, has a very strong commitment to the idea of citizenship and promoting the idea of social responsibility. The prime minister articulated this through a vision called the Big Society, which has had its knocks and its share of scorn and derision. However it is fundamentally about trying to encourage a greater sense social responsibility, trying to encourage more people to get involved and to work together at a local level to do a better job of tackling some of the problems we’ve got.

And in this narrow space, there are two strands. One, what can we do to encourage more people to get involved in giving, both of time and money, with no expectation of getting the money back, but with everything we know in terms of the sense of fulfillment that comes with being part of a process of helping other people? And then there is this strand of social investment where the starting point is, I expect to make a social impact but I expect to get my money back, preferably so that I can recycle it again. They are different things. There will be a bit of overlap at the sort of high net worth philanthropist level, but basically, they are different activities. But they were genuinely part of this Big Society vision of what can we do as a government to create the conditions whereby more of our fellow citizens work together to help each other.

Q: Hi, I’m David Thompson of the National Council of Nonprofits. We do a great deal of work in the area of government nonprofit contracting reform. So evidence-based impact, great idea. Promoting innovation, not doing something wrong and then doing it all over again, breaking the cycle of insanity, great ideas.

The paper here from the Center for American Progress cites the Urban Institute study from three years ago about government contracts. We know a lot about that because we partnered with them on that project. The part reported is that there are budget contracts of no evidence base. Not quite true, but close enough. Now my question is on contracting. We’ve done a great deal of work and have demonstrated that our contracting system is broken. Governments are horrendous partners with nonprofits in this country, under paying, not paying on time, and critical for here, changing contract terms. Contracts tend to be one-sided. Bringing in an investor that has a special interest or a personal interest in how it turns out adds another complexity to it all. How is this different? Does this take us out of the cycle? Or is this adding more layers of complexity and risk for nonprofits?

NICK HURD: No. The environment you describe is one I recognize, because it’s kind of what we are living with in the UK historically as well, and I don’t think we’re going to solve it overnight, but we’ve got various tools at our disposal. One is what we’re discussing, which are tools that create the space for doing things in different ways.

And secondly, government can do a lot to build the capacity and capability of what we call commissioners, the people shaping and procuring the contracts. Where we paid really shockingly low attention to the quality and support of these key individuals, because through their fingers flows billions of dollars of our money. So we have a process of training and support and networking that we think will upgrade that capability. That is the encouraging bit.
The other bit is that we are shoving a whole load of transparency into this area, and that’s going to be really awkward in some places because we, as citizens, are going to have much more information about how our money is being spent and with it, the right to challenge it. So there are various levers that we are pulling. We’ve got a bit test coming up now. We’ve got a big change of structure in, how we do prison rehabilitation and probation in our country? Paying by results and the frame of it will be announced in a few days time. And I’m really hopeful that through that, we’ll send a signal of what we’ve learned on this journey, in terms of how governments should work with the nonprofit sector and understand the issues that the nonprofit sector has in terms of working with government. There are various tests and that is one I hope that we pass. But we’re on a journey, for sure.

WILLIAM SCHAMBRA: Behind David’s question, we had a panel at the Bradley Center earlier in the year discussing this, and one of the objections to the social impact bond has been that it sort of demands that all the pieces, function at sort of an optimum efficiency, right at the same time, which is of course, something that rarely happens.

NICK HURD: But this process is a driver of new rigor and discipline, and many will fail that test, but again, it’s all about the signals that it sends about how things should be done.

WILLIAM SCHAMBRA: Say a word about the transparency element of that. What does that mean in particular?

NICK HURD: We work very closely together with your government on something called the Open Government Partnership. We are very committed to transparency, down to giving citizens really granular information on how money is being spent in their name at a local level, down to the last 500 pounds spent at local authority. We’re not there yet, but we’re heading that way, and once you start on that journey, there’s no way back, because once you give people this information, it’s irreversible.

We’re very comfortable with that. But what we hope, and we may be being a bit naive about this, is that we’ll create the conditions whereby it’s easier to challenge what government is doing. You will literally be able to look at a grant or a contract and be able to challenge it. And we’ve set up an explicit right to challenge, to which the local commissioner has to respond. We’ll see what the response to that is, but, you know, sticks and carrots.

WILLIAM SCHAMBRA: Very good. Yes, more questions, please. Jitinder, don’t you want to defend wasteful government spending? I’m going to keep hammering with this until I get a rise from you. I mean come on. [LAUGHTER] Guess not. Oh, here we go, all right, yes.

NICK HURD: Do I think there should be a tax break for social investment? Yes, I do and I’m absolutely delighted that my Chancellor of the Exchequer agrees, because he announced in the last budget that we’re now in the end stages of a process of a consultation with the market and our treasury officials to structure a new incentive for social investment, which will sweeten, I hope, the blend of financial return and social return. We have argued for some time that it’s
needed, and we got pushed back awhile because that is the treasury’s job. But they’ve bought the
argument, so we’ll have something in place by this time next year.

Q: Rick Cohen of the Nonprofit Quarterly. First, let me make sure I understand the dimensions
of this. You said, the size of the pipeline is currently eight social investment bond projects?

NICK HURD: There are 13 live and we can see another eight and behind them. So, within two
years, we hope to have at least 20.

RICK COHEN: Can you give us some sense of what the magnitude is of the financial
investment that’s involved?

NICK HURD: The size at the moment is around five million pounds each.

RICK COHEN: So that’s a pretty small piece –

NICK HURD: It’s tiny.

RICK COHEN: That’s tiny.

NICK HURD: I think I had said at the start, this is a small subset of something a bit bigger.

RICK COHEN: So the question becomes that when you read the literature about social impact
bonds in this country, people get very excited as though this is a wave of the future that is going
to transform the way government and nonprofits operate. Yet you’re talking about, in the UK, a
very small piece, and you’re talking about in the US, a tiny piece, which is done by the
Bloomberg Administration in New York, an emerging program in Massachusetts, and the Pay-
for-Success program of the Obama administration. Doesn’t the small scale of this sort of militate
against the ability to have a large impact in changing culture that you’re talking about?

NICK HURD: You are entirely right about the scale of it and I think I was quite frank at the
start, saying that social impact bonds are just a part of a bigger picture. It has got a huge amount
to prove. In the system I’m part of, if there is proof that this works, that these interventions can
be introduced at an acceptable rate of financing, then I think we will go big on it. We are testing
now.

However the point that I think is especially important is that underlying all this is a different
attitude to how the government commissions serves. There’s a much bigger focus on payment by
results, much greater demands in terms of evidence. So there is a big cultural change that sits
behind all this, of which social impact bonds is just a manifestation.

The other point I may have not got across clearly enough is that social investment as a source of
funding for the nonprofit, or the not for dividend sector in my country, is a much broader
opportunity than just social impact bonds. We have got big charities thinking about issuing
charity bonds. We have social enterprise funds being set up to offer a sort of investment
proposition to try and scale up ambitious charities and social enterprises. So social investment
opportunity is much bigger than just social impact bonds. And social impact bonds, as you say, are a small subset of it at the moment, but attracting a lot of attention because if they work, they could be very big.

RICK COHEN: But what’s striking about your presentation is that, if I understand it correctly, some of what you’re achieving is due to the fact that you are priming the pump in a way. That you are making investments to make innovation possible. So it requires a government outlay, and a government commitment at that level.

Moreover, with the fact that you have Big Society Capital making some portion of these investments, I think you identified them as among the largest, if not the largest investor in these bonds, that you have a government institution that is also part of this mix. So that you have a government outlay necessary to make private sector investment in a sense, work. How has the government outlay made its way through the government process, given the fact that your government, like our government, is a bit short of cash sometimes and has a number of competing issues out there?

NICK HURD: Good question. Just to clarify, Big Society Capital is not a government institution. We set it up, but as I said, we didn’t set it up with any taxpayer’s money. We used what are called dormant bank accounts, and we persuaded the banks to put some risk capital up. We just happened to drive that process and make it happen, but taxpayers not paying a penny for that.

So the amount of taxpayers’ money, you are quite right. We have a priming function. We are driving the development of this market. We are investing, but I would say the total amount of taxpayer money being invested at the moment is around 60, 70 million pounds. It’s relatively small money, given how important this opportunity is for us.

Much of what we are doing doesn’t really cost the taxpayer anything, because it is about opening up public service markets to create the conditions whereby more charities and social enterprises can compete for contracts and go to market. It’s about devolving paths so that community groups have more opportunities to take over community assets, to come to market and say we need some help financing this. It means looking at the whole regulatory environment. It means looking at the tax environment. Pulling all the levers that government has got, as you say, to prime and to enable and to drive this forward, and yes, invest in a strategic way to try and escalate. But we are not talking hundreds of millions of pounds. It is a relatively small amount of money and a lot of noise.

WILLIAM SCHAMBRA: Yes, I think a lot of American conservatives would listen to that and say we really don’t want that. We don’t want government involved to that degree in our private sector. I go back to the example of the Faith-Based Initiative in the George W. Bush Administration, which tried to do a bit of that. Obviously, relating to faith-based and community initiatives. And now, of course, in retrospect, George W. Bush is a hideous, big spending conservative who violated every principle of American conservatism, among other things, by this kind of involvement by government in encouraging civil society activity.
What would you have to say to that? Is British political culture so different that you don’t really hear that objection?

NICK HURD: Oh, no, our politics isn’t that different. I’ve never heard that in expression about what we’re doing in relation to social investment yet. It is a small embryonic market that needs developing, and so we are priming it, but we’re doing it in a way where everything we’re doing is about enabling.

Contrast this with the previous administration that tried to do something different. They set up a government fund to which nonprofit sectors could bid directly. It had a retail function. That wasn’t building a market. That was distorting a market because then everyone went to the government fund and everyone else trying to create some space over here just evaporated. We said no, we’ll set up Big Society not as a government institution, as an independent, transparent organization, and we’ll set it up as a wholesaler, and operate behind the market to encourage and enable market. It’s a different philosophical approach. This is all about trying to unlock the potential of socially-motivated private capital to come in and work with us to help better responses to social problems. And they won’t come in if they think that the government hand is too heavy.


NICK HURD: Is this the end of bipartisanship? [LAUGHTER]

JITINDER KOHLI: If I was being cynical about it, the UK economy is about 10 times smaller than the US economy. So we have to take every number that we’ve just taken in the UK and multiply it by 10. Sterling is about 1.5 to a dollar. So the UK government has, and I don’t take this view, but I’m going to sort of put it out there, the UK government has forcibly taken 600 million pounds from the banks, stuck it in a quasi-non-governmental organization, which really, is just an arm of the government. It’s not like the banks had any choice over where the money went. [LAUGHTER] I say having worked on that policy 10 years ago in the British treasury. And in addition to that, there’s 500 million pounds, I think you said, going from the British cabinet office to bolster the social sector through a series of bonds.

I don’t take any of these views myself, but there is an argument that there is a lot of big government in action there. How would you defend that? So just to take those numbers, take the 500 million and the 500 million, double them, so about a billion, that’s like $15 billion now of equivalent money. That is a lot of money. And the White House talks about $300 million and probably won’t get it. Are you happy now, Bill? Taking your view for a moment.

NICK HURD: Well, I’m really glad you don’t believe any of that stuff. [LAUGHTER] Because the first 500 is not government and yes, we put some pressure on the banks to put up 200 million pounds, but we argued it was in their interest. They were taking a caning in terms of public opinion on the banks, and it was the right thing for them to do. They could have said no but they didn’t. And the dormant bank accounts, we thought that was inventive and creative. It
was a voluntary exercise. In theory, they could have said no. So it was genuinely independent. I don’t tell them what to do.

All we said was it needs to be a transparent wholesaler and independent of government, and it is. And it is genuinely seen to be. So the budget that we do spend, a big chunk of that is on developing a program called National Citizens Service, which is all about trying to develop young people and encourage them to get more involved in their communities. That didn’t exist before. I think that it is quite legitimate for government to be investing in helping young people realize their potential and connect them with their communities. I’m very proud of that program. It has a 93 percent customer satisfaction. Sixteen year olds are tough crowd and they love it. So I’ve no apology for that at all.

And the rest, well, we’re in a situation, I don’t know what the States is like, but we’re in a process of transition in relation to civil society and a relationship with the government. We’ve found ourselves in a situation where for us, it was society. The growth game in town for the last 10 years has been public sector income, so this current situation is really tough for two reasons. One, suddenly, organizations that arguably allowed themselves to become too dependent on the state are now in crisis. But arguably, I’m generalizing, and this is a bit unfair, the whole system or too much of the system had lost a bit of vitality in terms of going out into communities and to donors and to philanthropists and businesses, and energizing and creating the emotional connections with them, because the easiest game in town was just to go to your local authority and get that grant, with no real rigor as to what that grant was being given for, or what needed to be produced for it. So the system became, I think, a little flabby and is now suffering some pain.

And as I said, that is just cuts. If you think about what we’re talking about, the change is the way in which government actually works to commission services and what that means for the nonprofit sector, that’s a huge amount of change to get your head around. Then you look at the technology opportunity and what is now possible, and the power of digital media, social media to inform people, to inspire people, to move people, to mobilize people and what this could mean for the nonprofit sector, that’s enormously exciting. I think about the whole CSR space and how businesses, certainly in my country, are beginning to think in very different ways about their responsibilities and how they engage with the nonprofit sector. That is a hell of a lot of change for a battered and bruised civil society to cope with. And therefore, we took a conscious decision at a time of very little money, that we would invest some money in programs to try and build capacity, resilience, leadership, skills, and frankly, just to help a few organizations through the storm. And that’s a decision we took and we’re happy to be accountable for. In the scheme of things, it’s not huge money for a sector that is fantastically important for us.

WILLIAM SCHAMBRA: Excellent. That sounds like a concluding statement to me. Let’s thank the Minister for a terrific conversation. [APPLAUSE]