

## Big Society Bank – Glossary of Terms

Briefing from NAVCA  
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### About NAVCA

NAVCA is the national voice of local support and development organisations in England. We champion and strengthen voluntary and community action by supporting our members in their work with over 160,000 local charities and community groups.

NAVCA believes that voluntary and community action is vital for vibrant and caring communities.

We provide our members with networking opportunities, specialist advice, support, policy information and training. NAVCA is a vital bridge between local groups and national government.

We take the lead on the issues that matter most to local support and development organisations. We influence national and local government policy to strengthen local voluntary and community action.

### About This Briefing

This briefing is provided on behalf of the Department for Education's overarching strategic partnership which aims to support the evolving economy and infrastructure of the whole voluntary, community and social enterprise sector serving children, young people and families. It will also share the best practice, expertise, learning and concerns of the sector with the DfE.

Led by Children England, and working with Community Matters, NCVYS, NAVCA, The Race Equality Foundation and the Social Enterprise Coalition, the partnership will use its extensive combined member networks and stakeholder groups to shape and deliver activities with the sector, and gather the perspectives of thousands of organisations and community groups. The programme will include information, learning resources and opportunities, and peer support networks. The aims being to offer practical help to support the sector's sustainability and explore the potential for growth from a range of funding mechanisms and service models.

This glossary was prepared by Alastair Ballantyne of Portland Place Capital at the request of Kevin Curley of NAVCA. It provides an overview of the key terms used in reference to social investment and the Big Society Bank.

**Bond:** normally the term is used to describe a debt security issued for a period of more than one year which pays a fixed or floating rate of interest with the principal repaid at maturity. For example, "gilts" or "gilt edged bonds" are pound sterling denominated UK government bonds.

NB. A "social impact bond" is not a "bond" in the traditional sense of the word.

**Co-investment of equity or debt:** BSB could make an equity invest in, or lend money to, a project or fund alongside and on the same terms as other private sector investors.

**Debt:** an obligation or agreement to pay money under an agreement. The cost of debt is the interest paid on the loan. In general, companies use debt in their financial structure because they are able to use the money they borrow to generate revenues that are much greater than the cost of the debt.

**Equity or quasi-equity investment:** equity investment means having ownership rights and sharing in the profits of a business. Some businesses do not have shares but it is possible to structure financial instruments that have similar features to equity in terms of participating in the upside if the business is successful in generating income and being an investment that can lose all its value if the business fails.

**First loss:** if an investment loses money it is possible to have different tiers of investors so that one set of investors accepts that it will lose the money it invested before any of the other investors loses any money. For example, BSB could take the first 20% loss on a loan portfolio. If the loan portfolio decline in value by 10% BSB would take all this loss and the other investors would be paid in full. If the loan portfolio declined in value by 30% BSB would take 20% of the loss but the other investors would share the remaining 10% loss between them.

**Intermediaries:** organisations that intermediate or help bring together bodies that need capital, and bodies that have capital and want to invest it. Intermediaries in the social investment market include funds, financial institutions or other organisations that arrange financing for end-user social organisations.

**Liquidity:** From an investor perspective, the liquidity of an investment or investment portfolio refers to the ability to transform that investment into cash quickly with little or no loss in value.

**Redeemable equity:** shares issued in a company where the company itself has a right or obligation to repurchase the shares at some time in the future on specific terms.

**Social Impact Bond:** A financial instrument also known as "pay for success" bond. Investors buy a bond to achieve a particular social outcome (such as helping to reduce reoffending by prisoners). The money raised by the bond issue is used to pay for programmes to help address the problem (such as, in the case of reoffending, mentoring and counselling, providing accommodation, providing help to find work or training on leaving prison, drug rehabilitation etc). The government (or local authority) agrees to pay the bondholders a return on their investment that reflects how successful the intervention has been and the cost savings achieved by government as a result (eg the need for fewer prisons). If the programmes are unsuccessful, the investor receives no payment.

**Subordinated capital:** a debt or equity investment in a business that, in the event of the business being liquidated, ranks junior to other investors. In other words, all senior or secured liabilities will be paid by the business prior to the subordinated claims.

**Underwriting risk:** BSB could agree to buy a financial instrument that was intended to be on-sold to end-investors. If the sale to other investors was unsuccessful BSB would have the risk that it owned the instrument.

**Venture capital fund:** venture capital is an approach to investment that involves making an equity investment in a start-up or small and growing business with the investor also actively providing management and strategic advice. A venture capital fund invests in a number of small businesses to spread its risk to make a more consistent return by having a portfolio of what are normally highly risky investments.

**Wholesale investor:** an investor which makes larger investments in funds or financial organisations (intermediaries) that will themselves invest smaller amounts in a number of frontline end-user social organisations.

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