



Social Investment Board

Date: WEDNESDAY, 12 JULY 2017
Time: 11.30 am
Venue: COMMITTEE ROOMS, 2ND FLOOR, WEST WING, GUILDHALL

Members: Nicholas Bensted-Smith
Chris Boden
Henry Colthurst (Deputy Chairman)
Elizabeth Corrado (Co-optee)
Tim Haywood (Co-optee)
Alderman Alison Gowman
Alderman Peter Hewitt (Chairman)
Deputy Edward Lord
Jeremy Mayhew
Andrien Meyers
Andrew McMurtrie
Laura Tumbridge (Co-optee)

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John Barradell
Town Clerk and Chief Executive

AGENDA

Part 1 - Public Agenda

1. **APOLOGIES**
2. **MEMBERS' DECLARATIONS UNDER THE CODE OF CONDUCT IN RESPECT OF ITEMS ON THE AGENDA**
3. **MINUTES**
To agree the public minutes and non-public summary of the meeting held on 15 February 2017.
For Decision
(Pages 1 - 4)
4. **PROGRESS REPORT**
Report of the Chief Grants Officer.
For Decision
(Pages 5 - 24)
5. **QUESTIONS ON MATTERS RELATING TO THE WORK OF THE BOARD**
6. **ANY OTHER BUSINESS THAT THE CHAIRMAN CONSIDERS URGENT**
7. **EXCLUSION OF THE PUBLIC**
MOTION - That under Section 100(A) of the Local Government Act 1972, the public be excluded from the meeting for the following items on the grounds that they involve the likely disclosure of exempt information as defined in Part I of the Schedule 12A of the Local Government Act.

Part 2 - Non-Public Agenda

8. **NON-PUBLIC MINUTES**
To agree the non-public minutes of the meeting held on 15 February 2017.
For Decision
(Pages 25 - 26)
9. **TIED HOUSING FOR TEACHERS**
Report of the Chief Grants Officer.
For Information
(Pages 27 - 40)
10. **GREENSLEEVES INVESTMENT REVIEW**
Report of the Chamberlain and the Chief Grants Officer.
For Decision
(Pages 41 – 66)

11. **PORTFOLIO UPDATE**
Report of the Chief Grants Officer.

For Decision
(Pages 67 - 98)

12. **QUESTIONS ON MATTERS RELATING TO THE WORK OF THE BOARD**
13. **ANY OTHER BUSINESS THAT THE CHAIRMAN CONSIDERS URGENT AND WHICH THE BOARD AGREE SHOULD BE CONSIDERED WHILST THE PUBLIC ARE EXCLUDED**

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SOCIAL INVESTMENT BOARD

Wednesday, 15 February 2017

Minutes of the meeting of the Social Investment Board held at the Guildhall EC2 at 11.30 am

Present

Members:

Alderman Peter Hewitt (Chairman)	Tim Haywood (co-opted Member)
Henry Colthurst (Deputy Chairman)	Jeremy Mayhew
Elizabeth Corrado (co-opted Member)	Laura Tumbridge (co-opted Member)

Officers:

Philippa Sewell	-	Town Clerk's Department
Karen Atkinson	-	Chamberlain's Department
Karen McHugh	-	Comptroller & City Solicitors
David Farnsworth	-	Chief Grants Officer
Tim Wilson	-	The City Bridge Trust
Martin Hall	-	The City Bridge Trust
Kyro Brooks	-	The City Bridge Trust
Kristina Drake	-	Communications Team

In Attendance:

Whitni Thomas	-	Triodos Bank
Richard O'Brien	-	Triodos Bank
Michael Jarvis	-	Clothworkers' Company
Hamesh Patel	-	Clothworkers' Company

1. APOLOGIES

Apologies were received from Nicholas Bensted-Smith, Wendy Hyde, Alderman Alison Gowman and Andrew McMurtrie.

2. MEMBERS' DECLARATIONS UNDER THE CODE OF CONDUCT IN RESPECT OF ITEMS ON THE AGENDA

The Chairman, Alderman Peter Hewitt, declared a non-pecuniary interest by virtue of his position on the Government's Advisory Group on 'Creating a Culture of Social Impact Investing and Savings' under the Minister for Civil Society.

3. MINUTES

RESOLVED – That the public minutes and non-public summary of the meeting held on 13 December 2016 be agreed as a correct record.

4. PRESENTATION: TRIODOS BANK

The Board received a presentation from Whitney Thomas and Richard O'Brien from the Corporate Finance Team at Triodos Bank, who gave an overview of the scale and aims of the bank and confirmed their recent appointment as

advisors for the Fund. In response to the Chairman's question regarding deployment, Ms Thomas advised that the Board could pursue property initiatives, environmental options, or look at flexibility in terms of repayment schedules.

Members thanked Ms Thomas and Mr O'Brien for their presentation.

5. **REPORT OF ACTION TAKEN BETWEEN MEETINGS**

The Board received a report of the Town Clerk advising of one decision taken under urgency provisions since the last meeting.

RESOLVED – That the report be noted.

6. **PROGRESS REPORT**

The Chief Grants Officer introduced a progress report on social investment activity within the Corporation.

Advisors

Members noted that three social investment advisors had been identified during a review of prospective new providers – Triodos NV, Bates Wells Braithwaite and iforchange. Members queried costings and noted that all advisors would be engaged on a spot-purchase basis rather than retainer so the Board could benefit from the flexibility of matching the right advisor to the right prospective investment.

City Bridge Trust Strategic Review

Officers advised that CBT had commissioned a piece of research investigating how the Trust could build on the work being done through the Stepping Stones fund and undertook to circulate this once it was available.

RESOLVED – That:

- a) Bates Wells Braithwaite and iforchange be appointed as advisors to the Fund;
- b) the proposed approach to a diversified portfolio with a range of risk tolerances be endorsed;
- c) the social investment research commissioned by the City Bridge Trust as part of its Strategic Review be circulated in due course and
- d) the report be noted.

7. **QUESTIONS ON MATTERS RELATING TO THE WORK OF THE BOARD**

There were no questions.

8. **ANY OTHER BUSINESS THAT THE CHAIRMAN CONSIDERS URGENT**

There was no other business.

9. **EXCLUSION OF THE PUBLIC**

RESOLVED – That under Section 100(A) of the Local Government Act 1972, the public be excluded from the meeting for the following items of business on the grounds that they involve the likely disclosure of exempt information as defined in Part 1 of Schedule 12A of the Local Government Act.

Item No.	Exempt Paragraphs
9-12, 14	3
13	-

10. **NON-PUBLIC MINUTES**

RESOLVED – That the non-public minutes of the meeting held on 13 December 2016 be agreed as a correct record.

11. **REPORT OF ACTION TAKEN BETWEEN MEETINGS**

The Board received a report of the Town Clerk advising of one decision taken under delegated authority since the last meeting.

RESOLVED – That the report be noted.

12. **PORTFOLIO UPDATE**

The Board considered a report of the Chief Grants Officer.

13. **QUESTIONS ON MATTERS RELATING TO THE WORK OF THE BOARD**

There were no questions.

14. **ANY OTHER BUSINESS THAT THE CHAIRMAN CONSIDERS URGENT AND WHICH THE BOARD AGREE SHOULD BE CONSIDERED WHILST THE PUBLIC ARE EXCLUDED**

There was one item of business.

The meeting closed at 12.47 pm

Chairman

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Committee	Dated:
Social Investment Board	12 July 2017
Subject: Progress Report	Public
Report of: Chief Grants Officer	For Decision

Summary

The report provides an update on progress made finalising City Bridge Trust's new strategic directions (*Bridging Divides*) and shares a background paper on the work the Trust might do to develop the social investment market. The report also provides updates on work done to examine key worker accommodation, the Stepping Stones Fund, and how best to account for capital gains and income on the Fund.

Recommendations:

Members are asked to:

- note the report;

Main Report

City Bridge Trust funding strategy (2018-23)

1. The December 2016 board received an update on work done to prepare City Bridge Trust's funding strategy for 2018-23. A final draft of "Bridging Divides" was approved by City Bridge Trust Committee in May and will go to Court of Common Council in July.
2. The new strategy is based on a vision of London as a city where all individuals and communities can thrive, especially those experiencing disadvantage and marginalisation. The strategy will help the Trust use both its monetary and non-monetary assets to tackle what appear to be increasingly complex social problems. Following Court, the focus of our work will be the preparation of a detailed implementation plan for delivery of the strategy.
3. Bridging Divides follows a period of extensive research as well as consultation with (among others) the City of London Corporation, the funding community, and the wider charity sector. Several background papers were commissioned during the process, including an options paper on the use of social investment. This paper is particularly relevant to the work and interests of Social Investment Board and is appended to my progress report.

Accommodation for key workers

4. Your February 2017 Board asked officers to explore how the Fund might support the provision of affordable accommodation for certain key workers. Initial heads of terms and supporting research are included in the non-public papers for today's meeting and your feedback is sought.

Stepping Stones Fund

5. You receive regular updates from me on the Stepping Stones Fund, City Bridge Trust's social investment readiness programme. To date 49 organisations have been awarded grant funding of £2.2m. A fourth round is currently underway with interviews at UBS towards the end of July and a further £550,000 awarded shortly thereafter.

Accounting treatment of capital gains/losses and income

6. At your February meeting, officers were asked to consider how to ensure that the movements of the Fund, including gains and losses and net income, were reflected in the accounts of Bridge House Estates within the designated Social Investment fund, as opposed to being part of the general fund of the charity.
7. This request has now been discussed with senior staff within Chamberlains, with a paper due to be presented at the September Finance Committee. If approved, the accounting treatment described above would take effect within the 2017/18 financial year, as a transfer between funds held within the Bridge House Estates balance sheet.

Appendix 1: Directions for the future development of the Social Investment related support provided by City Bridge Trust

David Farnsworth

Chief Grants Officer, City Bridge Trust

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Directions for the future development of the Social Investment related support provided by City Bridge Trust

Report Author: Eva Varga
February 2017



EXECUTIVE SUMMARY

City Bridge Trust (CBT) has commissioned a short report to explore its options around social investment (SI), as part of its next funding strategy for 2018 to 2023. This report provides an overview of the UK SI Market; an analysis of CBT's current SI offer; and options it might want to consider for its future offer around SI. The report author has first-hand experience of delivering CBT's current SI offer, through its Investing in Londoners strategy, as well as strong over-arching experience of working in the SI market.

The Social Investment Landscape

The UK Government continues to see SI as an alternative form of finance for civil society organisations delivering social benefit to mitigate against the continued significant reductions in public sector spending in times of increasing social need.

It is felt that now, more than ever before, a movement of independent funders, philanthropists, public sector commissioners and non-departmental public bodies such as Big Society Capital, Power to Change and the Big Lottery Fund, are all working together to actively shape and influence the SI market. This should result in sustained growth of the market, and an increased understanding across civil society of the potential benefits of this tool – recognising that certain financing offers benefit one type or size of organisation over another.

The report encourages CBT to consider the kinds of support it could offer to a range of different stakeholders linked to the SI market, including investors, local authorities, intermediary organisations and charities and social enterprises. It is felt that CBT has much to offer to these stakeholders due to its links to the City of London Corporation (CoLC), which has strong connections to multiple sectors globally and regionally.

CBT's Social Investment experience

CBT has been delivering SI related work on behalf of the CoLC since 2012. The SI Fund (part of the underlying investments in the Bridge House Estates), set up in 2012, has a total of £20 million to place; supplying investible social business models with loans, equity or quasi-equity to provide development finance or risk capital. At the same time, the Fund wants to contribute to the development of the SI market.¹ It needs to preserve capital and therefore aims to achieve positive financial return as well as demonstrable social benefit.

The Stepping Stones Fund, set up by CBT in 2014, supports organisations that are in an earlier phase of the journey: they want to access SI, but are not investment ready. This Fund does not insist on the outcome that funded projects must go on to obtain SI.

Both programmes have provided CBT with extensive practical experience and learning of delivering within the SI market. The report provides a brief evaluation of CBT's Stepping Stones Fund, recognising that to-date only 11 projects have finished their projects. It concludes that the Stepping Stones Fund has offered an effective capacity building tool for organisations to access, and has been enhanced due to the fact that private sector investors such as UBS have collaborated with CBT on it. The report is clear in its

¹ <http://www.citybridgetrust.org.uk/what-we-do/social-investment/social-investment-fund/>

conclusion that there is a well-evidenced need for continued investment into SI capacity building support for civil society organisations, whilst recognising that the capacity building needs of smaller organisations with an annual turnover of less than £1m will differ to larger organisations.

The report recognises the need for CBT to raise awareness of the Stepping Stones Fund in order to generate a higher volume of eligible applications. Early findings also suggest that the Fund has not led to a large number of SI deals, due to the fact that a lot of capacity building support is needed by organisations before they can even begin to broker and shape deals, as well as delays caused by proving the effectiveness of non-property backed deals, or developing business models which require the involvement of local authority commissioners. The Fund appears to have resulted in SI deals worth c.£45k so far.

Recommendations

The report recommends that CBT, in partnership with the CoLC, should continue to influence and grow the SI market through its expertise and extensive stakeholder networks, as well as through sharing its current SI learning as widely as possible. The report encourages CBT to form partnerships with private sector organisations and the London Boroughs.

It also recommends that CBT continues its existing SI work, namely the SI Fund and the Stepping Stones Fund. It advises that for the Stepping Stones Fund, CBT should consider making it more accessible to the current portfolio of organisations that it funds through grant-making. The report suggests that the capacity building offer could be enhanced further by a diagnostics stage being included.

The report also recommends that CBT develops a new financing facility, aimed at supporting small organisations. The tool is described as a bridge between the Stepping Stones Fund and the SI Fund, and entails offering small investments in the £25k-£100k range, as well as offering repayable finance and blended finance models. This new facility would be aimed at funding smaller and riskier deals more flexibly.

CONTEXT

Main trends in the development of the SI landscape in the UK and London

The UK Social Investment (SI) market has seen active growth in recent years, through the addition of new facilities and players. The UK Government is committed to growing the SI sector, as it is seen as an alternative form of finance for civil society organisations delivering social benefit, at a time when there are significant and sustained reductions in public sector funding, and other forms of independent funding (including philanthropic giving), and rising levels of demand on these services. Increasingly SI is becoming the only source of funding available that can provide large amounts of flexible funding and support to finance innovation and growth.

Big Society Capital (BSC) was set up by the UK Government to build a stronger SI market, and it does this through making investments, supporting intermediaries, working with civil society organisations, commissioning research, influencing government policy and building the capacity of public sector commissioners to use this funding model.

In March 2016, Cabinet Office published its SI strategy, which outlines the Government's commitment to strengthen the domestic market and attract international social investors and ventures to the UK². In summary the strategy states:

1. There will be continued growth of the SI sector, and stated that in 2015 the BSC draw-down was £224m, of which £165m was from co-investors;
2. The number of pooled private and public funds for SI is increasing;
3. Awareness of SI is increasing, with 58% of retail investors knowing about peer-to-peer lending and other alternative investment opportunities; and
4. 44% of social enterprises sought finance in the last 12 months.

London has played a special role in the dynamic development of the SI market thanks to its concentration of wealth, sophisticated financial markets, density of trusts and foundations, market potential for products and services and its geographical proximity to the UK Government. Financial markets and models show that they are continuing to thrive, despite the potential impact of Brexit, and so it can be assumed that London, and the City of London Corporation (CoLC) will continue to thrive financially in the coming years. However, it is worth noting that in the near future, the SI pipeline will be dominated by innovations in business being applied to the social sector. The number of deals in the pipeline, and their quality, will depend on continued development of the SI market place.

The UK Government intends to use its SI schemes to support both the supply and demand side of the market. These schemes consider ways in which to mobilise additional financing from the private sector; develop and maintain a viable SI funding pipeline; and ensure that investment readiness is built in to civil society organisations during what are likely to be continued drastic reductions in public sector spending.

Social Impact Bonds (SIB) are garnering much interest currently as a SI tool to be championed, but they have received criticism³ too for being too complex, and relevant only to a small number of charities and social enterprises. It has been argued that simpler instruments, such as loans do not receive enough attention.

Charities Aid Foundation (CAF) research shows that most organisations want simple, easy-to-access, low-cost loans, rather than 'exciting' new and complex financing structures.⁴ Organisations are mainly looking for alternative forms of finance that are cheap, flexible, long-term, unsecured and enables them to take some risks.⁵ The loan size varies, but most request small loans ranging from £5,000 to 25,000⁶. Organisations that are investment-ready and larger usually obtain this finance from social investors and high street banks. However, these simpler options tend to bear higher cost implications, resulting in a reticence to invest in this way by social investors, unless a partner, such as the Access Foundation is willing to share the risk or the cost of making small investments.

² <https://www.gov.uk/government/publications/social-investment-a-force-for-social-change-uk-strategy-2016>

³ for example, in a House of Lords Committee hearing about SIBs

⁴ Returns policy, CAF, September 2014

⁵ After the Gold Rush - The Report of the Alternative Commission on Social Investment, March 2015

⁶ IVAR research 2013

A new government support initiative announced in December 2016 wants to improve demand for SI from small charities, so that they too are a part of the charity commissioning supply chain. However, there is concern as to whether or not small charities should involve themselves in these seemingly complicated and bureaucratic contracts⁷, thus calling in to question whether or not this popular form of public sector commissioning should be promoted so widely to social investors as a viable business model.

Recently, the SI market has seen increased use of a combination of financial instruments and the (re)emergence of the blended finance concept, for example through the work of Power to Change⁸. Set up in January 2015 this charitable trust offers a combination of grant, repayable finance and capacity building support to grow community businesses in England. Power to Change is planning to use its entire £150 million endowment from Big Lottery Fund over its 10 year lifetime. Other new programmes from the Access Foundation, for example the Access SI Infrastructure Fund⁹, are aimed at strengthening intermediaries and building market infrastructure. It is not yet clear whether these programmes will also help intermediaries broaden their reach and strengthen their sustainability.

⁷ <https://tobyblume.wordpress.com/2016/12/16/small-charities-in-crisis-but-fear-nothere-comes-the-government/>

⁸ <http://www.thepowertochange.org.uk/>

⁹ <https://www.barrowcadbury.org.uk/news/barrow-cadbury-trust-chosen-run-new-access-social-investment-infrastructure-fund/>

New players and schemes in the SI space:

	Target group	Financing offer	Capacity building	Special features	Funder
Power to Change Fund	Community businesses	Blended finance	Available from paid providers	Partnering with Key Fund, SASC	Big Lottery Fund
Life Chances Fund	Commissioners, social service delivery organisations	Top up for outcomes based commissioning, SIBs	None	Outcomes Lab at University of Oxford	Big Lottery Fund
Access Foundation Growth Fund	Social investors, charities	Small loans and loan-grant combination	none	Through social investors	Big Lottery Fund, Big Society Capital
Access Foundation Reach Fund	Charities, social investors	Loans	Investment readiness; specialist providers	Investor driven: support provided through social investors called "Access points"	Big Lottery Fund, Big Society Capital

The use and awareness of SI is increasing, however other forms of community-based financing structures, such as community shares and crowdfunding are also increasing in popularity. This has been facilitated by a growing number of online platforms that make these investment opportunities more accessible for retail investors. Community Shares, a form of direct investment, are still relatively small-scale in the UK, and are not a mainstream part of the public's ways of investing. In 2015 they raised £36 million in 2015, a 29% increase compared to 2014.¹⁰ These new ways of raising funding or investment are often the perfect supplement to SI.

¹⁰ Social Investment Insights Series, Big Society Capital, March 2016, https://www.bigsocietycapital.com/sites/default/files/attachments/Social%20Investment%20Insights%20-%20Retail%20social%20investment%20across%20the%20world_0.pdf

ENCOURAGE

Target groups

City Bridge Trust (CBT) has access to a wide-range of SI stakeholders due to its wide-ranging and large scale funding programmes, its location and connections and its funding mandate (Greater London). These stakeholders and the kinds of support or information they require are listed here, all of whom would also benefit from CoLC's ability to convene other global and UK-based stakeholders:

Type of Stakeholder	Support Needed
Charities and social enterprises	Funding, capacity building and connections
Trusts and foundations, funding partners (including Livery Companies)	Successful programme design and outcomes; successes as well as failures
Investors and social investors	Investees and co-investment from the CoLC
CoLC	Reliable programme partner or co-funder
Organisations in the CoLC	Potential partners to extend the impact of CBT funding, for example through additional support from a livery company or a contract from the Procurement Office
Local councils in the London boroughs	Joint programmes with other boroughs championed or funded by the CoLC
Advisors and intermediary organisations	Looking for business from the City of London as well as funding support so they can work with charities and investees, for example under the Stepping Stones programme
Policy makers and influencers	Target for a proactive approach; sharing lessons learnt or advocating for enabling conditions

CBT engaging other businesses and organisations

CBT has partnered with a number of companies and organisations in its SI approaches. Working with UBS most recently, on Stepping Stones, resulted in additional funding for this initiative, as well as non-monetary support in the form of supported charities receiving mentoring and other assistance from their staff.

CBT could play a key role in supporting a major initiative to improve the social delivery and joint commissioning efforts of London boroughs. There are an increasing number of projects exploring and piloting joint commissioning, and SI is available to finance the work.

The CoLC could act as a role model in spreading an impact-oriented business model. It is large and diverse enough to demonstrate the benefits of being socially and environmentally responsible, and can share the cost side of the transformation.

MODEL

How can City Bridge Trust contribute to SI models?

Modelling and testing SI funds

The CoLC is active in the SI space, having set up its SI Fund in 2012 and an investment readiness support programme, the Stepping Stones Fund in 2014, through its charitable funder CBT. Both wish to address gaps in the evolving market, focusing on different segments of charitable organisations. They were designed after extensive market research and their models are adjusted based on new findings and learning.

The SI Fund has a total of £20 million to place; supplying investible social business models with loans, equity or quasi-equity to provide development finance or risk capital. At the same time, the Fund wants to contribute to the development of the SI market.¹¹ It needs to preserve capital and therefore aims to achieve positive financial return as well as demonstrable social benefit.

The Stepping Stones Fund supports organisations that are in an earlier phase of the journey: they want to access SI, but are not investment ready. Stepping Stones addresses a number of barriers that were identified in 2014 and still persist today: high transaction costs of smaller deals; imperfect information on the investment risk; and missing value of the social impact of the business model and “impatient” capital¹². The objectives of Stepping Stones therefore focus on increasing the capacity of charities to understand, better plan and test business models, as well as learn about SI and explore it as a realistic alternative financing source. Being an engaged investor is a “luxury”, considering its resource intensive nature. At the same time, this is what is most helpful to grantees and investees and what helps validate and refine the models, which may increase the social investment supply chain. This is an approach that CBT could embrace and promote, especially, if it plans to offer a financing continuum to organisations in the future (see later in *Recommendations*).

City Bridge Trust experience with investment readiness programmes

Stepping Stones has an almost-unique offer in that it does not insist on the outcome that funded projects must go on to obtain SI. Projects are given the space and time to build capacity, and invest in the necessary support, to test new business models, learn about this form of financing, understand their impact framework, and consider SI’s role in their

¹¹ <http://www.citybridgetrust.org.uk/what-we-do/social-investment/social-investment-fund/>

¹² <http://www.citybridgetrust.org.uk/what-we-do/social-investment/stepping-stones-fund/>

future plans, in a less risky way and with the required monetary resource to do this meaningfully. UBS has been a delivery-partner on Stepping Stones, contributing both funding and valuable expert support – with their employees and volunteers involved in the selection process.

Sharing learning and implementing an impact-driven model

As a large London-wide funder, for 21 years, CBT has a strong working knowledge of London's civil society sector. CBT recognises that it has data and information, which could be better analysed in order to determine the effectiveness of its funding models and funding programmes. Other funders want to learn more about the journey of an organisation from grant funding to SI, and CBT is potentially in the position to offer insight in to this through its work on SI and Stepping Stones. Therefore, consideration needs to be given to CBT investing in longitudinal evaluation and learning linked to its SI offer.

The methodology, tools and the learning from Stepping Stones, as it is now, is also useful to other funders and investors aiming to launch similar programmes in London, or elsewhere, or those who are looking for potential investees. To-date Lloyds Bank Foundation England and Wales have participated in the Stepping Stones selection process in order to consider it as a potential part of their future funding portfolio. Some businesses that have set up their own charitable or SI programmes have used the CBT processes to shape their own; and they provide feedback to CBT on their experiences, which further informs CBT's learning.

CBT can also help the CoLC to embrace an impact-driven model in its services and embed that in their processes. For example, CBT could work with the CoLC to consider how it makes procurement processes more accessible to wider civil society organisations; or includes SI as an option for transformation agendas; or understands the potential role for social investors in investing in social enterprises to support them to eventually become part of the CoLC procurement supply chain.

Equally, CBT can learn from the CoLC's portfolio of work to see what can be applied to its funding portfolio. For example the City Business Traineeship Programme aimed at supporting young Londoners in their career efforts, and the accompanying best-practice guide - *"The City's Business: helping young Londoners towards and into employment"*¹³ (March 2016) - could be useful to CBT's funded organisations.

EXISTING LEARNING

A brief evaluation of the Stepping Stones Fund

Stepping Stones has completed three rounds, resulting in a portfolio of 49 funded projects, along with useful information about the demand for investment readiness support and the willingness of charities to consider SI. The evaluation is ongoing, as only 11 projects have finished their projects, but their final reports and the regular performance and impact monitoring of all projects have already provided clear information about what it can and cannot potentially achieve.

¹³ <https://www.cityoflondon.gov.uk/business/support-promotion-and-advice/Pages/the-citys-business.aspx>

What has the Stepping Stones Fund achieved and learned so far?

- It has met most capacity-building objectives, by deepening organisations' understanding of SI, investment readiness, business planning and risk analysis
- It has met piloting outcome objectives, even if the grantee's answer after pilot was "no" to SI
- It has met networking objectives, connecting grantees with each other, and CBT's partners
- It contributed a unique investment readiness facility to the SI market offering three strands; where very few other investment readiness programmes existed (ICRF, Impact Readiness Fund, Esmee Fairbairn)
- It has attracted the attention of private SI funds (CAF Venturesome, CAN Invest, SASC) who consider the recipients of the funding as a potential part of their pipeline
- It has helped to improve the quality of SI support providers: Numbers for Good, Social Finance, Eastside Primetimers, etc. have promoted the funding and submitted joint applications with charities
- It remained relatively invisible in the SI field, due to a communications shortfall
- The volume of applications is still relatively limited (77 in third round) and many are unsuitable
- Organisations learn a great deal about the changing SI market from specialist consultants, training sessions and direct conversations with social investors
- A low number of CBT grantees have been involved in applying for or receiving the funding
- CBT can share its learning on how civil society organisations perceive and understand SI, as well as showing their financing and organisational development needs to pursue SI
- Social impact of Stepping Stones funded projects cannot be assessed currently, as they are still in the early stages of development and before growth

It has also been clear that the Stepping Stones programme has not led to a large number of SI deals, predominantly because:

- Organisations undergo capacity building and piloting before being they can begin the lengthy process of brokering and shaping deals
- In order to approach an investor, with a non-property backed deal, organisations must first consolidate their business plan and undertake the "prepare to scale" phase
- Business models involving local councils and commissioning are likely to be delayed, causing changes to timelines and can result in investment opportunities being missed
- There was no uptake for the risk finance strand of Stepping Stones, as it was not fully understood
- Some of the projects resulted in SI deals worth c.£40k-£50k, which are not feasible graduates for the CoLC Social Investment Fund

What are the main reasons that Stepping Stones grantees do not opt to pursue SI?

Funded projects will develop a social impact framework, but the majority use it for capacity building purposes. This means that they are on the first step of the investment readiness journey, with organisations having to complete business planning/modelling and improve their organisational processes, in terms of governance, IT, HR, financial management systems etc. This means that opportunities for accessing SI will likely occur outside of the 18-month period in which Stepping Stones funding is available.

Grantee organisations are vulnerable to changes in the funding, commissioning and regulatory environments, which negatively affect other areas of their work, not funded by Stepping Stones. In those cases overall organisational investment readiness and sustainability is out of reach, even if the specific Stepping Stones project is successful. An example is that commissioning is drastically reduced and the organisation has to streamline staff and activities, which they had been planning to expand to other boroughs.

In a few cases the outcome of the Stepping Stones funded pilots was that the underlying assumptions of the business case were proven wrong or there was not enough paying demand for the service or product offered. In these cases Stepping Stones ended up funding market testing of a social business idea, rather than making one investable. In addition, even if a business idea proves to be viable in the market, it does not automatically require SI for its further development; in many cases organic growth or further grant funding are the best options. Organisations usually always prefer grants or donations to repayable finance, so they would decline the latter, if the former became available (from local government or a philanthropic organisation), even if they are an investible proposition.

Financial market conditions are more favourable to borrowers currently than they were a couple of years ago; mainstream financiers (mostly banks) are able and willing to provide loans to charities and social enterprises at affordable rates, if those can offer security to back the loan. Quite often mainstream financing may even be cheaper for larger sums of money, for example for property purchase or property development purposes. Many social investors do not offer technical assistance or capacity building support to their investees anyway, so the package is not so different from that of the main street bank, only that it is more expensive. This is understandable, as bankable organisations should go to banks for financing.

SUPPORT

Financing and support needs of London charities

Like the wider civil society sector, organisations in London have seen financial growth to deliver their work mainly through grant finance, donations and commissioning. The Institute for Voluntary Action Research (IVAR) published a report on the needs of smaller charities defined as those with an annual turnover below £1m in November 2016. It made clear that financing products should be based on the needs of the charity, which are usually focussed on stability and development, rather than the needs of the investors, which are usually focussed on impact and scalability. It felt that organisations were looking to partner with investors that shared their values and would support them to

achieve financial sustainability as well as social impact, rather than simply thinking about the single deal they may be working on together. The Alternative Commission's report also highlighted the following things that organisations considering SI were looking for from the market:

- A market that is much easier to navigate
- Clearer, simpler, less arduous application processes
- Quicker decision making
- Greater transparency from investors up front about the requirements, the application process and the terms of financing

Capacity building support

Within CBT's current SI offer, capacity building is considered the most important element for organisations applying. This support is only available through CBT's Stepping Stones programme, and has included:

- Higher grant officer engagement in the grant application and award process
- More information offered to potential applicants in information sessions with the participation of social investors
- Mentoring and surgery support from experts and UBS volunteer employees
- A monitoring framework which improves grantees' outcome monitoring capacity
- A funding strand that pays for external capacity building support

The introductory information sessions for Stepping Stones now include the investors' perspectives, and have proved to be very popular and effective to convey basic concepts and messages to interested organisations. In 2017 the Stepping Stones Fund plans to offer training and networking opportunities to its portfolio. This means breakfast or afternoon roundtable type events, where experts and portfolio members share their experience on commissioning and social impact measurement with others. One of the events will be "meet the investor", to which CBT will invite a number of social investors that target the smaller to medium size charity segment. CBT hopes that this will facilitate the exchange of experiences as well as leading to actual investment deals.

CBT would need to consider three main aspects in light of the existing capacity constraints within its grant officer team:

1. What capacity building support would be most desired and most useful to charities?
2. How should it be provided?
3. How should its impact be measured?

CBT should continue with its existing approaches, and also consider making better use of its Grants Officers who have long-term relationships with various organisations, to begin discussions with organisations that may have the potential to become SI ready. Additionally, CBT may wish to consider funding SI events (seminars, lectures, conferences etc.) for grantees to promote this approach.

Consultancy and other types of support could also be offered to explore aspects of SI readiness tailored to the specific circumstances of the investee organisation, and this could include:

- Capacity building to develop the skills of the staff
- Capacity building involving hiring additional staff with specific skills to deliver specific pieces of work
- Building organisational systems: IT, financial management, human resource management, client relationship management, website development. This kind of support could fund the purchasing of new software and equipment, as well as the consultants that deliver the product or help with the transition to a new system
- Networking support, linking investees up with businesses and organisations using the CoLC's wide-ranging contacts in the City and beyond
- Promotion and visibility support, including promoting the investee in the CoLC's publications, statements, website, brochures, inviting them to key events

How could this type of support work?

- This support would assume a closer contact with the Stepping Stones Fund's investees, whereby CBT staff members would be aware of the needs of the investees on an ongoing basis
- Some support could be provided free of charge (e.g. linking investee up with CoLC procurement officers), while others would involve expenditure of additional funds, as external expertise may need to be bought in
- External expertise would probably be purchased using the resources of CBT or other Stepping Stones Funders. CBT could have a special capacity building facility and make it available to investees: a set amount per investee, which could be used up during the lifetime of the investment as needed. It could also be taken out of Stepping Stones Fund, as a post-investment capacity building intervention, which would make a new strand necessary
- Assessment of support needs around SI readiness or the growth of the organisation would need to happen in the due diligence phase (before investment) and after the investment is made, using a diagnostic tool, or something similar
- A capacity building plan would be drawn up for the entire investment term with objectives and targets, where appropriate. Progress against these targets would be monitored alongside the social impact and financial reports
- External support could be delivered by expert consultants either contracted by the investee or selected by the Fund
- The investee would not need to apply separately to CBT or Stepping Stones Fund for capacity building support. They could have a certain amount available, drawn from a CBT Committee approved budget, which could be used based on recommendations of the CBT staff member.

RECOMMENDATIONS

The CoLC has a unique position in the Square Mile thanks to its brand, networks across all sectors, its capacity and expertise. It is therefore very well placed to continue to play a role in the SI space and shape the agenda. Its progress in this space to-date will hopefully encourage the CoLC to continue investing in social purpose organisations with impact potential. Having its own investment fund and investment readiness support fund allows

the CoLC to develop and refine models that can be replicated and shared, whilst also adding to the CoLC credibility when talking to other financiers and influential actors in the policy arena.

The following **general recommendations** are directed at CBT to consider delivering:

1. CBT and CoLC should continue being a thought leader in the SI space, influencing its wide range of networks, particularly aimed at the target groups listed on page three
2. CBT should support the CoLC to better promote its learning from its SI work, recognising that both the CBT and CoLC branding are important tools based on the various target groups listed on page three
3. CBT should continue to work with the CoLC to utilise its networks in the City to engage new partners, in order to grow the amount and types of SI financing available for investment in to impact-oriented initiatives
4. CBT should work with the CoLC to create partnerships with London Boroughs and consider funding and supporting projects that target outcome driven commissioning, joint commissioning or showcase successful examples from other geographies

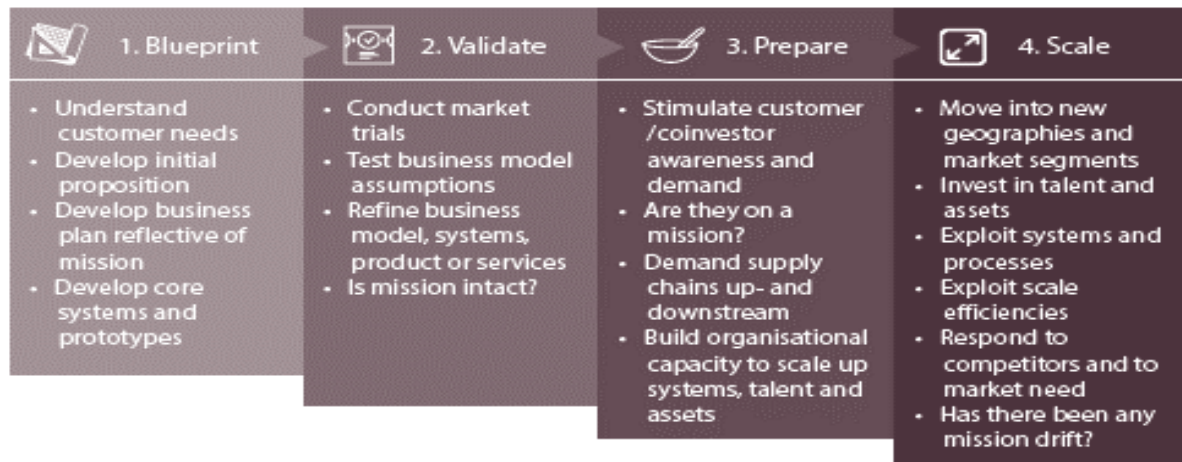
The following **specific recommendations** are directed at CBT to consider for its future SI work:

The CoLC could offer CBT-Stepping Stones-SI Fund as a possible funding continuum, which is offered to grantee organisations over time. Funding amounts and types could be matched to specific stages in the lifecycle of an organisation from blueprint to scale (see Figure 1):

1. Stepping Stones Fund should be maintained with further allocations to run at least one round per year awarding £600K-700K
2. Target CBT grantees more directly for Stepping Stones Fund
3. Invite existing CBT grant holders to apply to Stepping Stones or invite them into a new tailor made preparation phase
4. Test an open window type application process for Stepping Stones and assess applications on an ongoing basis. The focus of proposals would still have to be a bespoke piece of work or development
5. Maintain the SI Fund with stronger links to other funding and investment readiness programmes of CBT

Figure 1: Stages in the lifecycle of a social enterprise

Source: Harvey Koh, Ashish Karamchandani, Robert Katz: *From blueprint to scale*, Apr 2012



CBT should continue to complement funding with capacity building:

1. Capacity-building should be strengthened, but possibly supplemented with a diagnostics stage at the beginning in order to get the full picture about the applicant (all key pieces of the investment readiness puzzle)
2. Capacity building could be seen as a long-term project in an organisation's strategy, which consists of phases. CBT/Stepping Stones could consider funding the long-term process or just pieces of it, but knowing how the pieces fit together and lead to a stronger and more investable organisation

Working in partnership with others is beneficial and should continue to be prioritised, as it can:

1. Bring additional resources: funding and human resources for advice, selection and mentoring.
2. Provide the right type and amount of resources to organisations. Should CBT consider offering repayable finance as part of the funding continuum (which it presently cannot offer because of its mandate)? CBT may grant funds to an intermediary, who could assist in placing the funds; this is similar to the recently launched "Access Points" scheme of the Access Foundation. Alternatively, CBT could team up with an investor that brings its own money to invest in properly vetted CBT or Stepping Stones grantees.
3. Enlarge the applicant pool and provides more promotion opportunities and visibility. Example: UBS-CBT

It is however recognised that partnerships take time to coordinate, as the possible additional demands of partner(s) need to be considered.

The following **new financing facility is recommended** for consideration by CBT:

Small organisations continue to have difficulties accessing the type of finance they demand from the existing players. CBT could consider setting up a new facility as a bridge between Stepping Stones Fund and the SI Fund or other external funds, in order to facilitate the transition of investible business models to larger amounts of investment. The facility would offer small investments in the £25k-100k range and provide repayable finance and all combinations of repayable and grant funding in blended constructs. It would finance smaller and riskier deals requiring a fair amount of flexibility.

The funds could be allocated from the Bridge House Estate surplus revenue and should CBT find a co-investor, the investment and the risk could be shared. Co-investors could be part of the donor base that CBT has been developing through its encouraging philanthropy work. The costs of due diligence and the small amounts of finance, plus possible losses would need to be taken up by the facility itself or CBT. The new facility could be tested during a 3-year pilot phase and its total initial capital could be around £800K to £1m per year.

What issues would need to be considered to develop this facility?

- Consideration would need to be given as to where this kind of facility could be housed, i.e. is it possible for CBT to house such a facility as it could result in loans being provided to organisations
- The financing could be offered as unsecured finance, or via specific guarantees or collateral
- A range of financial products could be offered through this approach, and consideration would need to be given to operationalising these options. Options could include: patient capital on long term or blended finance to reduce the risk of investments to possible other investors
- The potential recipients of this product would need to be considered, and could include graduates of CBT programmes or Stepping Stones Fund only
- A selection and due diligence process to ensure strong candidates for investment would need to be determined
- A decision as to whether or not the facility has a thematic or general focus would need to be made
- A social impact measurement framework would need to be implemented to measure success of investees and the fund
- A decision would need to be made as to where the funds for such a facility would be drawn down from, including an assessment of the financial return expectations
- The risk profile for the investments would need to be categorised
- The potential co-investors for this product would need to be mapped, and this could include Livery companies
- Operational support in terms of HR and IT systems will need to be utilised to deliver the work

What are the implications of the recommendations?

The key implications have to do with resources: financial, infrastructure and human. Additional programme elements, be it capacity building or additional financing, will require

additional funding from CBT. Infrastructure would most likely need to be adjusted and updated in order to best support the new grant-making or investment processes as well as the impact monitoring and analysis piece. Operational challenges would most likely present themselves in the areas of legal structures, decision making processes and the harmonisation of SI and investment readiness timelines with the more conventional CBT grant making programmes.

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