



Report – Policy and Resources Committee

Social Investment Fund

*To be presented on Thursday 24th May 2012
To the Right Honourable The Lord Mayor, Aldermen and Commons
of the City of London in Common Council assembled.*

Summary

1. This report informs Members of the arrangements being made to establish a £20 million Social Investment Fund (SIF) from within the Bridge House Estates. The initiative has been agreed in principle by your Committee, subject to settling the management arrangements and any other necessary approvals. It is also supported by your Financial Investment Board.
2. The SIF would not impact upon the City Bridge Trust grants budget as Bridge House Estates is currently forecasting annual financial surpluses over the next several years over and above the surplus required to fund City Bridge Trust, and the projected return on the SIF would exceed the current return on relatively low yielding cash investments.
3. Events in the social investment arena are moving fast and the time appeared to be right for the City Corporation to consider establishing such Fund from within the Bridge House Estates. It would present a significant opportunity to maximise the social impact of the City Corporation's investments by making the capital work harder to achieve a social, as well as a financial, return. It would also be a tangible demonstration of the City Corporation's commitment to the social investment agenda.

Recommendation

4. It is recommended that the content of the report be noted.

Main Report

Background

1. Social investment is the use of established financial mechanisms to fund social enterprises or charities. A social enterprise is a business (or a charity with a trading arm) that trades for a social and/or environmental purpose.
2. It is different to traditional philanthropy because it has the potential to return the original investment together with interest, thus providing a sustainable way of financing community projects. With diminishing grant funding available, and an increasing demand to deliver public sector services, many charities are turning to social investment as an alternative way of financing their activities.
3. So far the majority of social investors have tended to be charitable trusts and foundations and high net worth individuals. Over time, however, it is expected that the mainstream financial services sector will participate. Deutsche Bank and HSBC recently announced social investment funds of £10 million and £4 million respectively. Last December, Cooperative Bank launched a Global Development Cooperative Fund which aims to raise \$50 million for low rate lending to cooperatives in developing countries.
4. Social investment sits within the impact investing field, where the driver for investment is the social or environmental impact it can have. Along with financing of social enterprises (Social Investment), Impact Investment also finances micro businesses and projects such as social housing and clean technology. The City Corporation has supported a number of impact investments e.g. through investment in the Capital Fund and the Environmental Technologies Fund. On 17 April 2012, Sir Michael Snyder, chaired the launch of the Small Enterprise Impact Investment Fund (SEIIF), a joint initiative by the City Corporation with Oxfam and the fund management company, Symbiotics, to promote small business in the emerging economies.
5. In support of the development of the social investment market, the Economic Development Office (EDO) and City Bridge Trust (CBT) have been working together on the social investment agenda for some time. To ensure that we are proactive, that City Corporation remains a key player in developing London as a global centre for social investment, and to help accelerate the Social Investment agenda in London generally a dedicated specialist has been recruited to help develop our strategy.

Current Position

6. Although the UK social investment market has grown slowly over the last 10 years, there has been a recent groundswell of momentum supported by Government interest demonstrated by the launch by Big Society Capital, the Peterborough Prison Social Impact Bond, and the development of the Social Stock Exchange. Overseas competitors are also keen to assume a

leadership role in particular Australia, Luxembourg, the Netherlands, Scandinavia, Singapore and Switzerland.

7. The City Bridge Trust has been part of a steering group discussing the positioning and promotion of London as a centre of global philanthropy and social investment. Within HM Government this work is being led by the Cabinet Office which has asked the City Bridge Trust to commission an action group on social investment (in addition to one on philanthropy). This is being chaired by the Chairman of this Committee.
8. It is anticipated that several major charities will announce the establishment of social investment funds in the near future.
9. Given the above, the time appeared to be right for the City Corporation to consider establishing a Social Investment Fund from within the Bridge House Estates to be a tangible demonstration of City Corporation's role at the forefront of developing the social investment agenda. It also presents us with a significant opportunity to maximise the social impact of the City Corporation's investments by making the capital work harder to achieve a social, as well as a financial, return and would also raise the profile of the City Corporation in the social investment arena.
10. To have the right impact the size of the proposed Social Investment Fund needed to be significant and it was considered that a sum of £20 million could be invested from Bridge House Estates for these purposes. This would not impact upon the City Bridge Trust grants budget as Bridge House Estates is currently forecasting annual financial surpluses over the next several years over and above the surplus required to fund City Bridge Trust, and the projected return on the SIF would exceed the current return on relatively low yielding cash investments.
11. Criteria for investments to be made from the £20m fund would meet both financial and social criteria.
12. We therefore endorsed in principle the proposal of a £20m Social Investment Fund from the investment capital of Bridge House Estates subject to further reports on the operational detail (including the process for drawing up and approving the criteria and approval process/ framework for the Fund) and due diligence arrangements. This would of course be dispersed over a number of years to a number of projects meeting criteria which are yet to be agreed and the relevant Committees and Boards will need to be involved in this process.
13. A Social Investment Fund would support the vision of the City Corporation's Corporate Plan 'to support and promote the City of London as the world leader in international finance and business services, and will maintain high quality, accessible and responsive services benefiting its communities, neighbours, London and the nation' as well as the key medium term policy priorities of "Being a good neighbour" and "Supporting people and business in recovering from the economic downturn." It would also support the City's equalities and sustainability objectives.

14. The Trustees of the Bridge House Estates Trust have broad powers to achieve a financial return on the charity's investments. Whilst £20m is obviously a sizable figure and should have a real impact, it nevertheless reflects a small proportion of the Trust's overall investments. Any investment will be made in accordance with the guidance issued by the Charity Commission and appropriate internal guidance and investment criteria will be produced. Overall, the Trust's investments aim to achieve the best financial return within the level of risk considered to be acceptable and this approach will be adopted for this Fund.

Conclusion

15. The City Corporation, with the City Bridge Trust, is at the forefront of the UK's social investment agenda. But other financial districts are also interested in taking a global leadership role on this agenda and the time is right for the City Corporation to mount a step change. The establishment of a Social Investment Fund within the investment portfolio of Bridge House Estates not only tangibly demonstrates our commitment to the agenda and bolster the City Corporation's profile, but is a significant opportunity to maximise the social impact of the City Corporation's investments by making the capital work harder to achieve a social, as well as a financial, return. To have the necessary impact a sum of £20 million has been recommended: this would be invested over a number of years in a number of projects meeting agreed criteria.
16. The Chairman of this Committee will be hosting an informal briefing/discussion breakfast meeting for Members who are interested in the area of social investment and details of this will be available shortly.

All which we submit to the judgement of this Honourable Court

DATED this 3rd May 2012

SIGNED on behalf of the Committee

Mark Boleat
Chairman of the Policy and Resources Committee