

<b>Committee:</b> Policy & Resources Committee	<b>Date:</b> 20 February 2020
<b>Subject:</b> Funding request to support an extension of Heart of the City's responsible business programme	<b>Public</b>
<b>Report of:</b> Damian Nussbaum, Director of Innovation & Growth	<b>For Decision</b>
<b>Report author:</b> Jacob Seymour, Head of Operations, Innovation & Growth	

## Summary

Heart of the City is a unique charity founded, hosted and core-funded by the City Corporation. It is the only organisation in the country that works with smaller businesses across London to start and develop responsible business/CSR activities. It does this through a pioneering peer-learning model, engaging experts from large companies to mentor and advise the SMEs.

The charity is governed by an experienced and high calibre board of senior business leaders. It is delivering against an ambitious five-year business plan which sees it reach hundreds more companies across London and in targeted regional cities. In 2019, 147 companies joined Heart of the City and the charity was supported by 99 larger UK companies across a range of industries.

Heart of the City currently delivers the City Corporation's Corporate Strategy Objective 5, points c and d<sup>1</sup>. The charity also works alongside others in the Corporation to deliver its Responsible Business Strategy and the Social Mobility Strategy.

The charity currently has one year's funding from the Corporation which is due to end on 31 March 2020. It is seeking a further year's extension of its funding from the Corporation in 2020-21.

## Recommendations

Members are asked to:

- Note that Policy and Resources Committee agreed funding of £300,000 for 2019/20 and we are now asking for approval of a further year's funding pending the outcome of the Fundament Review;
- Agree one-year's funding for 2020/21 from options one to three; this would be met from City's Cash
- Note that a review will be undertaken in 2020 to assess the value and return on investment that Heart of the City generates.

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5. <sup>1</sup> 'Businesses are trusted and socially and environmentally responsible  
c. Support, celebrate and advocate responsible practices and investments.  
d. Advocate and facilitate greater levels of giving of time, skills, knowledge, advice and money.'

## Main Report

### Background

1. Heart of the City is the only charity in the UK working with small businesses to help them establish a sustainable programme of responsible business activities. No other organisation achieves this level of reach with small companies, and Heart of the City's programme has been refined over 20 years to suit the needs of this very specific target audience.
2. It was founded by the City Corporation, the Bank of England and the predecessor to the Financial Conduct Authority in 2000 and all three founders remain strong supporters in-kind although, as regulators, the other two bodies are not able to provide core grant funding to Heart of the City. The charity is governed by an experienced and high calibre Board and overseen by a Council of Members of senior leaders from businesses across London – details at **Appendix 1**.
3. Heart of the City has met all the targets set over its most recent funding period (see **Appendix 2**). In 2019, 147 London businesses took part in Heart of the City's capacity-building programme and demand for its work remains high with a full complement of members already signed up to its 2020 programme.
4. The charity delivers its work with the support of 150 employees across 99 large London firms who give their time, expertise and resources to help smaller companies set up their responsible business work. This equated to £230,000 worth of in-kind funding in 2019. A list of these companies (known as Heart of the City Ambassadors) is in **Appendix 4**.
5. Due to its focus on businesses, Heart of the City has not been able to secure grant-funding from traditional grant-funders for its work. City Bridge Trust does fund the charity, although this is restricted to activities supporting disadvantaged communities, not core-funding the charity's broader responsible business work.
6. Heart of the City has had good success in securing membership fees from SME members since 2016. These comprised £85,000 in 2019 but further growth is limited due to the challenges securing payment from smaller businesses.

### Current Position

7. Heart of the City conducted a comprehensive review of its work and impact in 2018. It used this learning to refine its offer to businesses and to develop a five-year strategy to run from 2019, which focuses on what is unique and most effective about Heart of the City's work:
  - a. Its target audience of SMEs that are new to responsible business
  - b. Its unique asset base of major UK companies as supporters.
8. The past year has seen interest in responsible business grow yet further. The expectations placed on businesses to demonstrate the positive impact they have on society has grown. This has been reflected in the strong interest in Heart of the City and its work from businesses across London. This year the charity

worked with a record number of 82 new businesses and in 2020 they will celebrate working with their 1,000th member.

9. In 2020 Heart of the City also celebrates its twentieth anniversary. It aims to use this to reach out to more SMEs, by raising awareness of the ways in which SMEs can make a positive difference to the wellbeing and diversity of their staff, reduce their environmental impact and support their local community.
10. Heart of the City is currently in discussions with the City Corporation about playing a stronger role in the delivery of the Lord Mayor's Dragon Awards, through which the charity aims to showcase the excellence and range of the philanthropic projects connected to the Corporation. It is also bringing together the Corporation's responsible business strategy team, the Lord Mayor's Appeal, City Bridge Trust, Business Healthy and the Innovation team to explore ways of collaborating.
11. In 2020 the charity plans to commission an external review of its work, to better understand its impact and the return on investment it generates. It will also seek to understand how its medium-term strategic goals align with those of the City Corporation.

## **Proposal**

12. To enable Heart of the City to continue to deliver its five-year strategy outlined above, this report proposes three funding options which deliver differing levels of impact, set out in the table on the next page:

	<b>OPTION ONE</b>	<b>OPTION TWO</b>	<b>OPTION THREE</b>
Level of funding	£202,000 <sup>2</sup>	£255,000	£300,000
Headcount funded	2.5	3.5 (status quo)	4.5
Companies reached	130 (0% increase on 2016-18)	150 (25% increase on 2016-18)	200 (60% increase on 2016-18)
In-kind funding from external companies	£100,000 equivalent	£230,000 equivalent	£250,000 equivalent
Connecting across City Corporation teams	- (No new connecting work will be undertaken as the team reduces in capacity)	Act as consultant and connector to City Corporation between initiatives, and externally with its extensive business network	Act as consultant and connector to City Corporation between initiatives, and externally with its extensive business network
New training	-	New training course launched, and two sessions delivered with external partners	New training course launched, and four sessions delivered with external partners. New online membership developed and launched.
Regional engagement work	-	-	Engage companies in cities prioritised in the City Corporation's Regional Strategy in responsible businesses. Share the benefits and learning of London companies with SMEs based in other UK regions.
Corporate Plan objectives delivered	Objective 5d.	Objective 5c and 5d.	Objective 5c, 5d and 7b.
Implications	This level of funding, a reduction from 2019/20, would require a reduction in headcount once the current year's commitments to businesses in the City are complete.	This level of funding would allow Heart of the City to retain its current headcount and to deliver its business plan commitments to City businesses.	This level of funding would allow Heart of the City to retain its current headcount and to deliver its business plan commitments to City businesses, as well as reaching new companies in other UK regions.

<sup>2</sup> See Appendix 3 for more detail on previous levels of funding.

13. The funding proposed would cover a contribution to the salary costs and a modest operational budget contribution.

**Table 1: Illustrative funding forecast 2020/21**

CoLC grant	£300,000
City Bridge Trust	£95,000
Membership fees	£80,000
Training course	£6,000
In-kind (from external companies)	£250,000
	<u>£731,000</u>

14. If Heart of the City does not secure funding at the levels outlined in options two or three it would seek to minimise any impact for the first six months of the financial year and to meet its existing commitment to its members by drawing down its reserves. It would not be able to draw on its reserves indefinitely, as the charity needs to maintain a certain level of reserves to be able to wind down if necessary, in line with the Charity Commission's good practice. It would look to reduce its activities and headcount accordingly from quarter three.
15. Heart of the City has built up its reserves to manage the risks associated with short term funding. It has also built up additional reserves to invest in developing its business model to be scalable, and in extending its reach and impact to new businesses. Heart of the City will also use its reserves to pay for a robust external review of its work in 2020. In the instance that the charity needs to use its reserves for salary costs these development activities would be scaled back accordingly.
16. Heart of the City's work aligns with the Innovation Growth (IG) department which engages with business on issues covering good governance, ESG investing, diversity, apprenticeships, social mobility and growth, particularly in fintech, cyber security and green finance. By leveraging its different but complementary network of businesses effectively, Heart of the City will continue to reinforce and broaden the reach of the City Corporation's own engagement. It will also support the delivery of the City Corporation's own Responsible Business Strategy.
17. To help ensure appropriate benefit to the City Corporation from the ongoing work of Heart of the City, it is the aim of the charity to make a detailed bid for further funding as part of the Fundamental Review in 2020-21. This will draw on the learning from the external review of its work.

### **Corporate & Strategic Implications**

18. This proposal strongly supports the aim in the Corporate Plan 2018/23 that 'businesses are trusted and socially and environmentally responsible'; it is the only vehicle for delivering against two objectives (5 c & d). It would also provide a strengthened external engagement tool for the Responsible Business Strategy and would support other key strategies such as the Social Mobility Strategy and Employability Strategy. In view of Heart of the City's plans to expand its services

to businesses outside of London, it would also support and bolster the City Corporation's Regional Strategy.

19. The proposal dovetails neatly with the City Corporation's Philanthropy Strategy. Heart of the City provides best practice advice to companies around philanthropy. It also provides a useful conduit for potential participants in the Lord Mayor's Appeal.

### **Implications**

20. The report sets out the proposed new funding agreement, which commits the City to provide grant funding to Heart of the City for one year from 2020/21. This will follow on from the current one-year agreement ending in March 2020 which has provided £300,000 of funding over this period.
21. It is proposed that this commitment continue to be met from City's Cash.
22. There are no legal issues of note relating to the funding procedure, which follows previous funding cycles.
23. There are no HR issues of note relating to the funding.

### **Conclusion**

24. London is the centre for responsible business activities across the UK. Heart of the City is a unique organisation which draws new companies into responsible business for the first time. It is unique in encouraging and supporting London SMEs and in engaging with an exceptionally wide range of major UK companies as its Ambassadors. The City Corporation has been far-sighted in developing and supporting this charity and now there is a marked increase in interest in responsible business there is an opportunity to share Heart of the City's model with a growing audience. Supporting this impactful ongoing work from Heart of the City will enable the City Corporation to further its regional leadership role in responsible business and it will complement its suite of work underway on philanthropy, responsible business and inclusion, and its regional strategy.

### **Appendices**

- Appendix 1 – Heart of the City trustees and Council of Members
- Appendix 2 – Heart of the City achievements 2016-2019
- Appendix 3 – Background to Heart of the City's funding
- Appendix 4 – Heart of the City's Ambassador companies
- Appendix 5 – Relevant City Corporation Corporate Plan Objectives

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