

Committee:	Date:
Social Investment Board	18 th September 2013
Subject: Update on work of the City of London Corporation's Social Investment Advisor	Public
Report of: Director of Economic Development	For Information

Summary

This report covers the major areas of activity of Katie Hill, the Social Investment Advisor (SIA) in developing the City of London's social investment strategy, in addition to her work on the City of London Corporation social investment fund.

Since your last meeting on 20th June, key work has included:

- involvement in two high profile international events on social / impact investment: the G8 Social Investment Symposium and the Impact Investment Policy Collaborative (IIPC), feeding the key outcomes from these into the Global Impact Investing Network (GIIN) event to be held at the Guildhall on October 10th and 11th;
- participating as part of a specialist consultative cross-sector group advising the Treasury on the proposed tax relief consultation; drafting a submission to H M Treasury on this consultation on behalf of the City of London Corporation;
- launching a co-commissioned report into the size, deal flow and economic impact of social investment in advance of the G8 symposium;
- continued efforts, with other leading social investment sector organisations, to address the key regulatory and market challenges faced by the sector; examining the opportunities to collaborate further on research where there is a gap in specific knowledge; and
- liaising with Financial Conduct Authority (FCA) on developments in social investment, including the EU's recently launched fund structure for social investment (EUSEF), and feeding in to the European Commission and other members of the panel of experts for the EU's Social Business Initiative.

Main Report

The City of London's Social Investment Strategy

1. The work of the Social Investment Advisor (SIA) supports the City of London's Social Investment Strategy, under the leadership of the Chairman of Policy & Resources Committee. The post is co-funded by Policy & Resources and City Bridge Trust Committees. The SIA advises the Chief Grants Officer on matters relating to the City Bridge Trust and the Social Investment Fund as well as the Director of Economic Development on delivery of the Strategy. The Strategy has the following aims:
 - a) Encouraging and steering a growing supply of appropriate finance into social investment (including establishing and developing the City of London's own £20 million Social Investment Fund)
 - b) Working to improve the regulatory and fiscal framework needed to support the social investment marketplace
 - c) Develop the capacity of social organisations to access investment and secure contracts and markets

The overall aim is to work towards establishing London as a recognised global hub for social investment.

Events

2. **The G8 Symposium on Social Impact Investment** was held on June 6th. It brought together a wide range of investors, politicians, officials and some enterprises to discuss the potential as well as the key challenges faced by developing a global marketplace for social impact investment. The City was represented by the Chairman of the Policy and Resources Committee and the SIA. The report outlining the key themes of the symposium¹ highlights the following ambitions:
 - to build on the international collaboration as the market develops and share best practice across all sectors (government, investors, users of investment and intermediaries);

¹https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/225547/G8_Social_Impact_Investment_Forum_-_Outputs_and_Agreed_Actions.pdf

- to work towards creating common frameworks for impact measurement based on transparency and openness² .
3. At the G8 symposium, a series of announcements and initiatives were made to support these goals, including the creation of a Social Impact Investment Taskforce, to be chaired by Sir Ronald Cohen. The Taskforce will aim to report within a year on at least three fronts:
 - the policy framework required to take social impact investment to a tipping point;
 - a common international approach for measuring social outcomes; and
 - ways to achieve a specific allocation by Foundations, institutions and private investors to this new asset class.
 4. In advance of the conference, the City of London joined 87 other asset managers, owners and service providers in co-signing a letter of support³ for G8 efforts to be a catalyst for this market and to encourage the G20 to take up this agenda.
 5. **The Impact Investing Policy Collaborative**, (IIPC) took place in July in Oxford and London and was developed in partnership with the City of London, Cabinet Office, Big Society Capital and NESTA. The five day conference brought together policy makers, investors and entrepreneurs from over 30 countries to discuss the critical role of policy makers in developing a social investment marketplace. The Deputy Chairman of the Policy and Resources Committee hosted the culminating event at the Guildhall, at which the London Principles for impact investment were launched. The Principles⁴ are intended to anchor government efforts to develop the market place and complement the ambitions expressed at the G8. The Chairman of the Social Investment Board and Deputy Ken Ayres both attended the conference.
 5. Work is underway to prepare for the **Global Impact Investing Network (GIIN)** event to be held at the Guildhall on 10th and 11th October. This expects to bring together over 300 asset owners, managers and experts to share on the practicalities of engaging in social impact investment internationally. The intended audience is both engaged investors and interested parties; the agenda, speaker and sponsorships are in final draft stages. There has been wide interest in engaging with this event already in advance of tickets becoming available.
 6. The second event in the **Social Investment Academy** series, hosted and supported by the City of London, is likely to take place on October 22nd. The Academy is designed by Worthstone (a social investment research and

² whilst recognising that 'not everything that counts can be counted' - anon

³ <http://www.thegiin.org/binary-data/G8SupportLetter.pdf>

⁴ The Principles are : clarity of purpose, engagement of all stakeholders, oversee market developments with stewardship, develop institutional capacity, ensure transparency

advisory agency) and focuses on informing the community of Independent Financial Advisors and wealth managers on the social investment opportunities available. Feedback from the first event, at which the FCA presented their position on the social investment marketplace, was positive⁵. Social Investment Board members will be sent invitations as soon as the date is confirmed.

Research

7. City of London-managed research into the economic impact of social investment was launched in advance of the G8. This was co-commissioned, with the Cabinet Office, Big Society Capital and Big Lottery Fund. The report confirmed a 24% increase in the amount of social investment committed in 2011-2012, to a total of £202 million. The economic impact of this investment is to support or protect approximately 6,780 jobs nationally and to contribute approximately £58 billion annual GVA. The findings also highlighted the increased level of concentration, both amongst lenders – four large social banks account for 81% of all this investment, and the dominance of secured lending, which accounts for over 90% of all the investment. This raises questions about the extent to which access to appropriate finance is available, given the findings from the demand side show the unmet need is for unsecured lending.
8. The Economic Development Office and City Bridge Trust are examining the possibilities for further collaboration with social investment sector partners on specific research topics over the coming 6- 12 months.

EU issues

9. Registration for management of a fund using the European Union Social Entrepreneurship Fund (EUSEF) regulation is now open on the Financial Conduct Authority's site. This structure allows fund managers seeking social investment from other countries to 'passport' (i.e. to gather finance from other investors across the EU) as long as the fund meets certain criteria relating to the social impact to be generated by the fund.
10. The EU is hosting a large social entrepreneurship conference in Strasbourg for over 2,000 delegates in January 2014. The panel of experts is feeding its views into the content and structure of this event.
11. The SIA was invited to Hungary to present the UK experience and the City of London's engagement in social investment at the Hungary Social Enterprise Day. The British Council kindly funded this trip. Other invitations to share UK experience are considered on a case by case basis.

⁵ <http://vimeo.com/62428306>

12. On behalf of City Bridge Trust, the SIA hosted a delegation of 17 French Foundation representatives, to hear about the UK's experience in social investment from a variety of key players. The delegation expressed an interest in following this up with further visits and information and delegates have been sent details of the GIIN conference to consider.

Regulatory issues

12. Following the 2013 Budget announcement of a consultation on a proposed social investment tax relief, the SIA hosted the cross-sector consultative group for H M Treasury-led discussions at the City of London over the summer. The SIA will have drafted a submission by early September on behalf of the City of London to H M Treasury on the details of the tax relief.
13. The Law Commission is due to consult on fiduciary duties of investment intermediaries in October 2013⁶. This follows on from the Kay report on 'UK equity markets and long term decision making'. Included in the scope of this consultation is whether fiduciary duties apply to all those in the investment chain and the extent to which those with fiduciary duties must focus exclusively on maximising financial return, to the exclusion of ethical, social and environmental factors. This has significant implications for the take up of social investment by different investment intermediaries. A report with recommendations to Government (but no draft Bill) will be published by June 2014.
14. This review is unlikely to consider the fiduciary duties of charitable foundations, and this remains an outstanding point from the Red Tape Challenge. Additionally, work continues on the case for the potential benefits of a more flexible Financial Promotions Order which would enable smaller scale social investment opportunities reach potential retail investors.
15. The SIA fed in to the City of London's submission to the consultation on Green Finance, in order to draw on comparable issues between environmental and social finance.

Market trends and issues

16. Communication issues around the disparity between the perception and the reality of the social investment market remain: whilst there has been significant progress in terms of investment opportunities arising, deal flow is still sluggish, transaction costs are high and the true level of potential realistic demand is difficult to gauge accurately.

⁶ See http://lawcommission.justice.gov.uk/areas/fiduciary_duties.htm for outline scope of the consultation

17. The lack of certain types of finance, for example high risk early stage capital, remains an issue and contributes to the 'Pioneer Gap'. A proposal on this topic is included in the papers for today's meeting.
18. Big Lottery Fund's £40million contribution to encouraging more effective commissioning for social value is an important contribution to the creation of more market opportunities for social enterprises.
19. In advance of the 2015 General Election, Social Enterprise UK has created a Social Economy Alliance with the aim of 'radically affecting the way all political parties formulate social and economic policies'. The City of London, whilst not officially part of the alliance, is supportive of the initiative and is contributing to the discussions.

Contact:

Paul Sizeland

Director, Economic Development, x 3600

paul.sizeland@cityoflondon.gov.uk

5th September 2013

Annex

Update on Big Society Capital's investment deals since April 2013

At your meeting on 23 April 2013 you resolved that the Social Investment Advisor report include an update on investments approved by Big Society Capital. Since then one deal has been signed by Big Society Capital:

Real Lettings	£5m	April 2013
----------------------	------------	-------------------