

Committee:	Date:	Item No.
Social Investment Board	13 th December 2013	
Subject: Research and Development Fund	Public	
Report of: Chief Grants Officer	For Information	
<p><u>Summary</u></p> <p>This paper examines how the City of London Corporation could play a distinctive role in developing the social investment market. Having already expressed an interest in allocating £250,000 - £500,000 for research and development purposes, the paper looks at different ways in which this work could be resourced. It notes the forthcoming City Bridge Trust grants programme for social investment market development, and suggests close collaboration between your activities and the work of that grant scheme.</p> <p>Recommendation:</p> <p>That you receive this report and note its contents.</p>		

Main Report

Introduction

1. One of your Fund's aims is to develop the social investment market. Members will be aware that whilst most social investment is currently offered in the form of (relatively low-risk) secured loans, market research indicates a growing mismatch between this offer and the unsecured finance most investees need. Some of the most innovative work currently relies on unsecured finance.

2. It is particularly difficult for new organisations to access the social investment market. It can also be difficult for well-established organisations to raise social investment if they want finance for a new venture. The three main reasons for these difficulties are: relatively few social purpose organisations have assets they can offer as security; new organisations or new ventures lack the track record that can reassure investors; and many social purpose organisations have some form of asset lock in their governing documents that ensures the permanence of their social mission, but restricts the returns payable to investors. This latter point means that investors cannot necessarily rely on part of their social investment portfolio covering losses they might make in other ventures.

3. Research and development capital is needed otherwise the flow of social investment proposals is likely to remain sluggish, and few organisations will be able to enter the market on any meaningful scale.
4. The City of London Corporation has the potential to do something very positive in the research and development space by maximising both its monetary and non-monetary assets. This would be welcomed by other organisations interested in the market and could result in the development of more opportunities suitable for your investment.
5. You have previously expressed an interest in seeing a City of London research and development fund of £250,000 - £500,000. To progress this we need to identify both the distinctive contribution which the Corporation can make, and the resources to ensure that any research and development fund has sufficient management and administrative resources to ensure excellent delivery.

Distinctive City of London Contribution

6. The social investment market is developing rapidly. Big Society Capital has had a catalytic effect on the creation of new social investment products, not only by social investment intermediaries, but also by mainstream institutions. The Big Lottery Fund is currently examining how grants and loan finance could complement each other to encourage more charities to enter the social investment market. Government is working to develop the market with support to early stage social enterprises and to develop Social Impact Bonds. Alongside this activity, there is infrastructure work to create trading platforms and improve the quality of market data.
7. Against this changing context the City of London's distinctive contribution needs to be identified. This should take into account the scope the Corporation has to maximise all of its assets, including its reputation, networks, financial expertise, and expertise in supporting and evaluating organisations that achieve social impact.
8. The City of London has the opportunity to play its role through the new City Bridge Trust Investing in Londoners grant programmes. These were launched in September 2013 and include a programme to support charitable involvement in the social investment market. Activities under this programme could include: supporting the provision of market infrastructure services such as product development and skills training; supporting the development of a City of London social investment product; and offering stepping stone packages such as grant-funding followed by loan finance. Any City of London research and development work would be designed to complement market infrastructure work delivered by Big Society Capital and Big Lottery Fund.
9. To progress this, a market research specification has been drafted and will form the basis of discussions for three focus groups which will take place in January 2014 involving other investors, social investment market intermediaries, and social enterprises. Once these focus groups have taken place the brief will be refined and

the market research commissioned (February). We expect the study to be completed within one month and a new programme designed shortly afterwards.

Resourcing Research and Development

10. To maintain the Corporation's reputation for excellence and to continue to demonstrate leadership in this area we will need to ensure there are appropriate resources both for research and development activities, but also for management and administration.
11. There are four possible sources of finance for a new research and development fund: returns on your existing investments; revision of your existing investment criteria to allow a research and development ring fence; locating new funds within the Corporation or Bridge House Estates; or working towards your aims through the new City Bridge Trust grants programme.
12. You received a paper at your last meeting describing how returns on your existing investments could be re-used by your Fund. This paper noted that it would take some time before you had the £250,000 - £500,000 target figure you would like to use for research and development, and indicated that all investment decisions are currently bound by the criteria approved by Common Council. As a result, your scope for developmental work would be somewhat constrained.
13. You could therefore seek a revision of your existing criteria, in order to ring-fence funds specifically for research and development. This would need to be routed through other Committees and Common Council and would therefore take time. The ring-fence would be on capital that is otherwise earning interest, and as such there would need to be consideration of how this fits with your fiduciary duty as trustee of the Bridge House Estates charity. As noted in previous meetings Members have overall responsibility to ensure that the charity's funds are invested in such a way to achieve a financial return on the capital and not eroded its value but rather generate funds to further the purposes of the charity.
14. You could explore potential for other sources of funding within the Corporation, and to progress this your officers have arranged a meeting with the Chairman of Policy & Resources where, among other matters, this will be discussed.
15. Finally, you could work towards your aims through the City Bridge Trust grants programme. The Chairman has already expressed an interest in joining one of the forthcoming focus group discussions, and other Members would be welcome depending on availability. The new programme should be scoped, designed and approved by City Bridge Trust Committee in the first quarter of 2014-15, and operational shortly after.

Conclusions

16. The City of London Corporation could play a further significant role in supporting the development of the social investment market through the creation of a Research and Development Fund. This would be consistent with the Corporation's overall aim of positioning London as a global hub for social investment.
17. There is already market development work underway by a wide range of organisations including Big Society Capital, Big Lottery Fund, the network of social investment intermediaries, and smaller specialist infrastructure providers.
18. It is important that the City of London's contribution is complementary and maximises our unique position, and therefore that it is based on market analysis. Such a study is due to start soon thanks to work approved by the City Bridge Trust Committee.
19. City Bridge Trust will design a social investment grants programme in early 2014, and this will be reviewed by the Committee with an expected launch date in the second quarter of 2014-15. There is good synergy between your aims for research and development work, and the activity happening through this programme.

Recommendations:

That you note the contents of the report,

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Report written: 29th December 2013