

Committee:	Date:	Item No.
Social Investment Board	13 th December 2013	
Subject: Update on work of the City Corporation's Social Investment Advisor	Public	
Report of: Director of Economic Development	For Information	
<p><u>Summary</u></p> <p>This report covers the major areas of activity of the Social investment Adviser (SIA) in developing the City Corporation's social investment strategy, in addition to her work on the City Corporation's social investment fund.</p> <p>Since your last meeting on 18th September, key work has included:</p> <ul style="list-style-type: none"> • hosting the first ever Global Impact Investment Network (GIIN) conference at the Guildhall; • hosting an event for Independent Financial Advisors, with guest speakers the Treasury Minister and the Financial Conduct Authority (FCA) Head of Investment Strategy; • launching the Social Investment Research consortium with Big Society Capital, Cabinet Office and Big Lottery Fund and starting on its first two projects; • coordinating response to the FCA's consultation on crowd-funding and its implications for social investment; and • feeding into the EU's panel of experts on the Social Business Initiative championed by Commissioner Barnier and his colleagues. 		

Main Report

The City of London's Social Investment Strategy

1. The work of the Social Investment Advisor (SIA) supports the City Corporation'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 City Bridge Trust's 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 Corporation'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, as a driver of economic growth.

Events

2. **The Global Impact Investing Network (GIIN) held its first international conference at the Guildhall in October 2013.** Over 300 delegates from 35 countries attended. The conference attracted many 'new faces' to the event and provided an opportunity to inform potential investors of the range of international opportunities for social impact investment. Three key points arising included the importance and challenges of measuring the social impact created, the need to make it easier for an investor to source opportunities and the essential role that grants, underwriting, guarantees and other forms of subsidies have to play in kick-starting investments. The Chairman of the Policy and Resources Committee opened the conference, and GIIN, Minister Nick Hurd and outgoing Chair of Big Society Capital, Sir Ronald Cohen, all referenced gratefully the City Corporation's commitment to this agenda. A video with a follow-up interview with GIIN's CEO will be available on the City Corporation's video page shortly.
3. The second event in the **Social Investment Academy** series, hosted and supported by the City Corporation, took place on October 22nd. Over 80 Independent Financial Advisors and wealth managers on the social investment opportunities attended the event. The Chairman of Policy and Resources opened this event and was a panellist. Other speakers included the Treasury Secretary, David Gauke, MP and the Financial Conduct Authority (FCA) Head of Investment Policy, David Geale. This seminar revealed the perceived barriers faced by Financial Advisors from recommending social investments to their clients. The FCA reiterated how it considered that an advisor should determine the suitability of a social investment for a client.
4. **Research**

The City Corporation is a co-founder of the Social Investment Market Research Council, which was launched in October. This collaboration of sector leaders aims to co-ordinate and co-commission research projects. Other Research Council members are Big Society Capital, Big Lottery Fund, Cabinet Office and Citi bank. To date, two projects have been commissioned, and these will be published in early Q2 2014 ([Growing the social investment market: the landscape and economic impact](#), [The role of tax incentives in encouraging social investment](#)). Whilst there is already a waiting list of potential areas for research, proposals are encouraged from all interested parties. Each will be considered and prioritised by the Council for taking forward.

5. **EU issues**

The EU is hosting a large social entrepreneurship conference in Strasbourg in January 2014. The event will take stock of what has been done so far with the EU's Social Business Initiative and looks to set the future agenda for social enterprise and social investment through a special "Strasbourg Declaration". Whilst not attending the conference itself, the SIA is feeding into this in advance through her role on the EU's expert panel.

The SIA was invited to Greece in early December to present the UK experience and the City Corporation's engagement in social investment at the EU supported National Social Entrepreneurship Summit. The British Council kindly funded this trip. Other invitations to share UK experience are considered on a case by case basis.

Regulatory issues

6. The announcement on the Social Investment Tax relief is expected in early December with a further opportunity to feed in any views to H M Treasury before the budget formalises the relief in Spring 2014. The tax needs to balance the aim to incentivise individual investors with a comparatively attractive relief, whilst ensuring that the relief is supporting investments into genuine impact creating businesses. The relief is expected to be attached to investments that carry a level of risk, as in the equivalent of mainstream investment, even though the financial instruments used may differ in this sector (as debt is more commonly used than equity for higher risk investment). The SIA submitted a response to H M Treasury on behalf of the City Corporation on the details of the tax relief and has been part of a small working group formed by H M Treasury to consult with throughout this process.
7. The FCA has launched a consultation on crowd-funding which, in its proposals, has significant implications for the way in which certain unlisted investments (such as most social investments) may be promoted and offered to retail investors. The City Corporation, along with other parties, has sought amendments to the Financial Promotions Order to allow for a more proportionate regime around social investment. There are also a few crowd-funding platforms which are specifically focused on social investment, such as Ethex and Buzzbnk, with whom we are co-ordinating our responses to the consultation.
8. The SIA will feed into a response by the City Corporation to the Law Commission's consultation on fiduciary duties of investment intermediaries by late January. This consultation does now include a specific question relating to those duties of trustees of charitable foundations, which would help to clarify the position regarding social investment. A report with recommendations to Government (but no draft Bill) will be published by June 2014.

Market trends and issues - including G8 work

9. The market currently is broadly offering two types of social investments: these are indirect investments into sector or area specific fund structures, or individual direct investments into early – stage, and / or small scale organisations. There are a limited number of direct investments from charities and social enterprises with track

records, strong balance sheets and a desire to raise capital of the type that your Board has already invested in.

10. Social enterprises remain significantly under-represented in contract delivery for public sector services, in spite of the requirements imposed on commissioners by the Social Value Act to consider social impact generated. Issues of scale limit these organisations' ability to be prime contractors. Yet there is a need to see how new solutions to problems could be reached through better collaboration between commissioners, beneficiaries and social service providers. The UK National Advisory Board to the G8 is likely to prioritise this strand of work over the next year.

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Annex

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

Real Lettings	£5m	April 2013
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