

Committee:	Date:	Item No.
Social Investment Board	7 th April 2014	
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 February 26th, work has included:</p> <ul style="list-style-type: none"> • working on the development of the 'Transition Fund' with City Bridge Trust to create a high impact support programme for social sector organisations • presenting the UK's experience in social investment to Ontario Government, Canada • chairing a research council strategy meeting on social investment research priorities • representing the City Corporation on the UK G8 taskforce • representing the City Corporation on a panel at the first Global Social Enterprise Network meeting in Oxford <p>Recommendation</p> <p>Members are asked to:</p> <ul style="list-style-type: none"> • Note the report 		

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 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; and
 - c) developing the capacity of social organisations to access investment and secure contracts and markets.
2. The overall aim is to work towards establishing London as a recognised global hub for social investment, as a driver of economic growth.

Representational work

3. **The SIA was invited by the British Council, Toronto, Canada**, to present the UK's experience to date in social investment at a conference and a series of meetings. These were held with regional government ministers, J W McConnell foundation and the Canadian leading social innovation centre, MaRS. Experience in incubating social businesses and introducing Social Impact Bonds are likely topics for ongoing links.
4. **G8 taskforce UK National Group:** The SIA is representing the Chairman of Policy & Resources Committee at the UK group. This is carrying out in depth analysis into:
- a) corporate forms used by social enterprises and challenges for locking in the social mission;
 - b) required capacity building needed for the social enterprises, and
 - c) challenges around ensuring social outcomes are fully integrated into the procurement process.

The SIA will also represent the City Corporation on the capacity building working group (b). The first meeting scheduled for late April.

5. **Global G8 gathering in London in June:** all those involved globally on the G8 Taskforce (over 150 people) will meet in London in June. The Chairman of Policy and Resources Committee is due to attend as the City Corporation's representative on the Taskforce. This will set the agenda for the recommendations to be made in the final report of the year's work, to be presented in September.
6. **The Global Social Entrepreneurs Network** is another initiative launched at the inaugural G8 conference on social impact investment in 2012. It is due to hold its first meeting in Oxford in advance of the Skoll World Forum. The SIA will form part of a closing panel at this event, which focuses on the type of intermediary support required by social enterprises and how best to link the investors with investees.

Social Investment Tax Relief

7. **Budget launch of the Social investment Tax Relief:** the 2014 Budget announced that a 30% tax relief would be made available to individuals providing unsecured debt or equity finance into registered social sector organisations with < 500

employees and < £15 million turnover. H M Treasury will be submitting an application to the European Commission to increase the limit imposed by EU State Aid rules on the value of investments eligible for tax relief (c £290,000 in any 3 year period). There is also further work to be done on the opportunity to allow for indirect investments in to social enterprises. The sector now seeks to identify the most suitable products and investors to ensure speedy take up of the relief.

8. **Social Investment Academy meeting at Guildhall:** Officers are working with Worthstone to plan the next event in the Social Investment Academy series. The round table will bring together selected independent financial and wealth advisors who have a clearly identified appetite for offering social investment opportunities to their clients, and to brief them on the details of the newly created Social Investment Tax Relief.

Research

9. **Update on Social Investment Market Research Council's current research projects:**
 - a) the City Corporation is finalising a report on **potential new sources of supply of capital for social investment**. This will be published in April.
 - b) the SIA and Economic Development Office research team are working with Cabinet Office and legal experts to produce a **user friendly description of the Financial Promotions Order**, which maps out the impact and barriers it poses for social investment. This will be published later in the month.
10. **The Social Investment Market Research Council** held a seminar with its founder members (City Corporation, Cabinet Office, Big Society Capital, Big Lottery Fund, Citi bank) and interested parties, to create a prioritised list from over 25 suggested topics for future research projects. This event was chaired by the SIA.

Market trends and issues

11. The role of corporates (including but not exclusively financial institutions) in the social investment agenda – both as purchasers of services from social enterprises within their supply chain and as generators of innovation and new ways of creating social as well as economic value – appears to be gaining momentum within the sector. Learning from international examples, connecting with the Corporate Responsibility experts and developing more transparent procurement processes will all play a part in this thinking.
12. **Shortage of institutional 'match' funders:** there are still not enough institutional investors to provide the match capital alongside Big Society Capital's (BSC) to fully capitalise and close the social investment funds; those institutions that are interested in social investment, tend to have created their own funds with support from BSC. This reduces the amount of money that is actually available for drawdown by the front line, even though BSC has made an investment commitment. BSC is now beginning to allow drawdown without match finance to overcome this hold-up.

13. **Difficulties in providing small ticket finance to social enterprises** when social investors prefer to make larger investment deals: the smaller ticket deals have high transaction costs, and often are providing financial return rates of c 1% net of costs and inflation: these are offering only capital preservation (and social returns). Most institutional investors prefer larger investment deals with a longer track record and higher net rates of financial return, even if offering considerable social returns. There is a shortage of grant or concessionary finance to help meet this market need, and this creates a logjam in the social investment marketplace.
14. **City Bridge Trust's 'Transition' Fund** will aim to address this market gap by providing grants to charitable organisations which aim to take on social investment eventually, but which need to test their ideas, to develop a pilot or build their business case. The use of the Transition Fund should play a very important and timely role through the provision of this type of finance. Please see Chief Grants Officer paper for further details on this new grants programme.

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