

Committee:	Date:
Social Investment Board	14 th December 2012
Subject: Update on work of the City of London Corporation's Social Investment Adviser	Public
Report of: Chief Grants Officer	For Information
<u>Summary</u>	
<p>This report provides an update on work delivered by the City of London Corporation's Social Investment Adviser, who is co-funded by Policy and Resources and City Bridge Trust Committees and is contracted until 31st March 2013. The Adviser has enabled the Corporation to strengthen relationships with a number of public, private and charitable-sector organisations involved in social investment. All work delivered helps towards the aim of developing London as a global centre for social investment.</p>	

Main Report

1. Introduction

The City of London Corporation has engaged Katie Hill on a one year contract from April 2012, as Social Investment Advisor (SIA). The role is co-funded by Policy and Resources and City Bridge Trust Committees.

The SIA supports the Corporation's work towards three aims:

- Increasing the supply of appropriate capital to social investment;
- Supporting social organisations to generate income and to become investment-ready; and
- Working towards an enabling legal, regulatory and financial environment for social investment.

The SIA is based in the Economic Development Office, reporting to it and to City Bridge Trust.

2. Increasing the supply of appropriate capital to social investment

The SIA is working with a range of City institutions, helping them to engage with the social investment marketplace. As a new market, there is agreement that there is potential for growth. Research by Boston

Consulting Group, published by Big Society Capital in September 2012, estimates a potential £1bn of investment by 2015.

3. Big Society Capital is the largest social investor by a long way with £600m available, although of this amount only £37m has been committed so far. Other private funds to date total less than £100m.
4. The SIA, along with colleagues from the City Bridge Trust and Economic Development Office, has been working to engage new investors by holding educational sessions with private wealth managers, publishing a social investment guide for investors, promoting the City of London Corporation Social Investment Fund, and advising institutions looking to develop their own social investment funds.
5. There is evidence of growing interest in social investment from the mainstream financial community. Institutions that are publicly engaged in social investment include Deutsche Bank, HSBC, Berenberg, J P Morgan, and Goldman Sachs (US). There is also considerable interest from other institutions, much of which is ‘under the radar’ at this stage and comes from private wealth clients. Part of the challenge is to pace the level of interest from investors alongside the range of attractive investment opportunities coming on board. It is not necessarily advantageous to have an oversupply of undispersed capital, but rather build this up gradually as demand for it increases.
6. **Supporting social organisations to generate income and to become investment-ready**
Social organisations need support to access market opportunities to ensure that, if they raise loans or equity, they are able to repay the finance. This means, increasingly, finding a route into public sector contracts, usually as a sub-contractor under an identified lead contractor. There are many challenges around pricing of services, financing the inputs in advance (particularly under payment-by-results contracts), and evidencing the impact generated. There is also a private marketplace in certain sectors which social organisations can tap into given the right offering. There are related challenges around becoming investment-ready and determining the most suitable type of investment for each organisation.
7. Complementing work done by the Economic Development Office on procurement by private corporations from social enterprises, the SIA has also worked on issues around public sector contract delivery. Work has included: the provision of bespoke advice on business models, asset transfers, pricing mechanisms and partnership opportunities; a range of

public speaking engagements on the challenges and opportunities for social enterprises seeking investment; advising government on the difficulties facing social enterprises who seek public sector contracts and helping find ways to overcome these; and identifying where research is required to shape further policy, for example on measuring the local economic value generated by social enterprises. The SIA has been invited to join the panel for the Investment and Contract Readiness Fund, a £10m Cabinet Office fund which is administered by the Social Investment Business and is designed to help organisations seeking investment or contracts of more than £500,000.

8. **Working towards an enabling legal, regulatory and financial environment for social investment**

The legal, regulatory and financial environment for social investment does not currently provide a level playing field in which to operate in comparison to mainstream investment. Even within the sector, there are legal anomalies owing to historical legislation which provides uneven advantages to certain types of social enterprises over others. It is necessary to examine and revise these in order to create an enabling environment in which social investment can accelerate. The launch of two Government consultations, the Red Tape Challenge for social investment, and the Treasury's examination of the financial barriers facing social enterprises, have provided opportunities to address these challenges.

9. The SIA has contributed to the Red Tape Challenge on behalf of the Corporation of London, a range of investors and social investment intermediaries. Input has focused on the recognition of 'suitability' of social investment for certain types of investors, work which required agreement from the Financial Services Authority, and adjustments to the Financial Promotions Order, which currently restricts retail investors' scope to make social investments.
10. For the Treasury's review, which is due in mid-December 2012, the SIA has worked with Big Society Capital to commission research into the likely impact of tax relief on social investment practice.
11. The SIA has worked closely with the Remembrancer on debates in the House of Lords on the Financial Services Bill, providing reinforcing arguments for amendments which open the way for and level the playing field for social investment.
12. The SIA has advised at an EU level, working with a key official of the European Commission's Directorate-General for Employment on the

structure of one of its funds, and as a member of the expert panel for the Social Investment Business Initiative, an opportunity to promote UK priorities for social investment.

13. **Conclusion**

Given that the SIA's contract is due to expire at the end of March 2013, the Economic Development Office and City Bridge Trust are in discussions about possible next steps. Over the next four months the SIA will continue to work closely with key governmental and regulatory agencies, advise on the development of the social investment market place and the City's role therein, support product developers to create instruments that are attractive to investors, and help shape the development of the City of London Corporation Social Investment Fund. The SIA's work strengthens the aspirations of the Chairman of Policy and Resources to position the City of London as a global centre for social investment.

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